"Nothing in life is feared, it is only to be understood. Now is the time to understand more, so we may fear less". – Marie Curie

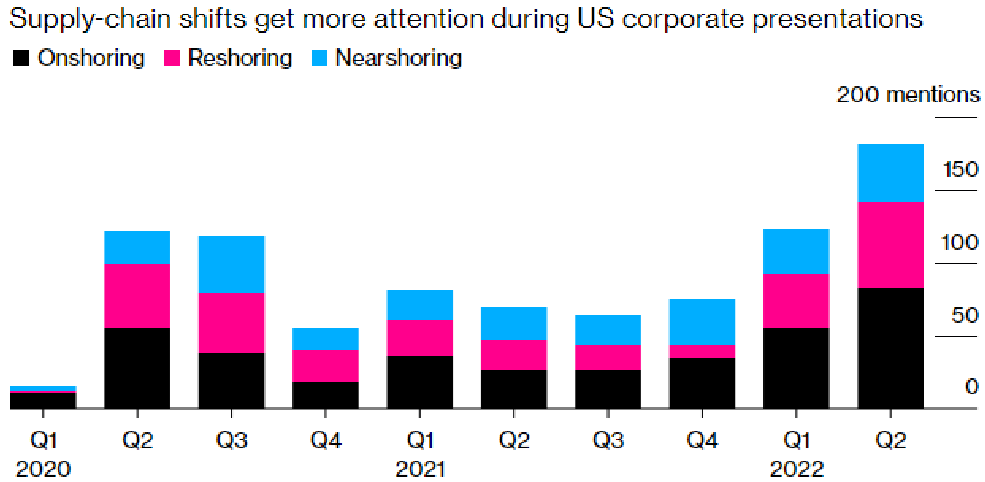
While the world has learnt to live with COVID, President Xi of China, is steadfastly sticking to his zero-COVID policy. The problem is that the policy is not working, and the population are getting restless and going to extreme measures to avoid being caught in a new quarantine zone; last weekend saw the first open demonstrations against the restrictions in a rare display of defiance owing to the rules laid down by the Chinese Communist Party ,and rumours abound that the two most affected cities are starting to loosen restrictions in the wake of the protests.

Many companies were just starting to recover from the production issues and drop in demand resulting from the blanket lockdowns in Shanghai and Beijing earlier this year, however the city of Zhengzhou, which is the home to many of the country's technology companies, is entering full-lockdown, and Beijing is once again implementing movement restrictions. Cases are also widespread and on the rise in many other cities. In April, 94% of new cases were in Shanghai, while during the recent spike only 50% of the cases are in the two most affected cities (Guangzhou and Chongqing) and Xian, Chengdu and Jinan are just a few of the other cities seeing infection rates skyrocket. The most recent reading of daily new COVID cases in China reached 31,444, surpassing the level in April when Shanghai went into a 60-day lockdown.

<u>China's zero-COVID policy is broken: Daily new cases</u>

If the administration is to save their economy, they will need to change their stance and abandon their Zero-COVID ambitions. Vaccination rates remain low by global standards, especially in the elderly population, although the acceptance that there are more effective vaccines on the market than their homegrown one may be too much of an ideological obstacle to reduce the infection rate by this means. A new formulation is due in December, but the efficacy is, as yet, unknown.

Once bitten, twice shy, companies are increasingly diversifying their production facilities away from China. Apple, which faces severe production problems as Foxconn's plant in Zhengzhou is in lockdown so therefore cannot ship out completed products, has already announced that they will be upgrading their production hub in India and analysts expect them to increase production of new iPhones from 5% of total volume this year to 25% by 2025. Onshoring or reshoring is only likely to creep further up the agenda as companies look to diversify the risk from Chinese manufacturing, giving momentum to a trend that has been on the increase in the wake of the supply issues highlighted by the pandemic.



Source: Bloomberg

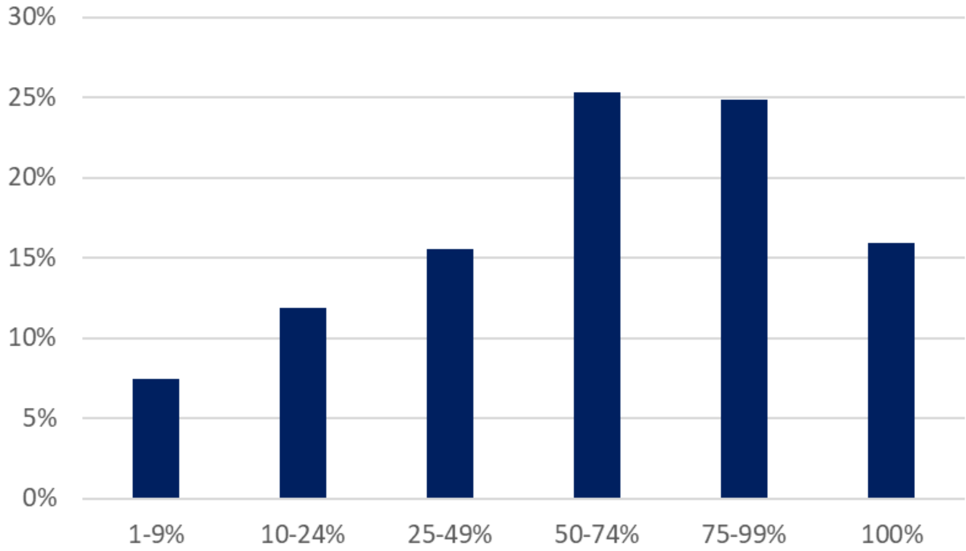
This month also saw the fall from grace of two people who had previously graced the covers of Forbes magazine as people to watch, namely Elizabeth Holmes and Samuel Bankman-Fried, While the former adjusts to life in jail for the fraud she committed while CEO of Theranos, the later still is adamant that the collapse of FTX can be 'solely explained by a misplaced $8bn' rather than fraud. The debate surrounding crypto currencies will undoubtedly continue for some time to come, but the introduction of regulation surrounding the industry cannot come soon enough, especially as seen with the collapse of BlockFi, the contagion within the space can become widespread with rapid speed.

<u>The higher they rise, the harder they fall.</u>

Source: Forbes

While on this side of the Atlantic, crypto exposure has been limited, in the US, private investors embraced the concept with much more vigour, and hence why congress is already studying a bill to reign in the wild-west part of the market; tales of private investors becoming millionaires overnight abounded in 2020 and 2021, however the tales of millionaires being wiped out are surprisingly absent. With so much retail money tied up in Crypto and rapidly losing value, there is a risk that the all-important US consumer may have to hold off discretionary spending, which will have serious consequences for US GDP. According to Bank of America, investors in the 21-35 age bracket have on average 15% of their portfolio in cryptocurrencies. Almost as alarmingly are the findings of a survey by the Motley Fool of millionaires who own cryptocurrencies (68% of those surveyed).

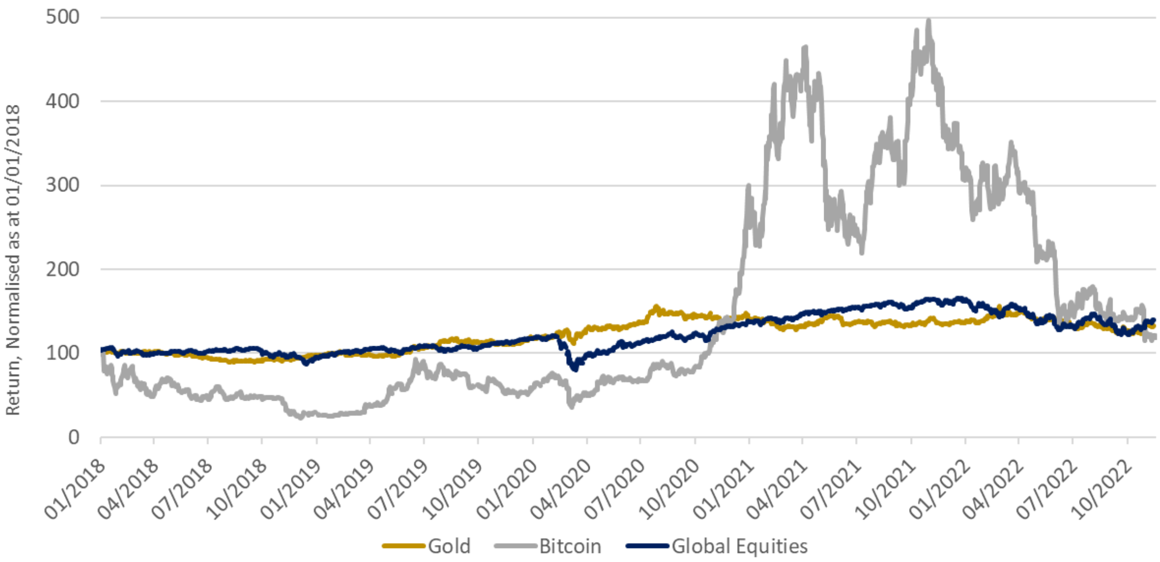
How much of your portfolio is allocated to cryptocurrency?



Source: TIM/ The Motley Fool

Investing in products that you don't properly understand or has no tangible value is a risky business, and only for people who are prepared to lose all their capital invested. While people will always be lured in by new concepts that promise to make them wealthy overnight, we will continue to be proponents of long-term investing in tangible quality assets that can let the power of compounding increase your wealth.

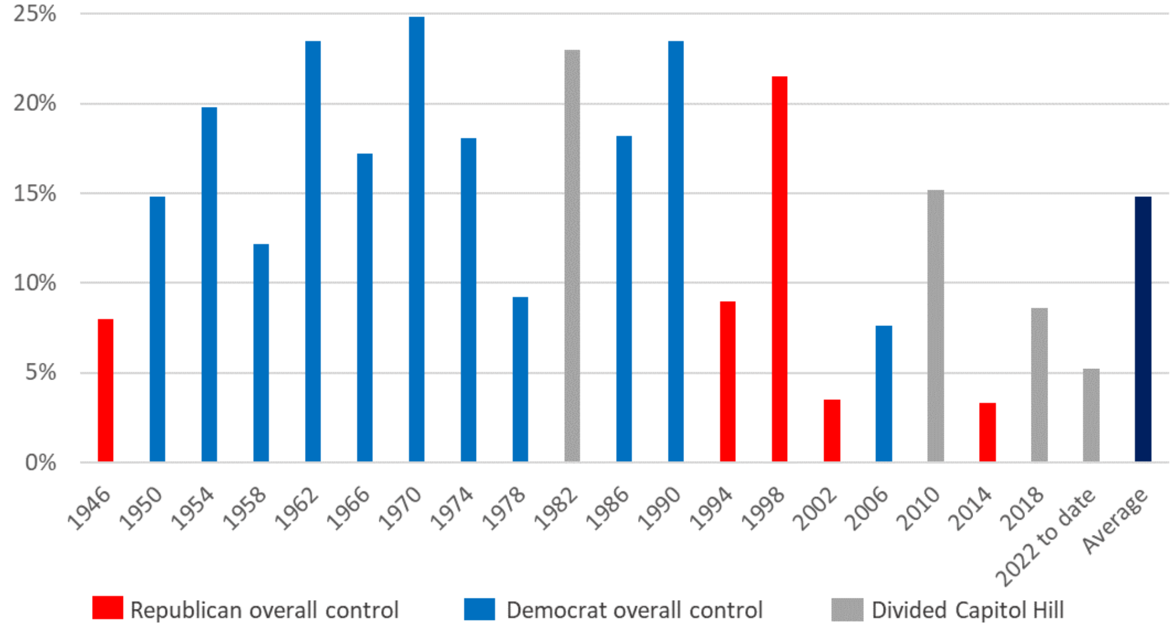
Cryptocurrencies can be bad for your nerves as well as your net wealth



Source: TIM/ Bloomberg

While investors are understandably concerned about the expected returns on their investments as evidence of a global recession increases, it is worth remembering that equity markets are forward looking instruments and on average turn four months before the end of any recessionary period. Trying to predict the length of a recession is a difficult business and thus we believe that remaining invested, given that markets have already corrected significantly this year, is likely to create the most value in the long-term. Furthermore, if markets were to fall further from here it would be the first time since the second world war that in the six months post the US mid-terms when markets have posted a negative return and year 3 of a Presidential term on aggregate is the best for US equity markets.

S&P 500 Index returns in six-month period post US mid-term elections

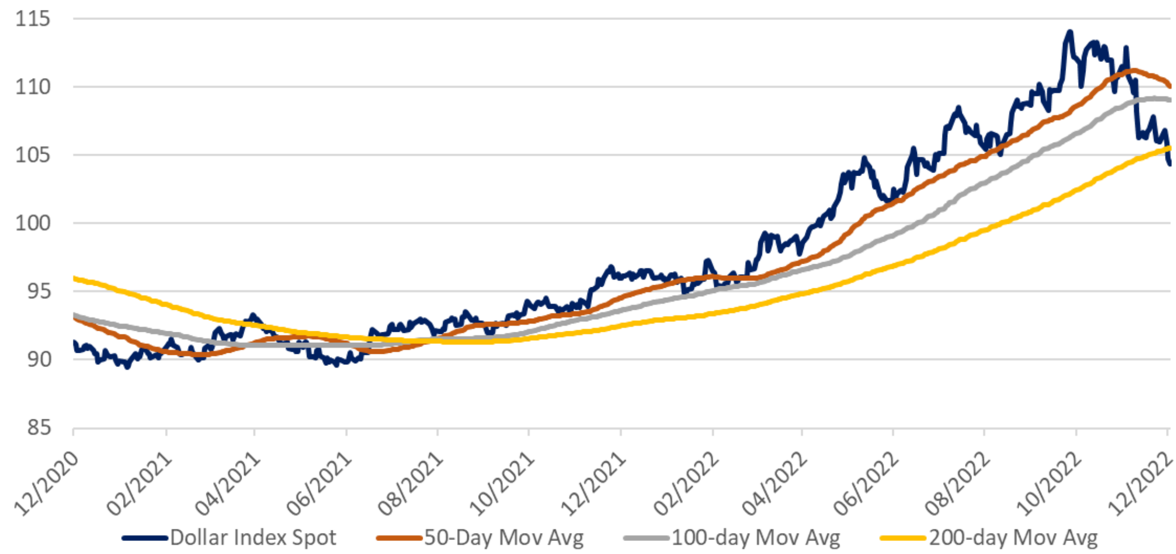


Source: TIM/Bloomberg

The Fund rose by 0.24% 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 stands at -14.53%.

Markets, did, however rally significantly (S&P up 3.1% and Nasdaq up 4.4%) after Chairman Powell suggested the pace of interest rate increases may slow in the December meeting, but this was after the month end pricing. One other ramification of this announcement was a significant rise in the value of Sterling and the Dollar index, which indicates the value of the Dollar against a basket of major world currencies, falling below its 200-day moving average; could the Dollar headwinds be about to rebate?

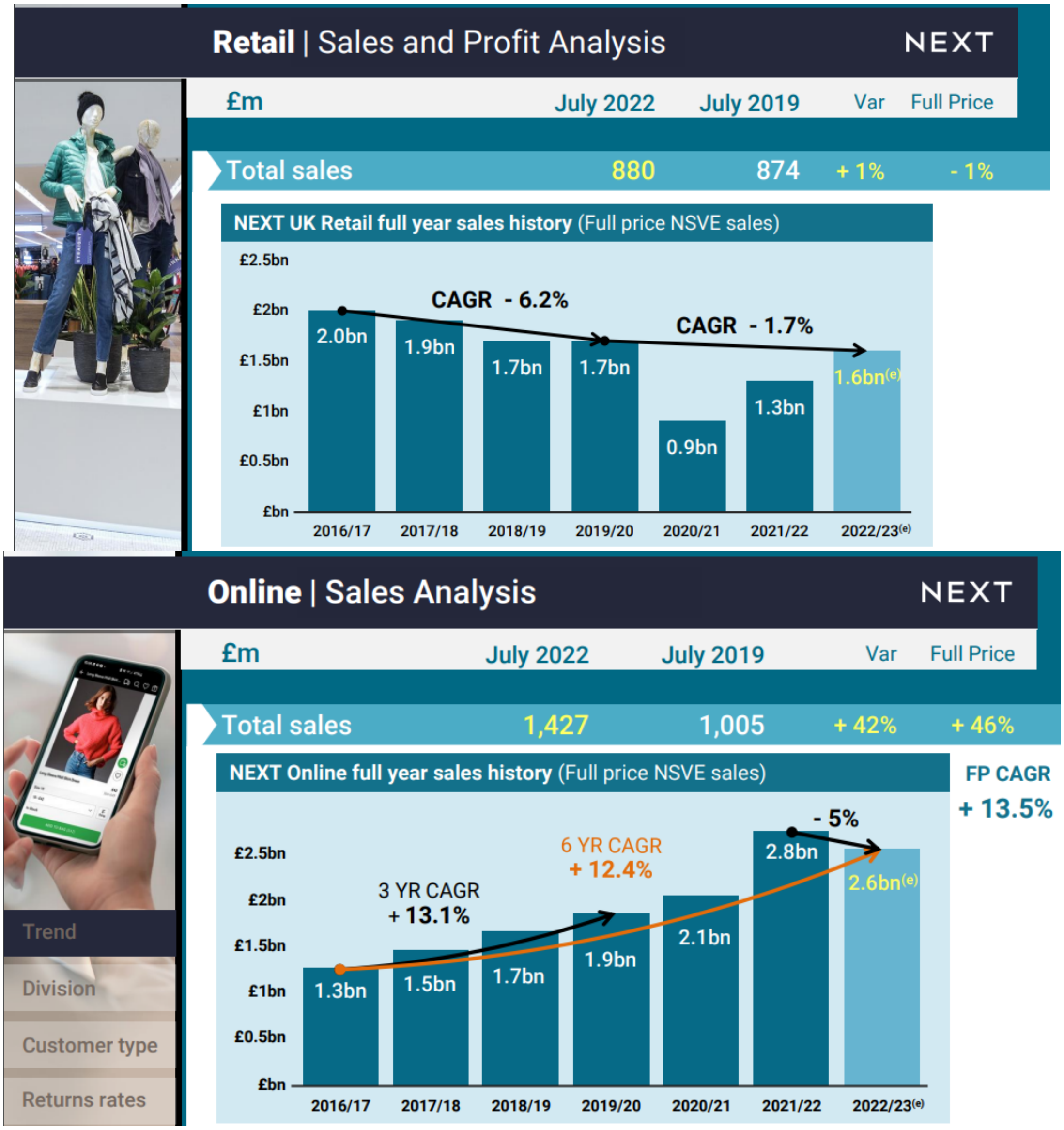
Headwinds to Tailwinds



Source: TIM/ Bloomberg

<u>Fund Activity and News</u>

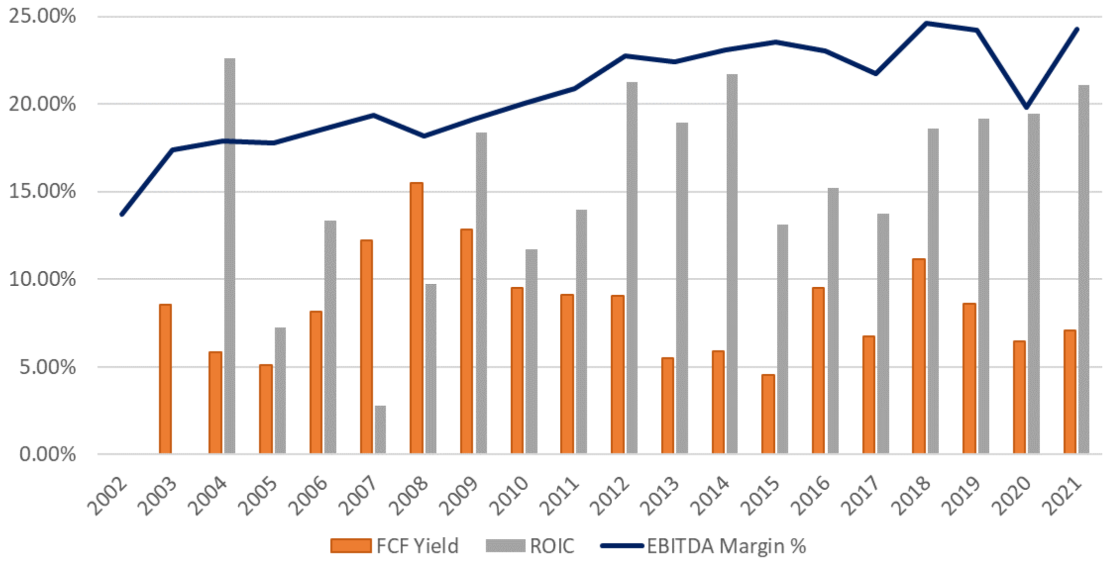
Despite the spiralling cost of living problem that faces the UK consumer presently, the Fund has added a position in the fashion retailer, Next, which had fallen by almost 50% since the peak in December last year, to below 10x P/E. We see this as good value for a company that has grown EBITDA margins from 13.5% to 24% over the past 20 years as the investments in online start to pay dividends. Although thought of a traditional bricks and mortar high street retailer, Next now has revenues from online that are double that of the traditional retail and with margins over twice the size.



Source: Company 2022 Half-Year Report

The highly cash generative nature of the business leaves room for a growing dividend, an almost debt free balance sheet and the ability to self-finance investments in both product and technology.

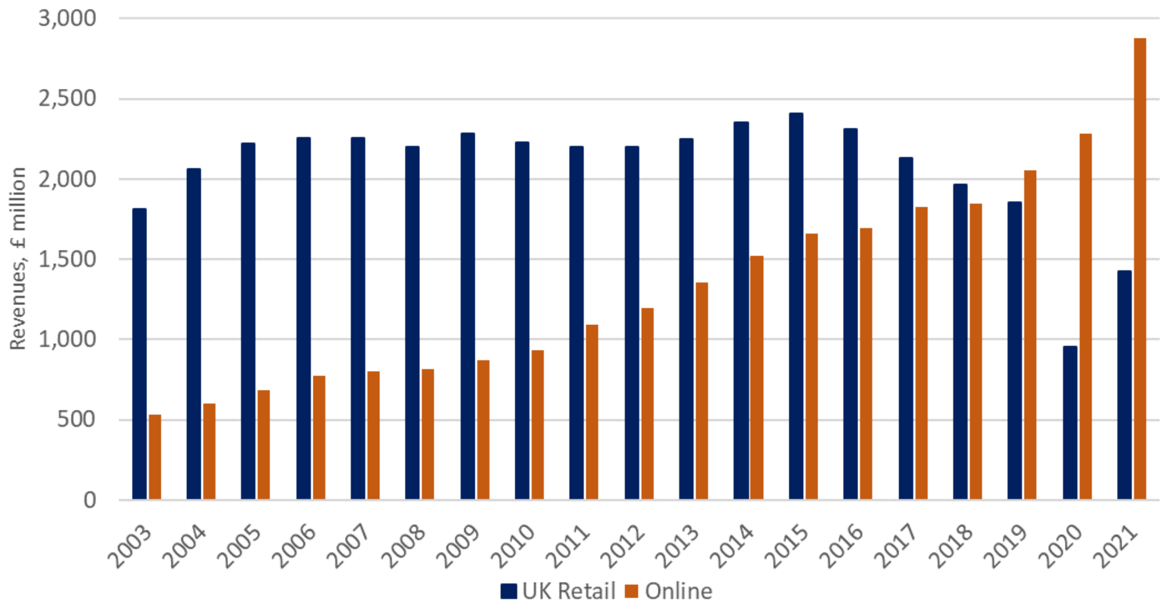
Profitability grows with as online become the largest revenue stream



Source: TIM/ Company Data

The management team of Next have been ably led by Lord Wolfson for the past 22 years taking the helm from his father who retired, and he has worked for Next for over 30 years. He is supported by Amanda James who has been CFO for almost eight years. Under this leadership the company has grown the online platform through investment, and has expanded opening the company up to third-party clothing and homeware retailers such as JoJo Maman Bébé, Reiss and Victoria's Secrets for which it receives a commission charged as a percentage of sales. The clarity of reporting is best-in-class, setting out clearly the opportunities and areas for improvement. Unusually, the company also presents a 15-year stress test of its cash flow allowing investors to see the impact on cash generation given a range of growth assumptions.

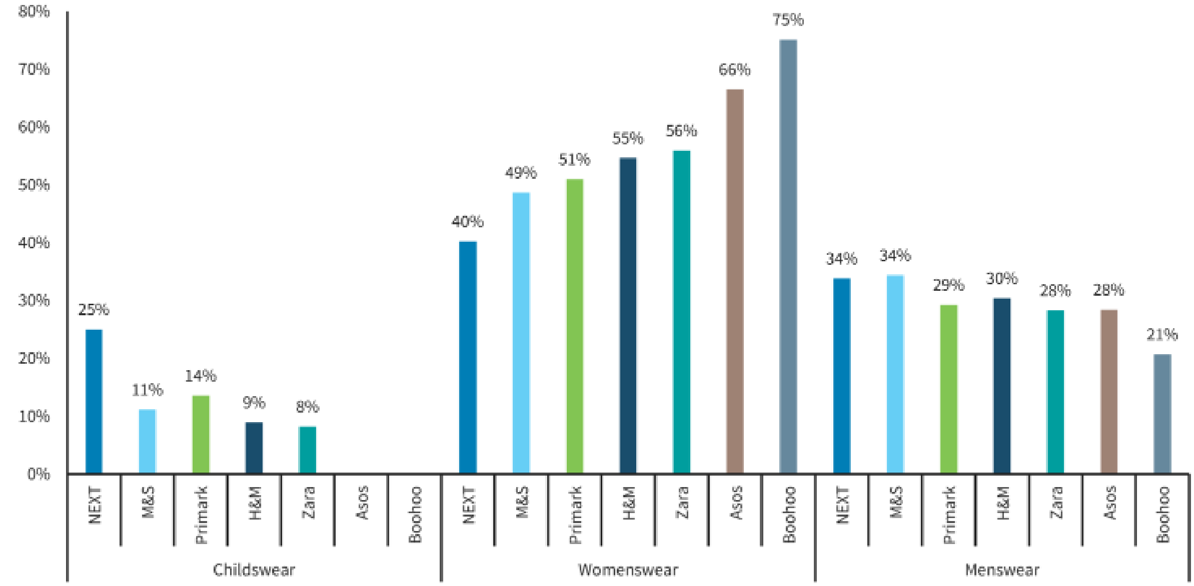
Management embraces digital transformation



Source: TIM/ Company data

The company has the large percentage of sales attributed to childrenswear on the high street, which historically has been relatively resilient compared to womenswear, and given the reasonable pricing of its products, the company should continue to take share in the current environment and be less exposed to cut price offerings. Since 2016 the company has grown full price sales by a CAGR of 12.4% while the number of online active customers has grown by a CAGR of 9.6%, and sales per customer is above pre-pandemic levels.

UK Clothing Market Mix by leading retailers



Source: Euromonitor.

The current valuation, using Free Cash Flow to the Firm, suggests that the company is going to generate an EBITDA margin of less than 15.5% on an ongoing basis, and, as the earlier chart shows, the last time this happened was in 2002. Therefore, we think the risk-reward spectrum in very favourable despite the unfavourable economic backdrop in the UK at current times, and as long-term investors, the Fund now holds a position in the company.

Richard Scrope, Fund Manager, VT Global Select Fund, 30th November 2022
Data source (unless otherwise stated): Bloomberg.

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