Tellsons
INVESTORS LLP

EF Tellsons Endeavour Q4 2022 Commentary

growth with income & downside protection

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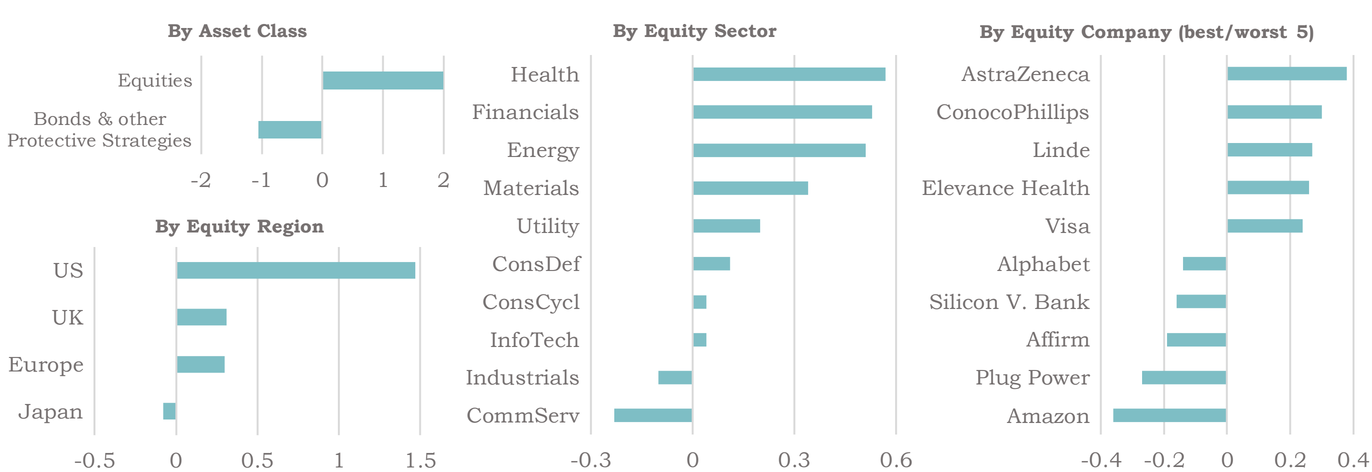
MARKET BACKDROP: The fourth quarter saw distinct periods of both recovering and declining equity and bond markets as leading developed economies proved more resilient, and jobs markets continued to make gains even as inflation started to subside, especially in the US. As markets gained confidence on declining rates of monthly inflation measures, central banks in the US and Europe nonetheless increased their commitment to higher interest rates which had the effect of reigning in any hints of rising confidence, repeating a pattern from most of the year. The USD weakened against a broad basket of international currencies from high levels not seen since the 1980's, providing some relief for commodity exporters and the prospects for emerging markets. Notably the Bank of Japan shifted its policy after many years of controlling the level of bond yields triggering a sharp rally in the Yen. President Xi of China secured his third term of leadership potentially for life and promptly reversed his Covid-Zero policy of stringent lockdown stimulating hopes for economic recovery and global trade. The traditional Santa rally into the end of the year didn't materialise as central bank hawkishness re-priced both bonds and equities again and concern over the trajectory for corporate earnings loomed into focus.

FUND PERFORMANCE: The Fund delivered a small gain of 0.7% for the quarter compared to the Fund's benchmark which delivered 1.7% (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 stronger 3.0% gain in the period. All sector investments in the Fund's equities allocation returned gains except Industrials and Communication Services which combined detracted 0.3%. Gains were driven mostly by Healthcare, Financials and Energy investments contributing a combined 1.6% but also by the corporate bond investments where the higher income yield was able to offset losses in capital value. Overall, the cyclical, defensive and corporate bond investments of the portfolio contributed strongly for the period but were offset by further losses in growth investments and long-dated government bonds. Contributions from Astra Zeneca, Elevance Health, McDonald's and PepsiCo led contributions for defensives, while ConocoPhillips, Marathon Oil, Linde and Charles Schwab led for the cyclicals exposure and Vodafone made a strong contribution to positive returns for the corporate bond allocation. A much-reduced holding in Amazon nevertheless continued to drag on returns together with other holdings in the growth equity allocation Plug Power, Affirm Holdings and Silicon Valley Bank. Amongst the more successful portfolio investments for the year, Diageo and NTT also performed poorly in the quarter as investors reviewed the outlook for global growth and took profits into year end. Investments in gold mining companies performed well as prospects for weaker growth and potentially a weaker USD emerged towards the end of the period, contributing a further 0.3%.

OUTLOOK: The monthly run rate of inflation in many of the world's economies is now significantly lower than it was six months or a year ago - less than half the rate it was in the US. Focusing on the US, it is quite possible much of the inflation spike there has indeed turned out to be transitory, in spite of the outbreak of war between Russia and Ukraine. The Federal Reserve has guided that while more work has to be done, this current hiking cycle is nearing its peak before a pause will then be appropriate. It seems likely to the managers of the fund that central banks will want to retain flexibility to either raise rates somewhat further or reduce them, as conditions dictate, even if the preference is to stay put for a while; perhaps at this stage that could imply less likelihood of higher rates in the short term as this would reduce the risks of having to cut rates later and keep credibility with the markets in tact. This may set a backdrop for the months ahead of moderating inflation, levelling interest rates, improving confidence and real incomes, stabilisation of corporate earnings and re-acceleration of economic activity. Such an outcome would be further supported by a re-opening of China, albeit bringing stronger demand for energy and resources, which in turn may support better outcomes for Europe and the UK. Higher yields from the bond allocation should provide a cushion for any further rises in interest rates that are still in the locker but, with high quality and strong balance sheets on average, afford a strongly defensive keel to the portfolio if the economy displays much further weakness in coming quarters.

Tellsons Investors, January 2023

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