VT Tyndall North American Fund

Monthly Commentary 31 January 2021

TYNDALL

January Review

The fund returned 14.36% in January vs the S&P 500 ETF return of 0.40%, in sterling terms.

It has been a great start to the year for the Fund, and while there have been many attributes that have contributed to performance, the key one has been our holding in GameStop. This company has gone from total obscurity to front page headlines in a month, but despite the notoriety around this stock that has built up so quickly, there was a very interesting turnaround story here and this is why we invested in the first place.

We first bought the stock in late December and added to the position in early January at a price of $18.44. The bull case was as follows: 1) a recovery in the underlying business 2) a new board and management team 3), a decade-old bear case, 4) extreme short position in the stock. The bear case on GameStop was that the business was in terminal decline. As a seller of physical video games, its business would wither on the vine as customers increasingly downloaded games digitally. And this has indeed been happening since 2013, approximately 50% of all games are now downloaded, and the stock had been in a protracted bear market since that time.

So, what changed? The new console cycle was the kickstart of it, but crucially both these brand new consoles have disk drives; highlighting the fact that customers still want games in disc format, clearly refuting the idea that all games were going to digital download.

PS5 & Xbox Series X

Source: Hedgeye LLC 2021

Secondly, a brand new management team and board had been put together led by activist shareholder Ryan Cohan, who has an excellent track record and is the founder of Chewy, an online pet food business with a market cap of over $42bn. He bought 13% of the shares showing strong commitment to the business, and the new team he hired is a who’s who of retail expertise.

Finally, the short interest was at a level I'd never seen before in my career. According to Bloomberg, 144% of the free float was sold short. How is this possible? Short sellers who have borrowed stock lend it on to other short sellers and this gets counted twice. An anomaly for sure, but one that made the risk reward set up very attractive and showed very complacent bearish positioning. Not much had to go right for the stock to work and it soon started to move higher and it quickly became the largest holding in the fund. As the stock went higher we started to trim our position, and did this several times, as our investment process dictates. When it became clear that the stock was in the hands of the speculators we exited the stock, as it was trading with no regard to the fundamentals. We sold the stock in mid January at an average price of $90.83, about 5x the original investment.

Finding turnarounds is a key part of our investment process and we are on the look out for new ideas particularly now, because of where we are in the cycle. The US is in a post-recession recovery, and this is very fertile ground for finding stocks like GameStop. There are many businessses that have survived Covid, have restructured their cost base and still have the recovery in front of them, and we have added several of these to the portfolio.

Other contributors to performance included our cyclical holdings, particualrly Energy and Industrials. Diamond Back Energy was up 17% in the month and Deere and Generac also performed well in the Industrials. Our continued zero weight to mega cap tech stocks also helped as most of these stocks did not react positively to what were very good quarterly earnings.

Market Outlook

The word 'unprecedented' had its time in the sun in 2020, at least that was the hope. But 2021 has already brought its own version of never-seen-before events and the army of retail investors and traders using online chatrooms to buy heavily shorted stocks is one such example. The phenomenon is of course made possible by, amongst other things, the Federal Reserve and the free money that is sloshing around the system at the moment. With all that's going on in markets today, is the current move sustainable?

We always come back to the cycle for direction on the probable path ahead for markets. As mentioned above, we are in a post-recession recovery phase and this bodes very well for equities and we would remind investors that epic short squeezes, by definition, occur at the beginning of bull markets rather than at the end.

Felix Wintle, Fund Manager, VT Tyndall North American Fund, 31 January 2021

Contact Details:

Fund Manager – fwintle@tyndallim.co.uk

Sales Director - hnolan@tyndallim.co.uk

Disclaimer