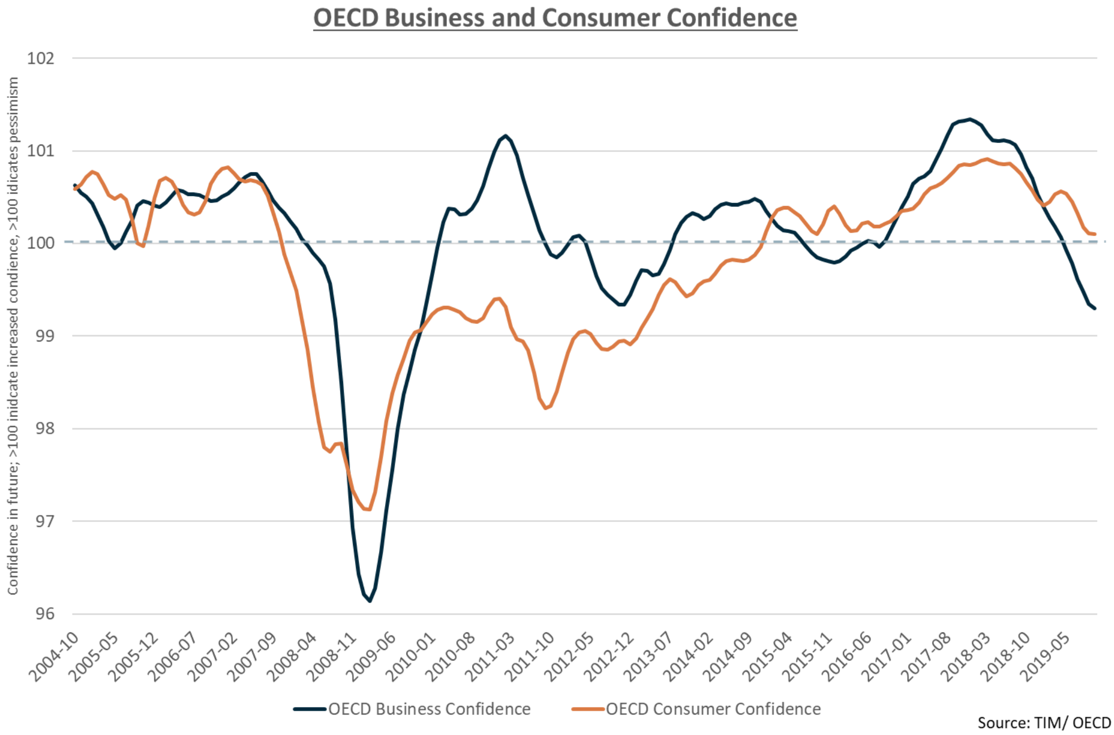
VT Tyndall Global Select Fund Commentary

November 2019

"I know of no such thing as genius, genius is nothing but labour and diligence."- William Hogarth

Geopolitical events continue to dominate investor sentiment, driving many equity valuations to levels where there is little room to disappoint or release more cautious guidance. The ongoing trade-war, Hong Kong protests, and the UK General Election may pass but the ramifications are already being reflected in the economic data. Depending on the result of the later of these factors, we are likely to experience either greater pessimism towards UK domiciled equities or vice-versa the beginning of resurgence in a currently unloved region. We believe that currently there is value to be found in UK equities, but even with our long-term outlook, we are minded to wait for the 13th December before looking to add any new positions in this region.



Given the global macro-economic data there is plenty of reason why a more cautious outlook on 2020 might be in order, however we take comfort that there are tentative signs of the latest data releases forming a base pattern, and improving in certain geographies, albeit from low levels.

Counterintuitively, during these uncertain times, we are experiencing an increased appetite for higher leveraged, more cyclical companies, as we saw post the election of President Trump in 2016, and in the wake of the Geithner plan in March 2009. We have taken the decision to add to existing positions in an opportunistic manner, as we do not see any change to the long-term fundamentals of our holdings (save the position that we sold, discussed later in this letter) and believe that they will re-assert themselves in due course.

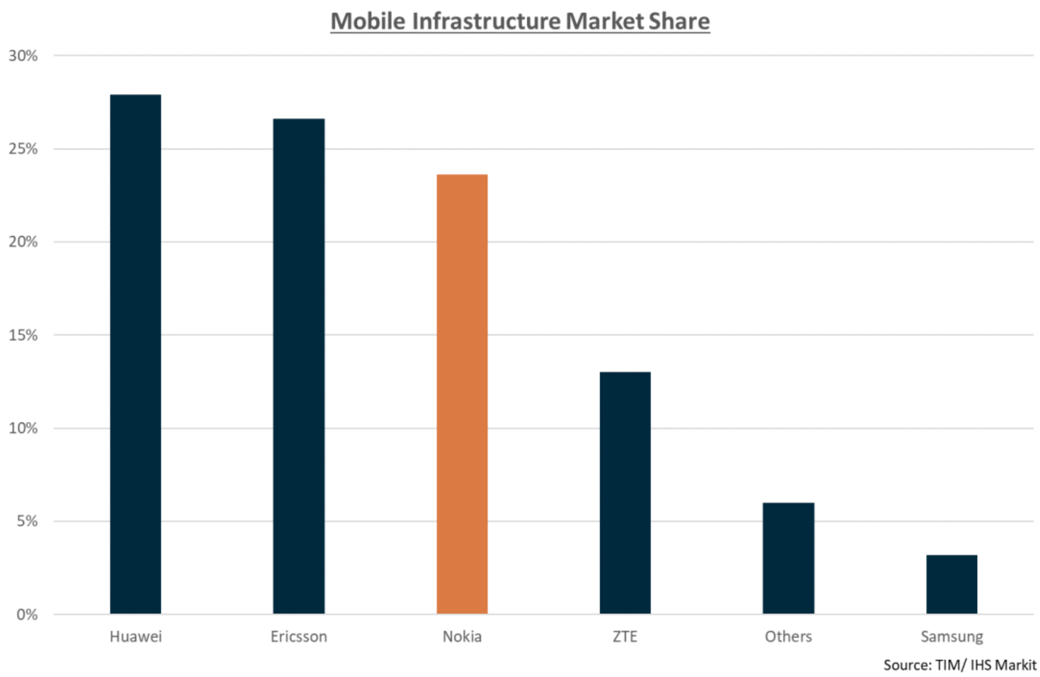
We do not believe that having patience equates to sitting idly on our hands, but while continuously challenging our investment propositions and looking for new opportunities, it is having the common sense not to get dragged into chasing the short-term momentum trade that we believe has the risk of being value destructive in the long-term.

The VT Tyndall Select Fund B Inc (Total Return) followed the market higher over the month, rising by 2.42% bringing the year-to-date returns to 24.23%

Fund Activity

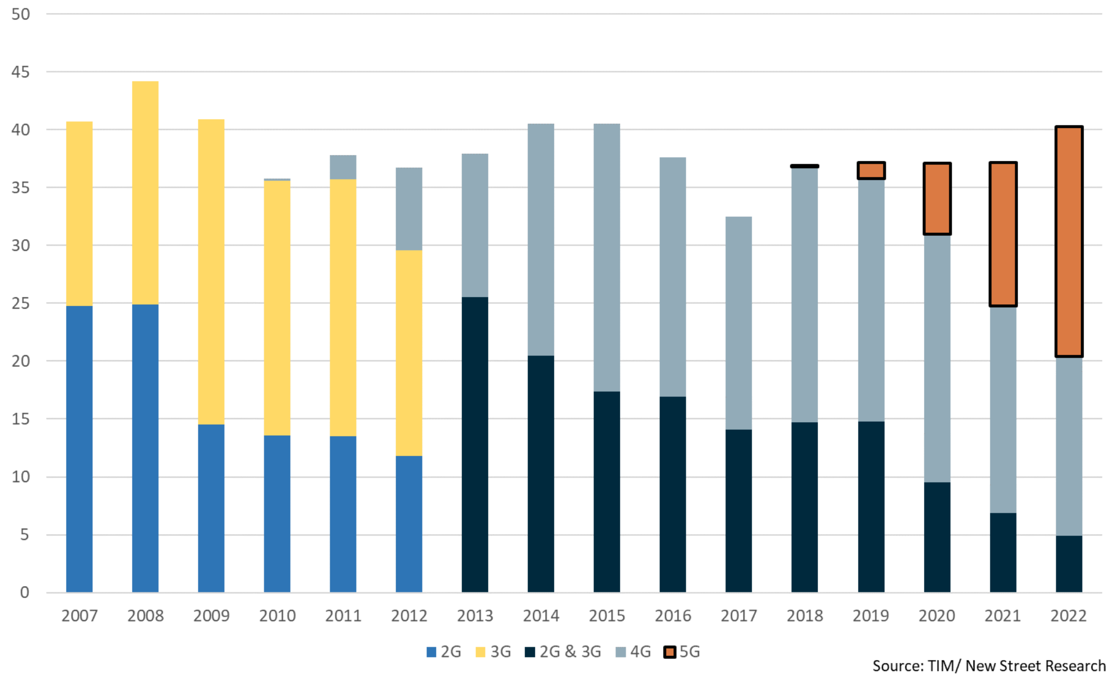
During the month we took advantage of market corrections to add to our holdings in Booking.com, Intuit, Zoetis and Anheuser Busch InBev.

We sold our small holding in Nokia post the presentation of their quarterly release. We had initially invested in the company given the positioning that they have in the roll-out of 5G infrastructure, where Huawei, Ericsson and Nokia account for almost 80% of the sector. To date Nokia has 50 contracts to roll-out 5G infrastructure and more than 100 trials. The investment needed in 5G technology is supported by Nokia Bell Labs that provides a sustainable cash flow through patent licensing.



We believe that we are on the cusp of a new wave of investment in networks. According to analysis done by MarketsandMarkets™, the 5G infrastructure market was valued at $784m in 2018 and is expected to grow at a CAGR in excess of 67% to $47,775m by 2027, so logically the opportunity is extremely attractive. Our investment case unexpectedly received a boost when the US authorities blacklisted Huawei and ZTE and encouraged others to follow suit, leaving Ericsson and Nokia an open door. President Trump recently encourage Apple to invest in 5G infrastructure in order to secure a US supplier, however it could be argued that an alternative and perhaps more economical solution would be for a US player to buy either Nokia or Ericsson.

Network Roll Out by Generation



Source: TIM/ New Street Research

While it was commonly known that Huawei was the low cost producer in the market, and therefore an attractive proposition for the mobile operators that face huge infrastructure roll-out bills in the coming years, we believed that the ability to offer an integrated end-to-end solution by Nokia would enable them to capture market share without having to undercut Huawei on price. Early indications are that this thesis is not what is actually happening on the ground, as Nokia appears to have engaged in price competition, which is driving down margins, and we fear that some of these early contracts are actually being secured at a loss.

The company is continuing to invest heavily in R&D and changing suppliers in order to lower the cost of production of their products and add to the 2,000 5G patents that they currently possess, however the defensive moat that Nokia possessed in 3G & 4G looks to have been breached in the 5G era. Furthermore, on a recent conference call, the CEO cited that he was exercising some price discipline in China where they have contracts with China Unicom and China Mobile, and pilots with the smaller operators. This has led to a 21% decline in profits from the region and suggests that they are ceding market share.

Although, as stated above, we are not proponents of price competition, we believe that China is one of the few regions that the potential economies of scale, given the size of the market, could make the case for initially offering equipment at a lower price point, despite the headwind from China Unicom and China Mobile combining forces to build a single 5G network.

We feel that despite the potential opportunity in 5G infrastructure, that Nokia is not proving to be a good allocator of capital and management have made fundamental mistakes at a crucial time in the roll-out of this technology. Furthermore, pricing discipline does not appear to be forthcoming in the market an thus we will see margins continue to decline and the shares to remain under pressure. Thus, we took the decision to exit our position.