

VT Downing European Unconstrained Income Fund



February 2021 Commentary

On the face of it, February was an uneventful month, with the European market remaining flat in sterling terms. However, this hides what was actually quite a tumultuous environment with rising bond yields and an increased focus on inflation driving a very sharp market rotation. Within Europe, the more "value" and "cyclical" sectors such as Travel & Leisure (+15%) Banks (+15%), Basic Resources (+12%), and Autos (+6%) hugely outperformed more defensive names such as Healthcare (-3%), Utilities (-6%) and Food & Beverage (-3%). Sterling saw a sharp move, appreciating around 2% against the euro, reducing the performance to UK shareholders by a similar amount.

The A Accumulation NAV fell slightly during the month from 103.6558 to 102.6520. February saw the start of the European results season with several of our portfolio companies providing trading updates. Generally speaking, CEO's were more upbeat about the outlook for their companies and, in many cases, this was reflected in the resumption of dividend payments or greater than expected increases in existing pay-outs.

Stock-wise, we saw a strong share price performance from one of our biggest holdings, Banca FarmaFactoring (BFF). BFF plays an important role in the Italian healthcare system by providing receivable factoring services to pharmaceutical companies, allowing the timely delivery of critical drugs whilst allowing the health service time to pay. The group's [latest results](#) neatly highlighted its investment attractions: the ECB has so far prevented BFF from paying out its 2020 dividend and so the company has accrued a payment equating to 18% of the market cap. Furthermore, the company has additional excess capital of 12% of the market cap. We believe that this will support both a one-off special dividend and also an ongoing and growing yield in excess of 10%. Even better, the recent acquisition of Depobank gives BFF access to additional cheap liquidity and a likely pickup in business as elective medical procedures resume means that the return on equity should increase from an already impressive 30%. We remain happy holders of this exciting opportunity.

Elsewhere in the portfolio, Eiffage reported weak 2020 traffic volumes reflecting the impact of lockdowns but investors were cheered by the strong outlook and better than expected dividend. Our two salmon stocks, [Salmar](#) and [Mowi](#), both gave a positive outlook with demand expected to rise leading to higher salmon prices. Steel dust recycler, [Befesa](#) reported positive progress on the commissioning of two new facilities in the dynamic Chinese market. On the negative side, Fresenius Medical Care warned that it had sadly seen an increase in mortality amongst its dialysis patient population in December due to Covid-19 which would have a knock on impact on revenues for the next few years.

The market is likely to remain uncertain for some time given the slow pace of vaccine roll out across Europe, offset by the continued high levels of fiscal and monetary stimulus. We remain focused on identifying the opportunities as they arise and believe that the portfolio contains a number of exciting long-term opportunities. We remain focused on identifying the opportunities as they arise and believe that the portfolio contains a number of exciting long-term opportunities.

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.

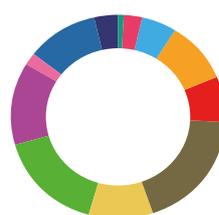
Portfolio summary

As at 28 February 2021

Top 10 holdings

	% of fund
Banca Farmafactoring SpA	4.32
Sirius Real Estate Ltd	4.15
Cibus Nordic Real Estate AB (publ)	4.01
doValue SpA	3.97
Glanbia PLC	3.87
SalMar ASA	3.63
Van Lanschot Kempen NV	3.57
Rubis SCA	3.53
Befesa SA	3.45
Eiffage SA	3.19

Portfolio by sector



1.10%	Cash	9.50%	Health care
2.54%	Communications	16.29%	Industrials
5.34%	Consumer discretionary	12.86%	Information technology
9.83%	Consumer staples	1.97%	Materials
7.13%	Energy	10.88%	Real estate
19.03%	Financials	3.53%	Utilities

Source: Valu-Trac Investment Management Ltd.

Key facts As at 28 February 2021

Structure

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

Launch date

6 November 2020

Fund Size

£79.73m (A and F share classes combined)

Share price

Class A 102.6520p (Acc)

Class A 99.4557p (Inc)

Class F 99.1934p(Acc)

Class F 106.4270p (Inc)

No of holdings

35

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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IV32 7QE

Tel: +44 (0) 1343 880 217

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

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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