VT Tyndall Real Income Fund

April 2020

TYNDALL

April 2020 Review

Whilst the intense volatility we have seen in markets over the past few months showed no real signs of abating in April the UK stock market did, at least, manage to regain some modest positive momentum after 3 months of heavy declines, with the MSCI UK Index gaining +3.4% for the month.

A combination of extraordinary monetary and fiscal support to economies globally, hope for progress in the scientific endeavor to defeat Covid-19 and tentative moves to start reopening many of the biggest economies from lockdown were enough to allow equity markets to regain their footing somewhat during the month.

Despite this welcome positive move in equity markets, volatility is highly likely to remain elevated for some time given the scale of the economic hiatus during lockdown, an understandable lack of forward guidance by virtually all companies currently, and a lack of understanding at this stage of the speed and extent to which economies will 'get back to normal' as restrictions start to ease.

Fund performance/ activity

Our fund recovered sharply during April, gaining +14.5% and significantly outperforming the MSCI UK Index gain of +3.4%.

To a large extent the share prices that had been hit hardest during the recent market decline where the ones that bounced back significantly during April and hence key positive contributors to performance included Vistry, GVC, Dunelm, Intermediate Capital, Ashtead and Synthomer.

Negative contributors to performance, whilst relatively modest this month, included more defensive holdings such as BAE Systems, Phoenix, RSA Insurance, SSE and BP which continued to suffer from an incredibly weak oil price environment where at one stage during April oil prices were -$37!

We take absolutely no pleasure whatsoever in the significant volatility that both the market and our fund are going through in this current environment. However, as we mentioned last month we feel it is incredibly important to stay focused on the medium term potential of the franchises we own in the portfolio and not to be afraid to take the opportunity of adding to those holdings in periods of extreme market dislocation such as those we have witnessed recently.

We introduced 2 new holdings to the portfolio in April in National Express and OneSavings Bank. Both companies have very strong franchises and are currently suffering significant share price weakness which we feel is disproportionate to the short term nature of the issues they are dealing with. We also added to Melrose, Imperial Brands, BP and Dunelm during the month.

To fund these additions we took money from stocks that have held up relatively well including Howden Joinery, Tate & Lyle and AstraZeneca. We also disposed completely of holdings in Meggitt and RSA Insurance to fund higher conviction positions in the portfolio.

Market Outlook

As noted earlier, whilst it is encouraging that markets are starting to gain their feet a little it is doubtful that we are entirely out of the woods just yet. Much depends now on the speed to which economies can start to reopen successfully without triggering a debilitating 'second wave' of Covid-19 cases. The market mood is similarly likely to wax and wane subject to progress or otherwise in developing treatments to fight the disease including the much longed for vaccine.

At the corporate level, given the lack of forward guidance currently, investors in many respects are 'flying blind'. However, we do know that the analyst community have been slashing earnings forecasts aggressively in the past few months. Whether those downgrades have been enough, too much or not enough yet will be determined in due course but will also have a significant bearing on the outlook for markets and in particular the leadership within the market.

Our base case remains that the speed and scale of policy response will prove to have been sufficient to allow a relatively sharp recovery in economic activity once lockdown restrictions are lifted. As such, a portfolio of quality, albeit cyclical, franchises which should emerge as stronger businesses compared to their competition and where their share prices have in many cases suffered substantial falls ought to be extremely well placed to deliver exceptional returns in the medium term. Whilst it will undoubtedly remain a bumpy ride in the short term, we feel strongly that the medium term prize will prove worth it.

Simon Murphy 4th May 2020