VT Tyndall Global Select Fund

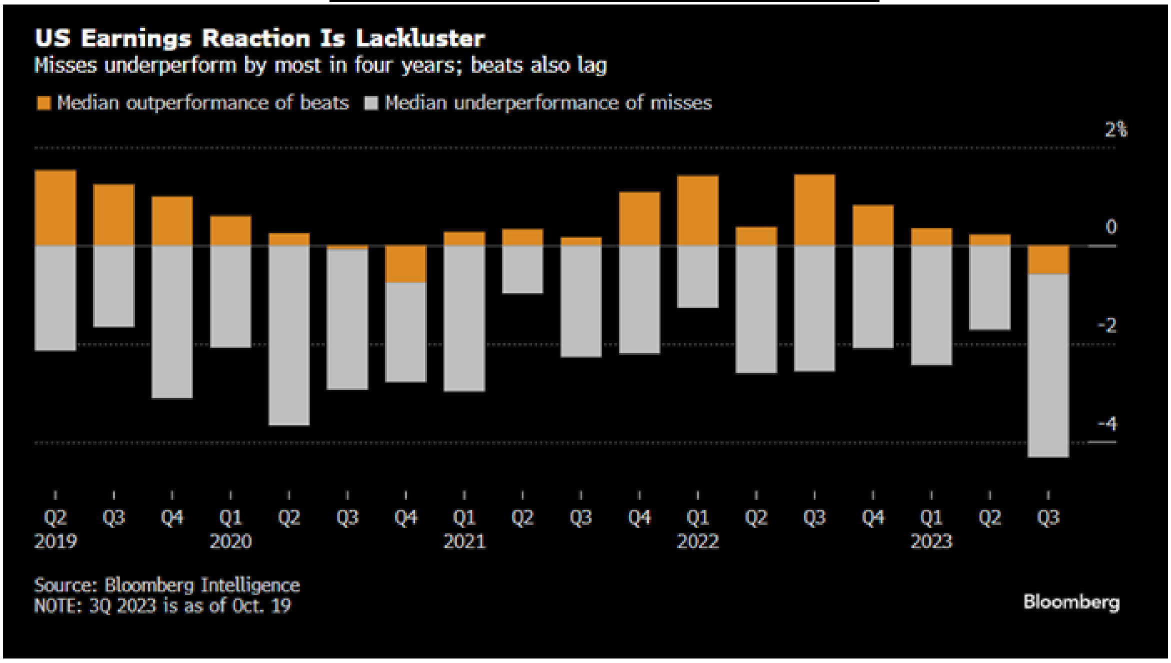
Monthly Commentary | October 2023

TYNDALL

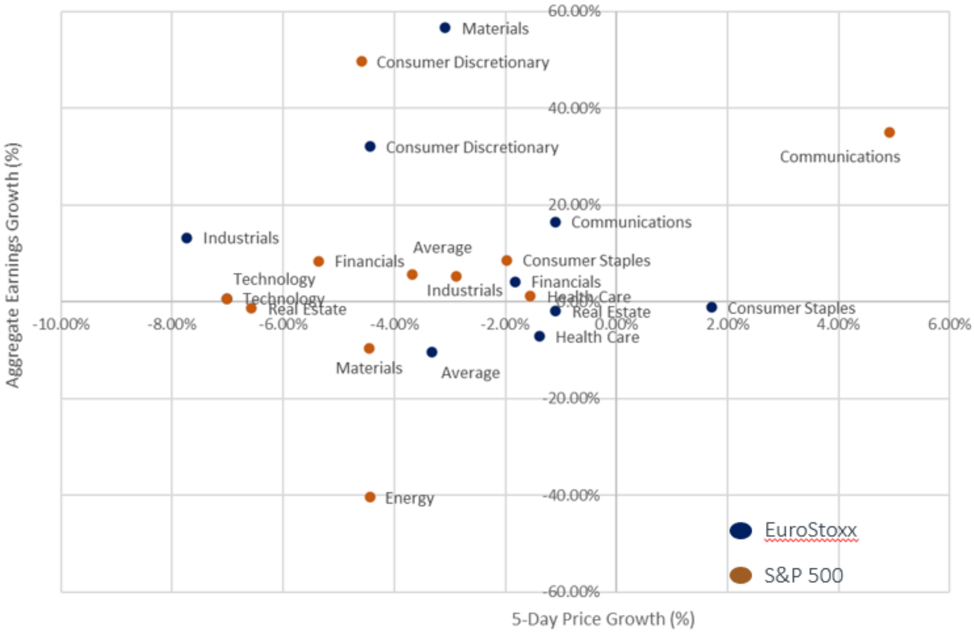
“The quality will remain long after the price is forgotten” – Henry Royce.

The third quarter reporting period is now in full flow and investor patience for any signs of weakness appears to be worn thin. As the chart below shows that the median price reaction for US companies that come in above analyst estimates has been negative for only the second time since 2019, and the reaction to missing estimates has been the most extreme in the period shown.

No Reward for coming in ahead of estimates.



Bringing this one step further down, the picture looks not much better on a sectorial level in both the US and Europe.



Source: TIM/Bloomberg

This dynamic had proved challenging for stock selection, as even exceptional results can be met by a muted stock price reaction. However, this also provides opportunities for the long-term investor, as a market that overreacts to a slight disappointment can lead to a good point to increase exposure to quality companies at more attractive prices.

Much had been made of the rise of the FANG+ stocks this year, namely Microsoft, Netflix, Meta, Broadcom, Apple, Amazon, Alphabet, Nvidia, Snowflake & Tesla, without which investors have struggled to make positive returns. Interestingly, relative to the world index this group has struggled to make any further headway since June, and this month saw the first signs of the vulnerability of such outperformance and lofty valuations.

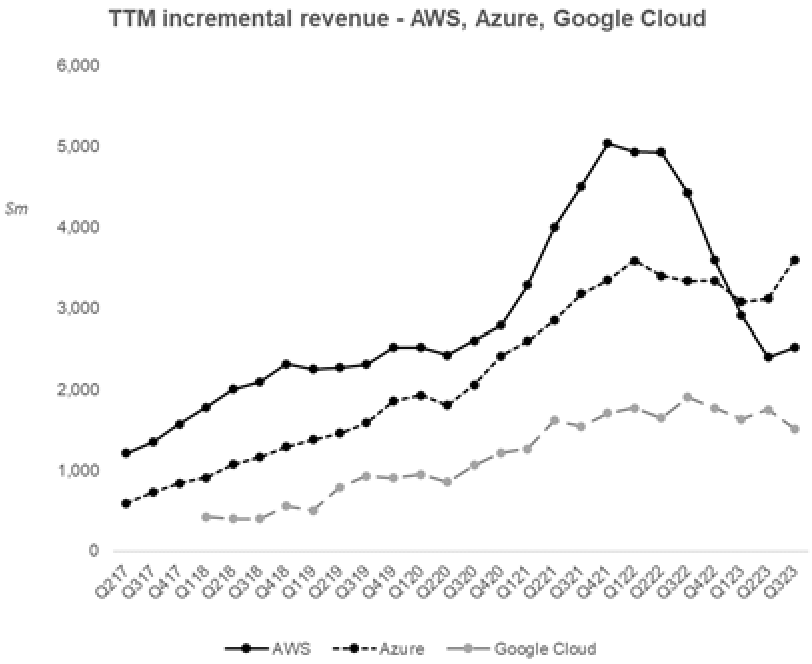
Is this a pause or triple top?

Source: TIM/Bloomberg

After weathering multiple storms and investigations over monopolistic behaviour, the much-loved Alphabet (not owned), lost a few of its cheerleaders after reporting its third quarter results. Although its advertising revenue remains strong, attention was turned to the performance of its Google cloud business, which saw its market share drop compared to good results from Amazon and Microsoft, and the operating profit margin decreased to 3.1%.

Microsoft does not separate out its cloud operating profit margin, but the Intelligent Cloud of which it is the dominant part has a margin of 48.4% and Amazon Web Services has a clean 30.3% margin' despite all three companies experiencing similar dynamics of expansion and investment costs increasing. As a result, market wiped off over 180bn of market capital from Alphabet, with the share falling over 11% in the next two days. Although the most significant move, Alphabet was not alone in seeing a correction, and by the end of October only Microsoft and Amazon of the 'magnificent seven' remained above their 50-day moving average level.

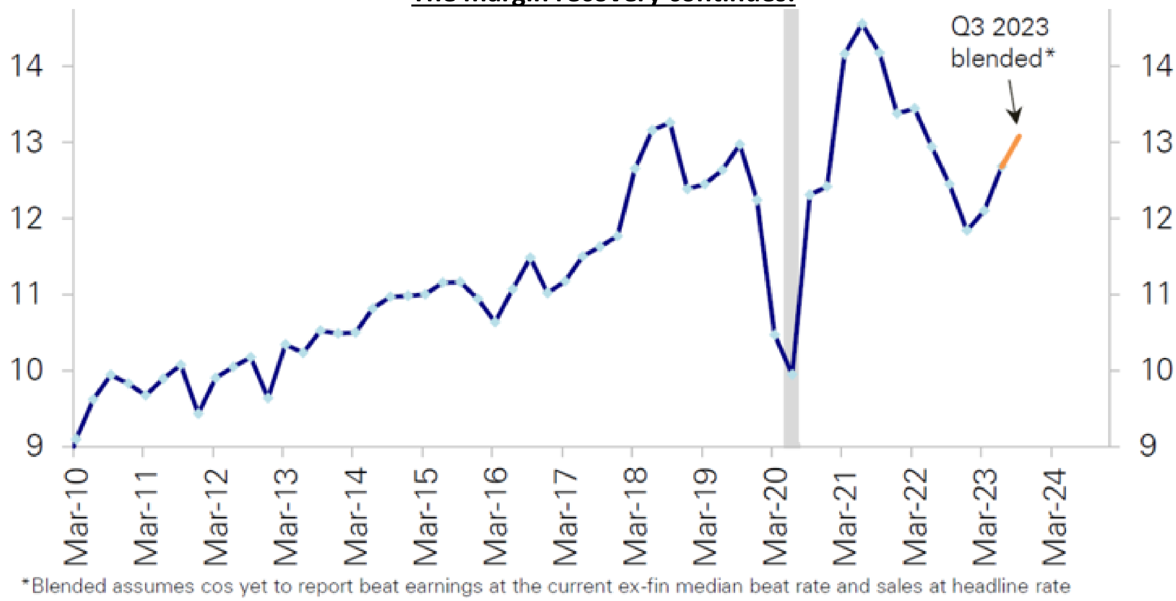
Despite Alphabet being the scape goat this quarter, should any of the other FANG+ stocks slip up we would not be surprised to see a similar reaction, and for this reason we have a self-imposed 5% maximum stock position size limit in the fund, so, however much we like the prospects of Microsoft, Apple or Nvidia (all-owned), we will never be overly exposed to such a correction; risk-adjusted returns are what we aspire to deliver to investors.



Source: Redburn Atlantic

Despite the negativity that pervaded during October, November and December have traditionally been the best two months of the year for stock market returns, and despite the mixed macroeconomic data and geopolitical tensions, we do not expect this year to be an outlier. Retail sales remain surprisingly strong, and company operating margins are once again on the rise, suggesting that the corporate world is in a much healthier position than the macroeconomic data suggests.

<u>The margin recovery continues.</u>



Source: Deutsche Bank

The VT Tyndall Global Select Fund B Acc (GBP) fell by 3.08% held back by a variety of holdings such as DSV, Zoetis, Zebra Technologies, Rational, and Thermo Fisher. Strong performance by Banque Cantonale Vaudoise, Novo Nordisk, Nike, Relx, and Microsoft to offset some of these losses. The Fund has risen by 2.22% in the year-to-date.

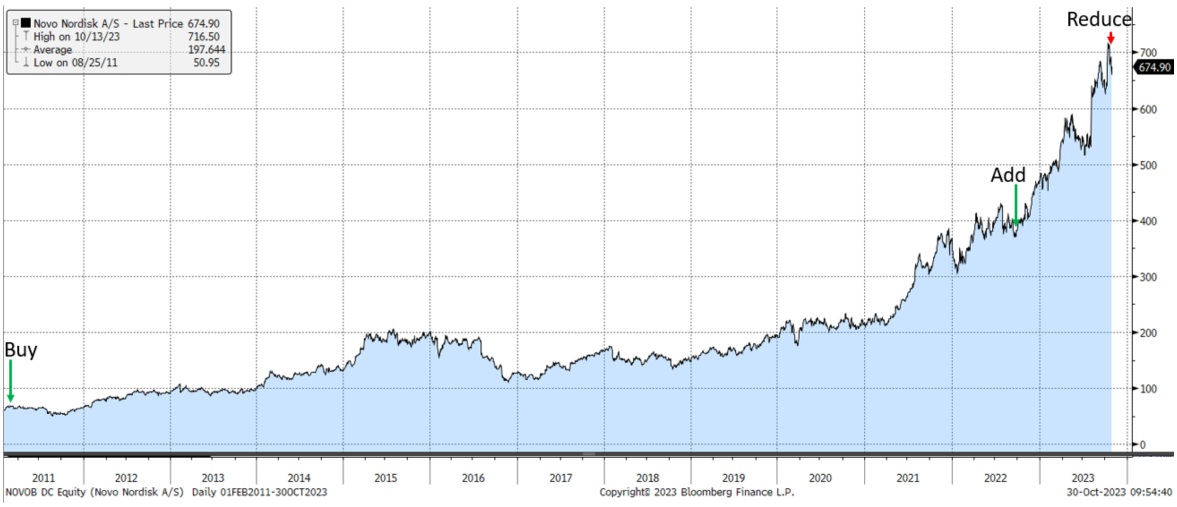
This month marks the 15-year anniversary of this manager running the Fund, during which time investors have seen their investment rise by 429.03%, which is 11.73% on an annualised basis.

Fund Activity and News

We made no new positions during the course of the month, and made only minor changes to individual stock position weightings.

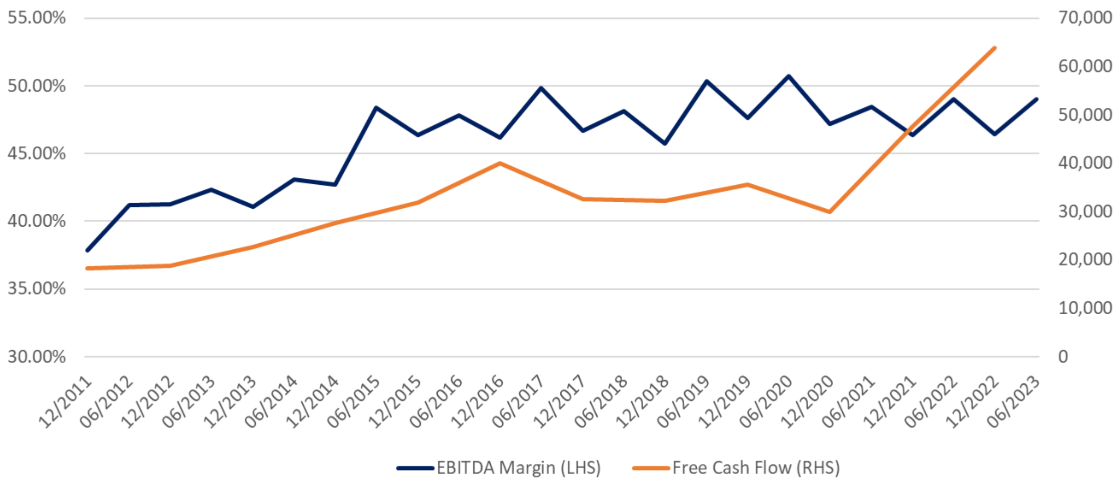
As mentioned earlier, one of our key factor risk controls in the Fund is a self-imposed limit of any single stock position weighting of five percent. This month this control led us to reduce our position in Novo Nordisk, as it breached the upper limit.

We initially brought our holding in Novo Nordisk in early 2011, when the company was primarily focused on diabetes and the growing prevalence of the disease. It was not until 2016 that the company first recorded sales of Saxenda, its first-generation obesity drug, and Wegovy, which has been the centre of so much investor interest this year, only gained approval in 2021. Over the tenure of our holding in the company it has returned almost 980%, and at the time of us reducing the position had become a ten-bagger.



Even before the hype over obesity, and the other co-morbidities in which Wegovy is proving successful in improving patient outcomes, Novo Nordisk had a long track record of increasing operating margins and generating significant cash flows and capital returns to shareholders; Including dividends paid out the stock was not 'only' a ten-bagger but a '13-bagger'.

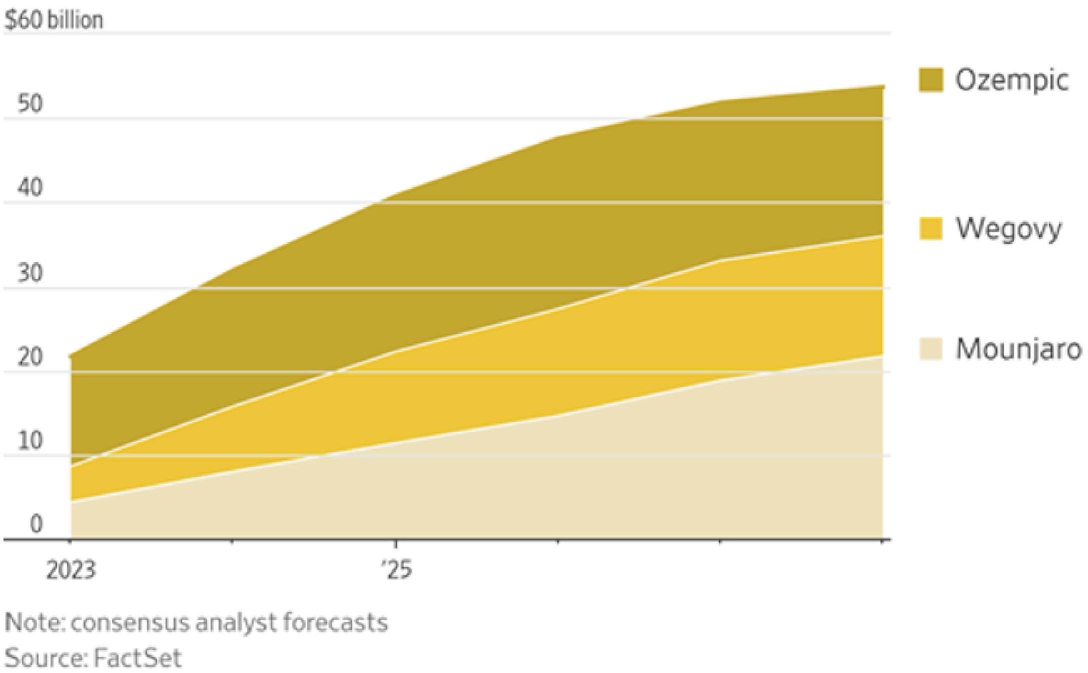
Novo Nordisk is not only an obesity company.



Source: TIM/Company Reports

The company had a net cash balance sheet since 2002 until 2022, and in June this year returned to a net cash position after a 12-month hiatus. The solid balance sheet and significant Free Cash Flow allows the company to invest significantly in research and development, which currently runs at around 13% of revenues, which in turn enables the company to bring new drugs to market, but also increase their defensive moat. At present, although many other companies are trying to develop cures for diabetes and jump on the obesity reduction bandwagon, it remains predominantly a two-horse race between Novo Nordisk and Eli Lilly, although the total addressable market remains big enough for both of them to prosper for many years to come.

Projected annual GLP-1 obesity drug sales.



*Ozempic & Wegovy owned by Novo Nordisk, Mounjaro by Eli Lilly

Richard Scrope, Fund Manager, VT Global Select Fund, 31st October 2023

Data source (unless otherwise stated): Bloomberg.

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vadevalor
AAA Rated Fund Manager

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