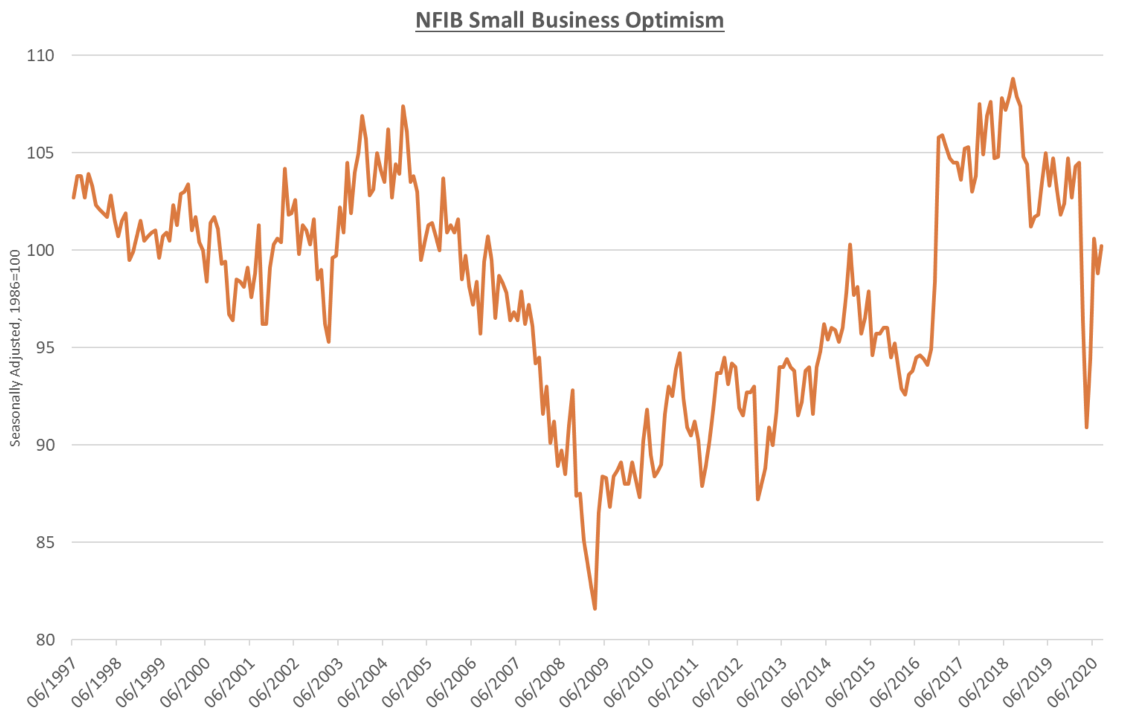
VT Tyndall Global Select Fund

Monthly Commentary (30th September 2020)

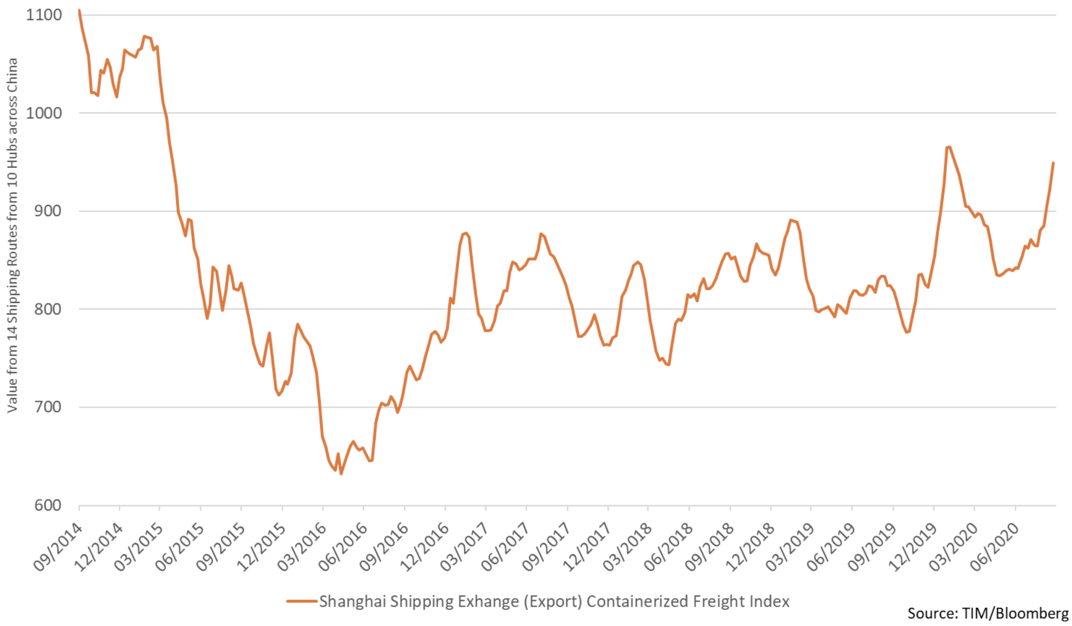
"What we have to do is to be forever curiously testing new opinions and courting new impressions."- Walter Pater

Despite concerns over a second wave increasing and local lockdowns taking place, economic data continues to point to a steady recovery in conditions. Governments realise that there is little appetite for further nationwide lockdowns and are trying to balance the risk of a second wave with getting the nation back to work in order to restore their feeble balance sheets. In America, the added dimension of a Presidential election adds spice to the mill, especially as President Trump sees his odds of re-election (which have improved significantly since August, despite him still trailing Joe Biden) being linked to keeping the virus under control and living up to his promise of a vaccine by October. We have concerns that the FDA will bow to pressure from the White House and approve vaccines with only 50% efficacy and thus undermining the public's faith in the validity of future drug approvals.



The lack of faith in administration's policies over the pandemic comes through in consumer surveys of confidence which have yet to show much of a rebound from the lows earlier this year; as depicted in last month's newsletter. While normally industrial and consumer confidence are lockstep in movement it is noticeable that this is yet to appear as industrial confidence has picked up to pre-pandemic levels. We take faith from the strength in the export and industrial manufacturing data coming out from China, which indicates that a strong recovery is underway in Asia, and may prove to be an example of how global growth may recover once second wave concerns subside.

Chinese Exports

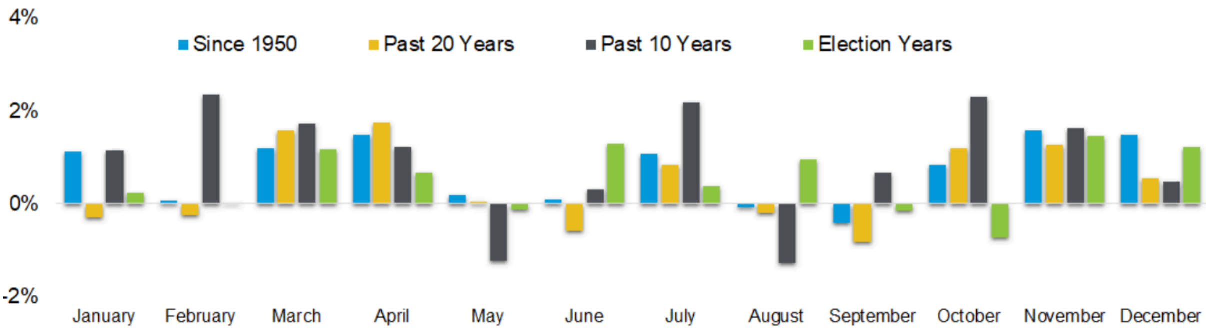


Source: TIM/Bloomberg

The weakness in technology stocks this month has been particularly significant given the weight of global indices that they represent. Of the big five, the Fund does not hold positions in Facebook or Alphabet. We although we have trimmed our holdings in Apple and Microsoft on relative performance and valuation grounds, we still like the fundamental investment cases and they remain within our top holdings. We have taken the opportunity of the market setback to initiate a new position which we discuss later in this newsletter.

Looking through the pandemic and progress on vaccines, the historic performance of markets in US Presidential election years is worth keeping in mind, as on average markets have found it difficult to advance in September and October before having very strong performance for the remainder of the year after the result is announced; we see no reason why the underlying trend should change this year, after all, 2008 saw the election of Barack Obama in the eye of the Great Financial Crisis storm.

S&P 500 Index Average Monthly Returns (1950 - 2019)



Source: LPL Research, FactSet 08/27/20 (1950 - Current)

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The VT Tyndall Global Select Fund B Acc (GBP) ended the month up 2.16% bringing the year-to-date return to 9.39%

Fund Activity and News

We have recently taken the opportunity to add a position in Zebra Technologies. The company is the market leader, with a market share of 40%, in the technology behind identification, tracking and detection of both objects and data, known as AIDC. It is a key beneficiary of the move to a more connected ecosystem, producing both the computers that can identify and capture data from barcodes and Radio Frequency Identification (RFID)s but also has the ability to print the cards and barcodes. The products are used, often unnoticed, in most fields of everyday life.

Examples of Zebra's Product Range

Source: Barcode Warehouse

The introductory video on the company's website depicts just how often we see their products, without thinking about who made them: https://connect.zebra.com/bredg_us; another example is Amazon, one of their larger clients, where a tour of their fulfilment centres shows just how ubiquitous Zebra's products are in processing their orders: http://uk.amazonfctours.com/ukvideotour

The company brought Motorola's enterprise business in 2014 and in doing so gained the technology and scale to become a pure play AIDC company. The resulting entity is now over twice the size of the nearest competitor, a subsidiary of Honeywell. Since that time cash has been used to invest in R&D and pay down the debt from the deal. Going forward, we expect the company to continue to make small deals to add technological applications to the platform, but such is the Free Cash Flow, we see the company turning cash positive by 2022.

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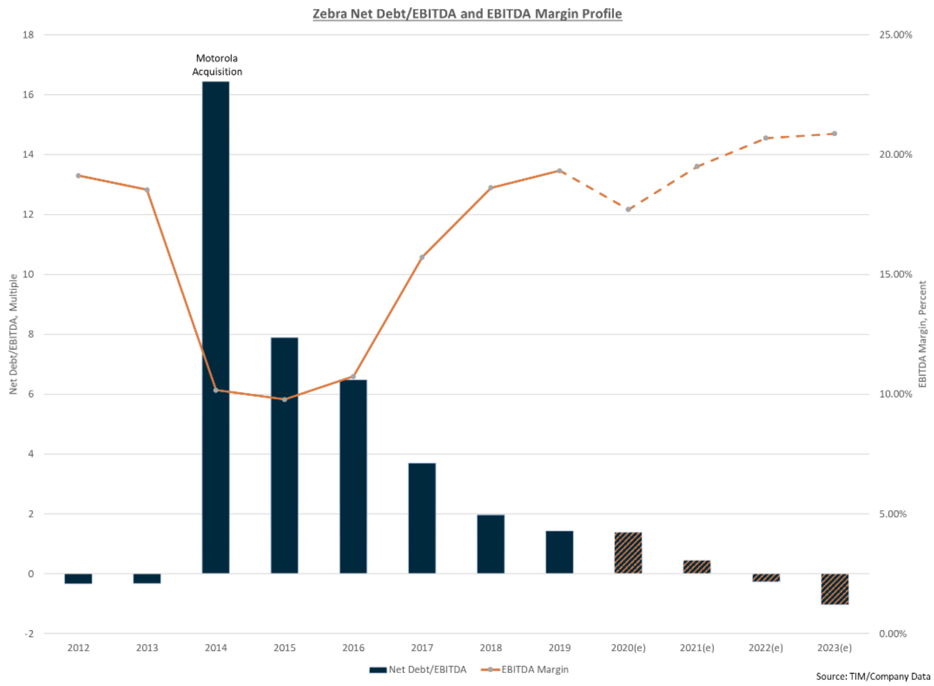

Currently it has a large array of end markets from retail to transport and logistics, as well as manufacturing and hospitality, all of which are temporarily depressed due to the lockdown, but the company has seen its order book growing as the crisis has ironically accelerated the shift to greater connectivity and tracking.

Healthcare, however, has been the fastest growing sector, increasing from 3% of sales to 10% in the last 12 months as the importance of patient tracking and analytics has seen a boom in demand. Given that 80% of a nurse's time is spent dealing with records and information, which can be automated by Zebra. We see this increase in demand continuing to accelerate, as the number of hospitals using mobile devices is still in its infancy.

We also see significant opportunities in logistics (think of all those packages arriving on your doorstep during lockdown that were labelled and scanned as an example of a small subset of this field of application) and warehouse expansion plans. Customers such as Walmart and Amazon have already laid out plans to increase warehouse footprint significantly over the coming years and, as other companies emerge from the shadow of the pandemic, this market is likely to expand appreciably. Importantly Zebra has the scale and capacity to fulfil these orders and with scale comes increased data capture. Given their technological leadership, this creates a significant barrier to entry, as well as enabling them to capture market share from its competitors.

The share price fell over 15% during the technology market correction at the start of the month, giving us an opportunity to invest in what we see as a market leading, long-term growth case with opportunities to expand its end markets, supported by strong cash flows with growing operating margins and returns on invested capital.

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