VT Tyndall Global Select Fund

Monthly Commentary (30th June 2020)

TYNDALL

"We can only see a short distance ahead, but we can see plenty there that needs to be done."- Alan Turing

Having rallied significantly since the depths of March, global equities appear to be searching for the next direction of travel before the summer lull in volumes sets in. On the positive front economic data shows signs of improvement, from historically low levels, across the globe, but this is offset by actions such as the Trump Administration threatening £3.1 billion of extra tariffs on the Eurozone and the UK, and the European Commission internal wrangling that threatens to further delay their €750 billion relief package.

Much has been written and debated as to whether we are at the start of resurgence in 'value' companies, given 10 years of outperformance by 'growth'. The chart below is yet to indicate any sustained uptick in 'value'. We have always veered away from these labels. We believe that focus should be on profitability, cash flows, competitive position and analysing the long-term fundamentals of a company. Valuation alone is a poor basis for investment; buying exceptional franchises at a reasonable price, and then compounding returns over time is what we strive to do. Although we are aware of the market noise around these descriptors, we remained focus on company fundamentals and constantly analysing and stress testing our investment thesis.

Source: Bloomberg

We have continued to provide further updates on our thoughts on an ad-hoc basis, which can be found on our website at https://www.tyndallim.co.uk/news-insights/ and if you wish to subscribe to receive them directly you can do so at: https://www.tyndallim.co.uk/subscribe/.

Global equity markets had quite a rollercoaster month in June but ended the month close to their highs. The VT Tyndall Global Select Fund B Acc (GBP) rose 1.29% during the month, bringing the year-to -date return to 3.13%.

Fund Activity and News

As we reach the halfway mark in what has been a challenging year, for both investors and managers, we thought it would be a useful exercise to pause and reflect what has worked, and what has been a headwind, in terms of performance through the market crisis and out the other side. Given that we do not hedge any currency exposure and there have been some significant moves in currencies we present all numbers in Sterling, thus showing the impact for those investors in the GBP classes of the Fund.

There are some distinct themes that stand out, the most notable of these being digitalisation and technological disruption. As the table below shows the top four of our drivers of return in 2020 so far are related to technology (albeit that GICS sector classifications mean that not all of them fall into the Information Technology sector).

Top 6 Companies Year-to-Date in GBP	
Company	**Year-to-date move**
Amazon	56.56%
Tencent	43.90%
Microsoft	35.81%
Apple	32.97%
L'Oréal	26.37%
Banque Cantonale Vaudoise	25.62%

Source:TIM/Bloomberg

Geographic diversification and strong market leadership in their respective fields has helped many of our holdings insulate themselves to a degree. The ability to invest throughout what have been some of the most difficult economic conditions, through the resilience of their cash flows, should set them apart once the economy properly re-opens. While we have a large exposure to companies with solid balance sheets and strong cash flows (over ¼ of our holdings are net cash), no company has been totally immune to the pandemic.

Some of our holdings were adversely affected by the increase in volatility and in some cases saw their end markets almost completely being shut off from customers. Nike is a good example, where a very strong uplift in online sales could not totally offset the total closure in stores across Europe in the UK for most of the last four months. Despite gaining market share and seeing strong footfall in stores upon reopening, the stock price fell sharply on a rare 'miss' of analyst expectations. We do not see volatility as risk, even though it can be painful in the short-term, but as an opportunity, so we have added to some of our worst performing holdings as they pass through the nadir of their earnings cycle.

Bottom 6 Companies Year-to-Date in GBP	
Company	**Year-to-date move**
Walt Disney	-16.78%
Asahi Group	-17.48%
American Express	-18.05%
Rational	-18.23%
JD Sports	-26.16%
JP Morgan Chase	-28.00%

Source:TIM/Bloomberg

Going forward a strong digital strategy, as L'Oréal has shown, will become even more important than it was at the turn of the year to smooth out any future bumps in the road. The past few months with a significant part of the global workforce working from their own homes has not only fundamentally changed the tools we use to work. Video conferencing and remote working are likely to remain part of everyday life (we are already booking in company meetings as far ahead as November that are virtual in nature) but so also is willingness to purchase online products without the need to go to a retail outlet.

The recovery from the March lows has been almost as quick as the correction from February's market high and we now sit within a hair's breadth of making new all-time highs. The Fund's participation in this rally has been dominated by a mix of technology companies' that are deemed to be beneficiaries of the new digital world, and holdings that had seen excessive devaluations during the market correction. Once the dust settled investors came to realise that in many cases the growth characteristics, cash generation and balance sheets remain intact, and thus are poised for growth in the coming months. A good example is Accenture, which experienced some customers postponing or deferring decisions in the past quarter, but still managed to increase margins, free cash flow per share conversion, and the order book grew by 6% due their positioning in digital, cloud and security services; a testament to their strong client relationship management given this was during a period of lock down.

Top 6 Companies on the rebound in GBP	
Company	**Move since 2020 low**
JD Sports	110.98%
PayPal	85.54%
Apple	51.25%
Amazon	50.22%
Barco	46.84%
SAP	45.07%

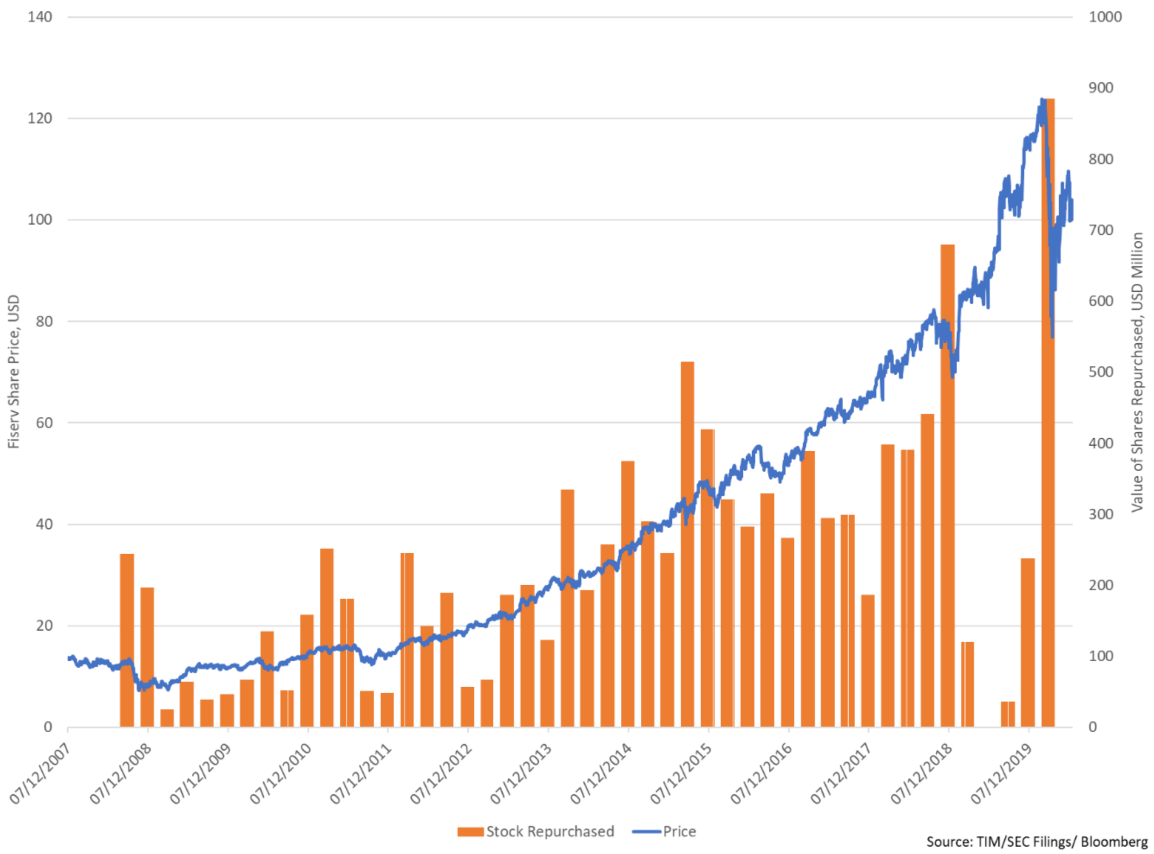
Source:TIM/Bloomberg

Allocation of Capital: Buybacks can add value if done well.

Quality of management is one of the primary screens that we apply to all of our investment ideas and with that comes asking ourselves whether they have a history of being good allocators of capital. Many companies, especially in the US, believe in buybacks rather than dividends as a worthwhile use of their excess cash, but too infrequently they do not then cancel shares and buy regardless of the valuation of their own shares.

Good discipline towards buybacks is exemplified by the management of our holding in Fiserv, which has cancelled the shares that they have bought back in 9 of the past 10 years. They have also increased the size of their buyback programme whenever there has been a significant correction in the value of their shares. As the chart below shows, during the correction in March the company underwent their largest ever quarterly repurchase programme, taking $885 million worth of shares off the market; this is especially notable as they had cancelled their buyback programme post the acquisition of First Data to payback debt at a faster rate. However, such is the free cash flow generation and recurring revenue nature of their business, they have the flexibility to use their cash in the most efficient manner that they see fit at any moment in time.

Fiserv Share Price and Share Repurchases



Source: TIM/SEC Filings/ Bloomberg

Within our Fund, Fiserv, Visa, Thermo Fisher Scientific, and PayPal have all spent more on buybacks during the market correction than any point in the previous two years. Displacing confidence in the long-term growth of one's own company in this manner is an encouraging sign, but share repurchases should only be done on a significant scale in an opportunistic manner, and never at the expense of reinvesting excess cash flows into long term growth opportunities. Happily, none of these companies have fallen foul of this trap.

Richard Scrope, Fund Manager, VT Tyndall Global Select Fund, 30th June 2020