VT Tyndall Real Income Fund

February 2020

TYNDALL

February 2020 Review

Having started to register concern over the coronavirus outbreak in January the markets moved into full blown panic mode during February as, towards the end of the month, it became clear that the virus was starting to spread globally. The MSCI UK Index fell a hefty -9.1% during the month, bringing the year to date decline to -12.1%.

Despite signs that the Chinese authorities are starting to get control of the outbreak on the mainland, the rapid escalation in case numbers in other countries such as South Korea, Iran, Italy and now more broadly, has driven markets into a state of panic. The difficulty at this stage remains calibrating the scale not only of supply shocks but now of potentially significant demand weakness in the months ahead.

Fund performance/ activity

Our fund declined by a disappointing -11.2% during February, significantly underperforming the MSCI UK Index fall of -9.1%. Given the scale of the market fall our positive relative attribution came largely from not owning certain stocks such as Royal Dutch Shell, Diageo and BHP. Holdings in the portfolio that held up relatively well were typically very defensive such as SSE, Severn Trent and BAE Systems. Key negative contributors during the month were cyclical and financial stocks most notably travel exposed holdings Easyjet and WH Smith, financials Legal & General and Jupiter Fund Management and industrials Meggitt and Synthomer.

We introduced a couple of new holdings to the portfolio during February including domestically focused companies Persimmon and Dunelm. We added to holdings during the market weakness such as Easyjet, Next, Legal & General and ITV. We disposed of holdings in G4S and Babcock and took some exposure out of positions that had held up relatively well such as AstraZeneca, SSE and Severn Trent to fund purchases.

Market Outlook

The current situation is a rapidly evolving one and therefore making bold predictions either way is foolhardy to say the least. Our inclination is to believe that this market panic will subside in due course as and when we get a better handle on the likely scale of short term economic impact from the disruption and/or we get a significant, probably coordinated, response from central banks and governments around the world. That there will be disruption is beyond doubt but the scale of it relative to the price movements we have already witnessed is the key issue to resolve.

For now our thinking remains broadly the same as last month – that this will be a sharp but relatively short hit to growth before we see a significant rebound in due course - and hence we have been using the extreme weakness of late to selectively add to our preferred holdings, particularly UK domestic related stocks. However, we are in no way complacent about the outlook and if it becomes apparent that our base case is not the most likely outcome then we will adjust course accordingly.

Simon Murphy 3rd March 2020