EF Tellsons Endeavour Fund Q3 2021

growth with income & downside protection

Commentary

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MARKET BACKDROP: The direction of investment markets this quarter saw a continuation of the previous quarter's theme, namely a cooling in the outlook for growth on lingering Covid concerns and supply chain backlogs. This was exacerbated by slower employment gains in developed economies. In the US for example, as many as half the unemployed are not seeking work on continued concerns over Covid infection and slowing vaccination rates. Central banks continue to insist inflationary pressures will subside before any need to raise interest rates, however in the US the Federal Reserve seems likely to scale back its bond-buying support and bring the latest round of quantitative easing to a close. In the UK there are growing calls for a pre-emptive rise in interest rates as sharply higher energy prices put inflationary risks in the spotlight. For most of the quarter, higher growth investments continued their outperformance of the more cyclical areas of markets, though with marked outperformance of energy stocks on higher oil and gas prices. The end of the quarter saw bond yields rise appreciably, as they had earlier in the year, around resurgent fears of inflation accompanying the slower growth momentum, hinting at fears of an economy stagnating on growth bottlenecks, leaving central banks little room to tighten policy should it be necessary.

FUND PERFORMANCE: The Fund delivered a total return of 2.6% net for the quarter compared to the benchmark which returned 0.0% (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 years index). The fund's peer group in the IA Mixed 20-60 Sector returned 0.8%. The sectors of Financials, Technology, Energy, Communications and Healthcare all drove strong contributions for the Fund, while Materials detracted from performance, both gold miners and commodity producers on the slowdown in China. These relative contributions were assisted by the additions to these sectors the managers implemented in the prior quarter (as highlighted in the last commentary to investors). Even as equity markets saw significant losses for the month of September, the Fund managed a modestly positive return on strength particularly from Japanese holdings Murata Manufacturing, Hoya and Toyota together with energy and fintech investments Silicon Valley Bank and payments company Affirm which unveiled a partnership with Amazon.

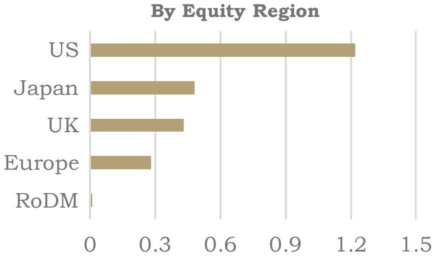
OUTLOOK: Towards the end of the quarter, investment markets seemed less willing to price the certainties of recovering growth and receding inflation and more inclined to doubt both, heralding concerns of a stagflationary environment, the worst of both worlds and tying the hands of policymakers. As yield curves rise to reflect something of these risks, the Fund's shorter maturity bond holdings and running yield in excess of 3% may afford some shelter in this context. The Fund's managers believe that supply bottlenecks may be peaking across many lines of the global supply chain and while taking longer, employment gains nonetheless continue to be made, hourly earnings rise and the business cycle move grudgingly and perhaps grindingly towards normalisation. There is after all nothing so powerful as the corporate incentive to meet customer demand, maintain market share or grow it through scale advantage, cost leadership and pricing power, qualities your managers always prize highly in the investments they make. Your managers will be scrutinising the third quarter results season in October-November for all indications of rising input costs and wage costs, job openings and supply constraints to better ascertain the prospects over the coming year for top line revenue growth and profit margins. In the meantime your managers maintain confidence in the aggregate long term earnings growth of the equity allocation in the Fund at c.15% and price multiple of c.20x amidst markets still pricing perhaps too much of both. With central banks keen to start withdrawing the overwhelming monetary accommodation of recent years, there has been some repricing of these risks with the September pullback in equity markets and rising yields of bond markets. However, your managers remain vigilant of further weakness as company executives offer trading guidance in this results season for the period ahead: equity markets will be tested on their view of earnings and bond markets on their view of inflation.

Tellsons Investors, October 2021

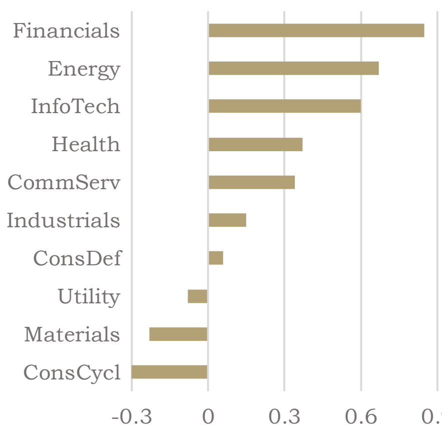
QUARTERLY RETURN CONTRIBUTION %

By Asset Class

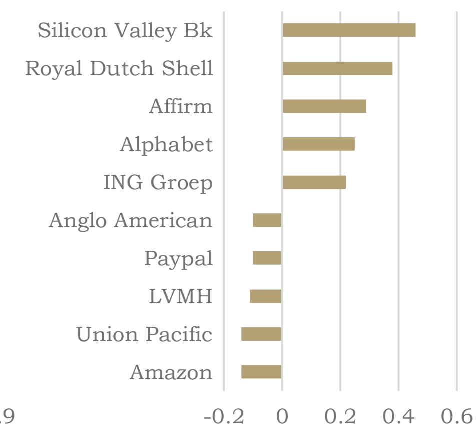
By Equity Region



By Equity Sector



By Equity Company (best/worst 5)



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