VT Tyndall Real Income Fund

Monthly Commentary (31st December 2020)

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Review

UK Equities continued making progress in December adding further, albeit more modest, gains to those of the previous month. The MSCI UK Index rose +3.0% for December, although still ended 2020 with a loss of -13.2% for the year as a whole.

The UK headlines were dominated, once again, by Covid-19 and Brexit. Concerning Covid-19 there was a mix of negative and positive news to digest. On the negative side, a new variant has been identified in large areas of the South and East of the UK which, whilst not obviously more deadly, appears to be much more readily transmissible, and as such has seemingly been responsible for a rapid acceleration in UK Covid-19 cases. This resulted in yet further tightening of restrictions across vast swathes of the UK economy with potential further restrictions coming in the near future.

On the positive side, the UK has been the first country to approve both the Pfizer/ BioNTech vaccine at the start of December and the AstraZeneca/ Oxford University vaccine towards the end of the month. Large scale rollout programmes are now getting underway and the hope is that a significant portion of the population – particularly the elderly and vulnerable – can be vaccinated over the next few months, enabling an easing of restrictions and some form of return to normality as soon as possible.

The seemingly never-ending Brexit saga took a few more twists and turns during December, with both the UK and Europe insisting the most likely outcome was to be a no-deal Brexit. However, as has so often been the case in negotiations between the two, a last-minute deal was agreed as the year end approached, and so we now begin a new chapter in our relationship with our largest trading partner. Whether this marks the end of the uncertainty that has plagued the UK economy since the referendum in 2016 very much remains to be seen.

Elsewhere, US politicians finally agreed to a c. $900bn additional fiscal support package to help the economy until it emerges from the pandemic. Other interesting observations for the month included persistent US dollar weakness in global currency markets and a further explosion upwards in the value of the major Cryptocurrencies.

Fund performance / Activity

It was another pleasing month of performance for our fund, gaining +6.7% and comfortably outperforming both the peer group average gain of +3.7% and the MSCI UK Index gain of +3.0%.

Positive attribution came from a variety of holdings still recovering from pandemic related losses such as Vistry, WH Smith, Melrose, National Express, ITV and OSB Group. Entain and Electrocomponents continued to add value during the month as did relatively new holding Drax.

Negative contributors, for the second month running, consisted primarily of companies we do not own in the fund also performing strongly, such as insurer Prudential and resource company BHP group.

We introduced 1 new stock to the portfolio in December, namely retailer Marks and Spencer. We made 2 complete disposals of Severn Trent and JD Sports. We added to several existing holdings such as Phoenix, ITV, DFS Furniture and JD Wetherspoon. We also took modest profits in stocks such as Rio Tinto, Antofagasta and Synthomer.

Market Outlook

With the end of December heralding the start of a new calendar year, it is often tempting to think about how things will change in the year ahead and what that might mean for markets and our portfolio. However, in reality that's exactly how we should be thinking all the time, regardless of the date or time of year.

As such, our thoughts have not really changed very much over the last few months. Whilst there are still many obstacles to overcome with regards to the Covid-19 pandemic in the short term, we firmly believe we are on a path to victory, and news such as the approval of vaccines and the beginnings of mass vaccination programmes only adds confidence to that view.

Similarly, we have been hopeful that a Brexit trade agreement would be reached before the end of the transition period, to enable continued trade in goods between the UK and the EU with the minimum level of additional bureaucracy possible.

The combination of optimism with regard to these two key issues of the day, together with the outstanding opportunity to purchase shares in strong franchises at relatively distressed prices that we received in early 2020 – an opportunity that still exists today in many cases – is what has made us, and continues to make us, extremely excited about the return prospects for our fund in the medium term.

Undoubtedly it will not be plain sailing all the way, stock market investment rarely is. However, we feel confident the end result will be worth the effort, both in 2021 and beyond.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 4th January 2021

Data source: Bloomberg, FE Analytics