February Review

The Fund's F Acc share class units returned 8.58% compared to the S&P 500 Index ETF return of 4.05% in sterling terms.

The positive tone in equities has continued in February, and importantly the broadening out of participation has also continued, which is good for funds like ours that have high active share. We mentioned Super Micro Computer in last month's review as the best performer, +86% in January, and it has continued its swift ascent and was up another 63.5% in February. While we continue to like this company for the longer term, we have trimmed the position twice as the stock was going parabolic. We don't want to see the stock have a significant correction when we have our biggest size on, so we have sold into strength. We may well add back to the position once things have calmed down a bit; it's +189% year to date.

Another big performer in the month was Celsius, the energy drink company. This has run up 63% in part due to big earnings beat on the last day of the month. This company is growing sales at 100% a year and is now taking share from Monster and Red Bull. It is right at the beginning of its international expansion. It popped 20% higher on the quarterly results and we believe is well positioned for further success. Axon Enterprise, formerly known as Taser, also reacted positively to earnings results and was another key contributor to performance.

However, it wasn't all positive. Our holding in Palo Alto Networks fell significantly, around 30%, on its quarterly report, where it spooked investors by saying that they are going to be giving some product away for free, to entice new customers to sign up. Cyber security is one of those industries where customers have no incentive to cut corners or to not invest, so it was quite alarming to hear Palo Alto, one of the best companies in the space, indicate that competition was so tough that they had to resort to freebies. This was a thesis breaker for us, and we have sold the stock. It had been a good performer thus far in 2024 so it wasn't a losing investment, but it was painful to see it give back much of the gain we had made. We still own Zscaler and CrowdStrike, two of the other major players in the space, as we believe this is a Palo Alto problem rather than an industry wide problem.

Performance is also being helped by not owning some of the mega caps, as they underperform. The big one is Apple, which has been particularly weak, and has fallen 6.6% so far in 2024. We have sold our position in Google; their roll out of the AI platform Gemini fell flat on its face, as it showed there was clear bias in its programming. Our concerns are about management, how could they have let such an obvious glitch happen in such a public way? Perhaps they are further behind in the AI race than we thought and perhaps management is too focused on diversity over operational execution.

Market Outlook

We remain bullish on equities and take heart in the good performance year to date of all the major indices. The Nasdaq, S&P 500 and Dow Jones have all made new all-time highs and this is a very bullish sign. The Russell 2000 has not made new all-time highs, but it has started to perform better of late. Earnings have, for the most part, been strong and have beaten expectations.

We are not big believers that there will be several rate cuts this year, despite the fact that market expectations are for 3-4 cuts. We are not that convinced that inflation has gone away and are still in the higher for longer camp. However, equities can handle that situation quite well, it's the sudden shocks and surprises in inflation and rates that unsettles markets and we don't see that happening in 2024.

Felix Wintle Fund Manager, VT Tyndall North American Fund, 29 February 2024

Data sources: Strategas Research Partners & Bloomberg.

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