VT Tyndall Global Select Fund

Monthly Commentary (31st October 2020)

TYNDALL

"Veracity does not consist in saying, but in the intention of communicating truth."- Samuel Taylor Coleridge

October traditionally marks the low point of the Autumn, and this year investors have faced an increased degree of uncertainty, that has weighed upon markets. At the time of writing we are still awaiting the outcome of the US Presidential Election, a decision on a possible stimulus bill from Capitol Hill, as well as rapidly rising COVID cases in the western world with a possible return to lockdowns. Added to this, in true European fashion, the negotiations surrounding Brexit are still ongoing, despite deadlines from both sides being passed.

Source: Baird

These uncertainties are likely to be apparent in various forthcoming macro surveys, such as the purchasing manufacturing indices, however we see them all as transitory and factors that we have faced before without serious permanent ramifications. Even though COVID has caused a further correction in markets, we expect that vaccines are significantly closer to approval than back in March.

The role of us as true long-term investors is to look through these hillocks and remain focussed on the fundamentals; It would be easy to fall foul of human heuristic tendencies and become reactionary to every little shift in markets or headline. We remain of the belief that if we can cut out the noise and focus on investing in companies that can continue to generate cash, and have the growth to become or remain market leaders in their own fields, then our investors capital will be safer and will also benefit from the power of compounding returns.

We are currently in the midst of the third quarter reporting season, and the diversion between analyst estimates, the actual company results, and outlook have seldom been further apart. In many cases the price action on the day of reporting suggests that investors' expectations have been considerably greater than what the sell side would have them believe. We see this as confirming our belief in doing our own research and focussing on the long-term fundamentals but taking the opportunities to add to positions should these dislocations in expectations manifest themselves in company valuations. To contextualise this phenomenon, below we disclose the average results for those companies within the Fund that have reported to date, detailing the growth or decline in earnings per share and revenue over the last quarter and year as well as how the reported numbers fair versus consensus estimates.

	Revenue Growth (QoQ)	EPS Growth (QoQ)	Revenue Growth (YoY)	EPS growth (YoY)	Reported Revenue vs Analyst expectations	Reported EPS vs Analyst expectations
Fund	+12.07%	+138.23%	+4.19%	+46.90%	+3.34%	+21.54%

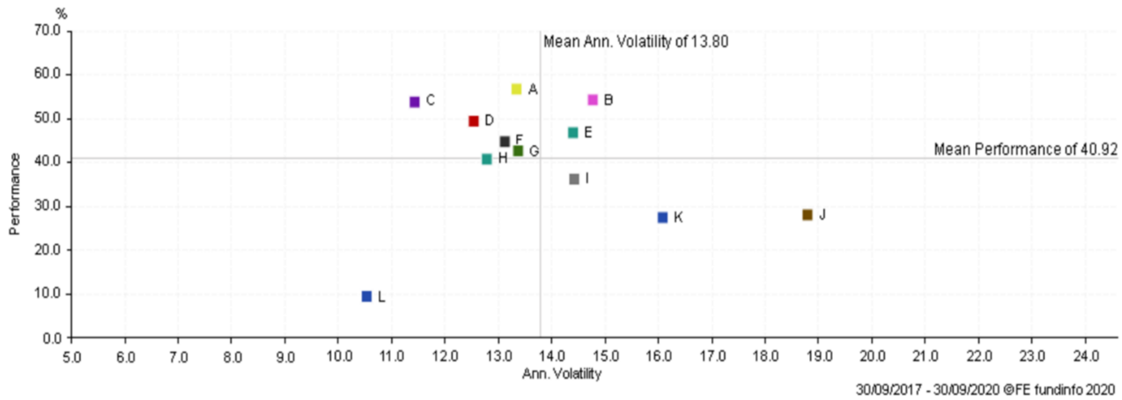
Source: TIM/ Company Filings/ Bloomberg

Despite these positive numbers the average price action on the day of reporting has been -1.98%!

Looking into the details of our underlying holdings reports, one of the interesting features was the performance of China for those companies that have exposure to the region. The level of activity from both industry and consumers has been encouraging and a promising sign of the outlook for the global economy once COVID is no longer dominating the daily headlines.

Performance

The chart below shows the risk/return profile of the Fund and nine other well-known Global Funds (readers are welcome to ask us to disclose any of the redacted Fund names) as well as the wider sector and the MSCI Index over the past three years. Although the VT Tyndall Global Select Fund has only the third highest return, it has achieved this with much lower annualised volatility. We believe that one of the reasons for this is due to our sell discipline which prohibits us from taking excessive stock specific risk in any particular holding; we believe in running our winners but also reducing their position size when they become more than 5% of the overall Fund.



Key	Name	Performance	Annualised Volatility
A		56.75	13.34
B		54.34	14.77
C	VT - Tyndall Global Select B Acc GBP GTR in GB	53.84	11.43
D		49.47	12.54
E		46.89	14.40
F		44.77	13.12
G		42.74	13.37
H		40.81	12.78
I		36.25	14.42
J		28.10	18.79
K	MSCI World GTR	27.52	16.08
L	IA Global GTR	9.58	10.53

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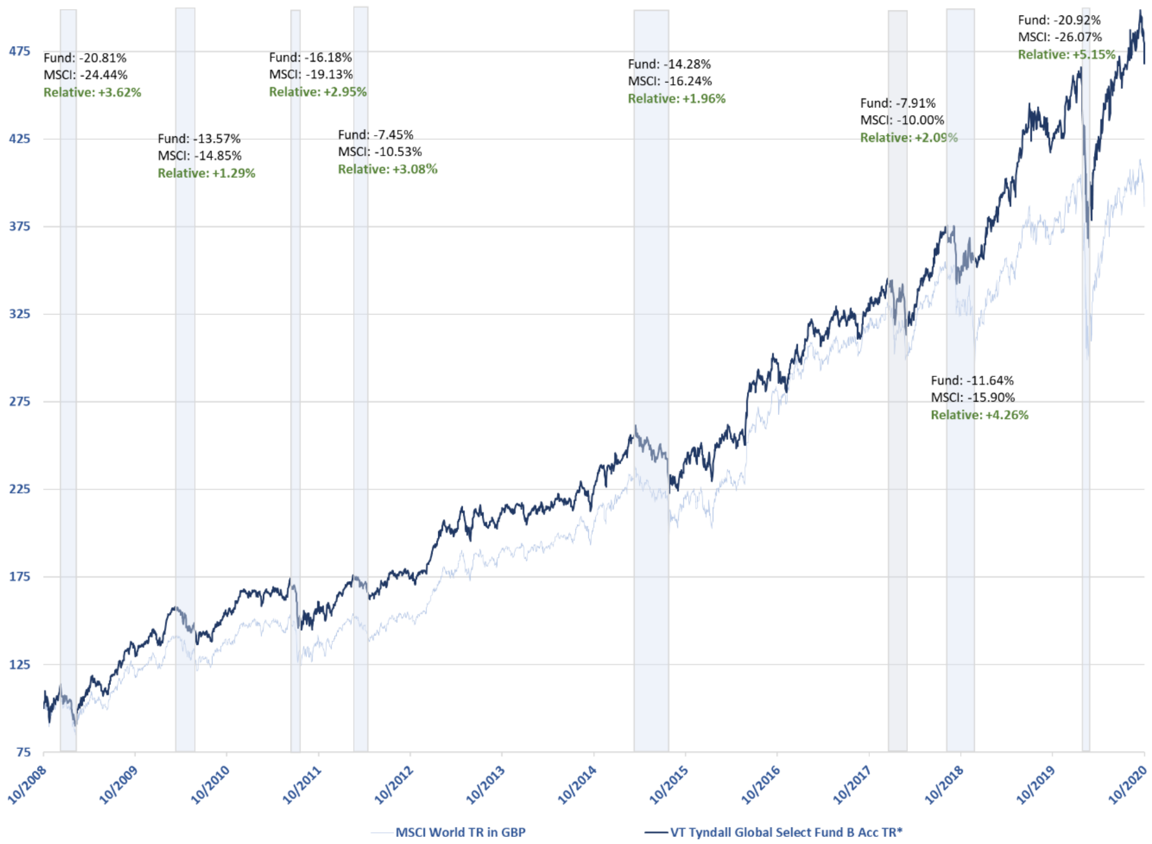
We believe that Fund managers should aim to be located in the top left quadrant of the chart, demonstrating good risk weighted returns, especially in times of heightened volatility. The aim of the Fund remains to preserve and enhance the real value of capital invested. In every 10% correction of the market in the past 12 years the Fund has significantly outperformed the market, demonstrating the benefits of balancing risk and return.



*A Acc: 30/10/08-30/03/11, B Inc 30/03/11- 14/12/18

Source: TIM/Bloomberg

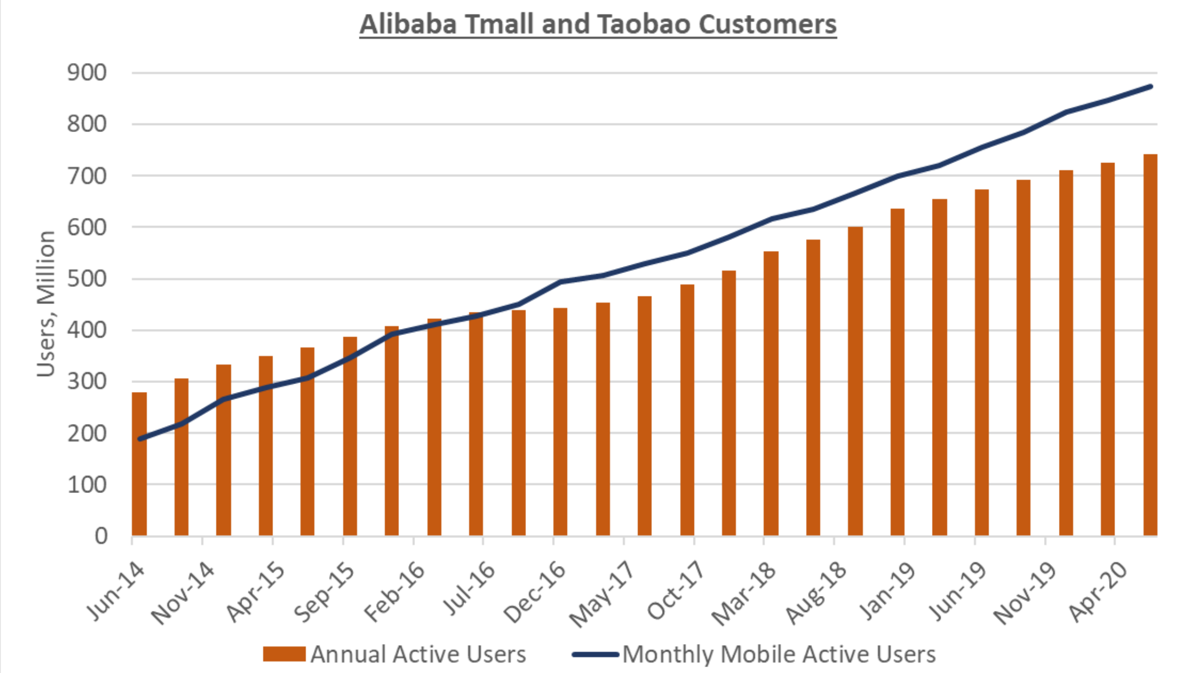
Having initially reached new all-time highs during the month, The VT Tyndall Global Select Fund B Acc (GBP) finally ended the month down 3.19% bringing the year-to-date return to 5.89%

This month marked the 12-year anniversary of the Fund since its restructuring and the appointment of its current manager. During this period, the Fund has returned 368.03% for investors compared to 286.52% by the MSCI World Index (Total Return) and 245.77% by the IA Global Sector (Total Return)

Fund Activity and News

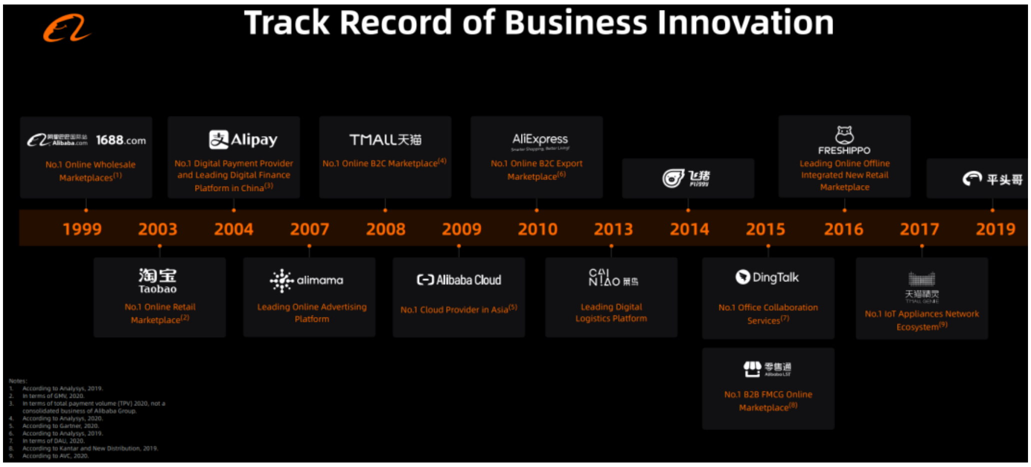
In August, ahead of the inclusion in the Hang Seng Index (HSI), we added a position in the Hong Kong listing of Alibaba to the Fund. Since this time Alibaba has held a three-day analyst forum during which it updated the market on the current state of the various company segments; we contextualise some of the highlights below.

The Taobao and Tmall now have a combined 742m annual active buyers, of which 190m spend over $1,000 with a 98% retention rate and the average consumer spend is in excess of $1,250. By way of comparison, Amazon has 300m annual active users, with an average spend of $1,400 per Prime member (150m users) and $600 for a non-Prime user. User engagement is growing faster at Alibaba than any of its US peers, and with an estimated 1.2bn addressable customers in China alone, this growth is unlikely to abate anytime soon.



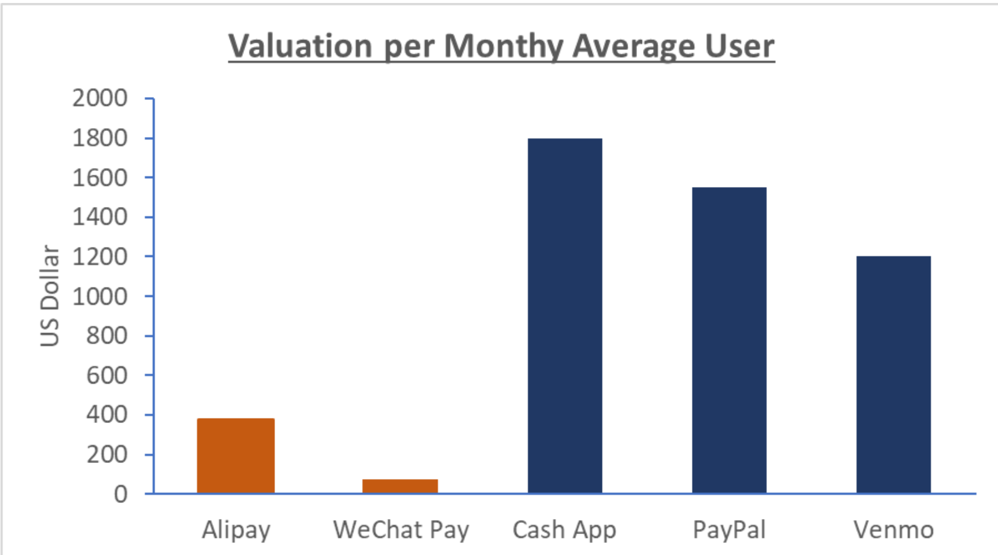
Source: TIM/Company Filings

Alibaba Cloud is China's largest public cloud service provider and has been loss making since its formation in 2009. At the investor forum the company disclosed that it now expects that this division will turn profitable this year. Amazon Web Services has an operating profit of 29%-30%, so there is significant room for this to improve further, especially as Alibaba cloud faces less competition than the other global players due to Chinese governmental regulations surrounding operating in the region. The other loss-making divisions, such as the logistics division, Cainiao, are also becoming closer to making a profit. We expect the valuation of Alibaba to increase in the coming years as the leveraging effect of loss-making arms starting to generate profit streams is significant; to date the profits from Tmall and Taobao have funded all the investments in the other divisions.



Alibaba's founder, Jack Ma, stepped down as Chairman last year, to focus on developing Ant Financial, which is due to become the world's largest IPO when it starts trading next month. Ant Financial is the parent company of Alipay, the digital payment and financial services arm of Alibaba. After the IPO Alibaba will continue to own 33%, having committed to 730m (22%) of the A shares being listed.

Alipay is the second largest digital payment company in China (by user number) after Tencent's WeChat Pay. Both companies have an Average Revenue Per User (ARPU) 2.5x-3x less than that of PayPal despite having similar revenues and 2.5x more users. This lower monetisation is likely to improve as Chinese consumer wealth increases. Although the ARPU is likely to remain lower than that of PayPal, over time the gap should narrow and drive up the valuation of both Chinese players. As Alipay grows not only should the digital payment arm become more profitable, but also the already very profitable financial services arm is likely to expand. The Fund owns Tencent and PayPal as well.



Source: Atlantic Equities

In addition to the underlying trends of the company, it is worth noting that, currently, mainland Chinese investors cannot hold shares in the company as it is not included in the stock connect programme. The inclusion in the HSI removes one of the barriers to the company being eligible for this scheme. We believe that a significant increase in demand will emerge once it becomes open to Chinese investment.

With a net cash balance sheet, increasing free cash flow and operating profits, as well as through the cycle returns on invested capital in excess of 20%, we believe that there remains significant upside potential in the shares.

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