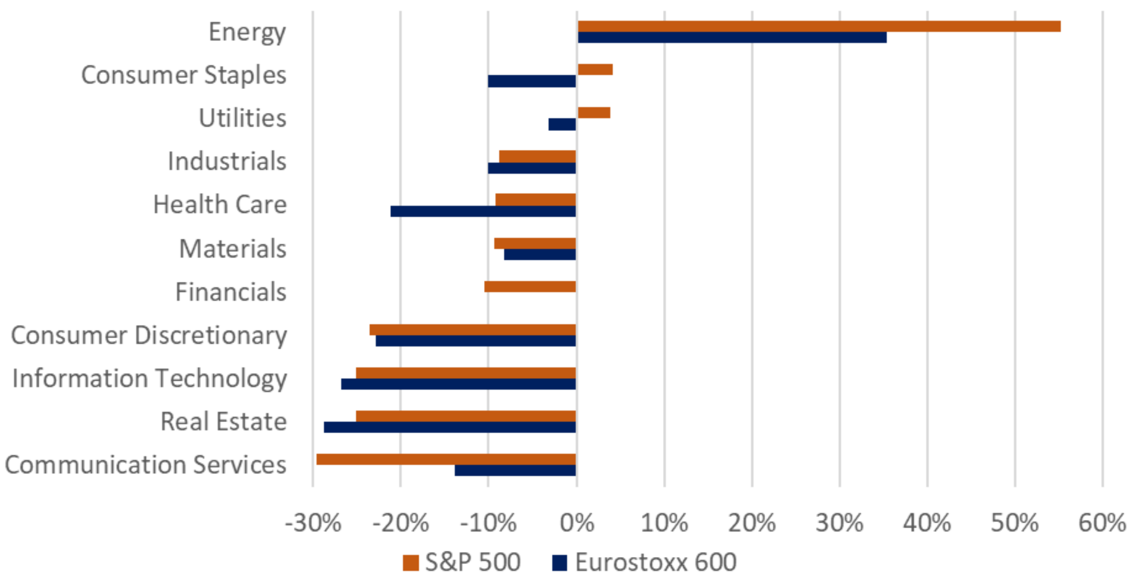
"To write anything well, whether it be intellectual or imaginative is to assume at least two obligations: to be intelligible and interesting". – Norman Maclean

The world in the past year has been a particularly difficult one for equity and bond investors alike, and that is before one looks at other classes of investment such as the cryptocurrency space. At the turn of the year few could have expected a war in Ukraine, the draconian measures by the Chinese government following further COVID outbreaks and the subsequent reversal that has sent case numbers spiralling out of control, or the levels of inflation across the developed world and the scale in interest rate increases that central banks were prepared to implement as they transitioned from away from a transitory viewpoint.

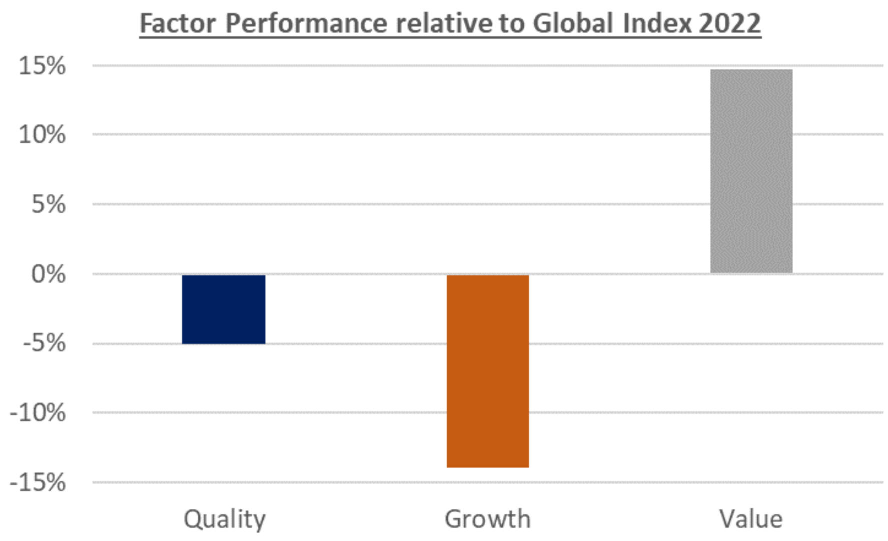
Although these are but a few of the macroeconomic factors that investors have had to grapple with during the course of the year, the divergence of sector returns has been extreme and the areas in which to protect and increase investors' capital have been rare. Despite the price of crude oil falling by almost 30% from its June highs, energy stock returns, which traditionally are highly correlated, have decoupled and left all other sectors trailing in their wake. Elsewhere sector returns varied by geographic region, but where for the most part negative.

Total Returns by sector in GBP during 2022



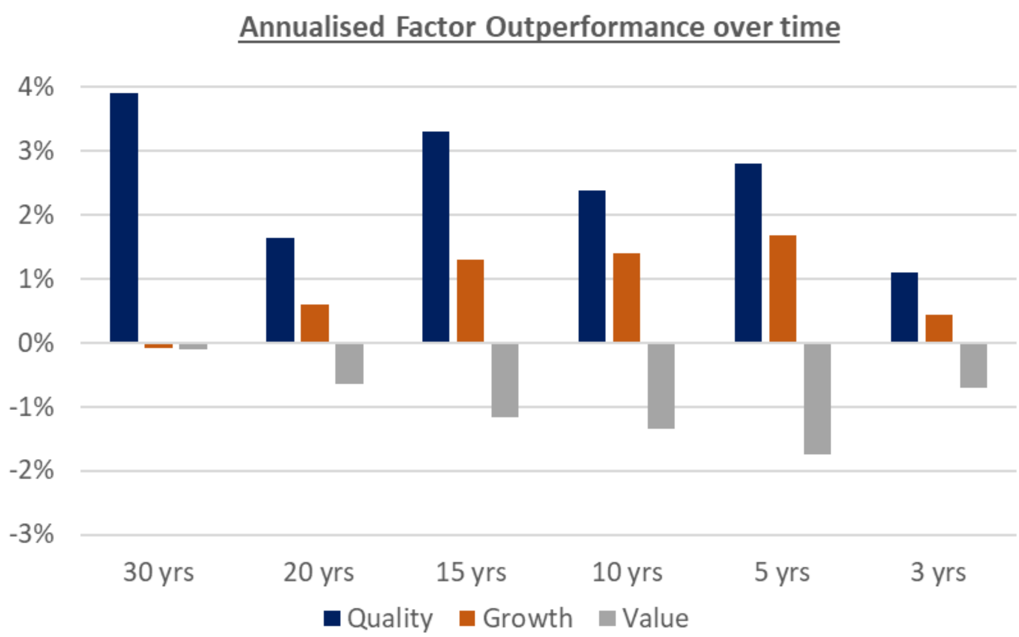
Source: TIM/Bloomberg

One of the corollaries of this sector dispersal has been the revival of the fortunes of 'value' stocks globally, and the collapse in returns from both 'growth' and 'quality' stocks. While it is quite a reasonable argument that 'growth' and 'quality' company equity prices had possibly become slightly overextended after a particularly strong 2021, the underperformance this year has been quite stark. The chart below shows the relative returns versus the wider global market in sterling terms over the past year.



Source: TIM/Bloomberg

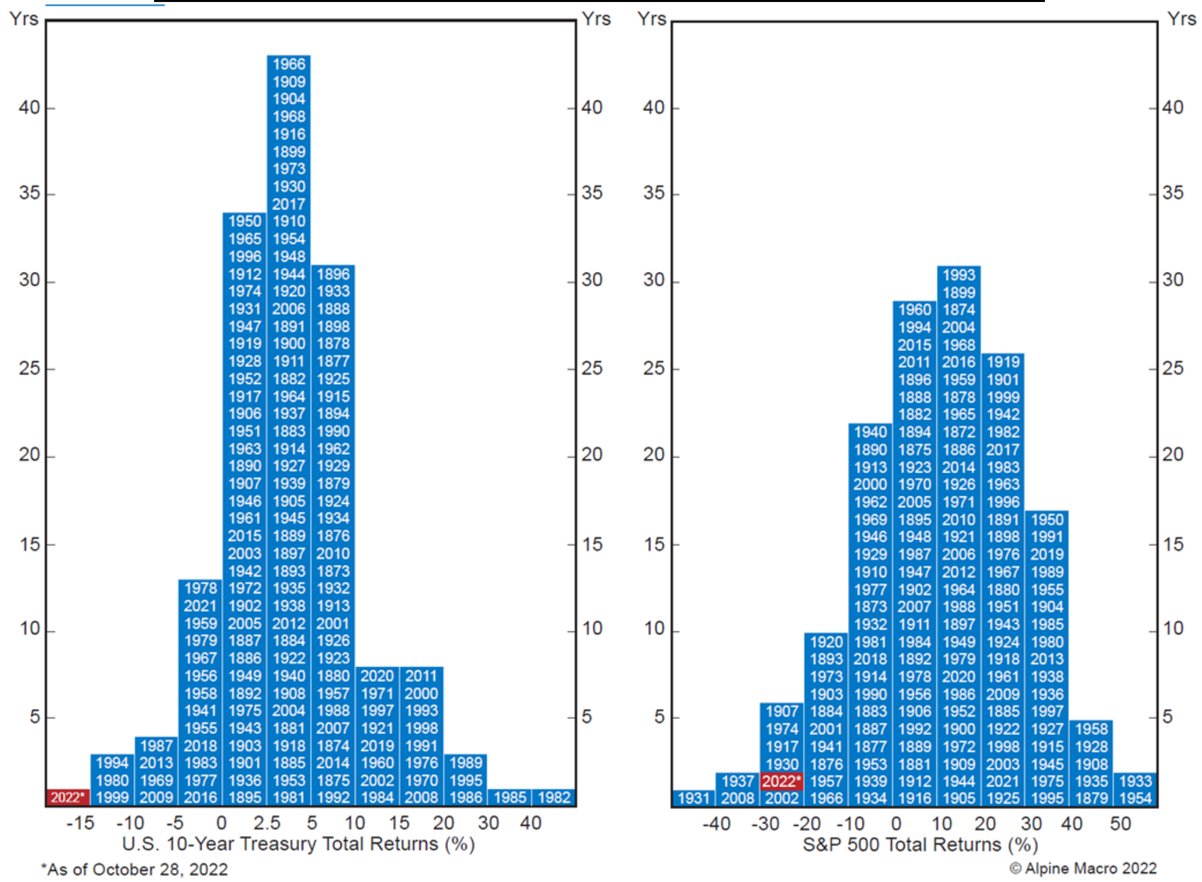
We continue to argue that markets are short-term mechanisms that fail to properly value quality companies that can sustain cash flows and continue to grow over the long-term. Returns are a factor of the price that you pay, however it is rare to find quality companies on bargain multiples, it is not impossible, and investors can profit from avoiding their heuristic tendencies and wait for opportunities to arise and then act when the do. As the chart below shows, despite the performance of 'value' relative to global equities over the past year long-term investors benefit from identifying and investing in quality companies, and thus despite the disappointing returns in the past year, simply following the current style shift is unlikely to be beneficial to investors long-term capital. In the VT Tyndall Global Select Fund over 60% of the holdings have been held for over 5 years, one third of the holdings have been held for over 10 years, and many of these remain extant since the manager stated over 14 years ago.



Source: TIM/Bloomberg

While it is unfortunate that the headwinds of war in the Ukraine and inflation remain, and that latest variant of COVID is running wild in the opened-up China is resulting in renewed discussions about testing and quarantining, factors that we hoped might be distant memories in 2023, sadly it looks likely that we will have to grapple with them again in the coming months. Multiple headwinds, however, are not uncommon, and it is worth noting that it is rare for years with equity and bond prices falling as much as they have done in the past 12 months to be followed by another down year, and on the rate occasions that it occurs, the decline is of much smaller magnitude. The chart below shows the total annual returns of the S&P 500 and the 10-year US treasury markets since 1872

It is rare for a fall of this magnitude to be followed by another down year



Source: Alpine Macro

St. Niklaus appeared to have lost his way during his annual outing, with the traditional Santa rally failing to materialise for the first time since 2018. There are still many improving data points to suggest that, although the economy has slowed, and the housing market has cooled significantly, the manufacturing side of the economy is stabilising. Despite most western economies posting two consecutive quarters of economic growth, which is the traditional definition of a recession, and a backward looking one at that, the Federal Reserve is still denying the obvious, as the National Bureau of Economic Research (NBER) has not formally called one. Normally the market bottoms four to six months before the end of a recession as it is a forward-looking mechanism, however, many companies are still letting employees go and consumer sentiment is unlikely to turn before the jobs market turns for the better.

The Fund fell by 0.11% during what was a volatile month, as the impact of the Federal Reserve rate setting strategy on 2023 growth and ongoing problems in China weighed on investors' minds. As a result, the VT Tyndall Global Select Fund B Acc (GBP) loss for 2022 -14.62%.

Fund Activity and News

The Fund made no outright purchases or sales this month.

Over the course of the year, the Fund's performance was held back by holdings in Zebra Technologies, Intuit, Sika, Rational and Zoetis. Amazon and Persimmon also detracted from performance but were sold during the course of the year.

On the positive side, our holdings in AstraZeneca, Canadian Natural Resources, Novo Nordisk and Banque Cantonale Vaudoise all posted total returns of over 30% and to a smaller scale Becton Dickinson, Johnson & Johnson, UBS and United Rentals all offset some of the Fund's decline.

While it is a fool's errand to predict which shares will outperform by the most in 2023, we believe that the Fund is well balanced with growing, cash generative companies that should be better able to withstand times of macroeconomic uncertainty and capture the lion's share of what growth emerges. With many valuations having derated significantly we believe that the valuations of our holdings are no longer as extended as a few where at the end of 2021, and at current multiples we would be happy to be (and are doing so both on a professional and personal basis) adding to existing positions.

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

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