VT Tyndall Real Income Fund

Monthly Commentary (31st August 2020)

TYNDALL

Review

Following the weakness in July, UK equities delivered a relatively modest recovery in August, with the MSCI UK Index gaining +1.5% over the month.

Investor sentiment continues to be buffeted by the ongoing headlines around the Covid-19 pandemic and in particular the potential for 'second waves' across much of Europe as cases have started rising – in some cases quite significantly – again. However, for reasons not fully understood yet, whilst case numbers are rising, thankfully the death toll appears to be significantly lower now than during the early part of the year.

During the peak holiday season, and a generally quiet month, other points of interest included the ongoing debate over the sustainability of performance from large US technology stocks, the potential for a closer than expected upcoming US presidential election and changes to the messaging coming from US central bankers at the annual Jackson Hole economic symposium.

Closer to home, Sterling is starting to show signs of strength, not just against a generally weaker US dollar but also against the Euro. It is early days but a potentially interesting development given the proximity of the end of the Brexit transition period.

Fund performance / Activity

It was a much better month for our fund which gained +4.6%, comfortably outperforming both the peer group average gain of +2.1% and the MSCI UK Index gain of +1.5%.

Positive attribution came predominantly from our highly cyclical holdings, many of which have been significantly impacted this year by the Covid-19 pandemic. These included WH Smith, Easyjet, Melrose and JD Sports. Domestic UK focussed stocks also performed well generally with meaningful attribution from OneSavings Bank, Next, Persimmon and Dunelm amongst others.

Negative contributors were relatively limited for the month although National Express was a notably poor performer as was, to a lesser extent, TP Icap. More defensive holdings such as Severn Trent and SSE also underperformed modestly.

We made one new addition to the portfolio in August, that of DFS Furniture. The business is trading incredibly well given the pent up demand evident since the easing of lockdown and is benefiting from the demise of others in the sector. This was funded by the complete disposal of our holding in Dunelm Group. This business is also trading incredibly well and for many of the same reasons as DFS. The big difference being that Dunelm have reached a new all time high for the share price, rallying over 100% from the March 2020 low, whereas the DFS share price is still down over 40% since the start of the year.

We added to several existing holdings during August including Bodycote, British American Tobacco, OneSavings Bank, Vistry and BAE Systems. These purchases were funded through profit taking in holdings such as Next, Ferguson, Intermediate Capital and Persimmon.

Market Outlook

We don't really have a lot new to say this month as we leave the summer holidays behind. There is no doubt an economic recovery is underway, although there are many who doubt the speed and sustainability of the recovery given the twin headwinds of a still highly prevalent virus and the unwinding of many of the most effective government support mechanisms. Similarly there are plenty of commentators in utter disbelief at the speed to which markets have recovered their poise in the face of such 'unprecedented' events as those we have seen year to date.

Our position remains as in previous months. We are hopeful of an enduring economic recovery and of significant scientific progress in the fight against the virus. In such a scenario, equities will likely continue their recovery from the events of the early part of the year and breadth should start to return – with many more markets and companies participating in the recovery rather than just a handful of US tech giants!

This breadth of participation is the missing piece of the jigsaw for us and one which we believe, when it does occur, will be the signal that the world really is on the path of sustainable and durable recovery from the traumas of early 2020. With a great many of our quality cyclical holdings still down significantly in share price terms this year, we have tremendous scope to generate significant positive returns going forwards as and when such breadth does indeed return.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 2nd September 2020

Data source: Bloomberg, FE Analytics