VT Tyndall Global Select Fund

Monthly Commentary (30th November 2020)

"There is no such thing as a normal period of history. Normality is a fiction of economic textbooks." – Joan Robinson

The month of November saw, after much prevaricating by the incumbent, Joe Biden elected as the 46th President-elect of the United States. While some polls predicted a clean blue sweep, it appears that the Republicans will be able to retain their control of the Senate, albeit that the runoffs for two remaining seats in Georgia do not occur until January 5th. Should the Democrats win both seats then the Senate is tied but the constitution gives vice-President Kamala Harris the deciding vote in any tied debates. Markets responded positively to the prospect of no one party having complete control of Capitol Hill, and the President-elect has also proved to be moderate with his appointments thus far, thus assuaging concerns that he might bend to the left wing supporters of his party.

While elections are generally, mere market noise, with short-term implications, the prospect of an end to COVID-19 has greater ramifications. Like London buses, having waited almost a year, three announcements came along in quick succession, and with much higher efficacy than expected.

COVID-19 vaccines in Phase-three clinical trials

Developer	Type	Doses	Participants in trial	Efficacy
Johnson & Johnson*	Viral Vector	1	60,000	
AstraZeneca* & Oxford University	Viral Vector	1 ½ / 2	2,741 / 11,636	90% / 62%
Novavax	Inactivated	2	45,000	
Pfizer/BioNTech	mRNA	2	43,538	95%
Gamaleya (Sputnik V)	Viral Vector	2	43,600	92%
Moderna	mRNA	2	30,000	94.5%
Sinovac	Inactivated	2	27,980	

**Held in the Fund* Source: Company Data/The Economist

To put these 90% plus results in context, the scientific community spent the past 30 years trying to find a cure for another coronavirus, namely HIV, to no avail, while these results have been achieved in 10 months. Furthermore, over the past five years, the flu vaccine in the UK has had an efficacy rate between 15%-52%, well below the threshold placed for a COVID-19 vaccine to be approved. Markets have, understandably, reacted positively to these developments, with a significant reversal in leadership. So called 'stay at home' stocks have given way to 'opening up' ones and growth has given way to value.

The growth vs value debate is not a new one, and over the past 12 years we have experienced numerous occasions when the value cohort of the market have violently snapped back, including many false dawns. The combination of the COVID winners and loser's rotation has compounded the magnitude of the rotation. As quality investors, with a bias to Free Cash Flow generation and an aversion to high amounts of leverage, this has proved to be a challenging period. However, while remaining aware to changes in market dynamics, we firmly believe that the arrival of a vaccine does not make a good company a bad one, in fact we have taken the opportunity of market set backs to add to some of our through-the-cycle winners.

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Global factor leadership- past month

Source: Bloomberg

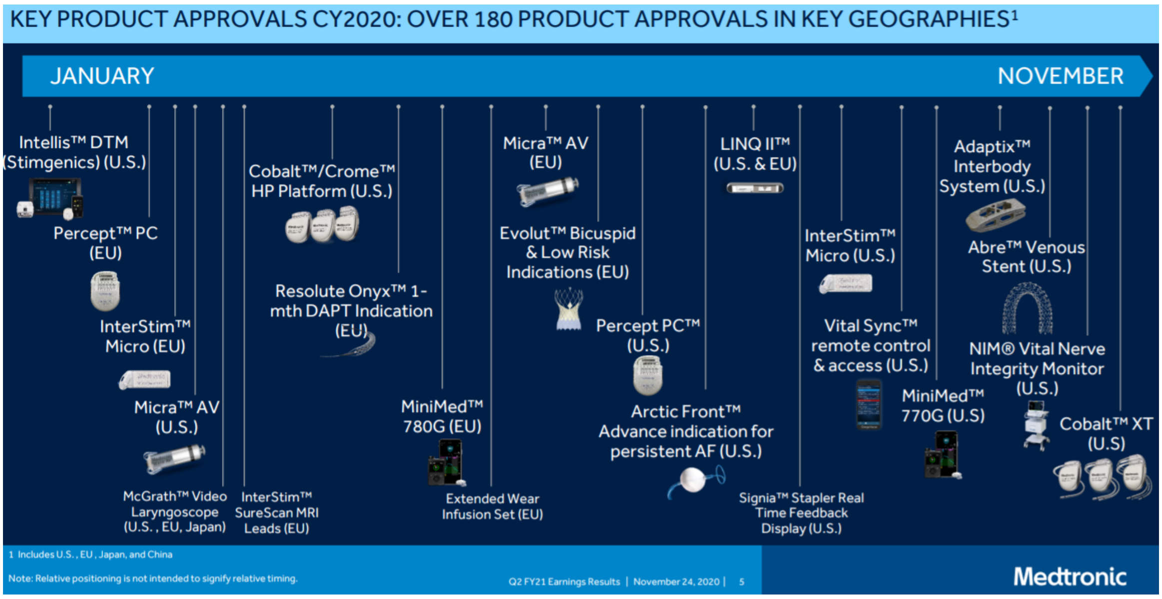
We do not pertain to have a better idea than any other investor as to how long this rotation will persist, but we will remain proactive, ensuring that the Fund is positioned to capture upside in a risk adjusted manner, aware of the risks of corrections that might occur, as factors such as inflation, politics and rising interest rates may well come into play.

Global equity market rallied significantly in November with European equities and the Russell 2000 indices recording their best one-month returns, The VT Tyndall Global Select Fund B Acc (GBP) rose by 5.51% bringing the year-to-return to 11.72%

Fund Activity and News

The Good

Medtronic has been investing heavily in its pipeline and this is finally starting to reap the rewards it deserves. They have secured 180 new product approvals this year, so far, 50 of which came in the recent quarter. Despite the pandemic leading to a significant fall in hospital admissions for elective surgeries, Medtronic has navigated the chasm well, gaining market share, especially in Cardiac Rhythm (Pacemakers).



Although there are plenty of leading technologies coming through the pipeline, which should ensure growth for years to come, the highlight has to be the performance of the Mazor X robot, which recorded sales 1.5x that of the closest competitor, and is a good leading indicator of future implant sales and market share. The robot is due to be introduced to general surgery early next year which should be well received by the medical profession and further strengthen the company's leading position in the medical technology sector.

The company has reported sequential revenue improvement each month since the pandemic induced global lockdown in March, and the company expects to grow ahead of the market both organically and also by supplementary M&A. The company is an S&P Dividend Aristocrat, having increased it dividend every year for the past 43 years and has to ability to continue to do so given its strong balance sheet and free cash flow (FCF) generation; over the past two years the company has returned >100% of their free cash flow (currently 5.5% FCF yield) to shareholders. We added to our position recently.

The Bad

At the end of October, we sold our remaining position in the German software company, SAP, after the company issued a multi-year profit warning. We had initially reduced our position in April after the co-CEO, Jennifer Morgan, stepped down after only six months at the helm. We felt that the departure of the former president of the Cloud Business Group was a big loss for a firm trying to migrate to a cloud-based IT strategy, however, we (wrongly) decided to keep a small holding in the company.

Software to help businesses manage their operations and customer relations is mission critical and SAP has been a leader in the field for many years, however competition is increasing from companies such as Salesforce. It has been trying to migrate clients to a private cloud solution (S/4 HANA) with multi-year contract periods, claiming this solution would result in a faster speed of output and an increased use of artificial intelligence and machine learning. This migration would ultimately lead to higher margins and increased recurring revenue; however, it transpired that SAP had known about, but failed to disclose, that migrating legacy customers would require a further significant amount of investment, reducing returns. Furthermore, it appears that their previous commentary around the success of HANA migration was misleading.

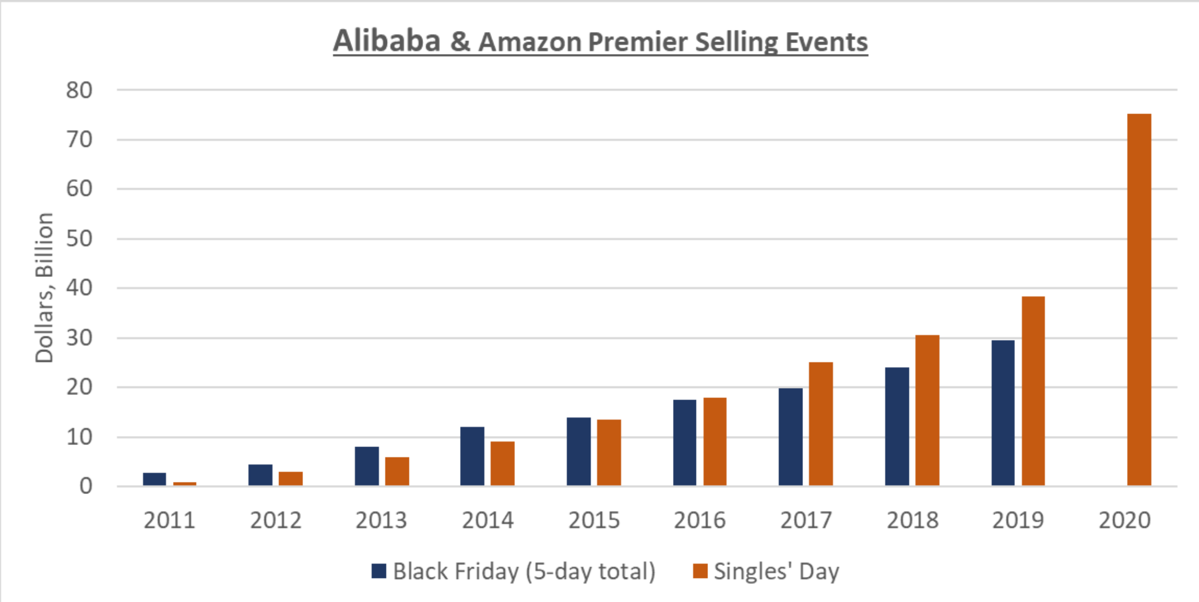
The profit warning, exposed issues that had been hidden in the background for many years and highlighted just how far behind its American competitors SAP is. We see the problems highlighted as structural and cultural and thus the company now fails the 'Do we trust the management?' part of three-point screen, which necessitates its exclusion from the Fund.

The Ugly

The Chinese politburo made life for the Chinese technology giants somewhat harder this month, partly in reaction to Jack Ma's ill-timed comments about regulation in the Chinese markets, but also in part about concerns over the power that these incumbents hold over the Chinese population. The IPO of Ant Group was suspended two days before trading in Hong Kong and Shanghai was due to start in, which is seen by many as retaliation to Jack Ma's outburst, under claims of "safeguarding market stability and protecting investor rights and interests". We expect that the IPO will go ahead next year, but at a lower price and with greater regulation. We see the suspension as a gamble for China as the attractiveness of the STAR market as an exchange for listing has been dealt a significant blow.

In a further blow to the Chinese tech market, the regulators also announced guidelines to try and limit monopolistic practices in the internet industry. Our holdings in Tencent and Alibaba reacted badly to the news. We believe that a compromise solution will be the eventual end-state, much as was the case with the increased regulation of the gaming sector that temporarily curtailed Tencent's business model in 2018; the centre just likes to periodically remind the powerful who holds the keys to the castle.

The news of increased regulation was timed to coincide with 'singles day', Alibaba's prime shopping event. Despite the harmful power play between Jack Ma and the Chinese State, it did not stop the company reporting record sales, that make the growth in Amazon's five-day Black Friday event look insignificant. This year Alibaba registered a staggering $56 billion of sales in the first 30 minutes.



Source: TIM/Company Data

Stock contribution

Given the outsized moves this month we thought it would be useful to disclose to investors the holdings that contributed or detracted the most from performance over the month. They are as follows:

Top 5 Contributors by weight	Bottom 5 Contributors by weight
American Express	Thermo Fischer Scientific
Zebra Technologies	Tencent Holdings
Nike	Alibaba Group Holdings
Fiserv	Sage Group
Accenture	Nestlé

Source: TIM

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