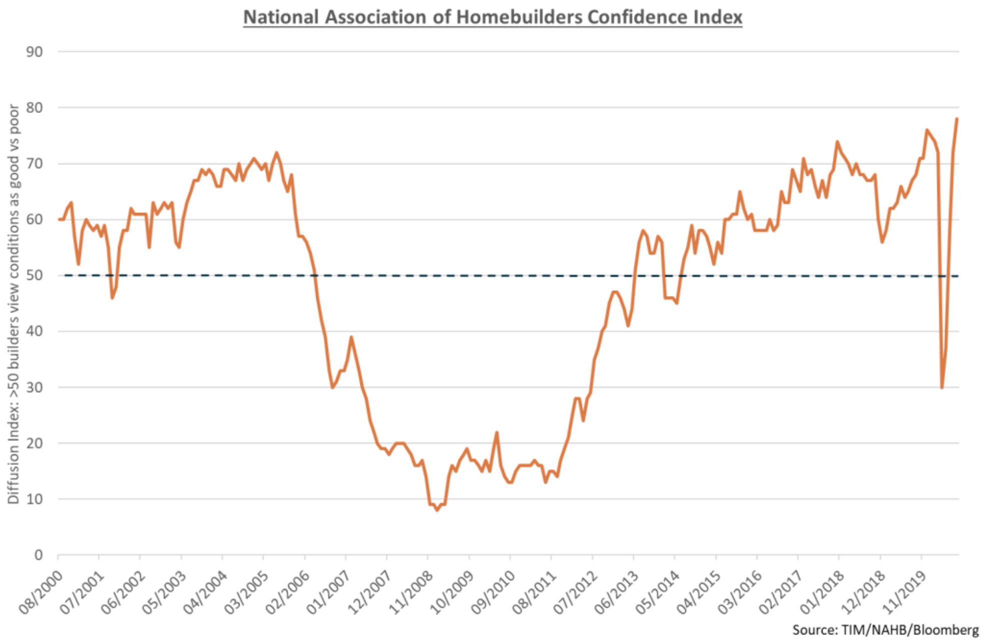
VT Tyndall Global Select Fund

Monthly Commentary (31st August 2020)

TYNDALL

"The task is, not so much to see what no one has yet seen; but to think what nobody has yet thought, about that which everybody sees."- Erwin Schrödinger

Over the last few weeks, macroeconomic data has almost universally pointed to a sharp recovery from the abyss that global economies found themselves in six months ago. The Citigroup Global Economic Surprise index is registering all-time highs and Purchasing Managers' Indices are also pointing to a sharp rebound. One notable uptick is in housing markets worldwide, the Rightmove and Nationwide indices for UK house prices are reporting a strong increase in demand and in the US the National Association of Housebuilders are equally confident. This data is being reflected by the performance of many housing and maintenance stocks over recent months. Our holdings in Sherwin-Williams and Sika have benefited from this dynamic.



With central banks remaining accommodative, pumping liquidity into the markets and signalling that interest rates are likely to remain close to zero for the foreseeable future, there is reason to believe that equity markets will remain optimistic. One outlier, however, is consumer confidence, which although it has rebounded slightly is still well below the long-term average, perhaps reflecting concerns about employment prospects as furlough schemes start to roll-off. As a significant part of global GDP is related to consumer spending, this points to economic growth being slower when we finally emerge from the shadow of the pandemic. We believe in a low growth environment the argument for investing in quality growth companies becomes stronger; they have shown historically that they can capture much of the little amount of growth that exists.

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One of the notable moves this month has been the fall in the value of the Dollar versus the other major currencies. The trade weighted index has fallen 9% from the March highs, and as the Fund generates 49% of its revenues from the Americas but leaves currency naked, we have faced a headwind. We have never taken to hedging currency as we prefer to concentrate on selecting companies on their fundamental long-term merits and evaluating currency exposure is part of this analysis. Furthermore, Hedging can incur large costs to the Fund and we believe that currency fluctuations average out over time. Many companies do their own hedging to match up cost and revenues, so for us to guess the direction of currency moves may well end up in negating the effect of these hedges.

For further information visit: www.tyndallim.co.uk. This document is for investment professionals only and is not suitable for use by Retail Investors.

Global equity markets had another strong month as sentiment improved. The Nasdaq and the S&P 500 continued to make all-time highs, despite ex Apple, Microsoft, Facebook and Alphabet the S&P 500 is still down year to date.

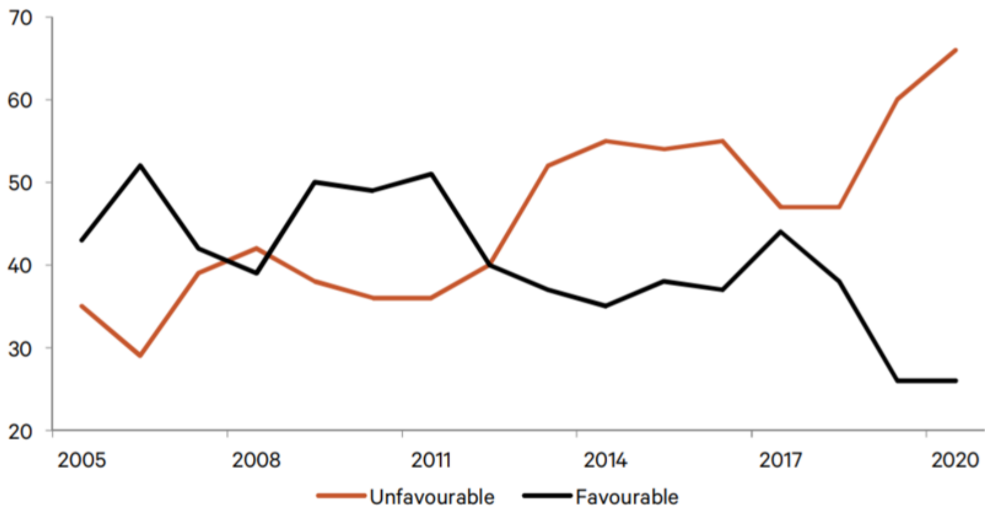
The VT Tyndall Global Select Fund B Acc (GBP) also made new all-time highs and ended the month up 4.21% bringing the year-to-date return to 7.08%

Fund Activity and News

Below we run through the impact on the Fund from the recent news surrounding TikTok and WeChat.

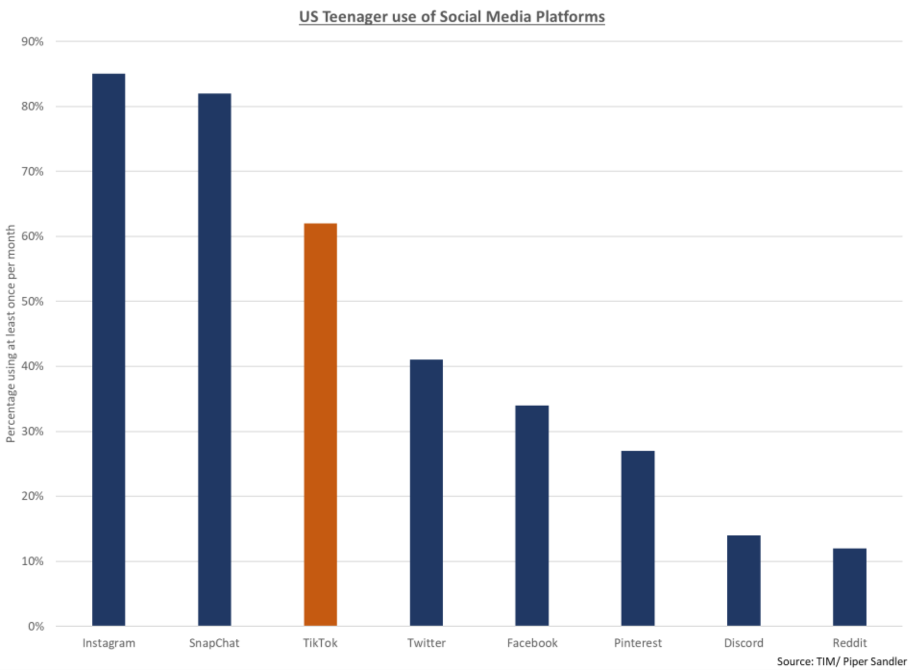
With opinion polls weighting heavily against China in the United States the increased inflammatory rhetoric in the run up to the Presidential election is unsurprising, however, the recent actions by President Trump raise a few questions. The executive order banning TikTok from the US and forbidding US companies to interact with WeChat, on the grounds of national security, risks igniting an unsightly sparring match between the two world powers. Reportedly Alibaba may be the next company in his crosshairs, and we are still three months out from election day.

Percentage of US citizens with positive or negative views on China



Source: Berenberg

The video sharing social media app, TikTok, is owned by the Beijing based technology company, ByteDance. In less than four years, the international popularity of TikTok has led it to record 1 billion monthly active users (MAU), and the company's Chinese sister, Dǒuyīn, has 500m MAUs. Although the company strenuously denies that it shares user data with the Chinese authorities, on August 6th, the US President ordered it to sell the US operations to a 'very American' company within 45 days from the date him of signing the executive order or be banned from operating. The move has led to Kevin Mayer, the US based, CEO of TikTok resigning only 90 days after him leaving Disney for the role.



Competition has increased with Microsoft, Oracle and Twitter all expressing an interest in buying the US operations. For Microsoft it would leapfrog them into a leading position in social media with the younger demographic, where it currently is underrepresented. TikTok also would increase Microsoft's digital advertising revenue stream, which eMarketer estimates to be a $400bn TAM; to date Microsoft has only been a niche player in the market after Google supplanted Bing in the internet search market. With over 100m MAUs, TikTok has already achieved critical mass and therefore execution risk is lower. Given that ByteDance was already in discussions with Microsoft prior to the executive order, we see the high probability of this deal proceeding despite the close relationship between President Trump and Larry Ellison, the founder of Oracle.

The Oracle bid is rumoured to be $10bn Cash, $10bn stock and a 2-year share to profits with ByteDance, Microsoft meanwhile is partnering with Walmart in their offer but as yet the terms are not known.

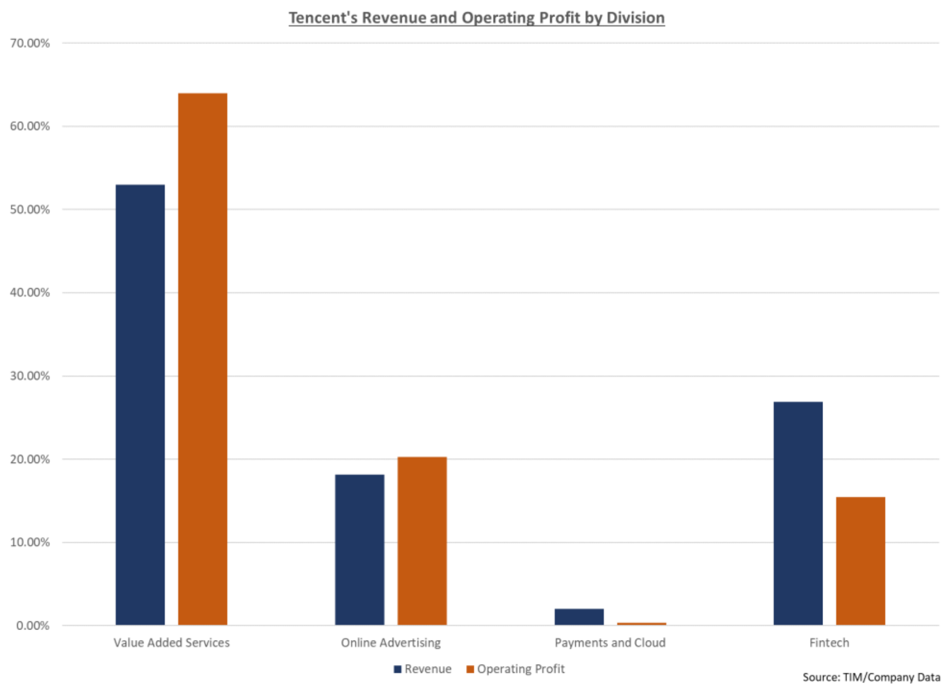
The move to block WeChat is somewhat more surprising and has faced more of a backlash from US corporates given the dominance of its parent company, Tencent, in serving the Chinese consumer. Tencent has its tentacles in so many areas of the Chinese technology market that it can be seen as an Instagram/Paypal/Linkedin/Uber/Facebook/WhatsApp/Booking.com/Twitch and more, all rolled into one. For any digital gaming company wanting to penetrate China, such is the dominance of Tencent's distribution capability and active audience, partnering with them is almost unavoidable. With an estimated $19bn in revenues from video gaming in 2019, Tencent leads the second largest gaming company (Sony) by 40%. As well as exclusive rights to distribution in China, it also takes strategic stakes in companies, the list below is not exhaustive.

Tencent's growing dominance in worldwide gaming

Company	Primary Game	Stake	Country of Origin
Bohemia Active	ARMA/ DayZ	Majority	Czech Republic
Marvellous	Story of Seasons	20.0%	Japan
Riot Games	League of Legends	100.0%	US
Supercell	Clash of Clans	81.4%	Finland
Grinding Gear Games	Path of Exile	80.0%	New Zealand
EPIC	Fortnite	40.0%	US
Glu Mobile	Call of Duty	14.5%	US
Bluehole	Playerunkonwn Battlegrounds	14.5%	South Korea
Ubisoft	Assassin's Creed	5.0%	France
Activision	World of Warcraft	4.9%	US
Paradox Interactive	Crusader Kings	5.0%	Sweden
FunCom	Secret World/ Conan	100.0%	Norway
Yager	Special Ops: The Line	5.0%	Germany

Source: TIM/Company Filings

Currently the executive order does not appear to apply to Tencent in general, but a forced sale of some of its international gaming portfolio would have a more material impact than the two percent of global revenues that Tencent currently claims come from its other US operations. Supercell, Riot Games and EPIC games currently account for around 7% of Tencent's net profits.



Tencent's advertising business (18% revenues) should not face a material impact as it is focussed on the Chinese market and help both Chinese and international business harness sales in China. Even if Tencent faced a similar fate as Huawei, 'entity list' exclusions do not currently apply to advertising.

WeChat is the international app for Tencent's international operations, while in mainland China a similar app with more functionality goes by the name Wexin, combined they have in excess of 1.2 billion MAUs. Given the universal acceptance of the app throughout China for everything from messaging, advertising, payments, and shopping, dealing with WeChat is almost essential for any company wanting to address the Chinese consumer. It is hardly surprising that over a dozen US blue-chip bosses, ranging from Walmart to Ford, Apple, Starbucks and Disney have all called on the administration to rescind the proposed ban.

If the US administration rules end up making Apple remove WeChat from its App Store, the ramifications could end up backfiring on the US, given that not only does it provide a vital link for millions of Americans keeping in touch with relations in China but also the Chinese would sooner dump their iPhones than stop using WeChat. One survey found that 95% of the 1.2 million Chinese Apple users would switch to a WeChat enabled device rather than use an iPhone without it. Enforcing any ban would be difficult, as seen with the case of WhatsApp in China, many users install the app and a VPN Account outside China and then connect through the VPN in China to still use the app; WeChat users in the US would be able to use a similar workaround. Belatedly Donald Trump acknowledged the importance of WeChat to US companies in China and revised his ban to only be on WeChat's overseas operations, rather than in the Chinese mainland. For these reasons, we believe that Tencent's Fintech business (27% of revenues) should not face a long-term impact despite some short-term risk. Revenues derived from US payments and cloud revenues are immaterial to the company.

The Fund holds positions in Tencent, Microsoft and Alibaba but not ByteDance, which is privately listed.

Richard Scrope, Fund Manager, VT Tyndall Global Select Fund, 31st August 2020