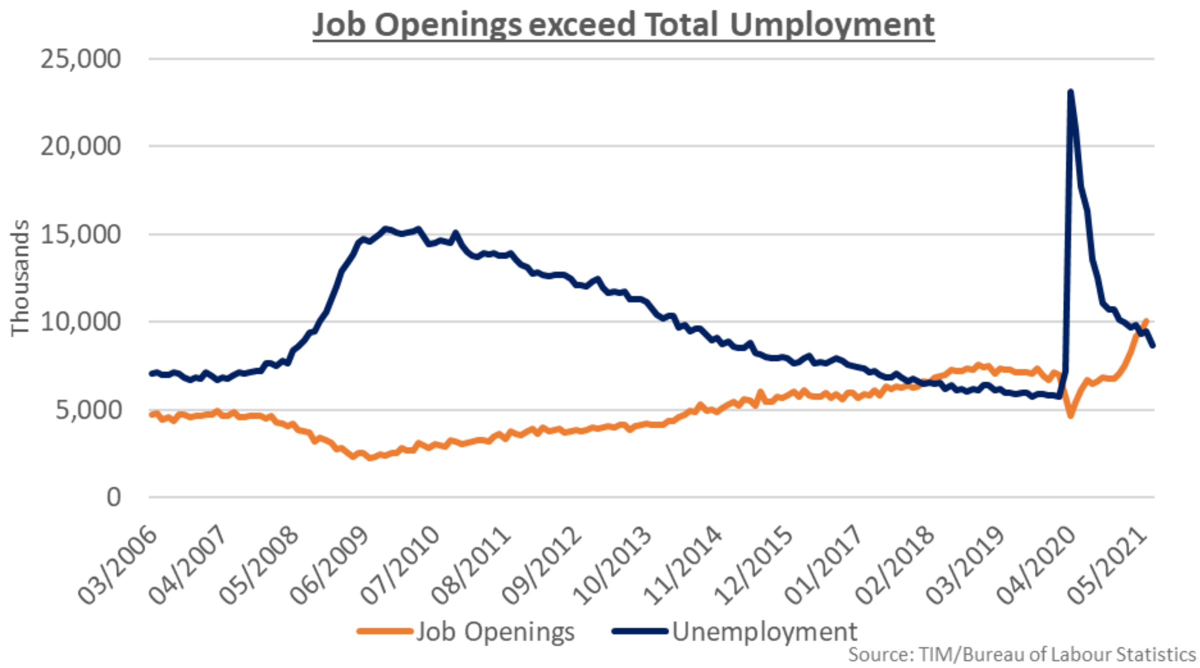
"Great things are not done by impulse, but by a series of small things brought together" -Vincent van Gogh

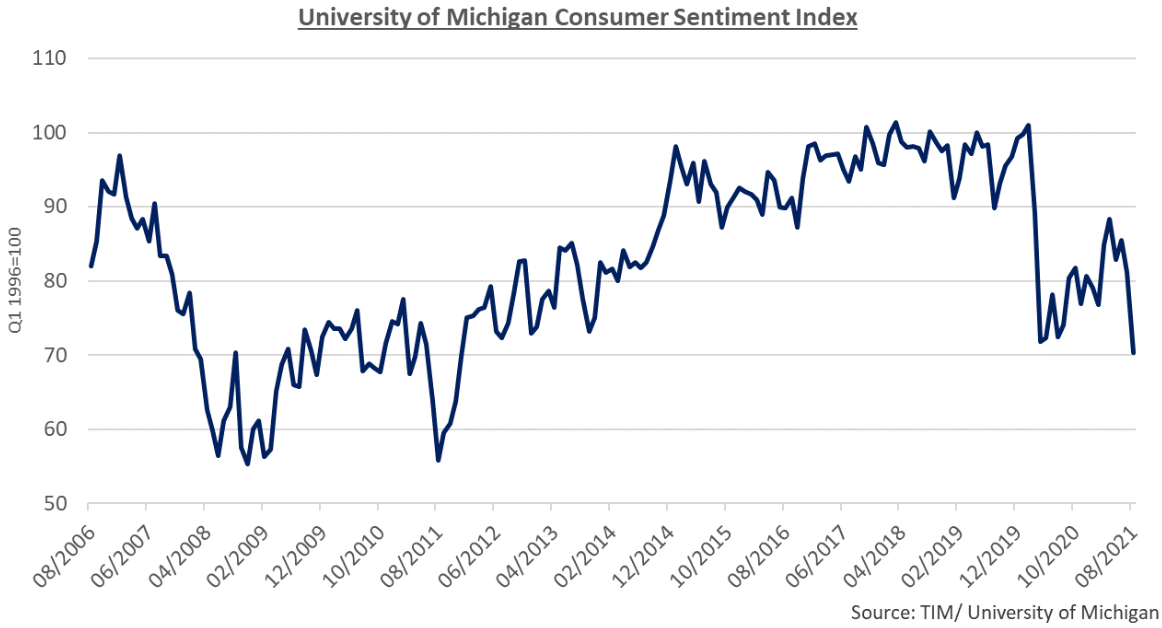
Next month sees the end of furlough in the UK, and many industries hope that the acute labour shortages that they have been experiencing in the summer months may start to dissipate. In the US, however, 26 States have already stopped federal benefits before the official cut-off date of September 6th in an attempt to entice the labour force into working once again. As the chart below shows, the economic recovery in the US has led to more job openings than the entire unemployed population suggesting that, thus far, these attempts have been in vain; should this remain the case the rate of recovery may continue to be constrained.



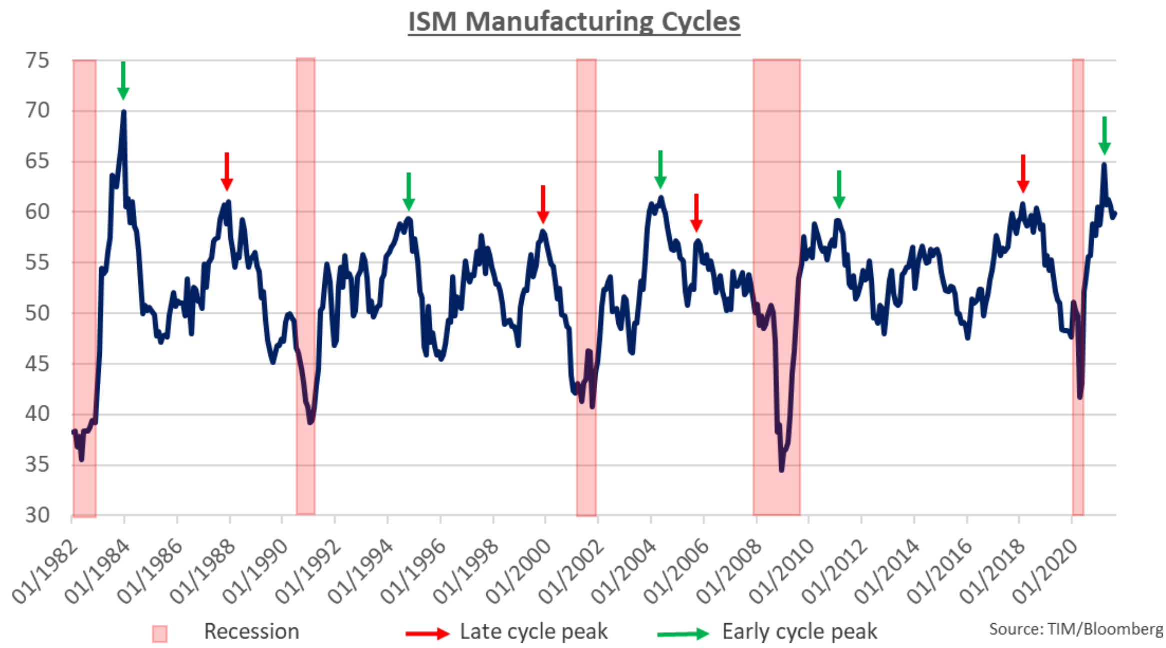
Source: TIM/Bureau of Labour Statistics

It remains to be seen whether this phenomenon is a temporary aberration, or whether factors such as inability to access childcare, fears of contracting COVID-19 or workers becoming more selective about pay and conditions are at play. In the UK, the drop in the migrant workforce is also blamed for the shortage of workers, especially in the hospitality sector; it has been interesting to see some of the biggest proponents of Brexit, such as Tim Martin, the CEO of JD Wetherspoon calling on the government to increase migration from the EU! This problem is not exclusive to the UK and the US, as many European economies are facing similar problems.

Economic data has been more mixed this month with manufacturing data dropping from their highs and inflation numbers remaining stubbornly high, however much the Federal Reserve insists that it is only transitory in nature. Both the German ZEW survey of economic expectations and the more reliable University of Michigan consumer sentiment index showed significant deteriorations in confidence of the longevity of the recovery.



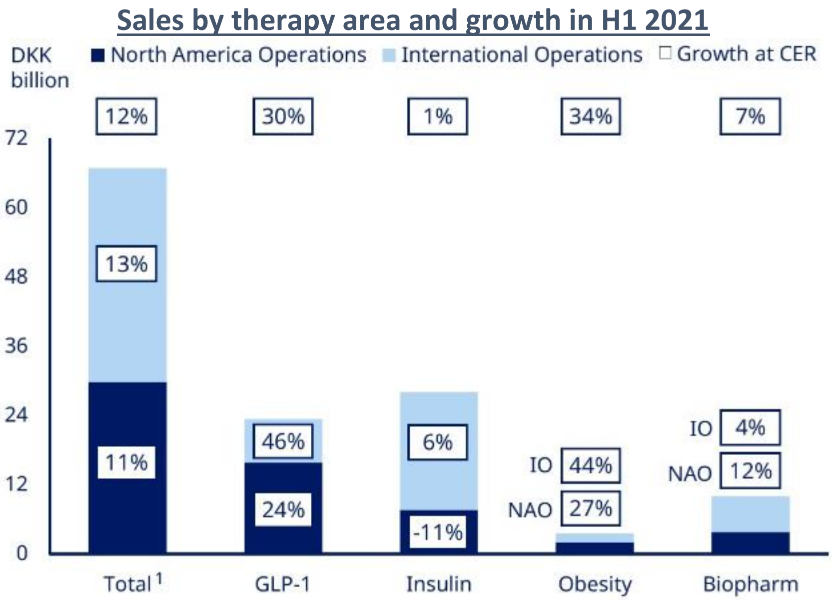
The University of Michigan survey registered a lower reading than that seen at the height of the pandemic and the largest drop since the Lehman crisis, which may lead to a contraction in consumer spending rather than the market expectation of a further increase. We, however, would draw attention to the Institute for Supply Management survey below, which is a good indicator of future market returns and though it is now making six-month lows, it is still well above 50, so suggests future positive returns but at a slower rate. More importantly the recent peak also suggests that we have past the early cycle peak in returns and not a late cycle peak, which is in line with expectations, given that we have past the anniversary of easier year-on-year EPS comparisons. This should suggest that future returns and thus consumer confidence is likely to be volatile going forward.



Global equity markets continued to post new all-time highs despite the problems in Afghanistan, more Chinese regulations, continued inflation concerns, and the announcement at Jackson Hole by the Chairman of the Federal Reserve that the US central bank would start tapering its $120bn per month asset purchases later this year. The VT Tyndall Global Select Fund B Acc (GBP) rose to an all-time high, delivering 3.71% during the month, bringing the year-to-date returns to 16.89%.

Fund Activity and News

The largest contributor to performance this month was our long standing holding in the Danish healthcare company, Novo Nordisk. The company has a long history of holding a leading share (29.6% as of 30th June 2021) of the diabetes care market and continues to bring new products to the market, helping the everyday lives of those suffering from Type 2 diabetes. Within the GLP-1 market Novo Nordisk has grown its market share from 46.6% to 51.5% over the past 36 months due to the launch of Ozempic and Rybelsus, while maintaining a 44% share of the insulin market. By 2025 the company aims to have a 33% share over the overall diabetes care market.

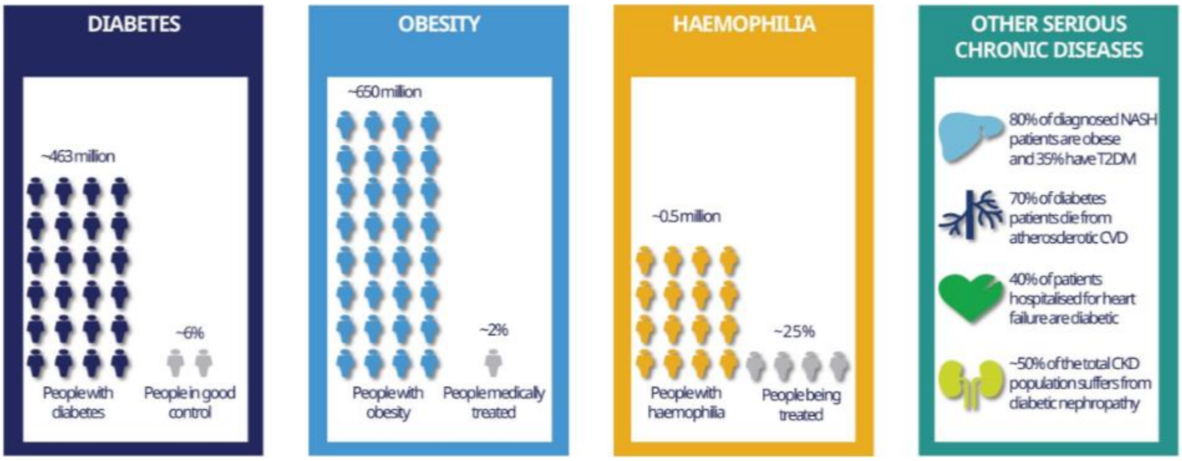


Source: Company Presentation

Within the latest results was the news that the FDA had approved its once-a-week semaglutide drug, Wegovy, as an adjunct to diet and exercise for chronic weight management. This follows a recent clinical trial that reported a 17-18% average weight loss over a 68-week period for those without type 2 diabetes, three times that of the exiting market leading drug, Saxenda, which is also a Novo product; In the five weeks post launch Wegovy generated as many scripts as Saxenda generated in its first four years suggesting that the uptake will add a significant new revenue stream to the company's diabetes care sales. Currently only 2% of the 650 million people with obesity are treated with prescription medicine and given that obesity related illness is expected to increase healthcare costs by 20% in the next five years, we expect that the uptake in sales for Wegovy will be meaningful.

The underlying growth of type 2 diabetes worldwide and the link between obesity and the prevalence of developing diabetes is a worldwide concern. With 700 million people expected to suffer from diabetes by 2045, an increase of over 40% from 2019, Novo Nordisk sits on at the pinnacle of a market with a strong secular growth trend and should continue to grow market share through continued drug innovation, while at the same time delivering solid returns to shareholders. Novo Nordisk is one of only 23 companies in Europe to have raised its dividend every year for the past 15 years.

Novo Nordisk's opportunity is in the large unmet needs across all therapy areas in scope



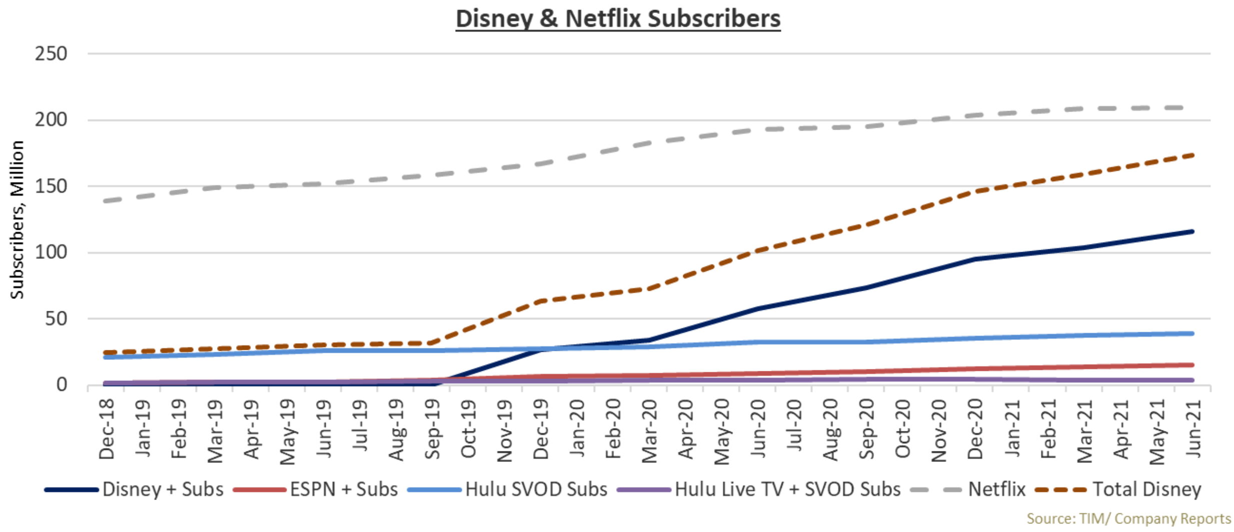
Source: Company Presentation

This month also saw our holding in Walt Disney update the market. Given the recent disappointment in subscriber growth reported by Netflix, in June, and the suspension of the IPL cricket series due to COVID, the market was pleasantly surprised when Disney reported a continuation of the strong growth in subscriber numbers in all its streaming offerings; Hotstar in India saw little churn despite its most popular offering being postponed until September.

Given that StarPlus is scheduled to launch in Latin America next month, we expect to see a significant uptick in subscriber numbers and a further closing of the gap between Netflix's global subscriber base as Disney's as a result. Currently, in the key Disney market of Japan, Disney+ is only available to customers of NTT Docomo, so the arrival of general availability from October should also provide a large uptick in numbers. South Korea, Hong Kong and Korea are due to follow in November, so the runway remains strong.

While the pandemic has turned investor attention to Disney's potential in its digital streaming offering and its valuable back catalogue of content, it is worth remembering that in pre-COVID times, Parks & Resorts accounted for over 35% of revenues and was highly cash generative. The recent quarter saw Parks return to profitability, and the company management is upbeat about the coming quarter despite the outbreak of the delta variant. Hotel rooms are currently at 70% capacity, but this is primarily due to the staffing shortages noted earlier in this report, and not due to COVID, and the company expects to be fully staffed by the end of the year. Disney Word (Florida) was at full capacity and reported strong per capita spend, and as California reduces visitor restrictions we expect further profitability growth, especially as the Avengers Campus is due to open there in the next year. While Disney Shanghai was open for the full quarter, Disneyland Resort, Disneyland Paris and Disneyland Hong Kong were only partially open, so as restrictions ease, we expect more attention to swing to the potential of this formerly cash generative segment of the business. Cruise ship bookings are also returning having had 18 months of hiatus, and Disney has a fifth ship due to launch in 2022.

Although it will be some time until the ex-streaming revenue lines of Disney return to full profitability, it is encouraging to see that the corner has turned, and with Management still expecting Disney+ still on course to be profitable by 2024, which we believe is conservative, we expect that the company will soon be in the position to reinstate its dividend and demonstrate its long-term strong free cash flow potential.



Richard Scrope, Fund Manager, VT Global Select Fund, 31st August 2021
Data source (unless otherwise stated): Bloomberg.

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