



# VT Downing European Unconstrained Income Fund

In November this year, Downing Fund Managers added a sixth fund to its specialist line-up with the launch of the VT Downing European Unconstrained Income Fund.

Fund launched  
November  
**2020**

by Fund Managers  
Mike Clements  
and Pras  
Jeyanandhan

Managed by Mike Clements and Pras Jeyanandhan, both formerly of Syz Asset Management, the fund follows a similar approach as that adopted on the range of Oyster European strategies, which the duo had managed together for the last five years.

We spoke to the new managers to find out what makes this fund different to its peers and why Europe is home to good income-producing companies.

## **The untapped opportunity**

With interest rates at all-time lows, investors are finding it harder than ever to secure decent returns and may need to widen their search to find high quality income. So where do European equities sit on the list of priorities in this search?



“In 2019, European ex UK companies paid out approximately £189 billion in dividends, which is almost 2.5 times the amount distributed by their UK peers,” says Pras. “Despite this, investors remain underweight in Europe, and this is where we see a huge untapped opportunity.”

Pras notes that a number of the top global dividend payers are European, with Nestlé currently topping the ranks worldwide. “Not only are there some very good companies in the large cap space, but from our point of view there are some strong dividend players in the small and mid cap space that UK investors are simply not getting exposure to,” he adds.

“Europe has changed structurally over the last decade with a shift away from ‘old economy’ exposure to it becoming more of a growth region,” Pras says. “With this fund we are trying to offer a solution that allows UK investors to diversify their portfolios and give themselves something quite different.”

All cap portfolio with typically c.30-40\* holdings

### **An unconstrained approach**

With an active share in excess of 90%, Mike says that the fund looks very different to the European benchmarks but also it has very little overlap with its peers due to its all cap approach.

“We are not trying to be better or worse than other European income funds, we just have different sources of alpha and different ideas in the portfolio,” Mike says. “We construct a portfolio of high quality, undervalued companies across a range of industries not typically included in the large-cap dividend paying sectors.”

Using the same approach as that on their previous fund, and one Mike has adopted for over a decade, the “unconstrained approach” looks for two types of companies; contrarian opportunities and under the radar companies.

“Contrarian opportunities are those well-known companies who, for one reason or another, the market has fallen out of love with them, their sector or country,” Mike says. “As long-term investors, we have a behavioural edge in that we have the confidence and patience to hold positions for an investment thesis to play out.”

With roughly 2,000 stocks to choose from and the ability to invest up and down the market cap spectrum, Mike says the fund additionally gets access to stocks many UK investors may be unfamiliar with. “This is what we call ‘off the radar stocks’ and this is where we think we have an informational edge, simply because we can do extensive in-house research,” he says.

*\*This is not a requirement or restriction of the fund.*



## The perfect fit

With a portfolio of some 30-40 names, Mike says Downing's venture capital and micro-cap ethos was a major attraction of joining the boutique.

"When Downing invests in a company, they treat it as if they are the owners of the business and we do the same, just in the public equity space," he says. "We do anywhere up to six weeks of work on a company before we put it in the portfolio, so given this amount of work the trade-off is that we can't own 100 stocks, we just don't have the time."

For Pras, culture is everything and he describes Downing as the "perfect fit" for himself and Mike. "When we met Judith MacKenzie and the team we quickly appreciated the similarities in our ethos and style," he says. "At Downing there is no pressure to be like the consensus, in fact just the opposite. Judith and the team have a very distinct culture and investment style and that really appealed to me and Mike. The fit just seemed to make sense."

Key themes:

- Untapped opportunity for investors in European income
- Long term investors with an all cap approach
- Informational edge with 'off the radar' stocks

# Downing



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