VT Tyndall Global Select Fund

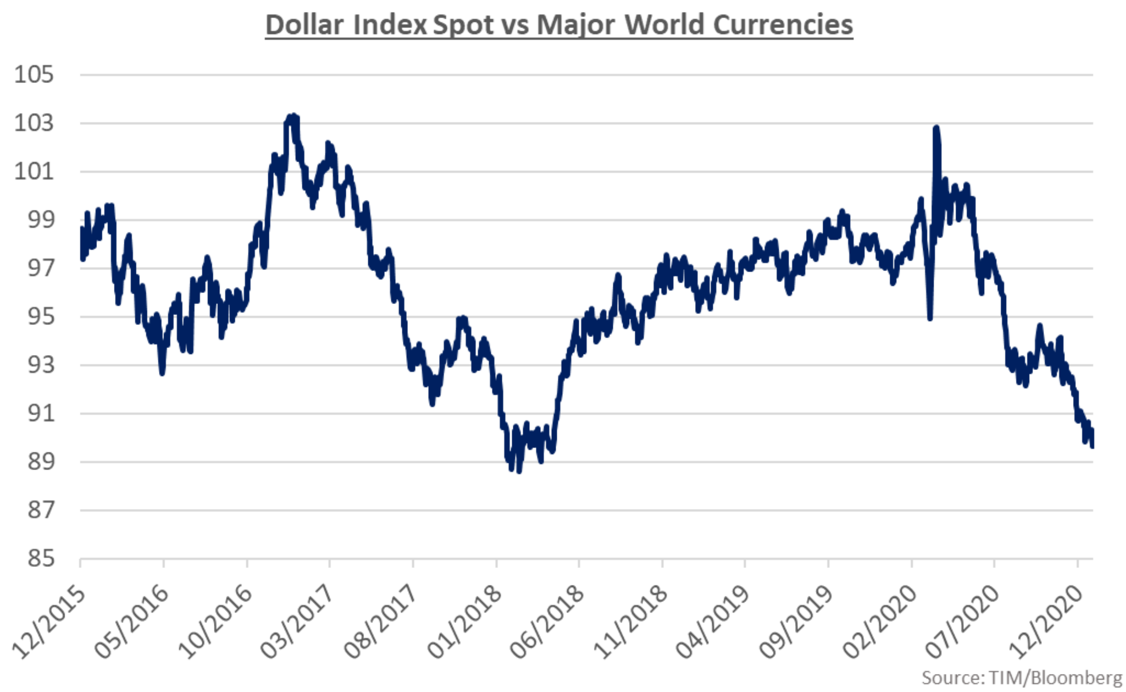
Monthly Commentary (31st December 2020)

TYNDALL

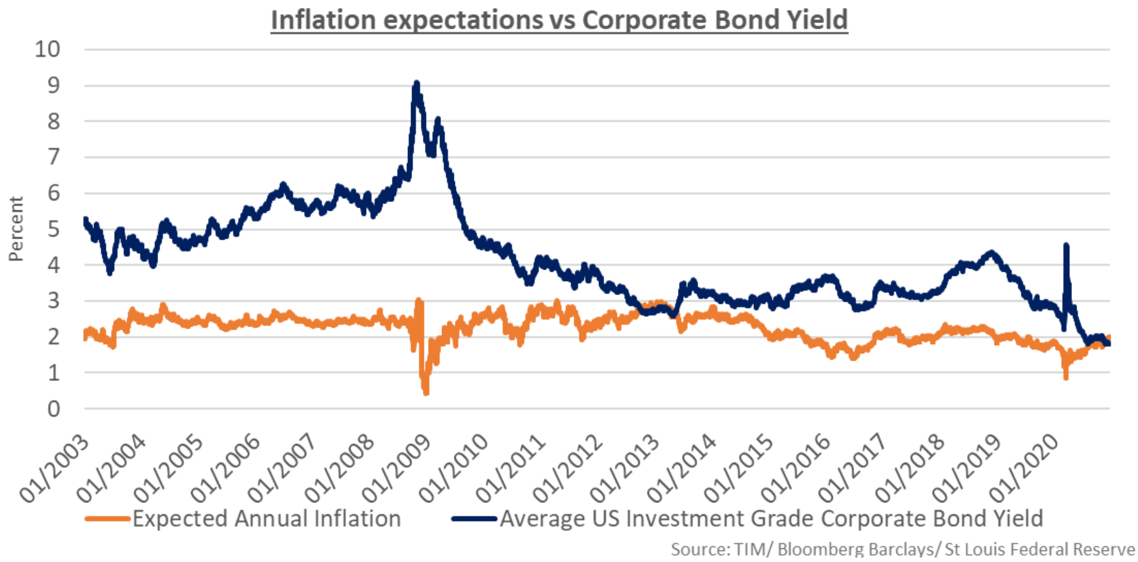
"The desire of knowledge, like the thirst of riches, increases ever with the acquisition of it." – Laurence Sterne

The month of December displayed a greater degree of volatility after the record returns logged in November. Investor fatigue with the deal/no deal situation surrounding Brexit led to large fluctuations not only in UK equities but also in Sterling. While we are relieved that an agreement has been reached, which may lead to a rally in UK and European equities, we expect that volatility will remain as firms get used to the new trading requirements. An agreement brings much needed visibility, but there remains many services and industries (especially financial services which constitute 6.9% of UK GDP) that will need further clarity on their future trading arrangement than the 1,246 page agreement lays out.

The Dollar continued to decline on a trade weighted basis, weighing on the fund's returns from our US listed assets; we do not hedge currencies in the Fund as many of our underlying holdings have their own hedging strategies in place and us doing so would add significant costs to the Fund. As Fund managers we focus on identifying the best investment opportunities and leave currency hedging to those who believe that they can add value (after costs) by doing so. The Fund does, however, offer Euro and Sterling share classes.



Although equity markets continue to touch all-time highs, with little or no return from other asset classes. We still believe that equity investing provides the best opportunity to preserve and enhance the real value of your wealth, especially in a world that is likely to experience inflation in coming years. Having experienced deflation in the March-May period this year, unless the world experiences an even worse backdrop in 2021 (which we hope we do not and is certainly not our base case for the coming year) then it does not take much growth to be inflationary. As the chart below shows, those investing in corporate bonds are now facing negative real returns should inflation expectations prove to be correct.



Investing in quality companies that score well on Porter's 5 forces, should protect any investor as they have the durability of returns and ability to pass on costs both upstream and downstream to protect their margins and cash flows. For these reasons we look at all our holdings through this lens as part of our investment process.

Looking ahead to 2021, despite the pandemic bubbling away in the background, vaccine roll-out programmes will help equity markets look through the smoke and to times ahead when travel and work routines return to normal; although, what we describe as normal may look distinctly different to that of the past. We remain optimistic on the outlook as, for the most part, our holdings continued to invest throughout 2020, positioning themselves to be able to capitalise on growth returning and given their cash flows their balance sheets remain intact giving them flexibility to take advantage of any further opportunities that arise.

Although we will see Joe Biden elected as the 46th President of the United States on 20th January, the control of the Senate remains in the balance as the two final seats in Georgia could fall either way. If the Democrats win both seats on January 5th, then they will have total control on Capitol Hill, and thus a mandate to enact more left leaning policies given that a deciding vote in a split Senate falls to the vice-President, Kamala Harris. 2021 also sees the retirement of Angela Merkel at the CDU convention in November. Having served as President since 2005 she has been the voice of reason throughout many a European crisis and set Germany apart, helping Industrial Germany to grow while Europe lurched from crisis to crisis; her departure will be a loss for Europe and Germany too, as the Christian Democrat Union/Christian Social Union (CDU/CSU) alliance does not currently have a candidate for the Presidential election after Merkel's chosen successor Annegret Kramp-Karrenbauer (AKK) failed to unite the party and took her hat out of the ring.

Global equity markets continued their upwards trajectory in December, The VT Tyndall Global Select Fund B Acc (GBP) rose by 0.79% bringing the final 2020 return to 12.60%

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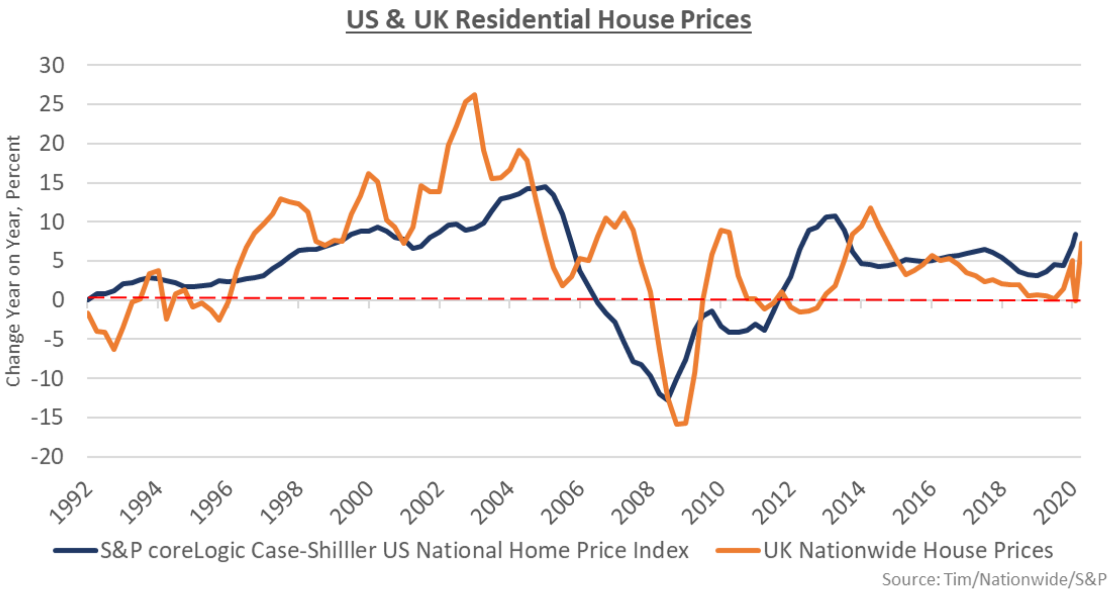
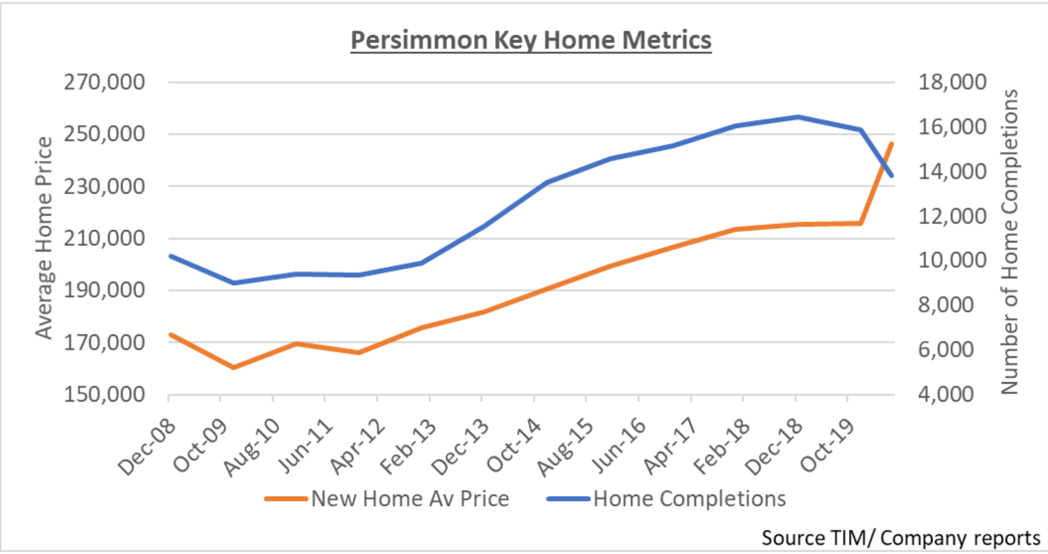
Fund Activity and News

Propelled by ultra-low mortgage rates, one of the standout factors of 2020 has been the strength of residential housing markets on both sides of the Atlantic. The Fund has captured the benefits from this strength through its holdings in Sika and Sherwin-Williams, but up to now has had no direct investment in the residential property market.

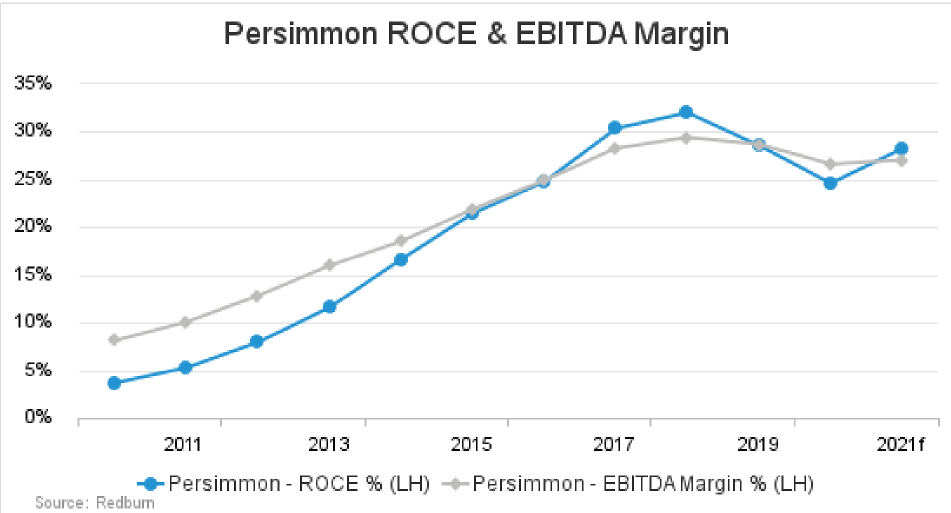


During the month, we took the opportunity of market corrections caused by the uncertainty surrounding Brexit to initiate a position in the second largest, but most efficient UK housebuilder, Persimmon. The company sells houses under three separate brands (Persimmon, Charles Church & Westbury Partnerships) each at different price points, thus offering an affordable option to most prospective buyers. Persimmon group has an average selling price almost 20% below the national average, and 50% of their homes go to first time buyers, which is supported by low interest rates and the Government's Help to Buy policy.



Demand for housing continues to outstrip supply, and the UK Government has put in place a framework to speed up the planning approval process as part of its ambition to deliver 300,000 new homes by the middle of the decade. The company is fully sold up for 2020 and has £1.4bn of forward sales reserved for 2021, a 43% increase on 2019 levels.

The company entered the lockdown with significant levels of work in progress and this has enabled it to take market share as the economy reopened. Furthermore, it had no need to furlough staff or tap the Covid Corporate Finance Facility owing to the strength of its balance sheet; unusually for a house builder, Persimmon runs a net cash position. In early December, the company reinstated its dividend, leaving it on a 4.4% yield for 2020, and the likelihood of it returning c.8% yield in the coming years, given the strong free cash flow profile. Over the past ten years the company has steadily increased its operating margin and returns on capital employed, to the best in the sector, through a steady increase in average selling prices, an increased use of standardised products, opportunistically adding to its land bank and bolting on companies to ensure the security of its supply chain.



We take this opportunity to thank all investors for their support in what has been a tumultuous year, and we look forward to the economy reopening and thus being able to visit you in person. In the meanwhile, should you have any questions please feel free to contact us; we remain, as always, open and willing to answer your questions.

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