TELLWORTH
Investments

Are we nearly there yet?

February 2021

Much like a restless child on a long and tiresome journey, wondering when we will arrive at the destination, normality is certainly front of mind for markets. At times, vaccine-fuelled optimism has unclipped the seatbelts in preparation for a swift exit. At others, a variant of concern has clicked on the child-lock.

How to position portfolios amidst this to and fro? Whilst our view on the path towards normalisation (and to what extent there will be a 'new normal' altogether) is a key consideration, our general approach is, and always has been, balance. Our clients will have heard this described through the framework of P3M and Value Opportunities, where the fund will typically have around 1/3 of its holdings in the latter. Back in the context of COVID-19, that means our portfolio today is neither packed full of just lockdown winners nor recovery plays. Taking each company on the merits of its own outlook and creating a balanced portfolio delivered clients a respectable return for 2020 in tough market conditions, whilst keeping enough recovery potential in the tank to, hopefully, make 2021 a fruitful year on an improving outlook.

By way of example, this note will highlight four stocks that we hold in our UK portfolios, each representing a different profile of impact from COVID-19 and opportunity in place.

Supply Side Winner: Hollywood Bowl

SSW became our catchphrase of 2020 and, whilst at times this may have sounded to clients a little like straw-clutching, we believe that there are several companies in our portfolios that, despite suffering today in an ongoing lockdown, will eventually emerge in a position of strength. Hollywood Bowl is a good example, where the decimation of retail puts the company in a strong position to mop up newly available high-quality space with a measured new opening pipeline, whilst enjoying an improved negotiating position with landlords, as a footfall-driving anchor tenant with a strong balance sheet. Management have visibility on the roll-out of 7 new bowling sites through to 2024 but, encouragingly, the successful trial of the 'Puttstars' mini-golf format presents an incremental opportunity that is still in a nascent phase. We are in good hands with an experienced management team that we feel confident will be able to turn the adversity of 2020/21 into an enhanced and expanded pipeline through to 2024 and beyond.

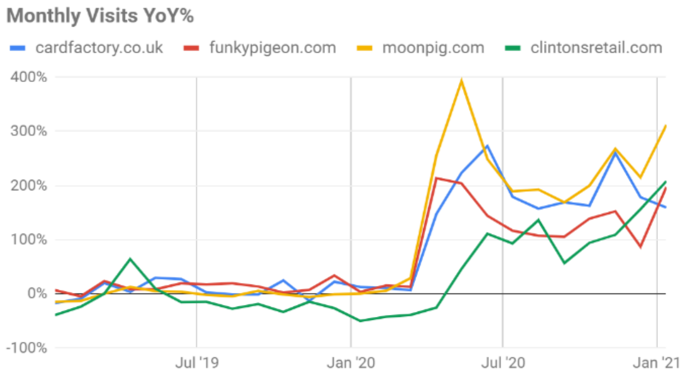
Hollywood Bowl's site map shows bowling sites in red and yellow. Early days for the Puttstars concept in blue, which has significant roll-out potential if the customer response remains strong. (Source: Hollywood Bowl Financial Year 2020 results)

On a Roll: Accrol

Beyond presenting the opportunity for a pun, we like Accrol for building on positive momentum to expand its business and improve the set up for longer-term growth. We took a position in Tellworth UK Smaller Companies in early 2020, backing new management with proven sector experience at DS Smith, 18 months into a multi-year turnaround and growth strategy. At the time, we felt good progress had been made on improving internal efficiencies, providing a solid platform for new customer wins and acquisitive expansion. The nation's sudden interest in toilet roll in lockdown, whilst curious, provided Accrol with an opportunity to take market share, as resilient operational KPIs attracted new customer volume, as some competitors struggled. We were then pleased to see management build on this momentum with the sensible acquisition of smaller peer Leicester Tissue Company in October. With early indications of integration benefits looking promising, we are hopeful that there are more value-enhancing projects and acquisitions to come.

Wind in its Sails: Moonpig

Management make no secret of the gale force wind to Moonpig's back from lockdown – not unhelpful, of course, for the timing of an IPO. A delivered online card and gift solution has been more valued than ever for those looking to stay in touch with loved ones, especially with physical card outlets having been closed for large parts of the last year. In general, we are being especially cautious when looking at 'lockdown winners' not to extrapolate an exceptional performance indefinitely. However, it is the retention characteristics of Moonpig's offer that makes us confident that the windfall of new customers will result in an enduring benefit for a data-driven business with an improving product offer. With Moonpig's own customers still buying on average 80%+ of their cards elsewhere, there is clearly an opportunity to capture more of that spend, in addition to incremental growth related to gifting and other avenues.



Online traffic to card and gift providers has generally been strong through lockdowns. However, Moonpig stands out having built on its leading market position coming into Covid, pulling further away from the pack since.

(Source: SimilarWeb, as at January 2021)

Emerging Growth Avenues: Vitec

COVID-19 was not good news for parts of Vitec's business, with the creation of video content suppressed across both consumer and professional markets by lockdown rules and cancelled sporting events. More recently, the outlook for those areas has improved, with the streaming platforms desperate to ramp up the creation of new content, as home-bound viewers begin to explore the concept of 'completing' Netflix. Broadcast sport is broadly back in full flow with cameras present, even if crowds are not. Beyond this recovery angle, particularly interesting for Vitec are the new growth avenues that COVID-19 has either accelerated or even created. In the acceleration category, alongside the struggles of professionally produced content has been a boom in home-generated content. This has fed through to notably strong demand for vlogging equipment, well addressed by Vitec with smart new product development under its Joby brand, where momentum feels increasingly positive. Elsewhere, a whole new opportunity has emerged in remote monitoring equipment, where social distancing and WFH in the world of content producers means more remote monitors both on and off site. In addition to 4K growth and new product development across the portfolio, we view these as significant growth drivers for Vitec, which we believe will help to boost earnings and re-rate the stock over time.

Vitec's Joby and SmallHD brands, supported by smart new product development, are benefiting from growing trends around vlogging and remote production monitoring.

(Source: Vitec)

James Gerlis is Head of Research & Responsible Investment at Tellworth. His role involves finding and researching stock-specific investment opportunities, supporting in the management of portfolios and furthering Tellworth's responsible investing agenda.

Disclaimer

Tellworth Investments LLP (“Tellworth”) is an appointed representative of BennBridge Ltd (“BennBridge”), based at Eagle House, 108-110 Jermyn Street, London SW1Y 6EE. BennBridge is a limited company registered in England with registered number 10480050. The registered office is Windsor House, Station Court, Station Road, Great Shelford, Cambridge CB22 5NE. BennBridge is authorised and regulated by the Financial Conduct Authority (FRN: 769109).

BennBridge was the appointed investment manager to the Schroders’ SARFCO UK Dynamic Absolute Return Fund and Schroders’ SAS UK Dynamic Absolute Return Fund on 2 October 2017. As of 14 November 2018, the SAS UK Dynamic Absolute Return Fund (the “Contributing Fund“) contributed all of its assets and liabilities in kind to Schroder GAIA UK Dynamic Absolute Return Fund (the “Receiving Fund”). Shareholders in the Contributing Fund received the equivalent value of shares in the Receiving Fund in place of their current shares in the Contributing Fund. The Contributing Fund will close following the Contribution. The investment manager of the TM Tellworth UK Smaller Companies Fund is BennBridge Ltd and the authorised corporate director is Thesis Unit Trust Management Limited. The investment manager of the TM Tellworth UK Select Fund is BennBridge Ltd and the authorised corporate director is Thesis Unit Trust Management. The Fund is authorised in the United Kingdom and regulated by the Financial Conduct Authority. Please see the prospectus and key investor information document for full details.

Any projections, market outlooks or estimates contained in this letter constitute forward looking statements, and are based on certain assumptions and subject to certain known and unknown risks. Accordingly, such forward looking statements should not be relied upon as being indicative of future performance or events. Past performance is not indicative of future results. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. In the United Kingdom, this document is only available to persons who are (i) investment professionals within the meaning of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (“FP Order”), (ii) high net worth companies and certain other entities falling within Article 49 of the FP Order; or (iii) to any other persons to whom such communications may lawfully be made. It must not be acted, or relied, upon by any other persons. This document may not be reproduced or distributed by the recipient, in whole or part, except that this document may be provided to the recipient’s advisers in connection with an evaluation of a potential investment. This document is being provided by BennBridge for informational purposes only and should not be construed as investment advice. It is not a recommendation of, or an offer to sell or solicitation of an offer to buy, any particular security, strategy or investment product. BennBridge’s research for this presentation is based on current public information that BennBridge considers reliable, but BennBridge does not represent that the research or the presentation is accurate or complete and it should not be relied on as such. The views and opinions contained herein are those of Paul Marriage, Sebastian Jory and John Warren, Fund Managers. They do not necessarily represent views expressed or reflected in other BennBridge investment communications or strategies and are subject to change.

Risk Factors

The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund. The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. A derivative may not perform as expected, and may create losses greater than the cost of the derivative. If a fund uses derivatives for leverage, it makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss. Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares. The fund may take positions that seek to profit if the price of a security falls. A large rise in price of the security may cause large losses. Failures at service providers could lead to disruptions of fund operations or losses.