VT Tyndall Real Income Fund

Monthly Commentary (30th September 2020)

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Review

September was another relatively lacklustre month for UK equities, although given the news flow surrounding the Covid-19 pandemic, we are slightly surprised markets were not even weaker. In the end the MSCI UK Index fell -1.6% for the month.

Covid-19 dominated the headlines around the world, particularly the scale and severity of the 'second wave' that has now clearly arrived in the UK and Europe, as economies have reopened over the summer period.

In the UK, cases are now back at the peak levels witnessed during March and April – albeit with far greater daily testing occurring now compared to then. Thankfully, hospitalisations and deaths are, currently at least, running at materially lower levels than earlier in the pandemic. Nevertheless, the resurgence in case numbers has led to a myriad of new restrictions both nationally and, often confusingly, at local 'hot spots'.

In other UK news, nervousness continues to build over whether the UK and Europe will be able to strike a trade deal before the end of the year. The UK government threw a potential spanner in the works by passing legislation – The Internal Market Bill - which will enable them to renege on parts of their, already signed, Brexit agreement with the EU, in the event no deal is reached.

Globally, all eyes are turning to the forthcoming US presidential election which is just a month away. If the first live debate between the 2 candidates is anything to go by this will be a highly charged, potentially unseemly, contest with no doubt some interesting twists and turns along the way.

Fund performance / Activity

It was a mildly disappointing month for our fund which fell -2.7%, modestly underperforming both the peer group average loss of -2.3% and the MSCI UK Index loss of -1.6%.

Positive attribution came from a variety of holdings including cyclical stocks such as National Express, Melrose, GVC and ITV. Tobacco stocks were relatively strong during the month with Imperial Brands being a notable contributor. Having no exposure to index heavyweights Royal Dutch Shell or HSBC also proved beneficial.

Negative contributors were concentrated in financials and travel exposed stocks. In the former category Legal & General, Barclays, OneSavings Bank, Intermediate Capital and TP Icap all performed poorly. In the latter category EasyJet and WH Smith continued to struggle. Housebuilder Vistry was also a poor performer despite the ongoing strength and recovery being seen in the UK housing market currently.

We were more active in the portfolio in September than we have been for several months. We introduced 3 new stocks to the portfolio in Electrocomponents, Antofagasta and JD Weatherspoon. We added to several existing holdings such as BAE Systems, Vistry, Legal & General and Tate & Lyle.

These purchases were funded by the complete disposal of Ferguson and Howden Joinery – both stocks which have done incredibly well for the fund and where we now see better opportunities to deploy the capital elsewhere. We also took profits in stocks such as Ashtead, Next, JD Sports and AstraZeneca to help fund new additions.

Market Outlook

The fourth quarter of what has already proved to be a tumultuous year is now upon us and, with a number of potentially huge 'macro' events in the near future, may well prove to be extremely volatile and testing in the near term.

Will the political establishment in the United States come together and deliver a much-needed additional stimulus package to help sustain the economic recovery? Who will win the US presidential election in early November and what will be the implications? Will the UK and the EU cobble together a trade deal before 31st December 2020? If not, what will be the impact of a 'no deal' Brexit? How will the Covid-19 pandemic evolve, particularly in the US, UK and Europe over the winter months? Will we see any progress on vaccines and how quickly could these be deployed?

Clearly there are a number of significant events coming up that have the potential to be 'market moving' and hence we can understand why a degree of caution has entered most markets in recent months. However, for us nothing so far has materially changed our outlook for the medium term.

To reiterate, we think we are in the relatively early stages of an economic recovery post the Covid-19 induced global collapse in the second quarter of 2020. Whilst there will undoubtedly be bumps along the way, provided we do not witness the scale of economic disruption forced upon economies back in the spring, we are optimistic that the recovery will endure.

When we survey the UK stock market landscape today, we can find a great number of strong business franchises where share prices are still down significantly from previous peaks, where valuations look extremely attractive, and where future prospective returns look outstanding – notwithstanding the potential for near term volatility. This is what makes us so excited about the prospects for our portfolio in to the medium term.

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

Data source: Bloomberg, FE Analytics