

VT Downing European Unconstrained Income Fund



October 2021 Commentary

The market continued to rise in October, with the MSCI Europe ex UK index increasing by 2.9% in sterling terms during the month. The value rally that started in September faded from the middle of the month, leaving a confused picture in terms of market drivers. Utilities were the biggest winners, rising 8.2%, followed by financials (+7.7%). On the other hand, telecoms struggled, falling 3.8%, and economically sensitive sectors such as leisure (flat), retail (+1.5%) and industrials (+2.1%) lagged.

The VT Downing European Unconstrained Income Fund had a difficult month compared to the overall market, with the A accumulation NAV per share moving from 114.5548p to 114.1038p. Given that approximately 68% of the portfolio is invested in small and mid-cap stocks, the underperformance of this part of the market relative to large caps proved to be a headwind.

At the stock level, there were strong price rises in a number of holdings. Cibus Nordic Real Estate rose 10% on little news flow but simply recovered some of the ground lost during September. BE Semiconductor rose almost 13% on strong Q3 order intake, despite actual shipments to customers being held back by ongoing supply chain disruptions. Semiconductor peer Infineon (+11.7%), also impressed the market with a positive capital markets day that highlighted near-term record orders and also the long-term growth potential for the business. Our salmon stocks – Mowi, Salmar and Maasoeval performed well as salmon prices remain high and volumes are proving stronger than expected.

On the negative side, a number of stocks struggled. doValue shares were weak during the month as local brokers raised concerns around one of the major Spanish contracts which is currently being renegotiated. There is a risk that pricing could come under pressure and it may be uneconomic to tender for this contract going forward. We believe this is more than reflected in the cheap valuation, and that there is an appealing growth story beyond this one particular contract.

Stillfront shares have been under pressure all year due to disruption in the advertising market due to Apple's implementation of new privacy policies for iOS users, and some issues with recent acquisitions weighing heavily on the shares. We are of the view that this is more than discounted in the price and that mobile phone gaming will remain a growing and lucrative business model for many years.

During the month we started positions in Deutsche Boerse and KBC Ancora. Deutsche Boerse is exposed to structural growth in its pre and post trading businesses and we believe it could also benefit from a pick-up in its cyclical businesses should rates rise and volatility increase. KBC Ancora trades on a deep discount to the market value of its holding in KBC Group and will generate a very high capital distribution in 2022 as accumulated dividends are due to be paid out. We also started a position in Talga Group which has almost 100% of its assets located in Europe. Talga owns the highest grade graphite mine in the world in Northern Sweden and plans to be fully vertically integrated into battery anode production. As such, it is a very interesting way to get exposure to the high growth electric vehicle battery market.

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 |
| Sep-21 | 30/09/2021 | 30/11/2021 | 0.4538 | 0.4300 | 0.4400 | 0.4641 |

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

Portfolio summary

As at 31 October 2021

Top 10 holdings

| | % of fund |
|------------------------------------|-----------|
| Banca Farmafactoring SpA | 4.29 |
| Cibus Nordic Real Estate AB (publ) | 4.20 |
| Cairn Homes PLC | 3.64 |
| Fnac Darty SA | 3.53 |
| Julius Baer Gruppe AG | 3.32 |
| Prysmian SpA | 3.31 |
| doValue SpA | 3.12 |
| Aumann AG | 3.12 |
| Aedas Homes SA | 3.06 |
| Schneider Electric SE | 3.03 |

Portfolio by sector



Source: Valu-Trac Investment Management Ltd.

Key facts As at 31 October 2021

Structure

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

Launch date

6 November 2020

Fund Size

£84.53m (A and F share classes combined)

Share price

Class A 114.1038p (Acc)
Class A 108.5301p (Inc)
Class F 110.4062p (Acc)
Class F 116.2909p (Inc)

No of holdings

37

Minimum initial investment

Class A: £1,000 lump sum



As at 29 September 2021



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As at 30 August 2021

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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Authorised Corporate Director

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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/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: 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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