

VT Downing European Unconstrained Income Fund



March 2021 Commentary

March saw European markets climb strongly as investors looked through the rising Covid-19 cases, a chaotic vaccine roll-out and tougher lockdowns, to focus more on the rebounding economic data. The IHS Markit Eurozone PMI (purchasing managers index) showed encouraging business activity with a return to growth on the back of a record gain in manufacturing output. Concerns remain about inflation and a potential earlier normalisation of rates, supporting the ongoing rotation in “value” with the autos sector in particular leading the way in the month.

The Accumulation NAV rose from 102.6520p to 106.3842p. BFF Bank was again a strong contributor as an investor day highlighted the strong growth and capital return prospects expected in the years ahead, especially as funding synergies are realised from the recently completed DEPObank acquisition. Cairn Homes, the Irish housebuilder, impressed with solid results and encouraging guidance of €350-400 million of free cash generation between 2021 and 2023 (c45% of its market cap). Our other Irish name, Glanbia, continued its strong run from its good set of results in February. The semiconductor names endured a mixed period as continued strength in BE Semiconductors was offset by weakness in ams AG shares. ams AG suffered from speculation that it is at risk from being cut from the Apple supply chain. Management are taking steps to diversify the business and following the acquisition of Osram, the Consumer division (where Apple iPhone sales are booked), is 37% of revenue compared with 82% in 2019. While near-term visibility associated with Apple is limited, we believe a single-digit 2022 PE multiple reflects this risk and undervalues the long term growth trends ams AG is exposed to as the autos, medical and industrial sectors increasingly rely on optical sensor solutions.

We sold Vopak on concerns over the positioning of its storage assets in the face of the energy transition and the capex requirements needed to meet the more complex needs of customers.

While markets are touching highs, we continue to see opportunities in a number of names that are set to benefit from the reopening of European economies. We continue to look out for companies that have lagged the recent rally but offer improving trends as we emerge out of lockdown.

Opinions expressed represent the views of the fund managers at the time of publication, are subject to change, and should not be interpreted as investment advice.

About the fund

The fund aims to have approximately 30-40 holdings*. The team seeks to generate returns by identifying high quality companies that have a long term sustainable competitive advantage, with potential to generate growth over time. At the point of entry, the valuation of the company is attractive to the fund managers, either because it has fallen out of favour in the short term, or because it is “off the radar” of many other investors.

Investment objective

The investment objective of the fund is to generate income and some capital growth over the long term (5 years or more), principally by investing in transferable securities of European issuers. We aim to ensure that at least 75% of the fund's assets are invested at all times in equities issued by companies based in a Member State of the EU, in Norway, Iceland, Turkey, Switzerland, Russia or the UK. The remainder will be invested in government securities, fixed income, closed ended collective investment schemes/vehicles (which may include those managed and/or operated by the Authorised Corporate Director (ACD) and which will provide exposure to various asset classes including equities and bonds), real estate investment trusts, money market instruments, deposits, cash and near cash.

The fund will not have any particular industry or economic sector focus and as such weightings in these may vary as required.



Fund Manager
Mike Clements

Mike has more than 20 years' experience in the industry and over 12 years' experience managing European equity portfolios. His investment career began in 1999 as a European equity analyst at UBS Asset Management. In 2008, he moved to Franklin Templeton Investments where he managed the €3 billion Franklin European Growth Fund and related mandates. Between 2014 to 2020, he was Head of European Equities at Syz Asset Management, managing a range of Pan European and Europe ex. UK funds, including the Oyster Continental European Income Fund.



Fund Manager
Pras Jeyanandhan

Pras has over 11 years' investment experience. He began his career in 2005 with KPMG, qualifying as a Chartered Accountant (ACA), before moving to HSBC as a strategy analyst. In 2011, Pras joined Berenberg Bank as an equity analyst, leading coverage on the Financials sector before joining Mike Clements at Syz Asset Management in 2015 as an investment analyst and then portfolio manager. From January 2019, Pras co-managed the Oyster European Opportunities Fund alongside Mike as well as providing support across the other portfolios.

* Please note, this is not a requirement or restriction of the fund.

Portfolio summary

As at 31 March 2021

Top 10 holdings

	% of fund
Banca Farmafactoring SpA	5.22
Glanbia plc	4.33
Befesa SA	3.90
Cibus Nordic Real Estate AB (publ)	3.88
doValue SpA	3.86
Van Lanschot Kempen NV	3.78
Rubis SCA	3.59
Gaztransport et Technigaz SA	3.33
SalMar ASA	3.32
BE Semiconductor Industries NV	3.26

Portfolio by sector



3.62%	Cash	8.67%	Health care
2.13%	Communications	15.85%	Industrials
5.86%	Consumer discretionary	12.18%	Information technology
9.96%	Consumer staples	2.15%	Materials
5.98%	Energy	9.68%	Real estate
20.32%	Financials	3.59%	Utilities

Source: Valu-Trac Investment Management Ltd.

Key facts As at 31 March 2021

Structure

London listed Open Ended Investment Company (OEIC), established as a "UCITS scheme".

Launch date

6 November 2020

Fund Size

£82.21m (A and F share classes combined)

Share price

Class A 106.3842p (Acc)

Class A 102.8210p (Inc)

Class F 102.8180p (Acc)

Class F 110.0496p (Inc)

No of holdings

34

Minimum initial investment

Class A: £1,000 lump sum

Dividends

TBC

Liquidity

Daily pricing and daily dealing

Sector: IA Europe Ex UK Sector

ISIN Codes

Class A Accumulation: GB00BLF7YL10

Class A Income: GB00BLF7YM27

ISA eligible: Yes

Contact details

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Valu-Trac Investment

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Orton, Moray

IV32 7QE

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www.valu-trac.com

Fund charges

Initial charge: 0%

Annual management charge:

Class A: 0.75% per annum

Ongoing charges**:

Class A: 0.87%

How to apply:

Telephone: +44 (0) 1343 880 217 or

visit: [https://www.valu-trac.com/administra-](https://www.valu-trac.com/administration-services/clients/downing/deui/)

[tion-services/clients/downing/deui/](https://www.valu-trac.com/administration-services/clients/downing/deui/)

Also on the following platforms:

Ascentric

AJ Bell

Aviva

Canada Life International

Hargreaves Lansdown

Hubwise

James Brearley

Raymond James

Transact

We are currently working with other platforms so please let us know if yours is not listed above.

**** Please note:** As the A share class only launched on 17 November 2020, the ongoing charges figure shown here is an estimate of the charges and may vary from year to year. It excludes portfolio transaction costs.

www.downingeurope.com

Risk warning: Your capital is at risk. Investments into this fund should be held for the long term (5+ years). The value of your investment and income derived from it can fall as well as rise and investors may not get back the full amount invested. The fund does not have any particular industry or economic sector focus and as such weightings in these may vary as required and investments may be in the same sectors. Values may be affected by fluctuations in currency exchange rates and may cause the value of your investment to go up and down. The portfolio is constructed independently of a benchmark index. Reduced liquidity may have a negative impact on the price of assets. The use of derivatives may result in gains or losses that are greater than the original amount invested. The fund may invest in smaller companies which are higher risk compared to investments in blue chip companies. Past performance is not a guide to future returns. Please refer to the latest fund Prospectus and KIID before investing; your attention is drawn to the risk, fees and taxation factors contained therein.

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