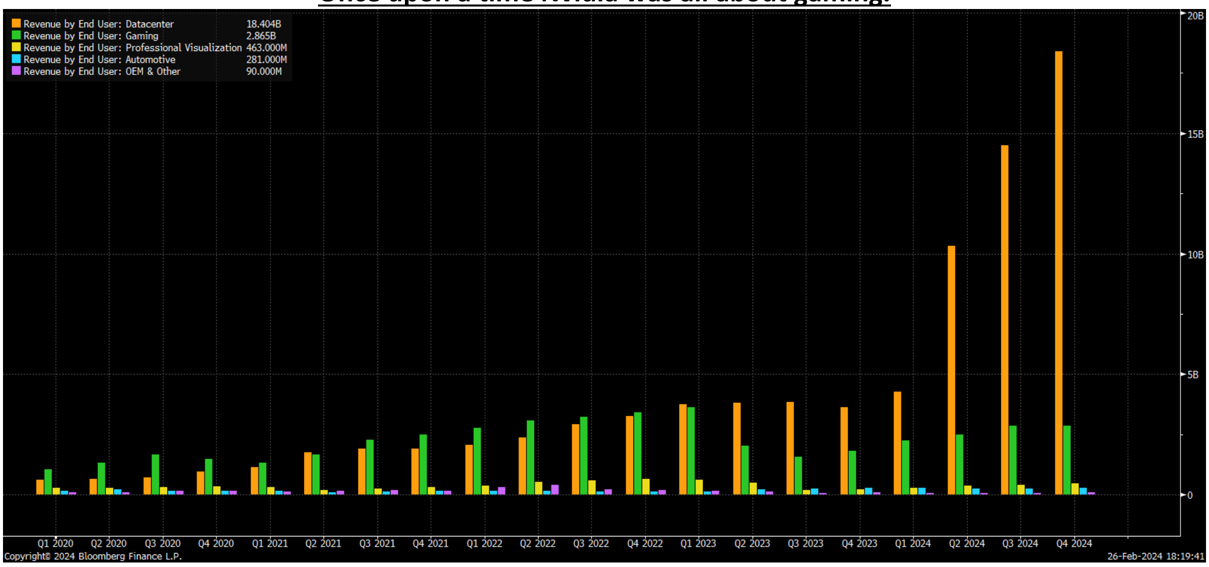
"Knowledge comes, but wisdom lingers" – Alfred, Lord Tennyson

The much-anticipated earnings from Nvidia did not disappoint, with record sales and profits coming in well ahead of the market's expectations and with even stronger guidance. Their staggering growth buoyed all AI related companies, some of which such as Super Micro Computer, and Broadcom had already experienced an exponential growth in their valuations since the turn of the year.

The Fund's has direct exposure to the growth of AI through its holdings in Nvidia and Microsoft, but also has holdings that have a second derivative exposures to the theme, such as Accenture and Schneider Electric, which are mission critical to companies that wish to implement an AI based strategy.

<u>Once upon a time Nvidia was all about gaming.</u>

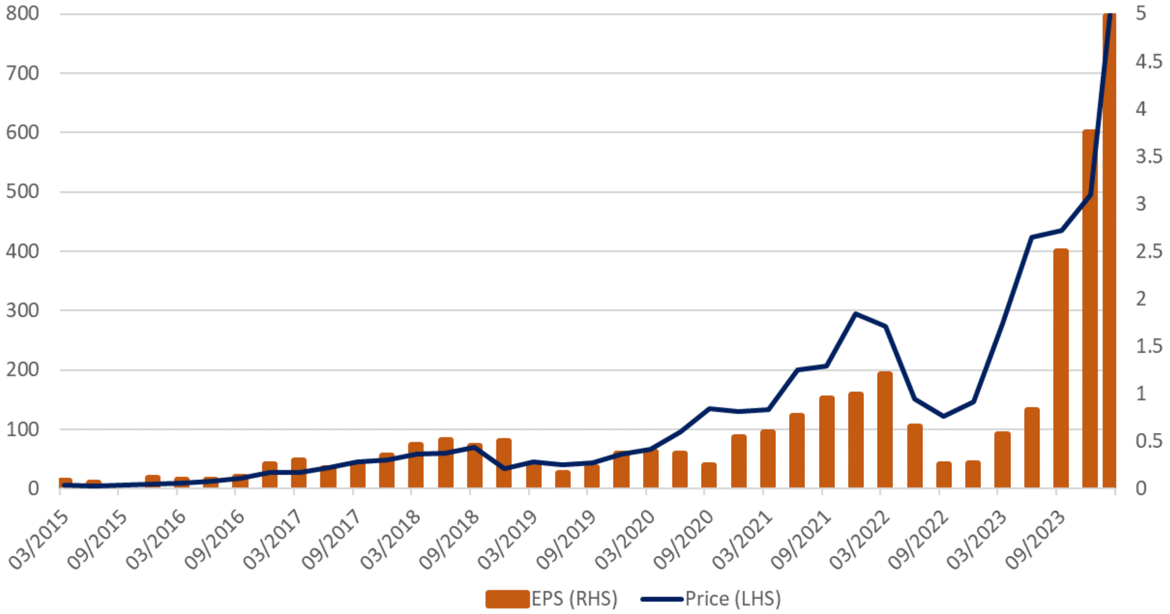


Source: Bloomberg

The magnitude of the growth in revenues from sale of GPUs for datacentres has been extraordinary as Nvidia has been anointed as the gold standard for growing AI adoption, dwarfing the revenues of its rivals such as Advanced Micro Devices and Intel, both of which have GPUs that have similar functionality to those made by Nvidia. In the latest quarter Nvidia earned $47.5bn of revenues from its datacentre sales, compared to AMD's $2.3bn and Intel's $4.0bn.

When we initiated purchased Nvidia in early 2023, the company traded on a P/E multiple of 48x, and despite the 160% increase in the share price since then, such has been the increase in earnings from the datacentre segment, that the P/E multiple has decreased to 32x, and the EV/EBITDA valuation has fallen from 43x to 26x.

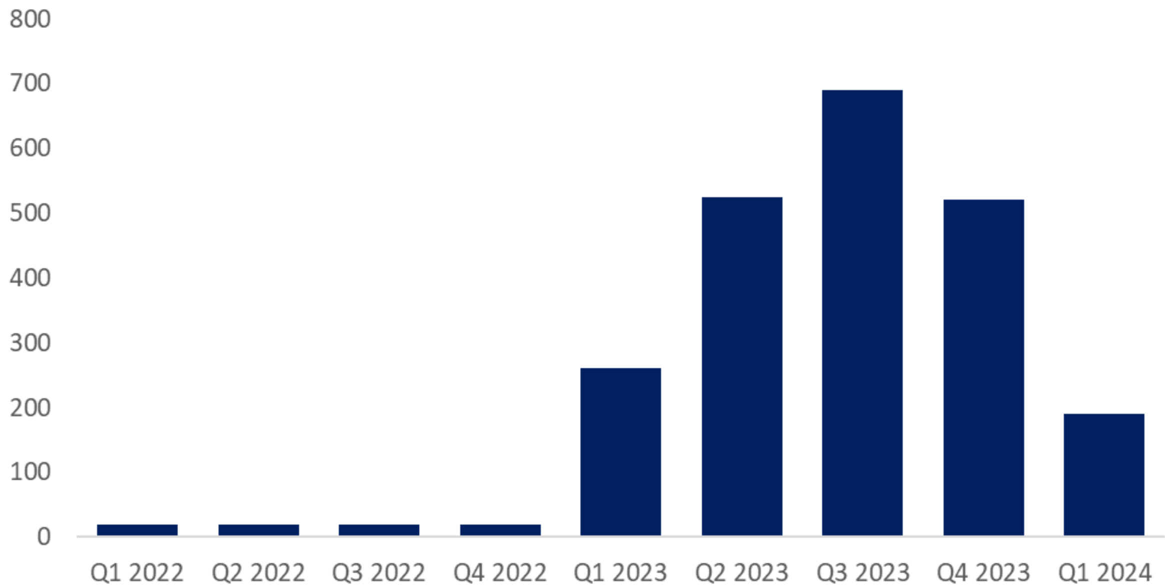
Nvidia's earnings keep pace with its valuation.



Source: TIM/Bloomberg

While the speed of growth will naturally slow as the comparisons become harder during the coming quarters, the company noted that demand will continue to outstrip supply through 2024 and expect a 9% increase on the record sales the most recent quarter in the coming quarter, which may drive down the valuation multiples even further. Despite the obvious increase in demand for AI solutions and products, it is noticeable that the AI related terms are falling down the agenda on earnings calls and have now dropped below geopolitical tensions and uncertainty in the count of how many times they are mentioned, suggesting that the hype might be fading a little.

References to AI, Machine Learning & Generative AI in earnings calls.

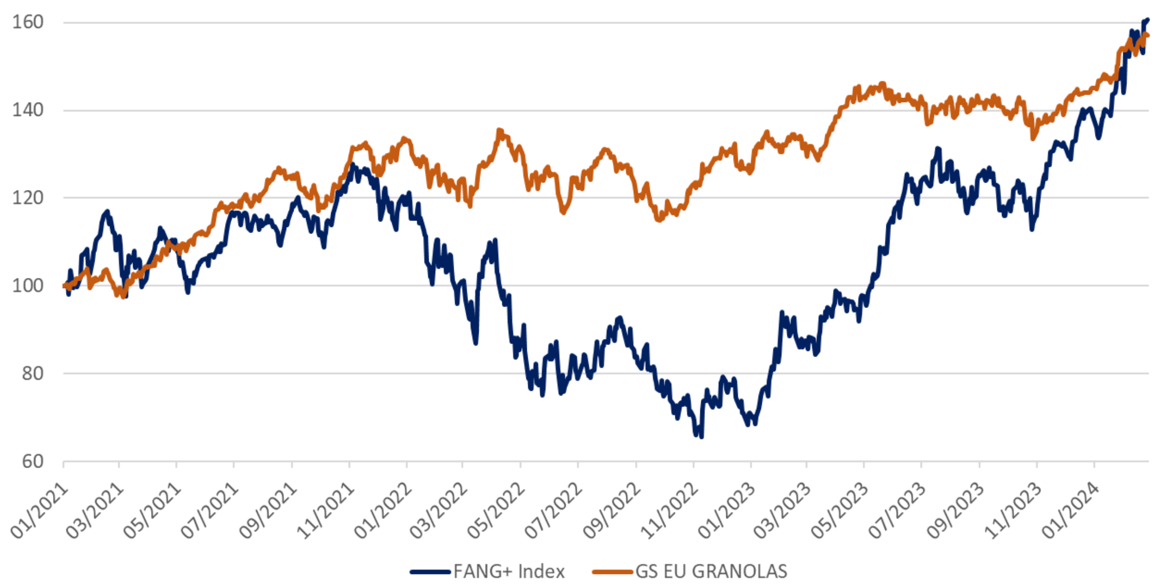


Source: TIM/Bloomberg

While FAANG has become common day parlance and much has been written (by us included) about how the NYSE FANG+ constituents (Facebook, Apple, Alphabet, Nvidia, Meta, Broadcom, Snowflake, Amazon, Microsoft and Tesla) accounted for almost all the S&P's total return last year, it is encouraging to see that the breadth of the market has widened this year, and some of the FANG+ constituents such as Tesla have begun to lose their shine.

Europe is regularly lambasted as a poor relation to the US, where companies fail to produce comparable returns to their peers on the other side of the Atlantic. As Global fund managers we refute this assumption and have regularly held a significant part of the Fund in companies listed in Europe as we believe that best-in-class, quality companies are not exclusive to the US, despite the MSCI Index now having a weighting of over 70% in US-listed companies. We believe in being index indifferent and having a high active share, by focussing on finding these best-in-class companies and focusing more on where they derive their revenues and profits than where they have chosen to list. Goldman Sach has coined a new acronym, for a selection of large European companies that amazingly have had almost the same return as the FANG+ index over the past three years, and with considerably lower volatility and attention in the media. The so called "Granolas" comprises of GlaxoSmithKline, Roche, ASML, Nestlé, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP and Sanofi.

Choose your acronym and invest globally.



*Normalised as at 01/01/2021
Source: TIM/Bloomberg

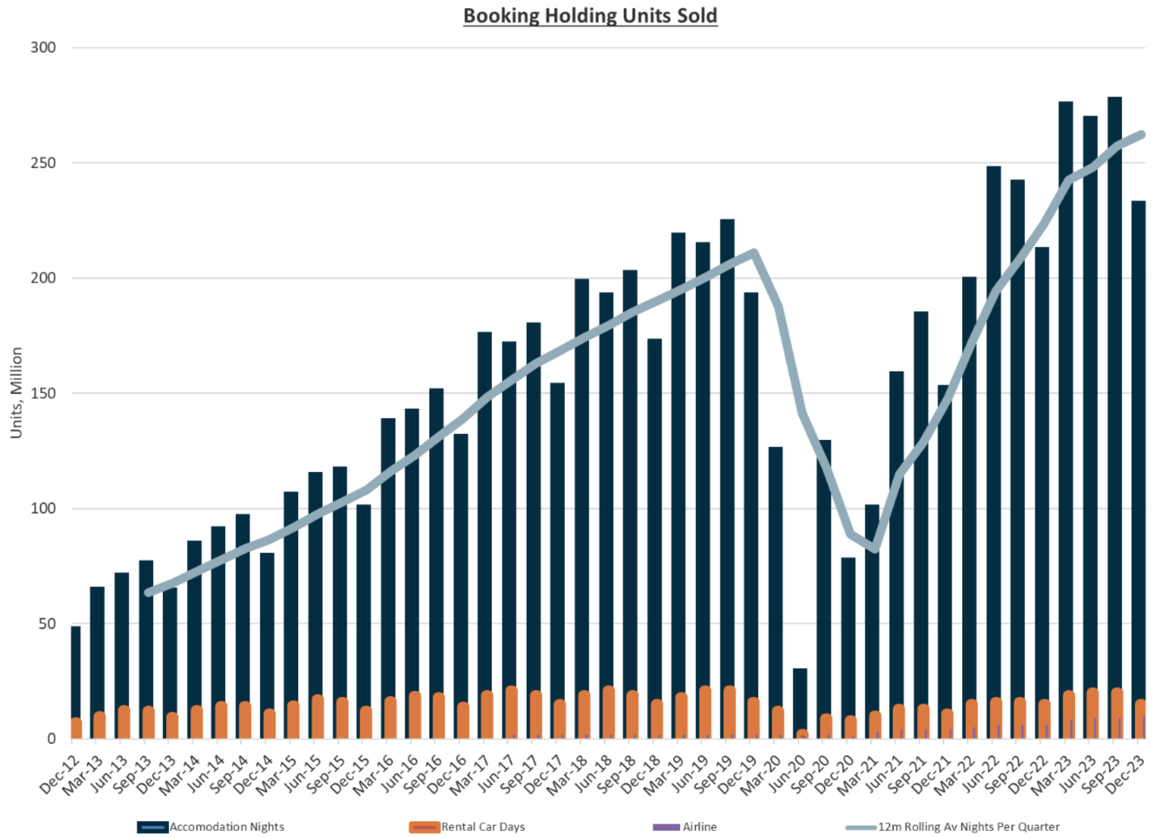
The VT Tyndall Global Select Fund B Acc (GBP) rose by 2.49% over the month reaching a new all-time month-end high, helped by a variety of holdings such as Nvidia, Schneider Electric, Zebra Technologies, United Rentals, and American Express. Detracting from performance were DSV, Nestlé, Heineken, Roche, and Amadeus all of which failed to make gains over the month. The year-to-date return now stands at 4.80%

Fund Activity and News

The Fund added no new positions or sold any existing positions during the month of February. Meanwhile, the corporate world continued to roll out its annual reports for revenues and profits in 2023 as well as its outlook for the year to come. Although for the most part companies reported strong profits for the year just gone, Mr Market punished any company that put out cautious guidance for the forthcoming year. L'Oréal was one such company, however the pull back post its results was more than recovered in the following week as those investors who prefer to shoot first and ask questions later made way for fundamental investors who do not judge a company on a single quarter's outlook and can see through the market noise.

Our holding in Booking Holdings was another company that faced the wrath of short-term investors, falling 10% on the day of its results having guided to >8% revenue growth and EPS growth >14% for 2024, given the geo-political uncertainties in the world that impact customers propensity to travel and post COVID normalisation. This is despite recording a record level of bookings for a fourth quarter, which is cyclically smaller than the other three quarters of the year; the quarter sales were even above pre-pandemic levels and with a better average daily rate.

May mmm

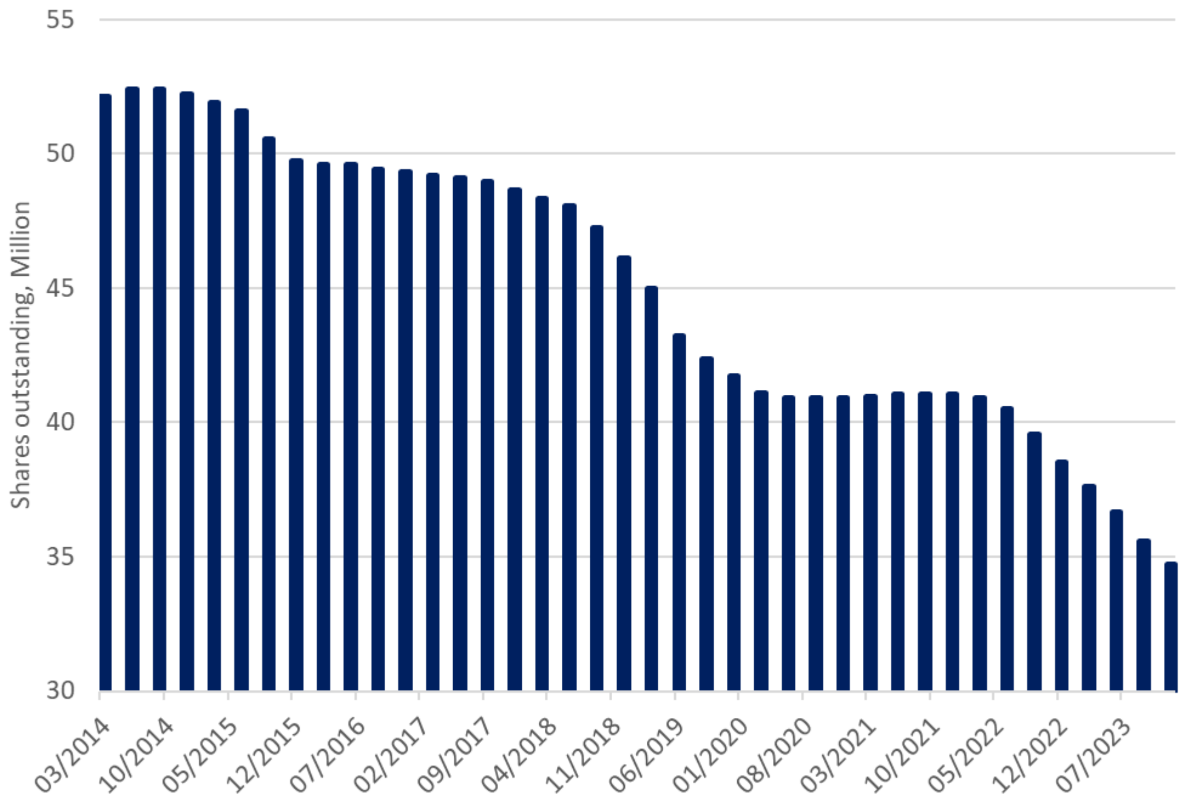


Source: TIM, Company Reports

Given that Glenn Fogel, the CEO, has a history of being conservative in his forecasts, and subsequently beating them in his 7-year tenue as CEO. We would expect this year to be no different, especially as his forecasts are based on the conflicts in the Middle East and Ukraine lasting all year, so any ceasefire or resolution may lead to an immediate uplift in the assumed growth rate. Historically, these price corrections are good times to invest, as we did in 2017 when the company had a similar 10% correction, albeit know as Priceline at that time, upon reporting that it expected the coming quarter would see lower margins as it invested in long-term growth, since when the share price has doubled despite the pandemic and the recent correction.

An additional surprise in the recent release is the introduction of a dividend, in addition to the buybacks that the company has regularly undertaken. Since 2014, buybacks have not only offset stock-based compensation but also reduced the number of shares outstanding by 33%, despite the pause during the pandemic. Given that the current buyback program still has authority to retire a further 8.5% of market capitalization (3 million shares), the introduction of a dividend is simply an added bonus in terms of total return to shareholders and may bring the company to a wider target audience.

Booking Holdings outstanding shares begin to vanish.



Source: TIM/Bloomberg

Richard Scrope, Fund Manager, VT Global Select Fund, 29th February 2024
Data source (unless otherwise stated): Bloomberg.

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vadevalor
AAA Rated Fund Manager

Disclaimer

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