

VT Downing European Unconstrained Income Fund



August 2021 Commentary

The old market adage of “sell in May and go away” certainly hasn’t been true in 2021 with the market registering yet another strong rise of 2.8% (in sterling terms) during August. Technology (+6.2%), Utilities (+4.2%), Media (+4.2%) and Healthcare (+3.2%) led the way with basic resources (-4.2%), Retail (-3.0%), Autos (-1.9%) lagging behind.

The Downing European Unconstrained Income fund rose during August with the A accumulation NAV per share increasing from 114.5162p to 119.0611p. August is a quiet month for newsflow as most companies have reported their Q2 results and many staff are enjoying their summer holidays. Dovalue was one of the few companies that were yet to report and their update in early August was encouraging with new mandate wins boosting their AuM and NPL collections improving as the Italian court system slowly reopens after COVID. The shares rose 10% and we still view Dovalue as an interesting way to play the expected wave of defaults as government gradually withdraw COVID support mechanisms.

We also saw good results from Infineon who maintained their full year guidance on the back of strong demand from auto makers with ongoing chip shortages keeping inventory levels low and order books high. This is likely to persist into 2022 and will be a net positive for Infineon.

On the negative side, we saw some profit taking in BFF during August with the shares falling 11.6% after they flagged that the loan book in Italy and Spain was lower due to high amount of liquidity pumped into the market to help companies struggling with COVID driven lower demand. We remain happy holders as we view the lower loan book as temporary in nature and the valuation still looks very cheap. After a very strong performance seen so far in 2021 the shares are still +50% YTD and remains one of the best performers in the fund.

We made two changes to the fund during the month. We initiated a new position in a very interesting contrarian opportunity in the mobile gaming industry. Stillfront is a leading free-to-play games developer and has grown rapidly over the last decade in what is a very fragmented market. Having been a well loved company for the last five years, the shares have fallen by over 50% from the recent peak due to a change in how Apple users can control their personal data which makes it more difficult for publishers such as Stillfront to attract and monetise new users for its games. We think this is a temporary setback and used the weakness to build a position in the fund. On the other side we decided to take profits in Van Lanschot Kempen and exited the position.

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.

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



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.

Distribution information

Period end	Ex Dividend	Payment date	A Acc (GBP)	A Inc (GBP)	F Acc (GBP)	F Inc (GBP)
Dec-20	31/12/2020	26/02/2021	0.1573	0.1255	0.0672	0.1633
Mar-21	31/03/2021	28/05/2021	0.2264	0.2197	0.2187	0.2346
Jun-21	30/06/2021	31/08/2021	1.3863	1.3400	1.3402	1.4352

Distributions are subject to change and should not be utilised as a basis for an investment decision.

Portfolio summary

As at 31 August 2021

Top 10 holdings

	% of fund
doValue SpA	4.24
Cibus Nordic Real Estate AB (publ)	4.21
Banca Farmafactoring SpA	4.15
Cairn Homes PLC	4.04
Fnac Darty SA	3.54
AMS AG	3.33
Aumann AG	3.27
Aedas Homes SA	3.27
Glanbia PLC	3.16
Prysmian SpA	3.15

Portfolio by sector



Source: Valu-Trac Investment Management Ltd.

Key facts As at 31 August 2021

Structure

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

Launch date

6 November 2020

Fund Size

£88.75m (A and F share classes combined)

Share price

Class A 119.0611p (Acc)
Class A 113.6948p (Inc)
Class F 115.1656p (Acc)
Class F 121.7863p (Inc)

No of holdings

35

Minimum initial investment

Class A: £1,000 lump sum

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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Fund charges

Initial charge: 0%
Annual management charge:
Class A: 0.75% per annum
Class F: 0.55% per annum
Ongoing charges**:
Class A: 0.84%
Class F: 0.64%

How to apply:

Telephone: +44 (0) 1343 880 217 or
visit: <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.



defaqto, 5 Diamond rated, 2021.

** Please note: The ongoing charges figure is based on expenses and the net asset value as at 16 April 2021. This figure 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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DEUI0039 Sep (Aug) 2021