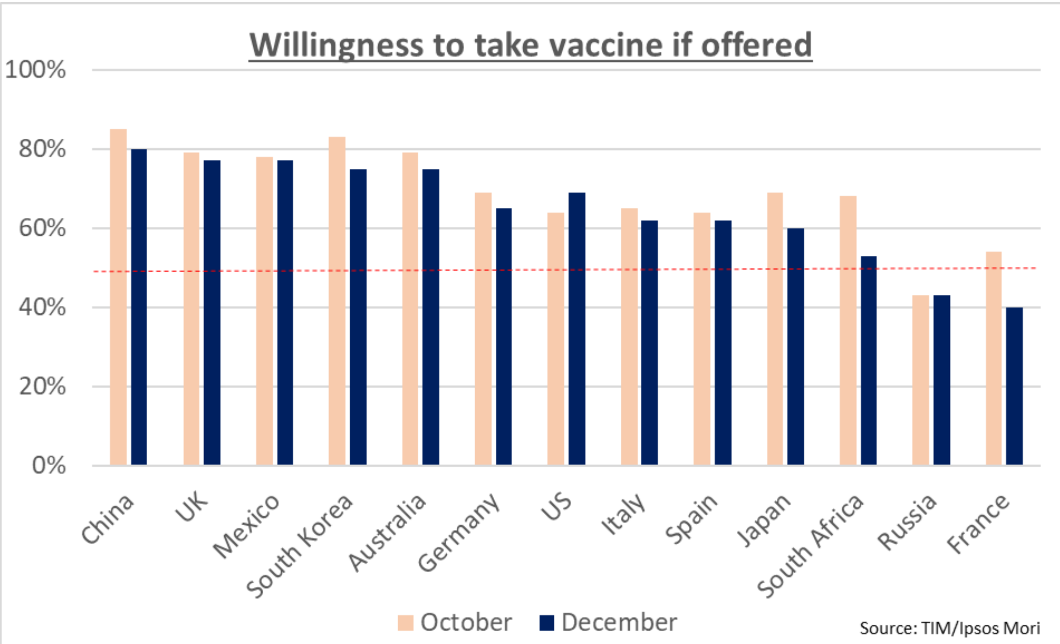
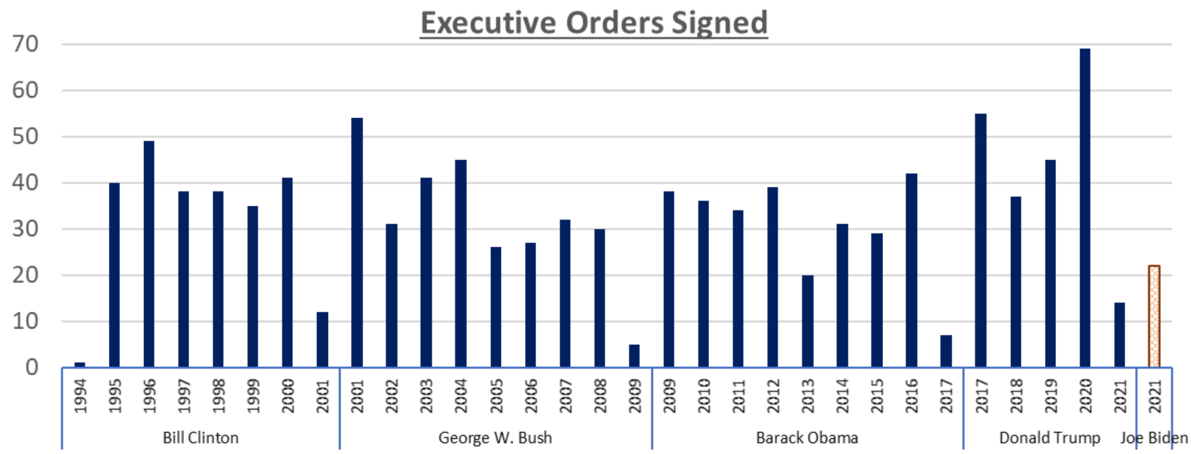
"Don't judge each day by the harvest you reap but by the seeds that you plant." -Robert Louis Stevenson.

A new year and a new President, but the lockdowns and stimulus cheques continue. Questions are beginning to be asked as how governments will go about trying to repay the debts amassed over the past 12 months and whether the planned spending this year could actually cause certain sectors of the economy to overheat. The easiest way for governments to reduce their debts is to let inflation run well above nominal interest rates, and thus we expect central banks to leave their current, near zero, policies in place and be amenable to inflation in excess of their stated targets.

The lockdowns of early 2020 appear to be more draconian than governments are prepared to undertake thus far this year, and while this is little comfort for those in the hospitality sectors, condemned to undertake home schooling or simply confined to working from home, the impact is less widespread than last year. Global hope remains that vaccines will prove to be successful against the virus and all its many mutations; although the signs of manufacturers struggling to keep up with demand and initial predictions of output are leading to diplomatic tensions boiling over. More concerning, however, is the declining willingness to take any vaccine offered by certain sections of the population, or even as a population as a whole.



President Biden's initial days in the office have been busy. Undoing some of the more damaging policy decisions of the past four years, such as leaving the WHO and the Paris Climate Accord, are welcome steps. Although perceptions are that the outgoing President was abnormally gung-ho with his use of Executive Orders, previous Presidents have also had years of profligacy and the new President seems to be getting through boxes of Presidential pens quite quickly too; it was more the controversial nature of President Trumps orders that that were the most unusual in his use of executive orders. Hopefully, the new administration will be more accommodating to global trade and relations; the UK still hopes that a trade deal is in the offing, despite the President's other pressing issues and campaign promise to direct government spending towards American jobs.



Source: TIM/Federal Register

Global equity markets have rallied significantly post the election of Joe Biden, with the hope of a stimulus deal and a policy making process that is more rational and predictable. With the Democrats winning the final two seats in the Senate, Joe Biden now has a majority in both houses on Capitol Hill, which should enable him to proceed with his policy agenda. We expect that he will tend towards a centralist approach and work with the Republicans on certain issues, aware that his predecessors saw their majorities vanish in the mid-term elections, and thus an accommodative approach may be in his best interests as he looks out to his legacy after his future tenure in office.

Global equity returns post the US Presidential Election

Negative Price Return	Groups (11)	Return	Positive Price Return
	MSCI WORLD	14.08%	
	All Groups		
	1) MSCI WORLD/ENERGY	36.54%	
	2) MSCI WORLD/FINANCE	22.17%	
	3) MSCI WORLD/MATERIAL	17.59%	
	4) MSCI WORLD/CONS DIS	17.08%	
	5) MSCI WORLD/INF TECH	16.06%	
	6) MSCI WORLD/INDUSTRL	13.01%	
	7) MSCI WRLD/COMM SVC	11.44%	
	8) MSCI WORLD/HLTH CARE	8.57%	
	9) MSCI WORLD/REAL EST	6.64%	
	10) MSCI WORLD/UTILITY	5.18%	
	11) MSCI WORLD/CON STPL	3.69%	

Source: Bloomberg (26/1/21)

We believe that, following such a strong recovery in equity markets, a degree of caution should be taken by investors. While policy makers continue to proffer bail out packages to companies, there is a natural support for markets, however there are many examples of companies with rising valuations and falling operating profits. Furthermore, many indicators of investor optimism are now flashing at all-time highs, which we view as a contrarian signal. Momentum trades (and short squeezes), however, can be strong, but equally can reverse just as quickly. The current reporting season has seen many cases of travelling and arriving, with companies falling on the day of their results despite posting solid numbers.

Current Reporting Season to Date

	SXXP	SPX
EPS Growth %y/y	-22.5%	3.2%
Sales Growth %y/y	1.8%	0.8%
% comps beating on EPS	72%	81%
% comps beating on sales	63%	80%
% comps reported*	9%	30%
EPS surprise so far %	-22%	15%
Sales surprise so far %	3%	4%

Source: Bloomberg, Barclays Research

Price Reaction Relative to Market Post Results

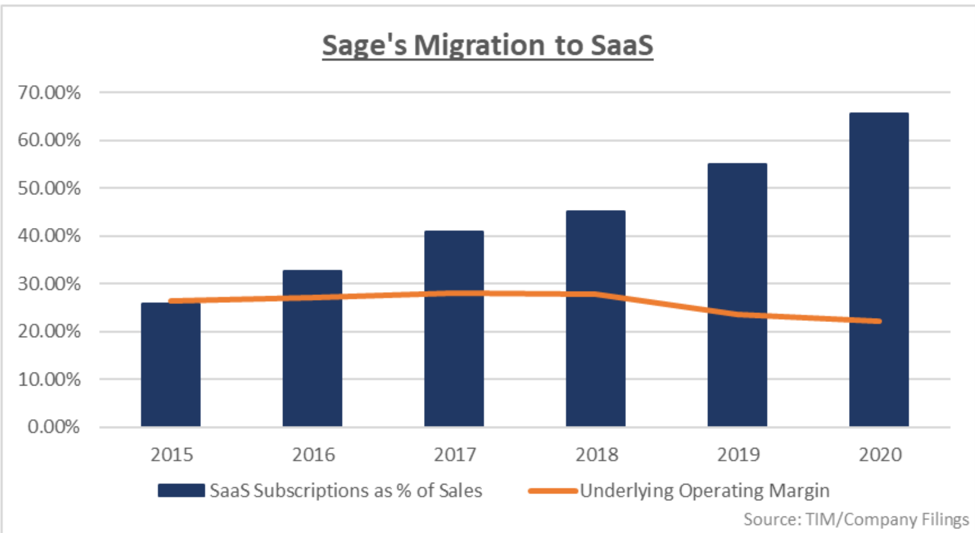
Source: Bloomberg, Barclays Research

We believe that by concentrating on companies that can continue to grow profits, be it through capturing market share, organic growth, or disruption, offer better long-term risk adjusted returns on investment. Those companies that have continued to invest in growth and R&D through the past year should begin to reap the rewards of the prudent decisions taken by their management teams. The perils of cutting back on investment during times of crisis is currently exposed in the automotive sector, where having scaled back semiconductor chip orders, they now face a supply shortage; foundries are already running at full capacity, producing chips for companies such as Apple, which increased its orders prior to the rollout of its 5G range of phones.

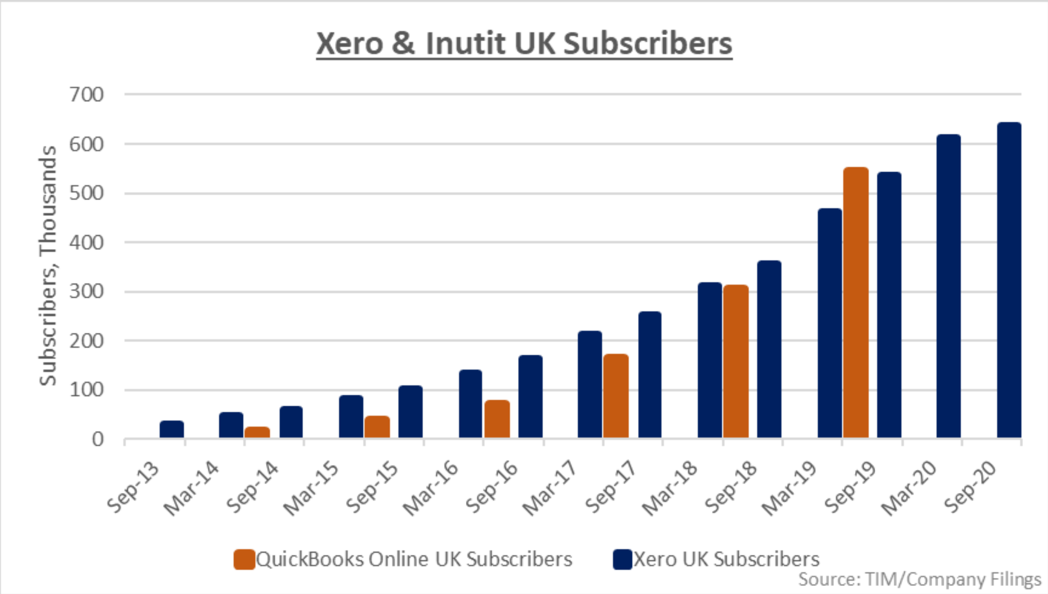
Global equity markets initially gained as the reflation trade continued in January, but as the reporting season started, despite most companies coming in ahead of analyst estimates, the gains were given back. The VT Tyndall Global Select Fund B Acc (GBP) fell by 0.57%.

Fund Activity and News

During the month, we took the decision to dispose of our remaining holding in Sage. The CEO, Steve Hare took the decision to accelerate their transformation to a digital subscription-based (Software as a Service, SaaS) offering upon taking over the role in 2018.

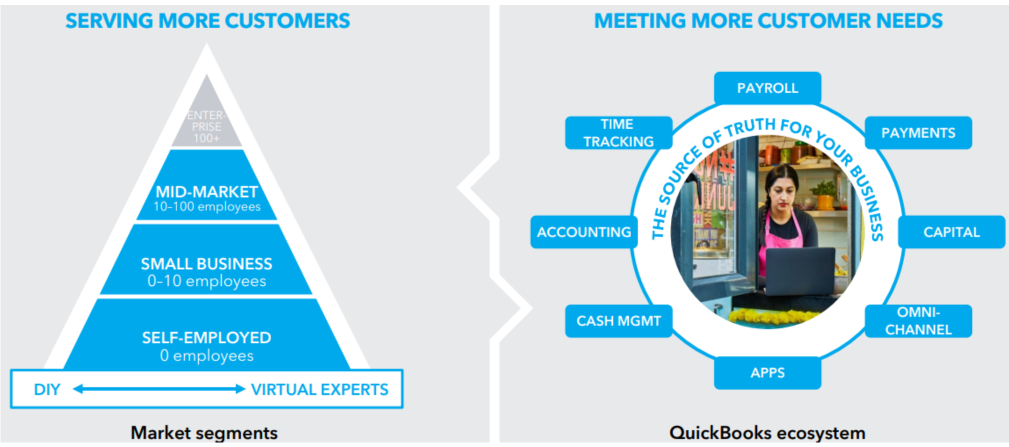


We see this as a step in the right direction for Sage, and one that will ultimately lead to higher operating margins and recurring revenues, and we accepted that this transformation would take time and weigh on margins in the near term. The announcement of this impairment on near term margins gave us an opportunity to make our initial investment. Since this decision subscription penetration has increased, but still only accounts for 65% of customers, leaving plenty of headroom for further improvement.



*Intuit no longer breaks out UK QuickBooks subscriber numbers although their worldwide QuickBooks numbers which the company is willing to divulge suggests that the momentum continued in 2020.

The problem for Sage is that the competition has seen this transformation as a window of opportunity and have begun to build upon their offerings in the United Kingdom; Sage's home market and accounts for 20% of revenues. Historically both Xero and Intuit (QuickBooks) focussed on the self-employed and small business markets (typically less than 10 employees) which Sage has little presence in as its target market is larger scale enterprises. However, in their most recent investor day, Intuit alerted the market that they now have designs on the mid-market segment which puts it in direct competition with Sage; Xero also has made moves into this space.



Source: Intuit Investor Day 2020

While Sage remains almost 5x the size of the competition and still boasts strong client retention rates, both Intuit and Xero have been growing double digits in the UK and now have more meaningful scale. As Sage moves from Sage 50c to the native cloud (Sage Accounting) offering for companies with less than 50 employees, it not only requires additional investment but also has had to dramatically reduce the price-point to compete. Although the product offerings are not directly comparable, both Intuit and Sage are rapidly expanding the functionality of their competing propositions and most user reviews are very positive about their ease of use when compared to Sage.

£ per month ex VAT	Sage 50c	Sage Accounting	Intuit	Xero
Start		12	12	10
Standard	65	24	20	24
Professional	132	30	30	30

Source: TIM/Company website

All companies aggressively offer discounts to try and lure customers to their respective offerings, however, to show the true run rate change in revenues, the prices we state above reflect the non-discounted rates. For the medium to mid-market segment Sage acquired Intacct in the US, to complement its on-premise X3 offering. Intacct has been highly successful in the US, and a key growth driver for Sage in the past five years, albeit at lower margin, with an average price of $15-$35k per year.

Sage started rolling out Intacct in Australia, the UK, and South Africa in 2019 and already has a £2m annualised run rate from these regions, which should help long-term growth owing to its lengthy sales cycle. While we believe that Sage will remain strong in its main market and believe that neither Xero nor Intuit have designs on clients of this scale, we worry that the growth of Intacct can only partially offset the revenues lost from increased competition at the low end, and execution risk has materially increased.

Richard Scrope, Fund Manager, VT Tyndall Global Select Fund, 31st January 2021

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Monthly Commentary (31st January 2021)

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