VT Tyndall Real Income Fund

COVID-19 Commentary 15th May 2020

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The Market is Dead, Long Live the Market!

This week, as the UK contemplates plans to move on to phases 2 and 3 of the fight with, and recovery from, the Covid-19 outbreak, we want to focus on, and pay tribute to, one of the key functions of the UK equity market – that being the provision of equity capital when UK corporates need it most.

There has been a great deal of criticism of equity markets in general in recent times and many parts of the western world have seen a collapse in the number of listed companies, with for example the number of stocks listed on US and UK main markets having roughly halved in the last 20 years. In no particular order criticism has centred around:

- Lack of relevance for capital raising given the enormous growth in the private equity industry.
- With interest rates very low for at least a decade, 'cheap' debt has been a much more attractive form of capital raising than 'expensive' equity.
- The prevalence of corporate share buy-back schemes has been shrinking the public equity markets.
- The costs of maintaining a public listing are prohibitive and corporate reporting demands are too onerous.
- Equity markets are driven by excessive 'short-termism' leading to inappropriate disruption to medium term corporate strategy.
- Equity markets are no longer (if they ever were) proper stewards of capital given the huge growth in passive investment products and the ETF industry.
- Aligned to the point above, concentration of equity market 'control' has reached unhealthy levels with, according to a recent Financial Times report, the top 1% of industry groups now managing 61% of industry assets globally.

Many of the concerns above have merit and some are undoubtedly structural in nature. However some will also likely prove cyclical, such as the seemingly limitless enthusiasm for cheap debt in a world that has radically changed in recent months.

Indeed, given such a seismic change in the globally economic outlook recently, with unprecedented events such as the near total shutdown of vast swathes of various industries, it is highly encouraging (to us at least) that the UK equity market has been able to raise capital as quickly and substantially as it has for those in need.

The table below, from Redburn, highlights key capital raising events that have successfully taken place in the UK equity market over the last 3 months. It is not an exhaustive list and in particular does not highlight any raise of less than £20m, nevertheless over 20 individual company capital increases totalling c.£3.8bn is a pretty decent effort, in such a short time period, and illustrates the strength and depth that still exists in the UK pool of equity investment capital.

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UK Covid-19 Capital Raises			
March		Hotel Chocolat	£22m
		SSP	£215m
		City Pub	£22m
April		Autotrader	£186m
		Hays	£200m
		WH Smith	£166m
		Assura	£185m
		ASOS	£247m
		Restaurant Group	£57m
		ABCAM	£110m
		Informa	£1001m
		Gym Group	£41m
		Foxton's	£22m
		Blue Prism	£100m
		Big Yellow	£82m
		DFS	£64m
		JD Wetherspoon	£141m
May		London Metric	£70m
		Hiscox	£375m
		National Express	£230m
		Polypipe	£120m
		Hyve	£126m

We are hopeful that fulfilling this vital role at a time of major market and economic dislocation will serve as an important reminder of the positive virtues of a healthy, deep, active equity market liquidity pool. It is also worth highlighting some of the other positive virtues besides the provision of 'rescue' finance.

Whilst listing and corporate reporting demands are significant, they do help to raise standards of corporate governance more generally, as can be witnessed through the increasing emphasis now being placed on ESG related issues by almost every listed company today. It should also be the case that, over time, active investment management helps with the efficient allocation of capital and the process of 'creative destruction' so important in a healthy economy, and it remains the case today that public equity ownership is one of the easiest and most cost effective ways for savers and investors to participate in the benefits of economic growth.

So, despite our obvious vested interest as active equity investors, we give the UK equity market a 'tick in the box' for efforts achieved so far during this crisis and we hope that others will perhaps look more favourably on UK public equity investing again in due course. In the meantime, we suspect there will be more to do from a capital raising perspective, particularly when the economy starts a sustained recovery and all those current working capital inflows turn to outflows again. We feel confident the UK equity market is well set for the challenge.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 15th May 2020

Sources for data and charts (unless otherwise stated): Bloomberg

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