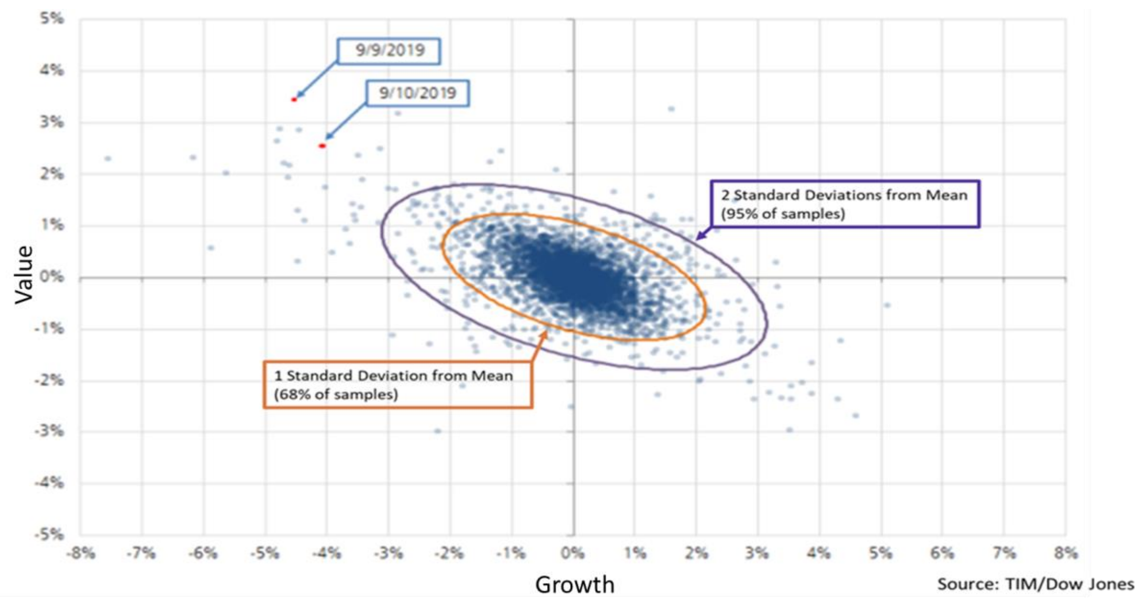
VT Tyndall Global Select Fund Commentary

September 2019

"In politics evils should be remedied not revenged."- Louis-Napoléon Bonaparte

September proved to be a difficult month to navigate as Saudi Aramco's oil facilities were hit by a series of drone strikes, knocking out almost half of the nation's oil production, thus causing the oil price to spike and oil related stocks to follow suit. The month also saw the largest two-day style shift since 2008 as investors took comfort in the hope of more dovish policies from the ECB and US Federal Reserve as well as signs of a thawing in the US-Sino trade tariff tit for tat. The movement was masked by the headline indices remaining almost flat on the day, yet under the surface the sector and stock moves were considerable. The chart below illustrates this point where all but one of the more extreme data points came from the early part of the recovery from the Financial Crash in 2009. As previously warned the Fund is likely to underperform when the market has a shift to stocks that are more cyclical in nature and with higher leverage.

Daily Long Short Returns Since 2002



We do not believe that this is a fundamental long-term shift, as, if anything, the macro-economic data has deteriorated in the intervening period. As Chairman Powell said in his latest press conference: *"weakness in global growth and trade policy uncertainty have weighed on the economy and pose ongoing risks."* Therefore, we believe investors should be looking for those companies that can generate reliable and growing cash flows throughout the cycle and have the ability to invest in future growth opportunities when those with less robust balance sheets cannot.

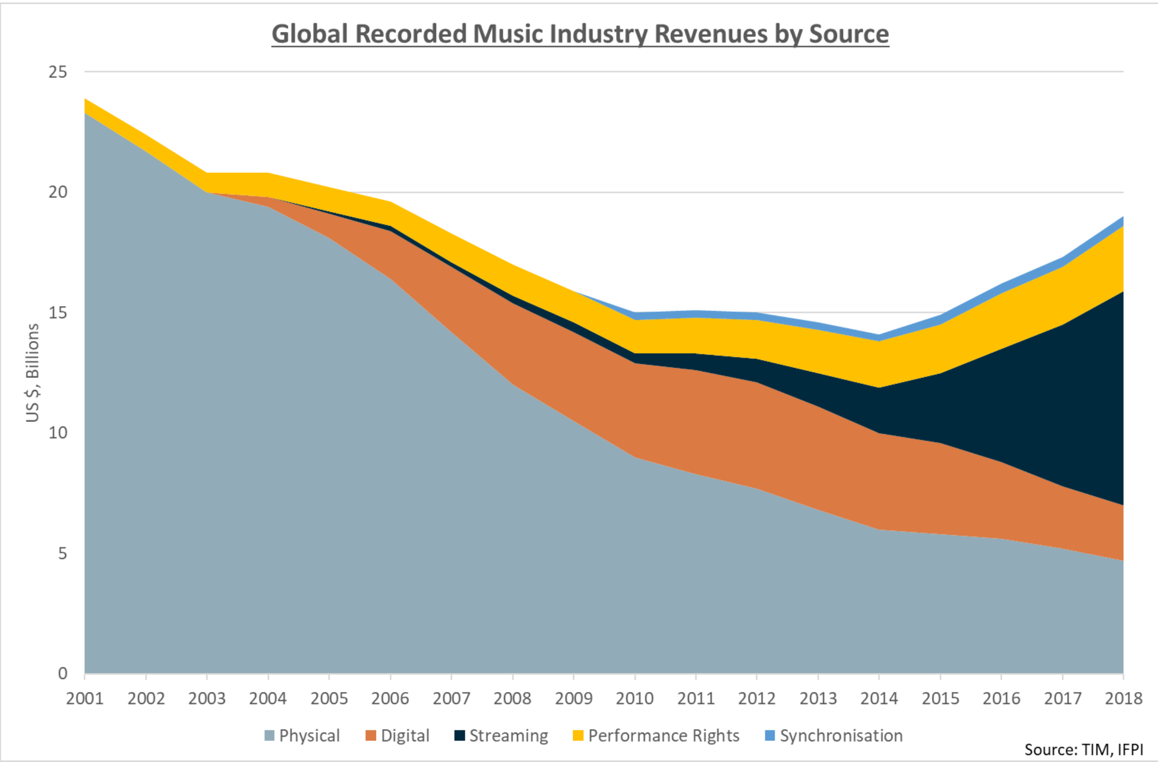
Owing to its conservative positioning, the VT Tyndall Select Fund B Inc (Total Return) struggled to capture all the gains in the wider market, falling by 0.94% bringing the year-to-date returns to 23.99%

During the month we took advantage of the market turbulence to increase our exposure to American Express, Booking.com, Roche and Zoetis. We also booked some profits in Apple after their latest iPhone upgrade event.

<u>Video may have killed the radio star[1], but streaming changed the world of music.</u>

Having grown up in the era of LP records and tape recorders, the music industry has evolved dramatically for both your fund manager and the artists themselves. No longer can artists rely on record sales and the occasional tour to support their lifestyles, a model which proved lucrative even during the transition to CD. Being an early adopter of mini discs, which appeared to be a perfect solution to the problem of scratched CDs, served as a good lesson on just how quickly the market can change, as the advent of digital led to that medium never properly gaining traction. The days of listening to an entire album waiting for the next hit are now long gone.

With the evolution of digital downloads (read, iTunes) and now streaming (such as Spotify, Apple Music, Tencent Music, Amazon Music and Pandora) recorded music is remunerated in a significantly different manner. In 2018 streaming revenues increased 34%, while downloads fell 21% and physical revenue fell 10%, so the industry has had to adapt to how the market now consumes data.[2]



The decline of physical record sales has led to artists having to perform more regularly, which is reflected by the growth in performance rights seen above, and this also benefits companies such as Live Nation and CTS Eventim which support these performances. Although still nascent Synchronisation is another medium through which artists can monetise their output. A Synchronization licence is a music licence grant of the copyright of a specific record that the licensee can use for accompanying visual media such as adverts, films and websites. Some artists have gone to the extent of selling their intellectual property rights to third parties for them to monetise, such as in

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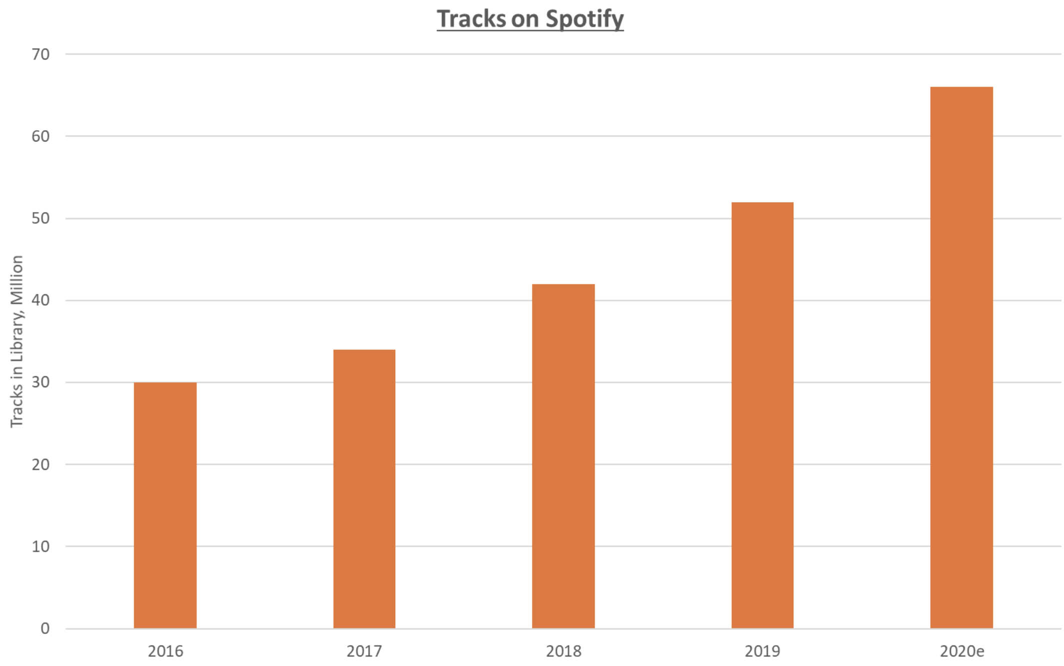
[1] With apologies to The Buggles.

[2] According to IFPI, digital music (download and streaming accounted for 58.9% of global revenues in 2018.

the case of Hipgnosis Songs, rather than having to manage the myriad of routes to market and variable monetary steams in the digital age.

With the advent of streaming and the digital age, the cost of producing an album has fallen, as for $30 for the first year and the $50 per annum thereafter anyone can upload their music to a service such as TuneCore and thus have their content accessible by users of all the major streaming providers. An upshot of this is a proliferation of tracks, and private bands competing with the major labels. Spotify estimates that close to 40,000 tracks per day are uploaded to their platform (the equivalent of 14.6m on an annualised basis).



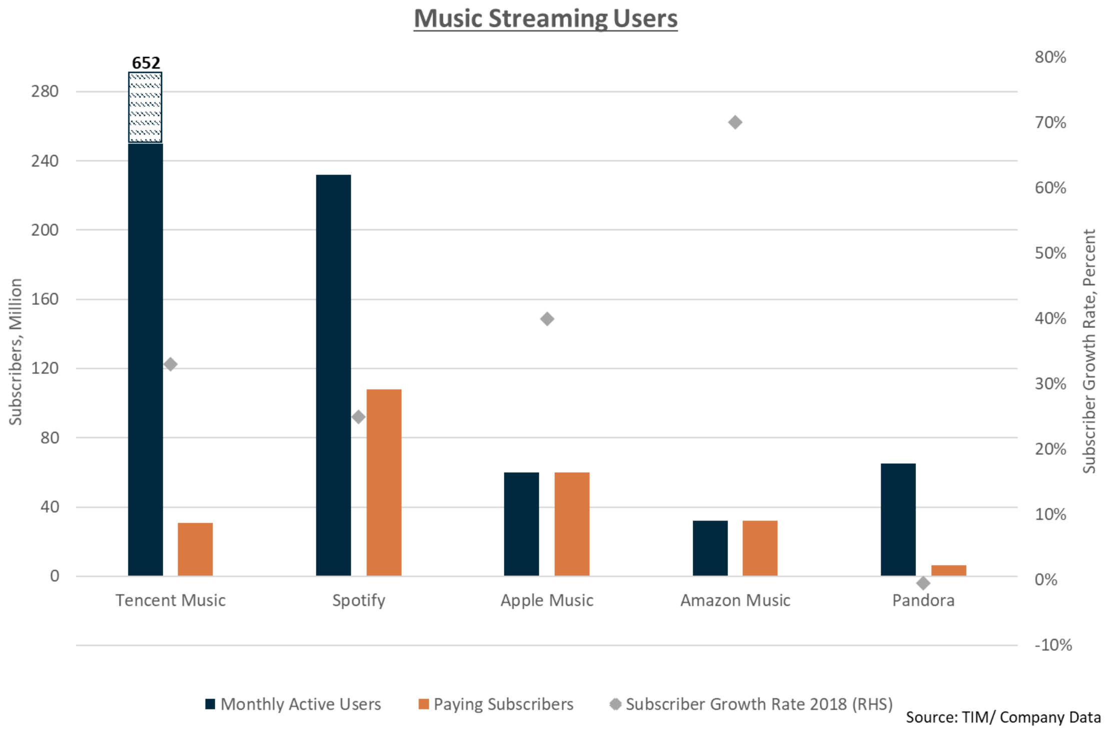
Source: TIM, Spotify

For the end user, a monthly subscription ($9,99 for Apple, Amazon Non-Prime users and Spotify) allows them to access and create playlists from the entire catalogue of the streaming provider; Tencent Music charges 12 yuan ($1.8) per month owning to the elasticity of demand in the Chinese market. According to the Recording Industry Association of America, in the first six months of 2019, streaming subscriptions and ad-supported options represented 80% of the industry's revenue in the US, increasing 26% to $4.3bn with one million new subscriptions per month.

The streaming companies benefit not only from this stable and recurring revenue but also receive income from the traditional labels such as Warner, Vivendi (Universal Media) and Sony who need to find a way of promoting their artists in a more diversified field. Unwilling to fall foul of the paid advertising legislation the easiest way for the streaming companies to facilitate this is including them on promoted playlists or podcasts as over 30% (and increasing) of all streamed music is consumed from playlists.

Scale leads to the benefits of greater consumer data capture and thus better personalisation of playlists and suggested music. With this comes greater user loyalty as user owned playlists grow and thus moving from provider to provider would involve re-creating your own playlist, currently user defined playlists account for over 1/3rd of all playlist use.

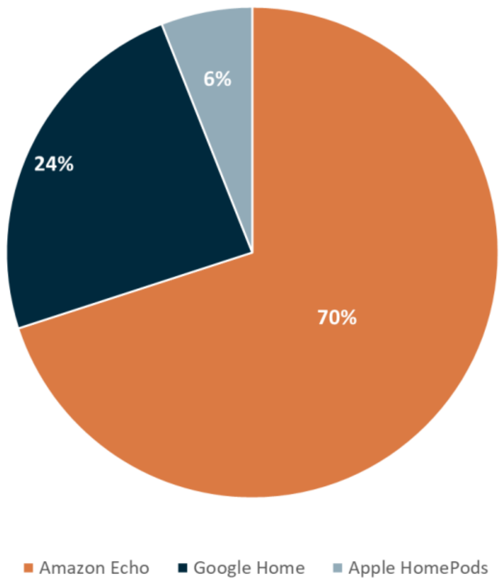
Although China is only the 7th largest music market worldwide, it is growing rapidly (the US remains the largest market), and Tencent Music has 652 million monthly average users, over twice that of Spotify, the next largest player. It is hard for any of the Western steaming services to compete with the scale of Tencent in Asia and a Chinese regulator that restricts access to Western operators. Spotify and Tencent work around this issue by significant cross shareholdings, owning about 9% of each other's company.



Source: TIM/ Company Data

Amazon and Apple believe that the proliferation on Alexa enabled echo devices and Apple HomePods will enable them to capture share from Pandora and Spotify over the long-term, and Amazon, in an attempt to differentiate itself from the competition has recently become the first to launch a high definition version of its music streaming service (for $12.99 a month for Prime members or $14.99 for non-members). It is estimated that the smart speaker market will increase to 207.9 million by the end of this year and given their market share Amazon may well close the gap with Apple in the coming months.

US Smart Speaker Market Share 2018



Source: TIM/Canalys

The attraction of offering a streaming service is that unlike video streaming, it is high cash generative and does not have to take any risk on new content as the service is mutually beneficial to the artist and streaming provider as long as the terms of revenue share reflect this. Spotify pays $0.006-$0.0084 to the holder of the music rights per steam, hence steaming is a volume game and artists who have the profile to publish without a record label can claim all the revenue rather than less known artists who receive only a proportion of the total payment from the streaming service; In 2018 Taylor Swift held the Spotify record of 10,415,088 streams of a track in one day, earning her between $62,490-$87,487 in a single day. The Fund has exposure to these markets through its holdings in Tencent, Apple and Amazon.

US Steaming Service Provider Revenue Shares, 2018

Streaming Provider	Payment per Stream
Napster	$0.019
Tidal	$0.01284
Apple Music	$0.00783
Google Play Music	$0.00676
Deezer	$0.00624
Spotify	$0.006-$0.0084
Amazon Music	$0.00402
Pandora	$0.00133
You Tube	$0.00069

Source:The Trihordist/Company Data

Postscript: Last month we discussed how the proposed re-merger between Altria and Philip Morris International (PMI) seemed to benefit Altria more than PMI, and our concerns about the deal. These talks have now been terminated, and thus we continue to hold PMI.