VT Tyndall Real Income Fund

Monthly Commentary | November 2021

TYNDALL

Review

Equity market volatility returned in earnest during November, with significant weakness towards the end of the month. The MSCI UK Index fell -1.95% over the month.

November news flow was dominated by unwelcome developments relating to the ongoing Covid-19 pandemic. Early in the month all eyes were focussed on a rapidly accelerating wave of infections running through much of continental Europe, with infection rates the highest of the pandemic to date in countries such as Germany, the Netherlands and Austria. This led to further restrictions on activity, particularly for those unvaccinated, and a return to full national lockdown in the case of Austria. Public fatigue with the imposition of further restrictions was evident, with violent unrest in both Austria and the Netherlands.

Events took a further, dramatic twist towards the end of the month as a new 'variant of concern' was discovered, initially in southern Africa. Little is yet known of the new variant, now called Omicron, although the degree to which it has mutated from previous strains of the virus had many scientists and experts conjecturing that it could be highly transmissible and potentially escape some of our vaccine effectiveness. Many countries, including the UK, reacted swiftly with new travel restrictions aimed at limiting the spread, although cases have since been discovered in numerous countries around the world.

Elsewhere, President Biden opted for continuity and nominated Jay Powell for a second term as Chair of the Federal Reserve in the US. Whilst markets initially welcomed the certainty, Powell chose to surprise many with testimony at a congressional hearing suggesting inflation should no longer be considered 'transitory' and that tapering of monetary stimulus may, notwithstanding the new variant, happen faster than previously anticipated.

Here in the UK, in contrast to many regions in Europe, our rate of Covid-19 infections has remained fairly stable recently and, encouragingly, our hospital admissions and deaths have been on a steady decline. However, given the worries over the new variant, not only have additional travel restrictions been introduced but face masks have become compulsory again in England, on public transport and in shops, bringing England in to line with the rest of the UK.

Fund performance / Activity

Given our extensive exposure to companies that benefit from the gradual reopening and renormalising of economic activity, it was an unsurprising but still disappointing month in terms of performance for the fund, which fell -4.39% (share class A GBP Net Accumulation), underperforming both the peer group average fall of -2.04% and the MSCI UK Index's fall of -1.95%.

Negative attribution came predominantly from those companies significantly at risk of disruption from the Covid-19 developments, primarily in the travel and leisure areas of the market. Key underperformers included EasyJet, WH Smith, J.D. Wetherspoon, Melrose and Burberry. Additional detractors included Asian economy focussed financial stocks Standard Chartered and Prudential.

There were several positive developments in the portfolio which resulted in positive attribution from a number of unrelated holdings such as Marks & Spencer, Drax, ITV and Bodycote. The fund also benefited from having zero exposure to index heavyweights Royal Dutch Shell and AstraZeneca, as their share prices underperformed.

November was a reasonably quiet month for activity in the portfolio and we made no new additions or complete disposals during the month. We used the extreme weakness in several holdings to top up positions towards the end of the month, including Rolls Royce, Prudential, WH Smith, J.D. Wetherspoon and EasyJet.

These additions were funded by modest profit taking in holdings such as Marks & Spencer, Next, BHP and NatWest.

Market Outlook

As we write it is clearly very early days in relation to the new Covid-19 variant Omicron. We know very little other than suspicions of higher degrees of transmissibility and potential for our current vaccines to be somewhat less effective. However, critically we don't yet know if either of those suspicions will prove valid and even more importantly, we do not know whether the variant will be more/less/ the same in terms of risks to health. Initial data from South Africa is suggesting symptoms that are considerably milder than the Delta variant, but this is from a very small sample, so for now all we can do is await more data.

We acknowledge the capacity therefore for this to be a major setback in the global recovery from the pandemic, if our worst fears prove to be correct. At the risk of sounding unduly optimistic, we suspect (hope) the worst will not come to pass. We base that view on the fact that, 20 months into the pandemic, we are considerably further advanced in terms of knowledge and understanding of the general behaviour of the virus and ways to treat the serious conditions it can cause. We have, globally, built a significant degree of resistance to the virus both through extensive vaccination programmes and immunity through prior infection. We also note, although we are by no means experts here, the history of virus mutation and evolution typically involves higher degrees of transmissibility but lower degrees of serious health risk. As such, we are prone to base our investment decisions at this stage on the most likely scenario being that of a modest setback on the road to recovery, rather than anything more sinister.

Turning to our portfolio holdings, we find a great many of them, particularly in the areas most effected by pandemic related disruption, now trading at or near lows, relative to the wider market, that we first saw back in Feb/March 2020 as the pandemic was just starting. We think this creates extraordinary investment opportunities over the next few years, from those companies that will not only survive but thrive in stronger competitive positions as we ultimately come through the pandemic. We cannot tell you exactly when that will be, but as patient investors we feel extremely confident that the wait will be well worth it.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 2nd December 2021
Data source (unless otherwise stated): Bloomberg, FE Analytics

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