

VT Downing European Unconstrained Income Fund



February 2024 Commentary

The European market continued to rise as the strong risk-on sentiment seen in January carried on into February. Moderating interest rate expectations drove the more economically sensitive parts of the market higher, with sectors such as Auto & Parts (+13%), Industrial Goods & Services (+7%), Construction (+5%) and Technology (+4%) outperforming more defensive sectors such as Utilities (-6%), Food and Beverages (-3%) and Telecoms (-2%). After the slight respite seen in December, large cap stocks continued their remarkable outperformance versus smaller companies, helped by strong results at mega-cap companies LVMH, ASML and Novo Nordisk (not held).

Against this market backdrop, the VT Downing European Unconstrained Income Fund rose 1.4%, lagging the overall market and large-cap focused peers. There were some strong performances from a number of portfolio holdings, in particular those linked to the push for decarbonisation. Talga Group rose 43% during the month on little news flow. However, the shares have been very weak over the last six months as graphite prices came under pressure and this appears to be starting to ease. There was positive news from ACC, a battery manufacturing joint venture between Mercedes, Saft and Stellantis, which Talga has a non-binding offtake agreement to supply anode materials. ACC announced a €4.4bn debt funding package to help build three gigafactories in Europe. There was also positive news from Prysmian (+13%) which announced a number of major contract wins, including a €5bn contract, the largest in its history, to construct the offshore grid systems for two German wind farms.

Munters Group (+15%), one of the fund's largest holdings, also performed well. It is winning orders for its data centre cooling business as the build-out of AI capacity by clients continues.

The biggest disappointment during the month came from AMS Osram. AMS carried out a successful restructuring of its balance sheet in Q4 2023 to help capture the big opportunity in MicroLED technology. It has built a manufacturing facility in Malaysia to supply the chips which will be used in the next generation of display devices such as smart watches, smart phones and eventually televisions. Unexpectedly, its cornerstone customer, believed to be Apple, suddenly cancelled its project catching AMS unaware. As a result, the company has taken an impairment charge of between €600-€900m on the facility. Given the size of the write-down, the shares reacted badly, ending the month 36% lower.

There were two changes to the fund during the month, as we initiated new positions in Porsche and Neiror Homes. Porsche's shares have been weak since the middle of 2023 amid evidence of weak volumes in China and concerns about the software used in the cars lagging peers. We view the current valuation as an attractive entry point for long-term investors. Neiror Homes is a Spanish housebuilder which is enjoying the benefits of a strong residential market. The company plans to accelerate the value embedded in its low-cost landbank by partnering with institutional investors which should allow it to return over 40% of its market cap to investors by the end of 2025.

Opinions expressed represent the views of the fund managers at the time of publication, are subject to change, and should not be interpreted as investment advice.

About the fund

The fund aims to have approximately 30-40 holdings*. The team seeks to generate returns by identifying high-quality companies that have a long-term sustainable competitive advantage, with potential to generate growth over time. At the point of entry, the valuation of the company is attractive to the fund managers, either because it has fallen out of favour in the short term, or because it is "off the radar" of many other investors.

Investment objective

The investment objective of the fund is to generate income and some capital growth over the long term (five years or more), principally by investing in transferable securities of European issuers. We aim to ensure that at least 75% of the fund's assets are invested at all times in equities issued by companies based in a Member State of the EU, in Norway, Iceland, Turkey, Switzerland, or the UK. The remainder will be invested in government securities, fixed income, closed-ended collective investment schemes/vehicles (which may include those managed and/or operated by the Authorised Corporate Director (ACD) and which will provide exposure to various asset classes including equities and bonds), real estate investment trusts, money market instruments, deposits, cash and near cash.

The fund will not have any particular industry or economic sector focus and as such weightings in these may vary as required.

* Please note, this is not a requirement or restriction of the fund.

Distribution information†						
Period end	Ex Dividend	Payment date	A Acc (GBp)	A Inc (GBp)	F Inc (GBp)	
Jun-22	30/06/2022	31/08/2022	2.4299	2.1452	2.3415	
Sep-22	30/09/2022	30/11/2022	0.8776	0.7976	0.8661	
Dec-22	31/12/2022	28/02/2023	0.4725	0.4304	0.4621	
Mar-23	31/03/2023	31/05/2023	0.6490	0.5885	0.6323	
Jun-23	30/06/2023	31/08/2023	2.2902	2.0645	2.2189	
Sep-23	30/09/2023	30/11/2023	0.5122	0.4563	0.4907	
Dec-23	31/12/2023	29/02/2024	0.1317	0.1156	0.1244	

Cumulative performance (%)							
	1m	3m	6m	YTD	1y	Since Launch**	
VT Downing European Unconstrained Income Fund A Acc	1.39	5.75	3.71	-1.70	0.37	10.80	
IA Europe excluding UK	3.09	7.88	9.31	2.92	8.51	29.57	
Quartile ranking	4	4	4	4	4	4	

Discrete performance (%)			
	28/02/2023 - 29/02/2024	28/02/2022 - 28/02/2023	28/02/2021 - 28/02/2022
VT Downing European Unconstrained Income Fund A Acc	0.37	4.54	2.87
IA Europe excluding UK	8.51	10.09	5.05
Quartile ranking	4	4	3

* Distributions are subject to change and should not be utilised as a basis for an investment decision.

** 17 November 2020



Fund Manager
Mike Clements

Mike has more than 20 years' experience in the industry and over 12 years' experience managing European equity portfolios. His investment career began in 1999 as a European equity analyst at UBS Asset Management. In 2008, he moved to Franklin Templeton Investments where he managed the €3 billion Franklin European Growth Fund and related mandates. Between 2014 to 2020, he was Head of European Equities at Syz Asset Management, managing a range of Pan European and Europe ex. UK funds, including the Oyster Continental European Income Fund.



Fund Manager
Pras Jeyanandhan

Pras has over 11 years' investment experience. He began his career in 2005 with KPMG, qualifying as a Chartered Accountant (ACA), before moving to HSBC as a strategy analyst. In 2011, Pras joined Berenberg Bank as an equity analyst, leading coverage on the Financials sector before joining Mike Clements at Syz Asset Management in 2015 as an investment analyst and then portfolio manager. From January 2019, Pras co-managed the Oyster European Opportunities Fund alongside Mike as well as providing support across the other portfolios.

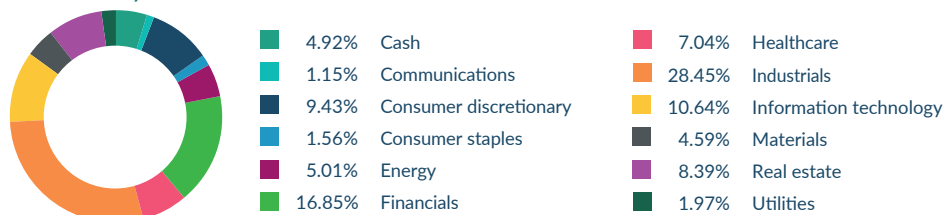
Portfolio summary

As at 29 February 2024

Top 10 holdings

	% of fund
Prismian SpA	4.01
InPost SA	3.86
Cadeler A/S	3.76
Fagron NV	3.72
Munters Group AB	3.65
Cairn Homes Plc	3.53
Sanofi SA	3.32
Siemens Energy AG	3.29
AIB Group plc	3.27
Relx Plc	3.15

Portfolio by sector



Source: Valu-Trac Investment Management Ltd.

Key facts As at 29 February 2024

Structure

London listed Open Ended Investment Company (OEIC), established as a "UCITS scheme".

Launch date

A Accumulation: 17 November 2020
A Income: 30 November 2020
F Income: 5 November 2020

Fund Size

£42m (A and F share classes combined)

Share price

Class A 110.7979p (Acc)
Class A 97.1765p (Inc)
Class F 104.6185p (Inc)

No of holdings

38

Minimum initial investment

Class A: £1,000 lump sum

Liquidity

Daily pricing and daily dealing
Sector: IA Europe Ex UK Sector

ISIN Codes

Class A Accumulation: GB00BLF7YL10
Class A Income: GB00BLF7YM27
Class F Income: GB00BLF7Z294

ISA eligible: Yes

Contact details

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Management Ltd
Orton, Moray
IV32 7QE
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www.valu-trac.com

Fund charges

Initial charge: 0%
Annual management charge:
Class A: 0.75% per annum
Class F: 0.55% per annum
Ongoing charges**:
Class A: 0.99%
Class F: 0.79%

How to apply:

Telephone: +44 (0) 1343 880 217 or
visit: <https://www.valu-trac.com/administration-services/clients/downing/deui/>

Also on the following platforms:

7IM	Hubwise
Aegon Institutional	J Brearley
AJ Bell (Investcentre)	M&G Wealth (Ascentric)
AJ Bell (Youinvest)	Nucleus
Aviva	Praemium
Canada Life	Raymond James
Fidelity	Transact
Hargreaves Lansdown	

We are currently working with other platforms so please let us know if yours is not listed above.



As at 30 September 2023



As at 20 December 2023



Awarded on 30 August 2021

**** Please note:** The ongoing charges figure is based on expenses and the net asset value as at 16 February 2024. This figure may vary from year to year. It excludes portfolio transaction costs.

Risk warning: Your capital is at risk. The value of your investment is not guaranteed and may go down as well as up and you may not get back the amount invested. Any subscription to the fund should be made on the basis of the relevant product literature available from Downing LLP, or from the ACD, Valu-Trac Investment Management Limited and your attention is drawn to the charges and risk factors contained therein.

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