VT Tyndall Real Income Fund

Weekly Commentary 21st October 2020

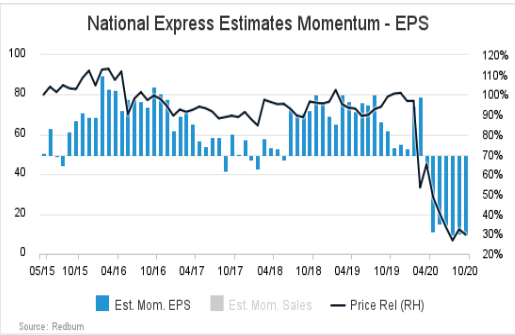
TYNDALL

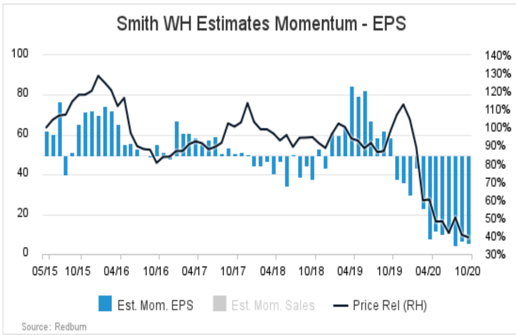
"Once a year, go someplace you've never been before."

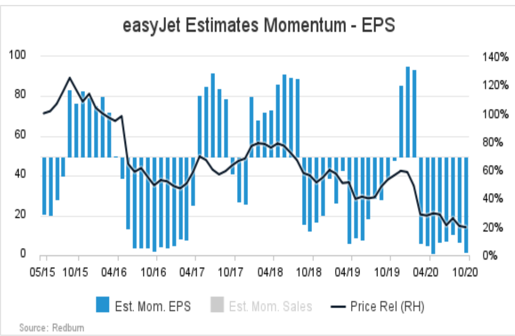
Wise words indeed - reportedly from the Dalai Lama no less – and ones we would wholeheartedly agree with. Of course, it's not quite as simple as it once was in these difficult, pandemic dominated times. However, we are optimistic on humanity's ability to prevail against the virus eventually and we take comfort from another wise saying that, this too shall pass.

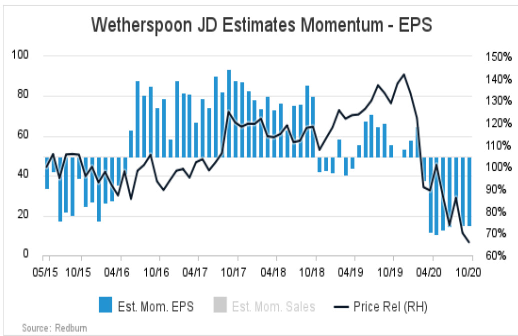
So, it is with this same sense of optimism that we have been approaching investments in travel and leisure related companies in recent months. Obviously, many of these businesses have been among the worst affected by Covid-19's seemingly relentless spread globally. 'Unprecedented' is, in our opinion, an overused adjective these days, but it is absolutely appropriate when describing the environment many of these companies have found themselves operating in over the past several months.

Indeed, with the so called 'second wave' of Covid cases firmly upon much of the world there would appear to be no end in sight for the troubles these businesses currently face. That is certainly a conclusion one could draw when looking at metrics such as relative earnings momentum, as the charts below (from Redburn Ideas) of a few of our favourite names – National Express, WH Smith, Easyjet and JD Wetherspoon amply demonstrate.



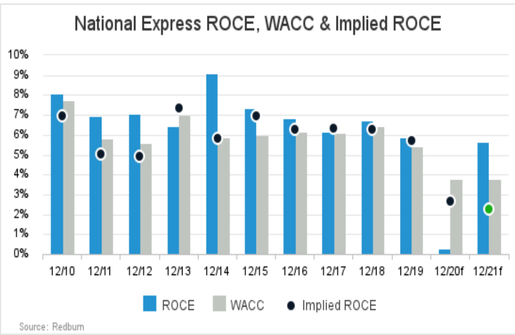


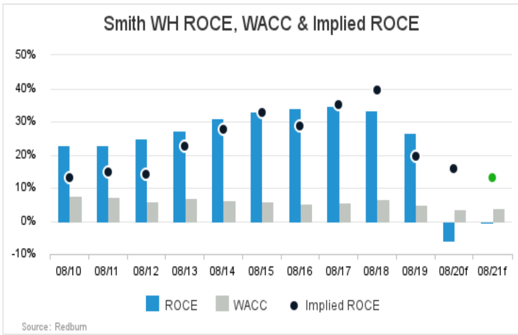


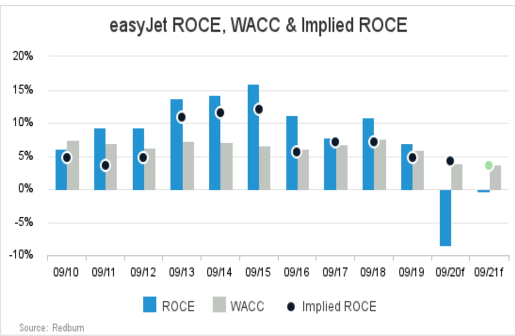


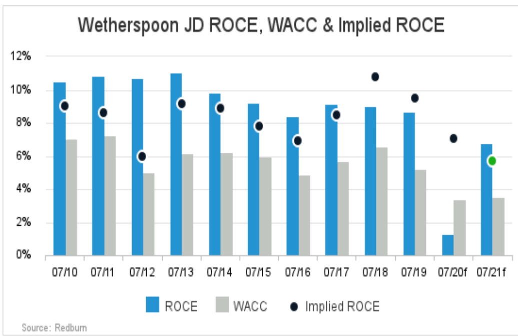
With that, somewhat inauspicious, backdrop why then are we invested in these businesses today? There are several aspects to consider when answering that question and, in our view, the key ones are as follows

- Each business is well run, has a solid franchise and a strong competitive position in their respective markets. It is most likely they will emerge stronger relative to their competition at the end of the crisis than at the beginning.
- Each business has the financial flexibility and wherewithal to survive the current crisis in all but the most extreme scenarios currently envisaged.
- We are currently buying each of these businesses at 'distressed' levels. Year to date their share prices are down between -51% and -69%. There would appear to be very little 'expectation' of recovery in any of their valuations as the charts below (again from Redburn Ideas) all too clearly illustrate.









- We do not believe these businesses have been irreparably damaged by the current crisis. For sure, trading has been, and remains, very difficult in the near term. However, we firmly believe that travel and leisure activity will rebound with vigour – as it always has historically – as and when conditions permit. These franchises have proved incredibly durable in the past and we have no doubt they will adapt to the 'new normal' with equal success.

We cannot tell you exactly when the market will start to look beyond the near-term uncertainties towards a brighter future for these companies, but we know for sure it will – markets are discounting mechanisms after all. Indeed, our experience suggests this change in forward looking behaviour typically happens earlier than most expect or can correctly anticipate.

What, for example, might be the outlook for these businesses in 6 months' time? Could we be rolling out vaccines by then? Might we have established some level of 'herd immunity' and so be treating the virus as an ordinary part of our lives as we do the flu and other common viruses? If there are any positive developments how soon might the forward-looking markets start to focus on them?

We don't know the answers of course, but we do know that buying these businesses, at these prices, affords us the patience to wait for what we feel sure will be considerable upside when the time comes. Who knows, that time may well come sooner than most people think. If so, that will be great, but if not, we are perfectly prepared to wait.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 21st October 2020

Data source (unless otherwise stated): Bloomberg