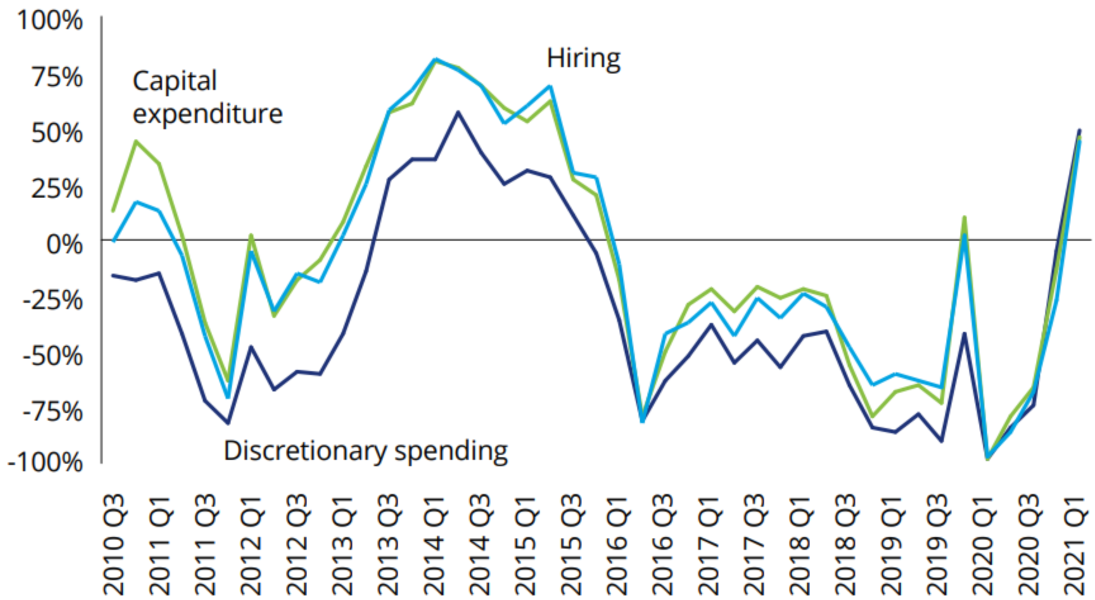
“It is better to be prepared for an opportunity and not have one than to have an opportunity and not be prepared” -Whitney Young.

Prior to last year’s pandemic, many economists spoke about a global synchronised recovery, espousing a sense of optimism which always sounds alarm bells in the contrarian investor’s head. A year on, once again the optimism had returned, epitomised by the rise of SPACs and loss-making IPOs that have come to market at lofty valuations.

Global equity markets rose to new all-time highs over the month as economic data confirmed a wide-ranging pick up in activity. Although inflation concerns are being voiced more widely, with mentions of it more than tripling on earnings call thus far, expectations are that it will fall away in 2022. Having cut back expenditures in 2020 as the pandemic raged, companies are now having to ramp up production and investment to ensure that they can benefit from the expected demand as economies reopen. Shortages of qualified workforce personnel has been a problem encountered by many industries, but to date wage inflation remains subdued. However, as the survey from Deloitte shows below CFOs expect a significant uptick in both Capex and workforce costs in the coming year.

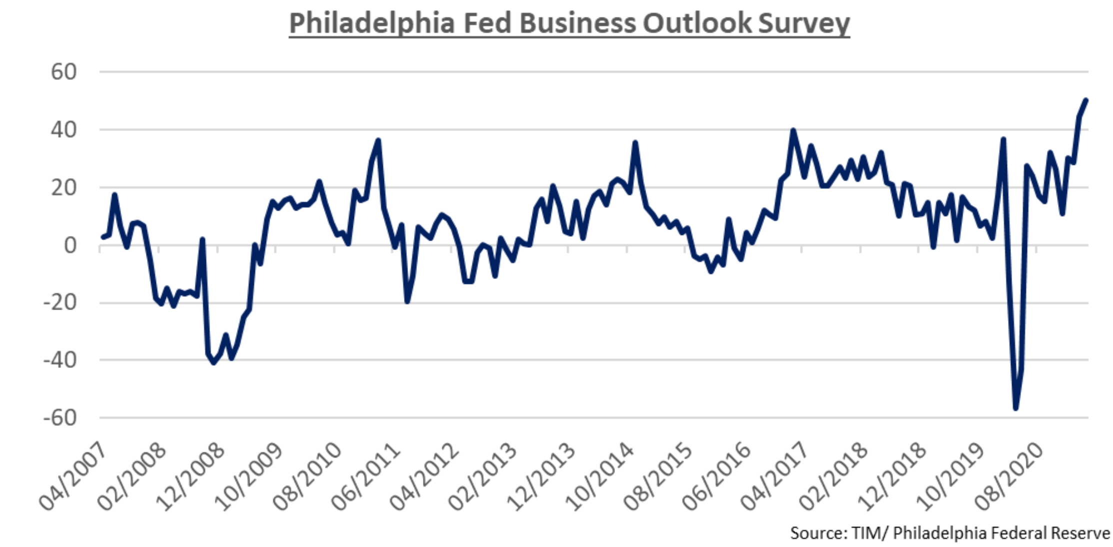
Net Percentage of UK CFOs who expect to increase spending and hiring in the next 12 months



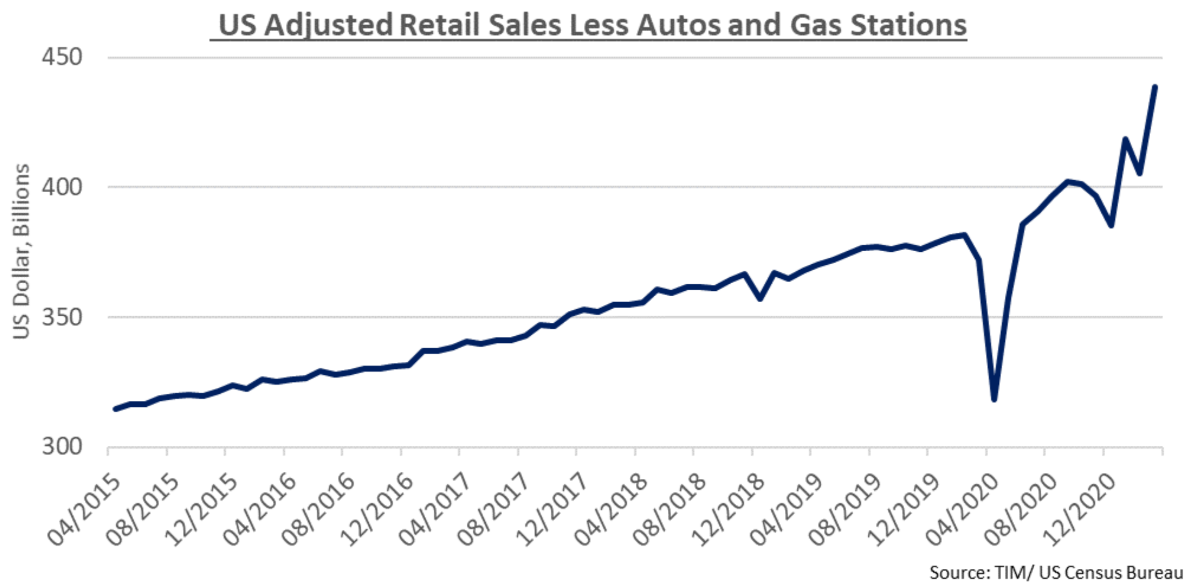
Source: Deloitte UK CFO Survey Q1 2021 Report

The obvious consequence of rising capex and operating expenses is, that if top line organic growth does not appear, then operating margins and earnings will come under pressure. The importance of pricing power and the ability to pass through costs will be an important factor as earnings growth normalises in the second half of the year, and the year-on-year comparisons become more difficult once we pass through the easy year on year comparisons that climax in June.

With the Biden administration turning on the spending taps and being ambitious in his proposed infrastructure and American families bills, which would bring the total spend in his first 100 days to $6 trillion, morale in corporate America in high. The Philly Fed outlook survey has risen to the highest level since 1973, giving an idea of the optimism within CEOs and consequently fuelling investor optimism too.



Core retail sales have also jumped significantly over recent months, and these increases are before the US consumer receives his free handout from the government. With all-time high saving rates and the printing presses running at full steam to encourage the US consumer to go out and spend, we do not expect that sales will drop away anytime soon. According to the Federal Reserve of St Louis, US consumer consumption accounted for 67.6% of US GDP at the end of 2020 and has ranged between 66% and 69% for the past 20 years, thus this expansion in retail sales is encouraging for level of GDP growth that may be achieved this year. The question remains however, what happens to GDP growth once the printing presses stop, and how much of the increases in inflation will be passed through to the end consumer.



Although the past six months have seen a significant rally in the more cyclical and capital-intensive parts of the market, which has some justification given the improving outlook of the market, we believe that this trade is now looking expensive and probably overdone with many companies trading about pre-pandemic levels. Although we the Fund has grown in value over this period, we tend to trail the market when deep value companies with leveraged balance sheet and negative earning top the leader bord, and this time has been no different, and we have not chased the market. Looking forward, past the June anniversary of the low in earnings, however, we believe that the market will turn again to rewarding those companies that have pricing power and can outgrow the market in what is likely to be an environment where growth is harder to come by.

Global equity markets were strong in April as the reporting season provided multiple examples of strong growth from most areas of the economy and a very high level of companies beating market expectations. The VT Tyndall Global Select Fund B Acc (GBP) rose by 3.99% during the month, bringing the year-to-date returns to 5.76%.

Fund Activity and News

We sold our small position in GlaxoSmithKline this month. Our investment had been a disappointment despite the wholesale overhaul of the management by the CEO, Dame Emma Walmsley, upon her appointment in 2017 and the recruitment of the Roche veteran Dr Hal Barron as Chief Scientific Officer and President of R&D. We took the positive reaction immediately after the announcement that Elliot Management Corporation had built a significant stake in the company to exit our holding.

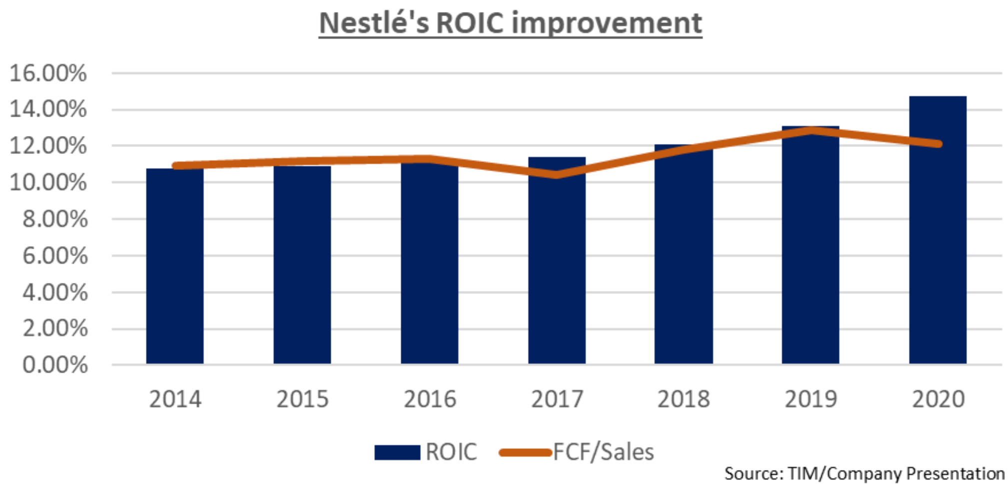
Elliot, run by Paul Singer, is infamous for initiating company change, which we see as dangerous at a time when GlaxoSmithKline is midway through a split between its consumer health and pharmaceutical divisions. One theory is that they would like to see Emma Walmsley head the consumer health division given her earlier career at L'Oréal rather than the pharmaceutical division as planned. An added complication at a time when the company faces a degree of execution risk and a cut in its dividend is unwelcome.

The news of the Elliot involvement came on the same day that the company announced that GSK's head of Vaccine R&D had departed the firm to join a competitor as well as it would stop enrolling patients in the trail with feladilimab for the treatment of advanced or metastatic head and neck cancer. The drug was planned to be an important part of GSK's oncology pipeline and has thus is another setback in the company's attempt to reinvigorate its pharmaceutical division given the existing problems from Advair generics, softening HIV trends and Shingrix capacity constraints. Despite the undemanding valuation, we feel that the risks and uncertainties are mounting, and our capital can be better deployed elsewhere.

On a more positive note, our long-term holding in Nestlé reported the best quarter sales growth since 2011, with organic growth of 7.7% to CHF 21.1 billion, despite tough comparisons. Growth was strong across all regions, with Nespresso as the stand-out category, growing 17%. The strategy that Mark Schneider set out in 2017 is starting to bear fruit.

Last September, Dr Schneider spoke of an ambition of doubling the CHF 2 billion health science division that he inherited to CHF 4 billion by the end of 2021 through the growth of vitamins, minerals, and supplements. This month it was announced that the company is to acquire Bountiful, the largest pure play nutrition company in North America and in the top three worldwide. The addition of Bountiful to Nestlé will add CHF 2 billion to the health science division overnight and raise the ambition of doubling the division to trebling it by the year end. The space remains very fragmented so despite Nestlé's acquisitions of Atrium Innovations, Persona, Zenpep, Vital Proteins and Aimmune in recent years there should be no significant anti-trust complaints.

Euromonitor estimates that the global retail nutrition market in 2020 was >$137 billion with a 6% CAGR since 2006 including managing to grow throughout the financial crisis and the recent pandemic. Nestlé applies three criteria for acquisitions, namely strategic fit, financial returns, and cultural fit. On the financial side it needs to be growth & margin accretive and have a ROIC>WACC within 5-7 years. The company has been disciplined in applying these principals to recent acquisitions and as a result has seen the company ROIC increase by almost 2.5% to 14.7% on 2020. We believe there are significant synergies and that Nestlé's scale and global diversification would meaningfully expand Bountiful's presence and sales, as well as its margins by leveraging their own R&D prowess.



Source: TIM/Company Presentation

Richard Scrope, Fund Manager, VT Tyndall Global Select Fund, 30th April 2021

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