



EF Tellsons Endeavour Fund Q2 2021

growth with income & downside protection



Commentary

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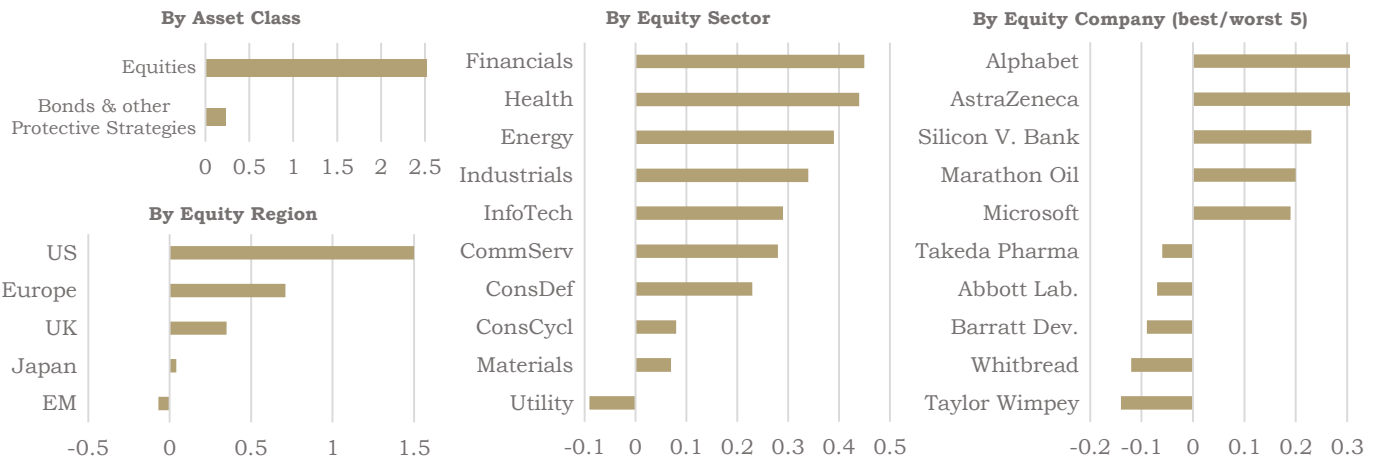
MARKET BACKDROP: The direction of investment markets this quarter was largely a retracement of the previous three months. At the heart of the matter sits the somewhat slower than expected employment growth coming through in the US as its economy reopens. This has raised fears that it will exacerbate supply bottlenecks in many industries, extend the spikes in input prices and potentially reduce final consumer and business investment demand. Central banks are insisting inflationary pressures are 'transitory' and do not represent a threat to the expansion phase of the business cycle taking hold. They have also prioritised the policy objective of stimulating employment growth before restraining inflation in (almost) any circumstances. For the time being, investors are prepared to take central bankers at their word and bond yields reflected lower medium and longer-term interest rates with virtually no increased inflation expectations. This has offered a tailwind to the more expensive areas of secular growth equities that had struggled against the headwinds of inflation fears and the higher discount (interest) rates that come with that. As a consequence, bonds and growth equities have performed better than the more cyclically-sensitive areas of the equity markets this quarter.

FUND PERFORMANCE: The Fund delivered a total return of 2.3% for the quarter compared to the benchmark (comprising 50% of the UK Consumer Price Index (CPI) rolling five-year average and 50% of the FTSE Actuaries UK Conventional Gilts up to five year index) which returned 0.3%. The fund's peer group in the IA Mixed 20-60 Sector returned 3.6%. The sectors of Financials and Healthcare drove the strongest contribution for the Fund, while Utilities modestly detracted from performance. The managers took the opportunity during the quarter to recycle some of the impressive gains of recent months in more cyclically-sensitive areas of the market, like Industrials and Consumer Cyclical, and to reinvest in areas that in their opinion seemed to have lagged somewhat and which could benefit from the lower inflation and interest rate environment, such as Technology and Healthcare.

OUTLOOK: Investment markets seem to be pricing certainties, continued earnings growth for equities and only a 'transitory' unthreatening inflation story for bonds. It seems to your fund managers that in the near-term there is anything but certainty and the economy remains finely balanced around legacy Covid-19 anxiety and the drag, if not outright disruption, from a reluctance to get out and about, and get back to work, and even in some areas resistance to get vaccinated at all. Some of this post-recovery slowdown is usual at the beginning of new business cycles and is indeed healthy as it mitigates the risk of running too hot, too fast and hastening policy intervention that curtails the cycle overall. But your managers feel markets are pricing little room for any disappointment in growth, and the earnings that should go with it. With central banks keen to start withdrawing monetary accommodation of recent years, there appears some risk at least of a near-term pullback in equities, which have after all been pricing at record levels for some time, driven in some great measure by that very liquidity now to be withdrawn. Your managers have always been concerned at this apparent policy trap, ever since the second programme of Quantitative Easing was rolled out a decade ago: markets and economic activity so dependent on support that policymakers could never turn it off. Your managers have confidence in the medium-term strength and impetus behind this new business cycle, contingent on the successful reopening of fully-vaccinated economies, which would be the first in some key respects since the 1990's; but in the short-term the managers maintain a keen eye to the downside risks of equity markets pricing perhaps too optimistic a view of earnings and bond markets pricing too optimistic a view of inflationary momentum.

Tellsons Investors, July 2021

QUARTERLY RETURN CONTRIBUTION %



Quarterly Return Contribution: Local currency, gross of fees/costs. Materials sector excludes Precious Metals investments as they are included in Protective Strategies.