"Chance only favours the prepared mind"- Louis Pasteur.

The current reporting season has seen many companies report better numbers than the market expected given the economic backdrop, however it has not all been plain sailing, and the relative performance of the mega-cap companies has captured many a headline, although their relative underperformance has been in place for almost a year.

S&P 500 equal-weighted vs market cap weighted index

Source: TIM/Bloomberg

This month saw President Xi get elected for another term in China, and many of his allies find seats in the politburo, further strengthening his position. His election failed to come with the hoped for easing of the zero-COVID policy, which continues to deter investors and investment into the region. The report of a COVID outbreak at Foxconn's Zhengzhou facility recently, led to images of workers scaling fences to avoid lockdowns, highlighting just how feared this policy has become within China. Any rumours of a relaxation of this policy will likely be met with a short-term bounce in Chinese equities, however, there are other headwinds that will likely curtail any long-term recovery.

China economy continues to falter as the housing market remains in an existential crisis and shows little sign of abating, as liquidity remains scarce and prices fall, leaving both the commercial and residential sectors in negative equity. To pile woes onto China's slowing economy President Biden has stepped up restrictions on foreign companies doing business in the region. The latest instalment prohibits US persons (citizens and companies) from providing direct or indirect support to Chinese companies involved in advanced chip manufacturing, while at the same time stepping up pressure on non-US companies not to supply technology and expanding the 'unverified' company list. In due course it is expected that the US administration will expand its policies beyond semiconductors to other sectors which they could claim are national security threats exist such as AI and biotechnology. Compounding the headwinds is the trend to on-shoring and near-shoring production in the wake of the supply issues experienced during the pandemic and this is likely to play out over multiple years.

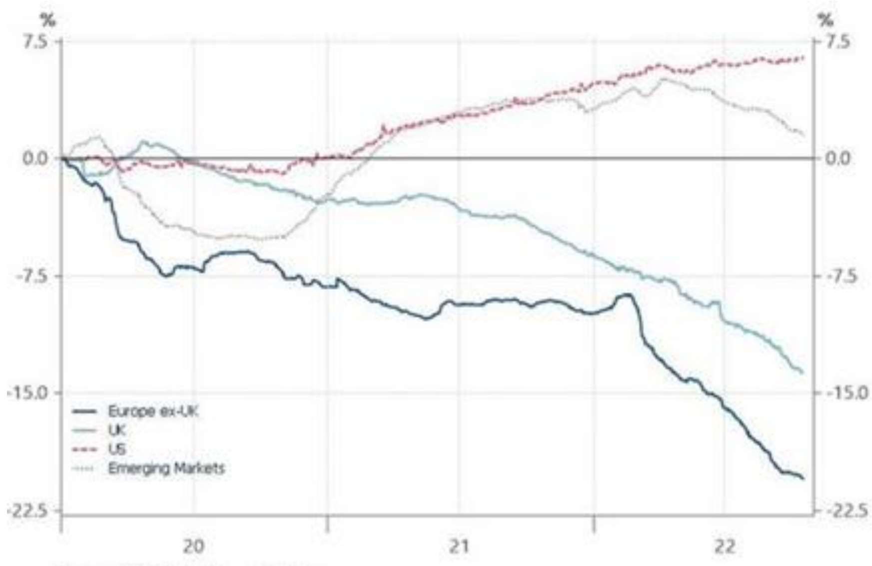
With the lack of transparency and geopolitical tensions, investors have reduced exposures to Chinese equities, the Golden Dragon index which tracks Chinese equities that have US listings has fallen almost 80% since the peak in March 2021 and the MSCI China Index has performed only a little bit better, down 62%. Hong Kong may have avoided being dragged into the zero-COVID net, but despite quarantine restrictions for travel and gatherings becoming more normalised, it too has fallen foul of the move away from China exposure, with the Hang Seng index down 52% over the same period.

President Xi's election fails to turn the Chinese stock market

Source: TIM/Bloomberg

While there is undoubtedly value to be found amongst the wreckage, China is not the only region that has fallen out of favour with investors. Flows out of UK and European equities have been increasing over the past year, leaving many high-quality companies with more transparent reporting than that found further east, trading at multi-year lows. We believe that in the coming months these regions may offer up opportunities to invest in quality companies which hitherto have proved to be too expensive, however, the Fund continues to scour the world for the best-in-class companies with reliable cash flows and returns on invested capital and will take opportunities as they arise regardless of their country of listing.

Fund Flows by Region

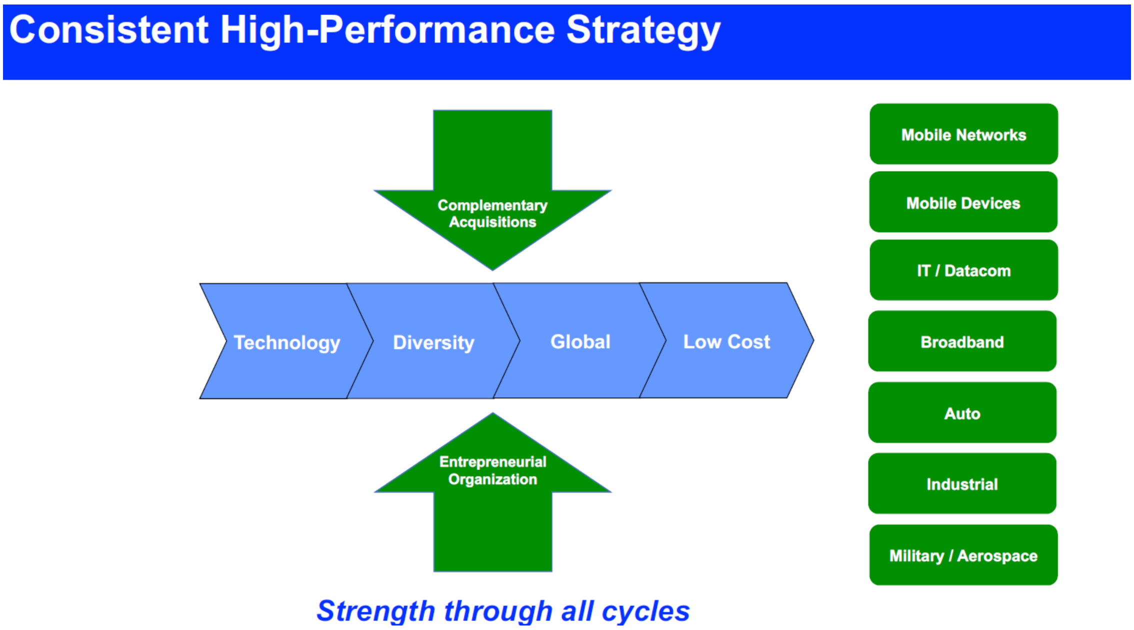


Source: EPFR Financial Intelligence

The Fund rose by 1.35% during what was a volatile month, as evidence of the global economy slowing continued to mount. As a result, the VT Tyndall Global Select Fund B Acc (GBP) loss for 2022 thus far was reduced to 14.74%.

<u>Fund Activity and News</u>

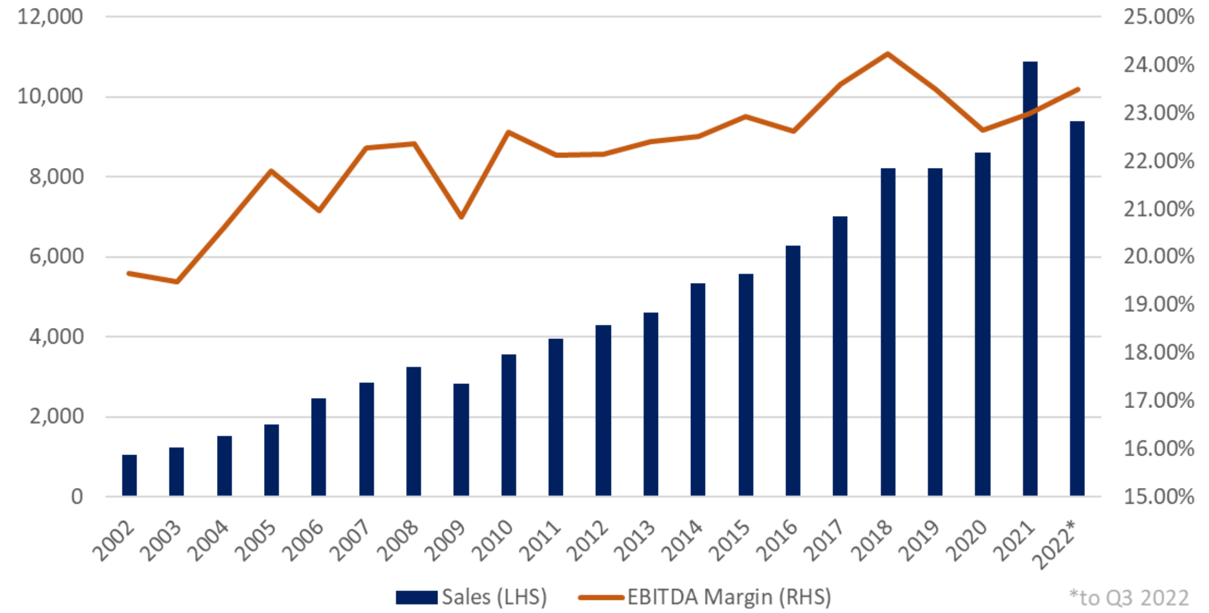
During the month initiated a position in Amphenol. The company is the global leader in developing high technology products to enable the shift to a higher electronics content in their end market products. They have a highly diversified set of products and long and short cycle end markets that range from secular growth areas such as vehicle electrification, cloud computing, electronic content in industrial applications to next generation 5G technology, as well as more traditional long-cycle industries such as military and aerospace.



Source: Amphenol

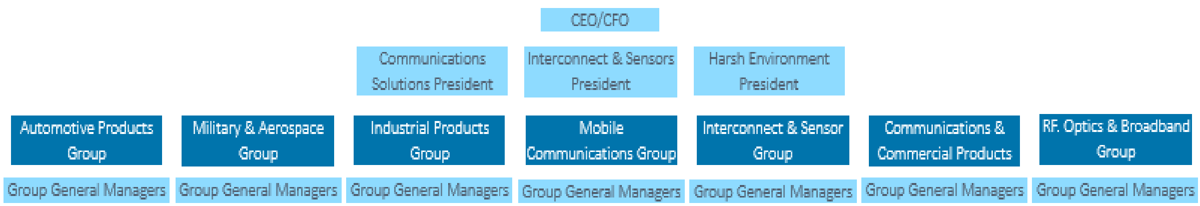
Amphenol has grown at a CAGR of over 12.5% over the past 20 years through a mix of organic growth and acquisitions (50 in the past 10 years, accounting for approximately 1/3rd of total revenue growth) and a strong focus on technology. With a growth rate of over twice that of the underlying markets, the company has grown market share and with sustainable value creation. The diversification of its products and end markets is reflected by the fact that 2009 is the only year in the past 20 where the company saw sales not make a new all-time high.

Long-term Industry leading Growth



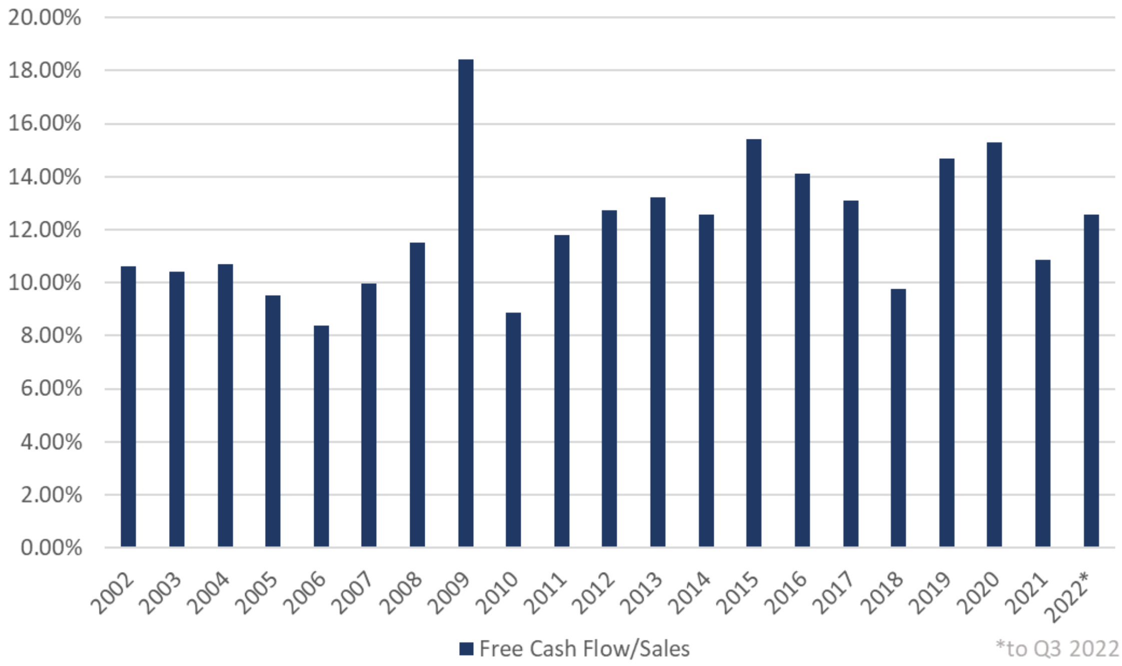
Source: TIM/Company Reports

The company operates in over 70 countries and has a unique management culture that empowers their 130 general managers to run their operations in their respective areas as if they were their own, with a lean management structure above which serves to create a strong entrepreneurial culture and drives innovation.



With a lean and flexible cost structure, Amphenol has a highly cash generative business model with Returns on Invested Capital well in excess of their cost of capital and ahead of that achieved by their peers which not only enables them to undertake acquisitions to add to their product offering but also to reinvest in the business in order to achieve their aim of creating sustained long-term value.

Strong Free Cash Flow throughout the Business Cycle

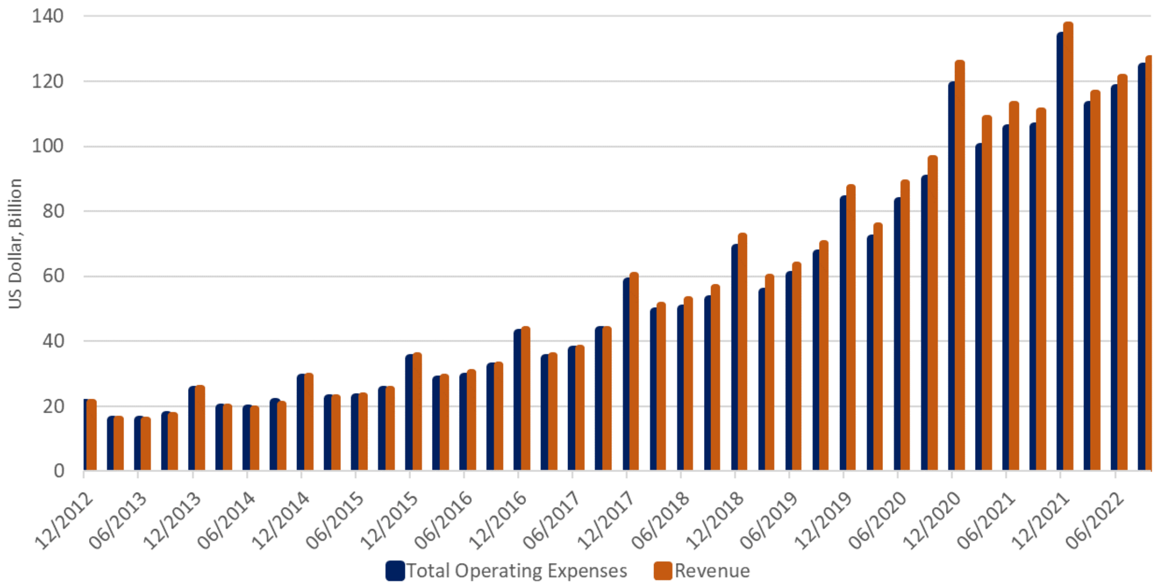


Source: TIM/ Company Reports

This month saw the mega-cap technology companies lose some of their allure, and weighed heavily on global performance, given their weightings in US and Global indices as well as the multitude of factor specific ETFs. We reduced our weighting in Amazon earlier in the month, given our concerns over the retail marketplace arm of the business. The International marketplace business has a long history of running with negative operating income, and this quarter marked the fifth consecutive quarter of displaying this trend, however, the North American business is also now running with negative operating income given the significant uplift in expenses that management deemed needed to grow the business.

One bright spot reported within these segments was the growth in advertising revenues, which is in stark contrast to those of Alphabet (not held) and grew at a rate of 25.4%, compared to the respective quarter last year. Despite the profitability of the AWS cloud business, the company as a whole reported an operating loss, and worryingly, despite having previously talked about two-thirds of costs being under their control, the increased expenditure is expected to continue in the coming quarters while simultaneously growth is slowing.

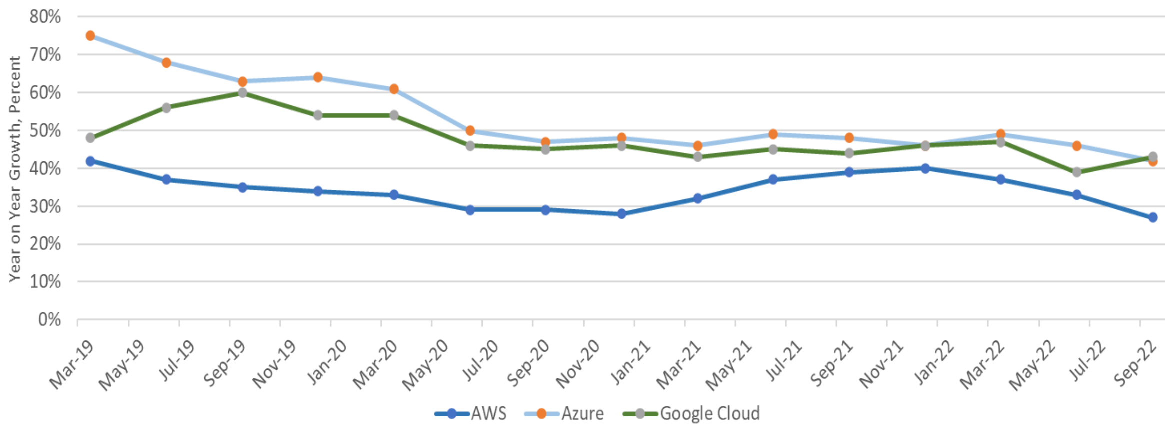
Amazon's cost problem



Source: TIM/Company Reports

Our holding in Microsoft also faired poorly this quarter, despite beating the market's expectations on both revenue and net income, and guiding for continued double digit growth in both revenue and operating profits in 2023. Like Amazon, the market focussed on the performance and outlook surrounding their cloud offering, Azure, which grew at 42% year-on-year, slower than the market expected.

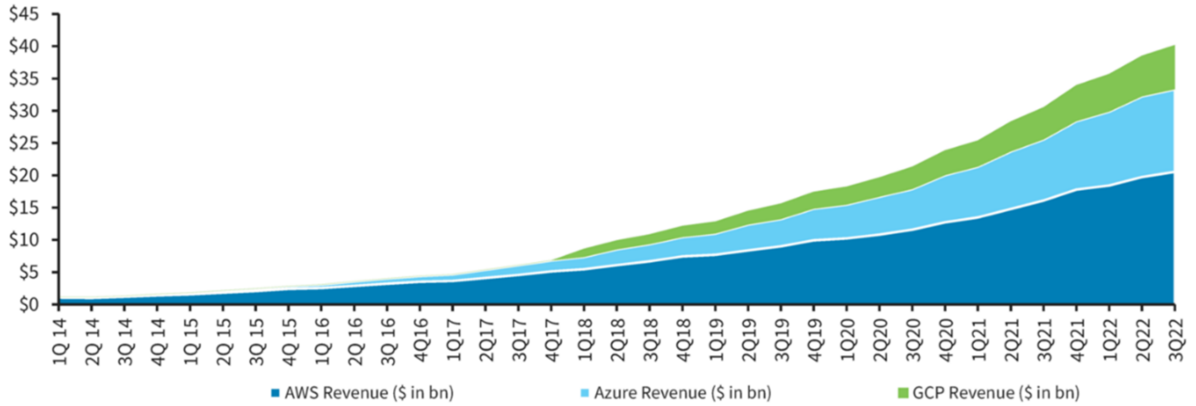
The law of large numbers



Source: TIM/Company Data

The sheer scale of these segments, where the AWS, Google and Azure dominate the market, mathematically makes it increasingly difficult for companies to continue to grow at high double-digit rates, despite gaining market share from the smaller cloud players. Both Microsoft and Amazon noted that as economic uncertainty grows, they are seeing some signs of companies paring back of expenditure and guided to their growth in the cloud slowing to 37% and 24% respectively; we expect that Alphabet are also seeing similar traits, however they did not issue guidance with their quarterly numbers.

The large three continue of grow share and now have £160bn annualised revenues



Source: Barclays Research

While company retrenchment is never a good sign, we continue to believe in the shift to the cloud, and that the scale of the cuts is temporary in nature, merely a delay in moving workloads across to the public cloud. We see the move to the public cloud as a structural theme that is still in its infancy and therefore, while we may see bumps in the growth trajectory, all three players will continue to grow revenues at healthy rates. Post Alphabet's period of irrational pricing as they tried to break into the market, all three now generate very high operating margins which appear sustainable; AWS is the only player to cleanly split out their operating margins, which are 26%, but Microsoft has gross margins of over 60% which implies that they have similar operating margins.

Richard Scrope, Fund Manager, VT Global Select Fund, 31st October 2022
Data source (unless otherwise stated): Bloomberg.

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