Tellsons
INVESTORS LLP

EF Tellsons Endeavour Q3 2022 Commentary

growth with income & downside protection

Fund Managers: Joe Bunting, Christoph Wiedebach, Cranley Macfarlane

MARKET BACKDROP: The third quarter was another for the record books. Markets initially seized the chance of a weaker interest rate outlook as economic data cooled. The corporate results season for the second quarter in July surprised to the upside and stock markets rallied sharply higher while bonds gained too as yields fell. Within weeks hopes were dashed by Federal Reserve Chairman Powell taking a definitively hawkish stance on the need for raising interest rates at the central bankers' gathering in Jackson Hole in August. Stock markets reversed their earlier gains, closing lower than they started the quarter, and bond prices fell too as yields rose. In Europe and the UK, inflation continued to rise to new highs and with their central banks only slowly moving to raise interest rates, constrained by their weaker economic backdrop, sterling and euro currencies weakened against the US dollar. In Japan, inflation rose to new multi-decade highs amidst the gradual re-opening of their economy whilst China's restrictive Covid policies kept economic activity and inflation under control. Stresses in the global financial system precipitated intervention from some central banks: in China and Japan to support their currencies and in the UK directly buying Gilts to stabilise the government debt market.

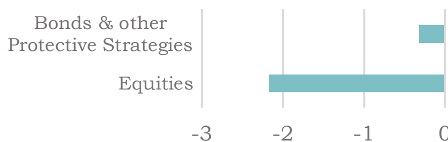
FUND PERFORMANCE: The Fund delivered a loss of -2.7% for the quarter compared to the Fund's benchmark which delivered -2.2% (comprising 50% of Consumer Price Inflation rolling five-year average and 50% of the FTSE Actuaries UK Conventional Gilts index up to five years). The peer group IA Mixed Investments 20-60 Sector returned a -3.0% loss in the period. All sector investments in the Fund's equities allocation returned losses except Energy which contributed 0.33% equivalent to a fully-weighted return of 8.6% on the higher oil price. Sectors generating the least losses were consumer defensive, consumer discretionary and materials which combined detracted 0.41%. The usually more defensive sectors of utilities and healthcare combined detracted 0.73% as bond yields rose, discounting their more stable bond-like return profiles. The more cyclically-exposed financials and industrials sectors detracted 0.55% as fears over recession reasserted themselves by the end of the quarter. Communication services and technology together detracted 0.80% between them, Microsoft and Alphabet driving the bulk of the losses. Investments in banks have consistently delivered the worst performance this year and while the managers of the Fund have reduced their bank holdings outside the US, they retain confidence in the strong capital positions of US banks, their attractive valuations and earnings potential on a resilient economy. Corporate and government bond holdings all detracted -2.4% from returns, but were offset by gains from unhedged USD, CHF and Yen currency exposures as GBP sterling weakened.

OUTLOOK: It seems to your managers that the Federal Reserve has now provided enough guidance around further interest rate rises to bolster its credibility, attempting to allay the worst fears of persistent price pressures so as to give both it and the markets the cover and crucially the time to see inflation turn lower while the economy slows and employment and wage pressures slow with it. Furthermore, much tighter financial conditions are yet to arrive in the economy in the form of the lagged effects of higher interest rates already announced, the strength of the USD in restraining prices of imports, and the accelerating bond sales of quantitative tightening as liquidity is drawn from the financial system. As the Bank of England intervention in the UK Gilts market illustrated in September, central banks are increasingly likely to intervene to support the smooth functioning of their financial systems and the external position of their economies. Your managers maintain a predominantly defensive portfolio of holdings for the Fund with increased investments in long-dated US government bonds should the economy deteriorate. Investments in the UK and Europe are concentrated towards internationally diversified businesses bosting market leadership positions and premium franchises, while the domestic outlook for those economies remains uncertain. At the same time, the combination of equity investments exposed to stable, cyclical and secular growth dynamics affords the opportunity of significant upside from depressed valuations whilst displaying earnings prospects for the year ahead that remain resilient. This is especially the case in the US where even as the economy slows, high levels of employment, strong household and corporate balance sheets and steadily improving real incomes may see confidence levels rise and the worst fears of inflation start to abate.

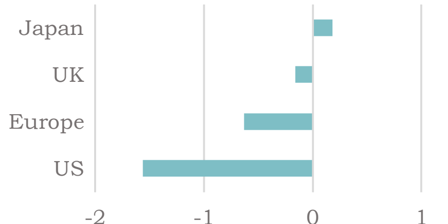
Tellsons Investors, October 2022

QUARTERLY RETURN CONTRIBUTION %

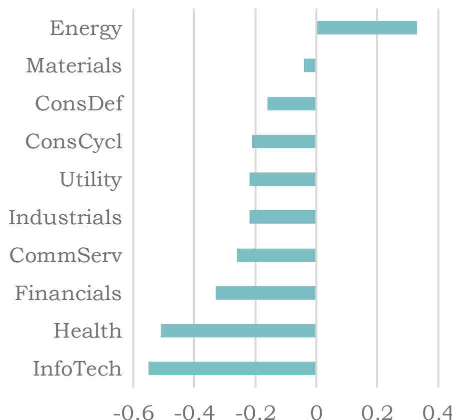
By Asset Class



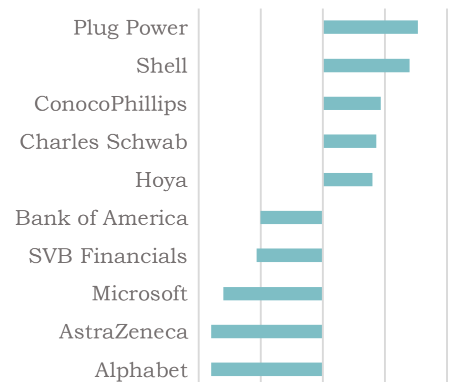
By Equity Region



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.