Tellsons INVESTORS LLP

EF Tellsons Endeavour Fund Q2 2022 Commentary

growth with income & downside protection

Fund Managers: Joe Bunting, Christoph Wiedebach, Cranley Macfarlane

MARKET BACKDROP: The second quarter experienced higher inflation and interest rate expectations bringing further losses to both equities and bonds. As the war in Ukraine deepened and Western economic sanctions took hold, the supply shocks already playing through the global economy became more acute. In the US, the Federal Reserve became more alert to the risks of high inflation and expressed its unequivocal determination to bring it down, no matter the risks to growth. As the quarter progressed, it became increasingly clear the economy was showing signs of weakness too, as companies had over-ordered inventory during the Covid-induced supply backlogs only to find consumer demand falling short, and together with higher input prices and wage bills, pressure on corporate profit margins came into focus. This in turn then led markets to lower their expectations for future interest rate rises into 2023, and expectations for inflation in the future too on a weaker economic outlook across most leading economies, and this now provided some relief across asset markets that the economy would cool but still potentially avoid a recession. The overall effect of the quarter was to conclude a first half year of negative returns across all asset markets not seen since the 1962 Cuban missile crisis.

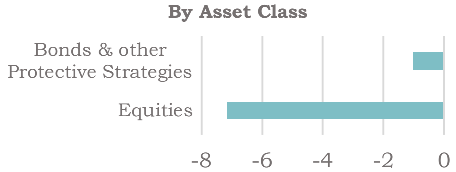
FUND PERFORMANCE: The Fund delivered a loss of -8.4% for the quarter compared to the benchmark which delivered -0.1% (comprising 50% of Consumer Price Inflation rolling five-year average and 50% of the FTSE Actuaries UK Conventional Gilts index up to five years). The peer group IA Mixed Investments 20-60 Sector returned a -6.1% loss in the period. All sector investments in the Fund's equities allocation returned losses, but in relative terms the strongest sectors were Consumer Staples, Healthcare and Communication Services with a combined detraction to returns of -0.9%. The weakest sector Financials detracted -1.5%, where in spite of rising interest rates affording the opportunity of higher net interest lending margins, bank stocks fell sharply on concerns over the likelihood of recession, a bad outlook for loan growth and borrower defaults. IT and Consumer Discretionary investments were also weak, together detracting -2.2%. Corporate bonds detracted from returns -0.4% while government bond losses of -1.8% on higher interest rates (lower prices) were mitigated by contributions from unhedged USD exposure and EPM* derivatives hedging of +1.6%. During the period, many investments in growth and cyclical sectors were trimmed on a more cautious outlook and heightened levels of market volatility. New investments were made in the more defensive sectors of healthcare and pharmaceuticals, US managed care provider Elevance (changed name from Anthem) and Bristol-Myers Squibb.

OUTLOOK: The outlook across all asset classes depends very much now on the evolution of inflation data, particularly in the US. If there are signs of a peak or any softening in key elements of the data, markets will feel more comfortable with the level of interest rates that are currently expected and the resilience of the economy to withstand them. If it remains high and persistent, markets will fear more interest rate rises will be needed to bring it down, undermining consumer confidence and threatening recession. As war in Ukraine grinds on, this makes Europe and the UK especially vulnerable. In spite of these headwinds, the economy in the US remains relatively resilient, with strong corporate and consumer balance sheets and a greater degree of insulation from the ebb and flow of global trade. The earnings season for the second quarter due in July and August will provide vital clues in this regard. If this all makes for a confusing and volatile picture, it should be expected that what comes after shocks are the waves and reverberation before fully passing through. There have been many sequential shocks for economies to cope with and they are ongoing. The Endeavour Fund investments in more defensive sectors that are less sensitive to the business cycle now account for over half of all Fund equities with the rest at minimum allocations should the cycle afford some upside. Now at significantly higher income yields, certain segments of the bond market may also be expected to offer more protection than they have for many years. Bonds have fared historically badly so far this year as interest rates and policy support normalise. But they may now offer more 'keel to the ship' as it were, the counterbalance for the hardest risks that always lie ahead. The era we now appear to be travelling through may be characterised as the Great Oscillation and the Fund's managers strive to ensure Endeavour is broadly and relatively cautiously diversified to meet both the challenges and the opportunities that will arise.

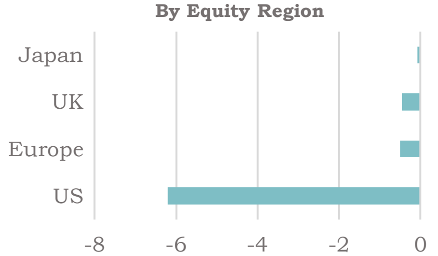
Tellsons Investors, July 2022

QUARTERLY RETURN CONTRIBUTION %

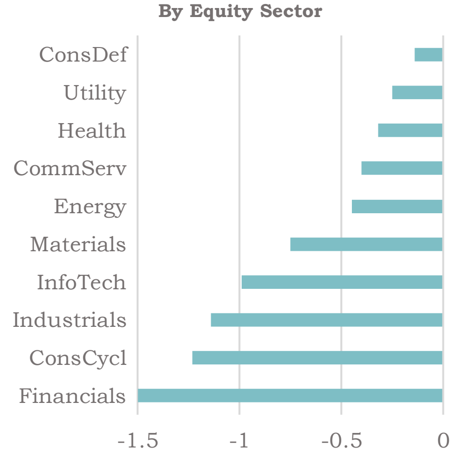
By Asset Class



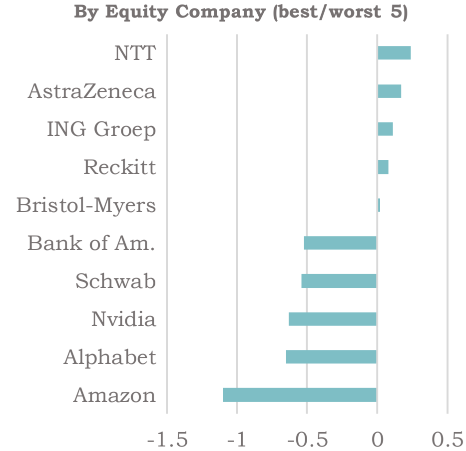
By Equity Region



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. **Notes:** EPM* Efficient Portfolio Management as permitted in UCITS, including hedging.