

VT Downing European Unconstrained Income Fund



December 2020 Commentary

After the very strong returns seen by the markets in November, the European equity market rose more modestly in December. However, news about the virus worsened throughout the month, with the emergence of a new, more infectious variant of the virus causing a sharp rise in case rates and putting pressure on governments to once again close businesses and restrict people's movements. As a result, the sharp market rotation seen in November reversed somewhat, with value underperforming momentum and growth stocks once again.

The A accumulation share class rose from 103.0853 pence to 105.0103 pence over the month. The main positive contributors were the fund's more cyclical holdings such as [Vestas Wind Systems](#), [MOWI](#) and [Prysmian Group](#). Smaller companies also performed well with holding such as [BE Semiconductors](#) and [Befesa](#), [Dovalue](#) and [Banca Farma Factoring](#) all performing strongly. In terms of income, the main news was the unexpected €0.29/share special dividend (equating to 0.66% dividend yield) announced by Befesa at the end of November and paid during the month.

The main laggard was our holding in AMS AG which fell sharply after a [report in an online industry journal](#) flagged speculation that mobile phone manufacturers may change the technology they use for 3D sensing in their latest smartphones. AMS is the leading manufacturer of sensing technology but has leading positions in both of the main types of technology used and so we believe it is well positioned for the continuing evolution of the industry.

We made one change to the fund during the month as we decided to exit our position in Ryanair. There were two reasons behind our decision. The first is the stock had rallied almost 40% since the [start of November](#) on the back of the positive Covid-19 vaccine news. Secondly, we identified a [corporate governance](#) issue related to Brexit whereby UK investors would lose their voting rights after 1 January 2021 in order for the company to remain compliant with EU airline ownership rules. As a result, we decided to take profits as we continue to assess the situation.

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 to 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.

Portfolio summary

As at 31 December 2020

Top 10 holdings

	% of fund
Cibus Nordic Real Estate AB (publ)	4.20
Sirius Real Estate Ltd	4.07
Banca Farmafactoring SpA	3.99
doValue SpA	3.71
Glanbia PLC	3.70
Rubis SCA	3.50
Van Lanschot Kempen NV	3.48
Befesa SA	3.19
SalMar ASA	3.15
Gaztransport et Technigaz SA	2.92

Portfolio by sector



Source: Valu-Trac Investment Management Ltd.

Key facts As at 31 December 2020

Structure

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

Launch date

6 November 2020

Fund Size

£82.61m (A and F share classes combined)

Share price

Class A 105.0103p (Acc)
Class A 101.7400p (Inc)
Class F 101.4416p (Acc)
Class F 108.8391p (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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Fund charges

Initial charge: 0%
Annual management charge:
Class A: 0.75% per annum
Ongoing charges**:
Class A: 0.88%

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
Hargreaves Lansdown
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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