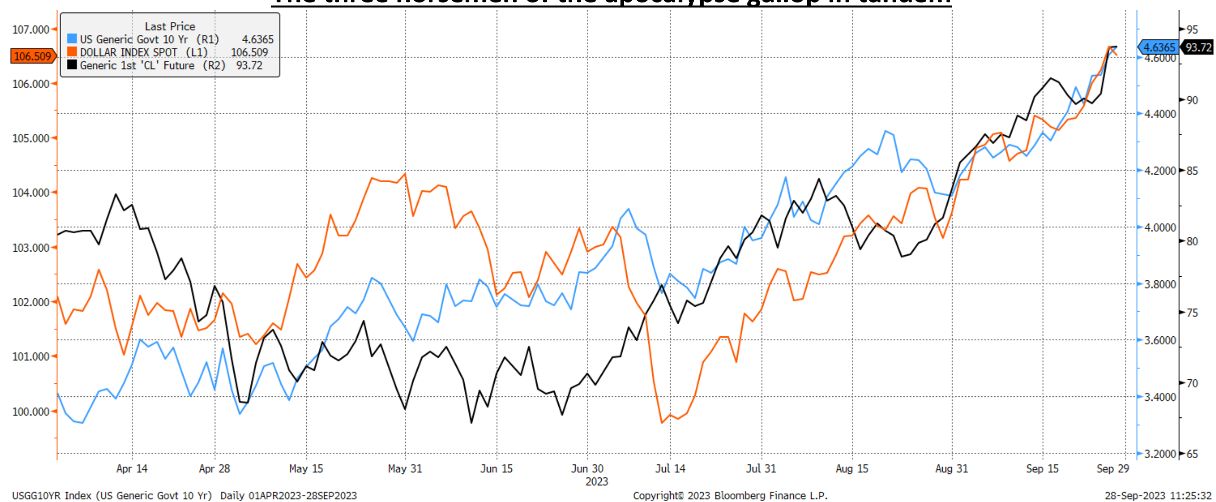
"It is better to look ahead and prepare than to look back and regret" – Jackie Joyner-Kersee.

September has a history of being a poor market for equity returns, and this year proved no exception. Markets reacted poorly to the comments from the Chairman of the Federal Reserve Open Market Committee. Jerome Powell rolled back on his previous comments about possible timings of rate cuts and suggested that a further hike was likely this year, taking the market by surprise. He also, uncharacteristically stated that "forecasters are a humble lot, with much to be humble about" which did little to restore market confidence. With many similarities to early 2022 when the Federal Reserve started the current rate rising cycle, markets are having to grapple with oil prices, the US Dollar and US bond yields, all rising in tandem, creating a difficult backdrop in a month when investors were already cautious.

The three horsemen of the apocalypse gallop in tandem



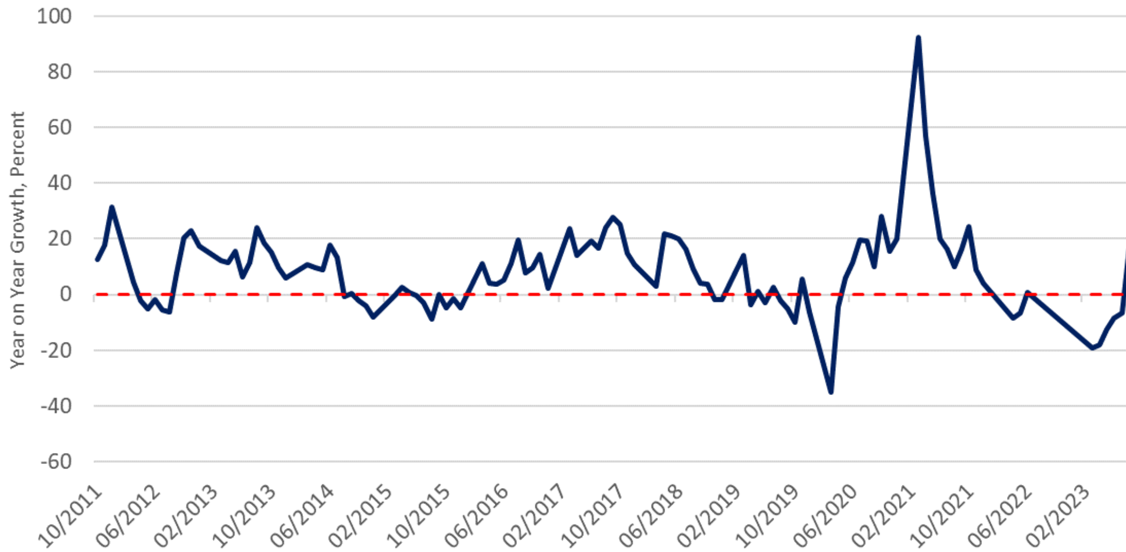
Source: TIM/Bloomberg

We now look forward to the final quarter of 2023, looking for green shoots emerging from the rubble of the last quarter, and believe than many can be found, as there is plenty of fertile ground on which the seeds may fall, despite the amount of the macro-economic data at the moment suggesting that we are surrounded by rocky ground.

Germany and China are currently the posterchildren of economic woes, and investor sentiment for both regions remains low, albeit the UK is not far behind. As the most exposed country in Europe, with China as its largest import partner, the health of Germany is implicitly related to that of China, so positive news from China is important to Germany and therefore Europe.

Although most of the macroeconomic data is still coming in close to pandemic and financial crisis lows in Germany, there are a few bright spots emerging, and inflation has fallen from almost 12% to 4.3% this year, which should help ease the power bills that have held back industrial production, and the all-important Mittelstand, post the closure of Russian gas supplies.

China Industrial profits grow unexpectedly.



Source: TIM/National Bureau of Statistics of China

What has been noticeable in recent months is that despite concerns about the health of the consumer and the impact on spending from the cost-of-living crisis, is that there has been a distinct difference between the best-in-class retailers and their peers. Next is a prime example, having raised its profit guidance for the second time this year, selling more of its inventory at full price and seeing continued strength of its online offering, which continues to set it apart from much of the UK high street. Nike is another example, where the business model proved resilient to the concerns about the Chinese & European consumers, and its shift to a digital direct to consumer positioning continues to drive share.

Coming from a low base but things are slowly improving.

The VT Tyndall Global Select Fund B Acc (GBP) fell by 2.22% held back by a variety of holdings such as Accenture, Zebra Technologies, Rational, NVIDIA, and Thermo Fisher. Strong performance by Relx, Next, Astra Zeneca, Costco and Canadian Natural Resources helped to offset some of these losses. The Fund has risen by 5.46% in the year-to-date.

Fund Activity and News

We made no new positions during the course of the month. As investor sentiment towards the UK is so low at the moment, we would draw investor's attention to the list of stocks which contributed to

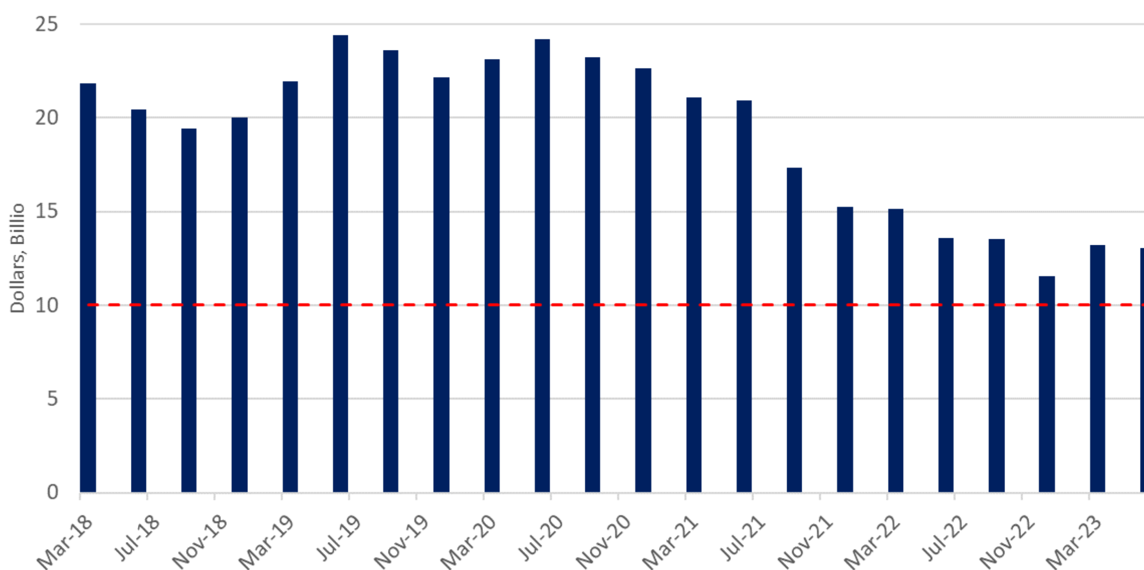
Value of investments can fall as well as rise and you may not get back the amount you have invested

performance last month, as three of the top five are listed in the UK (albeit that we hold the European line of Relx), and we continue to believe that there is great value to be sought in UK equity markets.

Continuing of the theme of positive contributors to the Fund last month, we increased our holding in Canadian Natural Resources. We initiated the position last year, as oil prices rose. After a correction in prices over the winter, the price of oil has risen once again, as highlighted earlier, a move which started in late June and now stands close to $100 per barrel, over 40% above the level it was trading at three months ago.

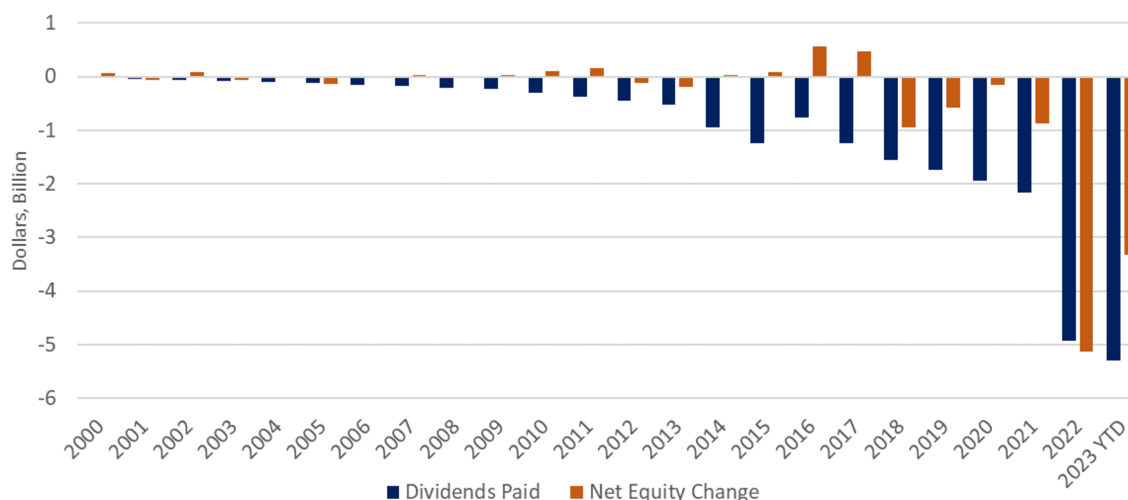
With an industry leading WTI break-even price of mid $30s per barrel, the rising oil price feeds through to profits and cash flow. The company has a long record of returning excess capital to shareholders and it committed to retuning 100% of free cash flow once their net debt is reduced to $10 billion.

<u>Almost at threshold where it will return 100% of FCF to shareholders.</u>



Source: TIM/Bloomberg

<u>Despite increasingly returning more of its excess free cash flow to shareholders already</u>



Source: TIM/Bloomberg

The company has a diversified portfolio of natural gas, heavy and light crude oil as well as bitumen and synthetic oil and operates predominantly in North America, but also has assets in the UK owned parts of the North Sea as well as in Offshore Africa. Owing to a programme of upgrading assets and

Value of investments can fall as well as rise and you may not get back the amount you have invested

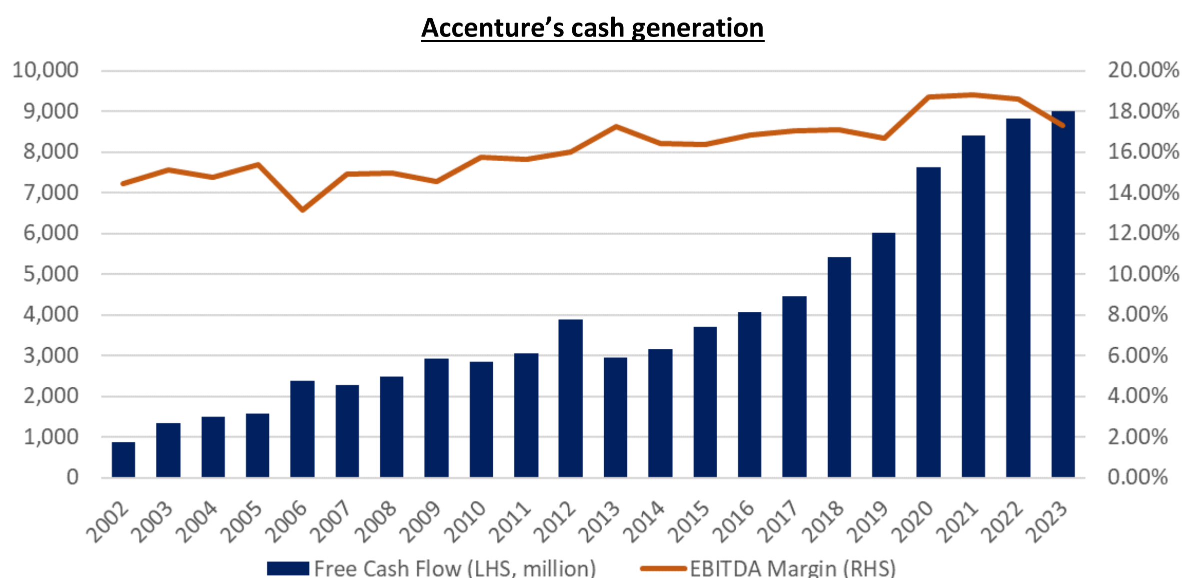
developing its mining of the Canadian oil sands, the company has a low decline asset base ,that should continue to provide a sustainable free cash flow for years to come. Along with its best-in-class break-even price, the company should be less exposed to the cycles in the oil price than manor of its major peers.

Finally, the reaction to the full-year numbers in what was our largest holding merits an explanation and exemplifies why we have a self-imposed 5% maximum position size in the Fund.

From the entrails of Arthur Anderson, post the Enron scandal, sprang a true quality company, and market-leader, namely Accenture. We have held a position in the company since 2016, from when the value of the company has trebled.

The top line has grown by 9.5% per annum over the past decade, benefiting by its leading position in digital, where it has gradually increased its exposure, so much such so that it accounts for almost two-thirds of the company's revenues today. The company is investing heavily in being ready to serve the demand for AI implantation and services, but at present the orders remain small and more in test/polit mode, but we expect that this will provide another leg of growth going forward.

The company has very low capital intensity allowing it to produce an average cash conversion rate of over 120%, a Return on Invested Capital in excess of 30%, and an average growth of free cash flow of 10.5%, thus generating the conditions for it to be able to invest in future growth, both organically and through acquisitions, as well as pay out an increasing dividend whilst maintaining a net cash balance sheet.



Source: TIM/Company Reports

The shares corrected upon the announcement of the full-year numbers, which exceeded analyst expectations on the guidance with strong double-digit growth in all four of their strategic priorities (Cloud, Industry X, Interactive & Security). The disappointment came from their guidance, which was for 2-5% growth in 2024, but excludes any growth from acquisitions, for which they normally spend $2bn each year. Furthermore, a deterioration in bookings for outsourcing was noticeable in the past quarter which came in with a book to bill ratio of 1.05x, bringing the company book to bill ratio down from 1.19x to 1.04x over the year. Whether this is a quarterly anomaly, or a worrying trend is unclear, but there have been lumpy quarters in the past.

Value of investments can fall as well as rise and you may not get back the amount you have invested

We tend not to comment on quarterly numbers and take heart in the fact that the company is investing heavily in future growth, and they also tend to be conservative in their outlook. We maintain our position in the company which we see as a global leader in its field that is growing market share and exceptional return characteristics and will look to top up our position should the period of share price underperformance continue.

The outsized correction on the numbers exemplifies why we have a self-imposed stock limit of 5% in the fund. If we had not had to trim the position over the years that we have held it, the position may well have been close to 10% of the Fund, versus the 4.7% that it was, and thus impact of a single stock on the overall performance of the Fund would have been much greater than it was. We aim to maximise risk-adjusted returns for investors.

Richard Scrope, Fund Manager, VT Global Select Fund, 30th September 2023
Data source (unless otherwise stated): Bloomberg.

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