

VT Downing European Unconstrained Income Fund



February 2022 Commentary

After months of escalating aggression, Russian forces finally attacked Ukraine last month. Putin's invasion is a human tragedy and a conflict that is reshaping the economics and politics of Europe and beyond. With Ukrainians determined in their resistance, the West responded by imposing drastic and crippling sanctions on Russia. The deteriorating situation and heightened uncertainty triggered a significant sell off in markets, with some sharp moves, notably a +30% rise in the VIX and c40% increase in gas prices.

As markets sold off, the fund's A accumulation shares fell 2.0%, outperforming the IA Europe ex UK sector by c2.6%. Despite a busy company reporting season, the Russia/Ukraine situation dominated share price moves and relative performance, with the fund having no direct exposure to Russia and negligible indirect exposure. Our more defensive holdings (Relx, Glanbia and Siemens Healthineers) remained resilient, while our salmon farming stocks performed well on high prices and tight supply. The relative detractors were more sector driven as the Retail and Banks sectors fell 10-12% driving weakness in a number of our more GDP-sensitive names such as AIB, KBC Ancora, Fnac Darty and Europris. On the whole, our companies have reported generally solid results. Demand is strong with many companies enjoying a sharp recovery from the woes of 2020 and in the main, the outlook for most holdings looks positive. Management teams are still flagging disruptions to their supply chains, both in terms of sharp raw material and logistics price rises and, in some cases, in physically securing access to goods they need. However, price rises are preserving margins in many instances.

We have also seen positive news about cash returns to investors, with a number of companies increasing their dividends and/or launching share buybacks (KBC Ancora, Instone and Julius Baer). In the case of BFF, management announced a move towards paying an interim dividend which could see almost 15% of the market cap returned to shareholders over the next six months.

We are starting to see opportunities emerging in a number of interesting companies. Some of our more growth orientated names have fallen in price despite their fundamental mid-term outlooks improving. While we don't know what will happen with the Ukraine situation in the near term, it is clear that the medium-term implications could be a renewed focus in Europe on reducing energy dependency on Russia. This will likely see more renewables investment, with increased imports of liquefied natural gas (LNG) filling the gap until new supply comes on stream. Electricity prices could move structurally higher which will have negative impacts on some industries and open up opportunities in others. We remain on the lookout for beneficiaries of these changes.

There are also opportunities emerging where the shares of companies that have exposure to Eastern Europe have been overly impacted by the negative sentiment towards Russia. We started a position in Inpost which is a leading last-mile logistics company with operations in Poland. The shares have been very weak since its IPO last year and we believe the valuation is now attractive given its strong growth opportunities and high returns.

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.

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
Sep-21	30/09/2021	30/11/2021	0.4538	0.4333	0.4389	0.4641
Dec-21	31/12/2021	28/02/2022	0.2949	0.2805	0.2854	0.3006

Cumulative performance (%)

	1m	3m	6m	YTD	1y	Since Launch**
VT Downing European Unconstrained Income Fund A Acc	-1.97	-3.46	-11.31	-6.97	2.87	5.59
IA Europe Excluding UK	-4.54	-7.58	-10.38	-10.59	5.11	8.53
Quartile Ranking	1	1	3	1	3	3

Discrete performance (%)

	28/02/2021 - 28/02/2022
VT Downing European Unconstrained Income Fund A Acc	2.87
IA Europe Excluding UK	5.11
Quartile Ranking	3

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

** 17 November 2020



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 2022

Top 10 holdings

	% of fund
Flow Traders NV	5.19
Cairn Homes Plc	4.06
Deutsche Boerse AG	3.99
KBC Ancora CVA	3.43
Cibus Nordic Real Estate AB (publ)	3.40
doValue SpA	3.24
Fagron NV	3.23
Worldline	3.21
Aedas Homes SA	3.14
Snam SpA	3.05

Portfolio by sector



8.59%	Cash	15.21%	Industrials
4.18%	Communications	10.67%	Information technology
8.71%	Consumer discretionary	9.61%	Real estate
6.36%	Consumer staples	2.48%	Utilities
5.53%	Energy		
15.86%	Financials		
12.80%	Healthcare		

Source: Valu-Trac Investment Management Ltd.

Key facts As at 28 February 2022

Structure

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

Launch date

A Accumulation: 17 November 2020
A Income: 30 November 2020
F Accumulation: 11 December 2020
F Income: 5 November 2020

Fund Size

£81.09m (A and F share classes combined)

Share price

Class A 105.5947p (Acc)
Class A 100.1729p (Inc)
Class F 102.2410p (Acc)
Class F 107.4109p (Inc)

No of holdings

39

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

Downing LLP, St Magnus House,
3 Lower Thames Street,
London EC3R 6HD
Tel: + 44 (0) 20 7416 7780
Email: customer@downing.co.uk

Authorised Corporate Director

Valu-Trac Investment
Management Ltd
Orton, Moray
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
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/deu/>
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.



As at 29 September 2021



defaqto, 5 Diamond rated, 2022



As at 30 August 2021

** Please note: The ongoing charges figure is based on expenses and the net asset value as at 31 December 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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