EF Tellsons Endeavour Fund Q4 2021 Commentary

growth with income & downside protection

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MARKET BACKDROP: The fourth quarter saw markets struggle to balance the inflationary pressures of ongoing supply chain bottlenecks as the new Covid Omicron wave swept rapidly across the globe with ongoing strength in the underlying economy. Early evidence pointed to less severe infection but much higher transmission, so a renewed threat to economic activity, employment and prices. The US Federal Reserve acknowledged price pressures may not be so transitory and suggested they would act more readily to ward off the risks of more permanent inflation taking hold. Yields in bond markets rose forcing prices lower whilst equity markets appeared to be more prepared to look through both inflation and pandemic risks at continued economic strength and corporate profitability. Employment and hourly wages continued to make gains in all of the US, UK and Europe contributing to significantly higher demand-driven inflation factors too, culminating in a somewhat poorly flagged interest rate hike from the Bank of England in December, indicating there may be more to come.

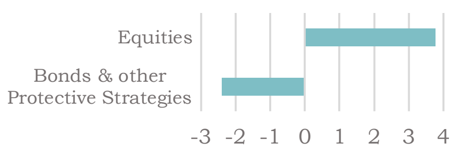
FUND PERFORMANCE: The Fund delivered a total return of 1.1% for the quarter compared to the benchmark which delivered 0.1% (comprising 50% of Consumer Price Inflation rolling five-year average and 50% of the FTSE Actuaries UK Conventional Gilts index up to five years). The Fund peergroup IA Mixed 20-60 Sector returned 2.2% in the period. The Sectors in the Fund driving the strongest equity returns were Consumer Cyclicals and Consumer Defensives as well as Materials, Industrials, Financials and Energy. Completing the calendar year, the quarter saw the Fund's top 10 equity investments having contributed almost 70% of total equity returns with US and European bank investments accounting for one half of that and energy and communication services the rest, Silicon Valley Bank, Marathon Oil and Alphabet heading up the leaderboard. Strong equity investment performance for the quarter was significantly offset by protective investments in bonds, equity index hedges and limited foreign currency exposure to the US Dollar and Japanese Yen.

OUTLOOK: The conundrum of growth and inflation with which markets had been struggling appeared to being resolved by the year's end. Prospects for continued economic growth, employment gains and wage increases held firm in the face of the emerging Omicron threat. The managers believe this sets up the challenge for the year ahead of how quickly the prices of the supply of goods may stabilise or gradually decline and how much wage and employment gains may feed into rising demand. In this context it will be crucial to gauge how much and how quickly the Federal Reserve in the US and other central banks will withdraw pandemic emergency support measures and soon after to start raising interest rates. It seems bond markets may be more fearful of this outcome than equity markets at this early stage, though if interest rates do continue steadily higher, expensive equity valuations will have to be discounted to reflect that changed reality. However, interest rate sensitive sectors of investment markets would more likely perform well in that environment where the Fund investments are well-represented. Central bank guidance around their policy development will continue to be scrutinised carefully with pandemic measures withdrawn and further rate rises likely in most developed markets. The managers of the Fund see the consensus average earnings growth expected from their equity investments at c.10% - including expected dividend income, a total expected return of c.12-13% - with a clear bias to cyclically exposed sectors of the market: here is their greatest confidence that the earnings potential of cyclically sensitive companies can manage the inflation and interest rate dynamics of the strengthening economy to drive shareholder returns. Complimenting these growth investments is the caution of defensive corporate bond investments of short 3-year maturity on average and 3% running yield, augmented by a smaller investment in longer-dated government bonds as an ever-ready protective bulwark against the unforeseen risks around the corner.

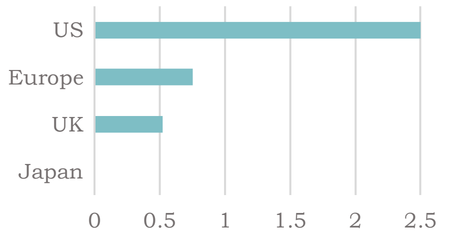
Tellsons Investors, January 2022

QUARTERLY RETURN CONTRIBUTION %

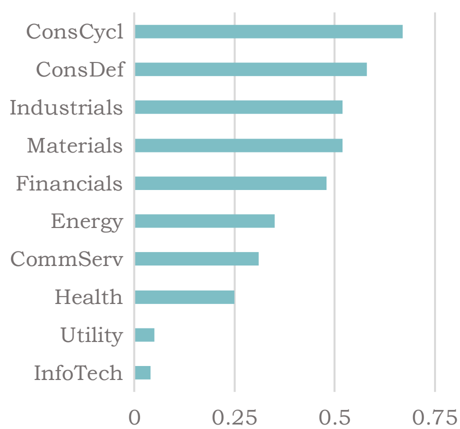
By Asset Class



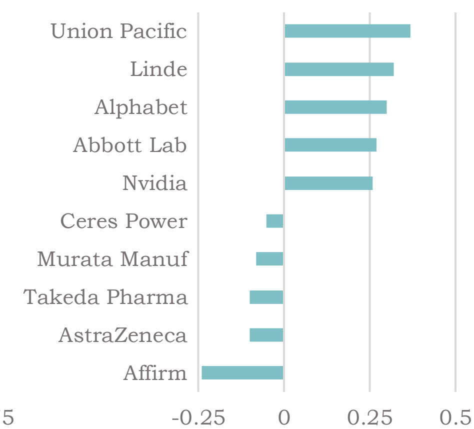
By Equity Region



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.