"The quality will remain long after the price is forgotten" – Henry Pryce

Last month we wrote: *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.*

The chart below shows that if you rebalance the S&P500 and the MSCI Europe to account for their different weightings by sector, on this basis, it can be seen that it has only been in the past year and a half where the US has significantly outperformed Europe, reinforcing the point that although the headline valuation of Europe may look to be at a record discount to the US, this is more of an optical illusion, rather than a problem with European companies themselves. The Fund holds one third of its underlying assets in Europe and the UK, compared to the index weighting of 18%.

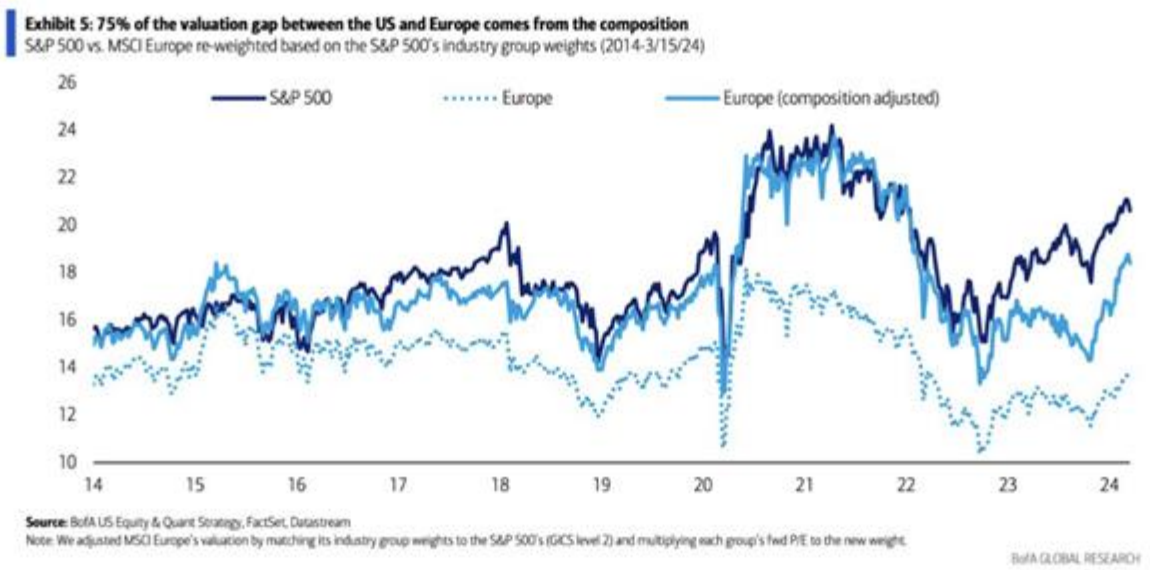
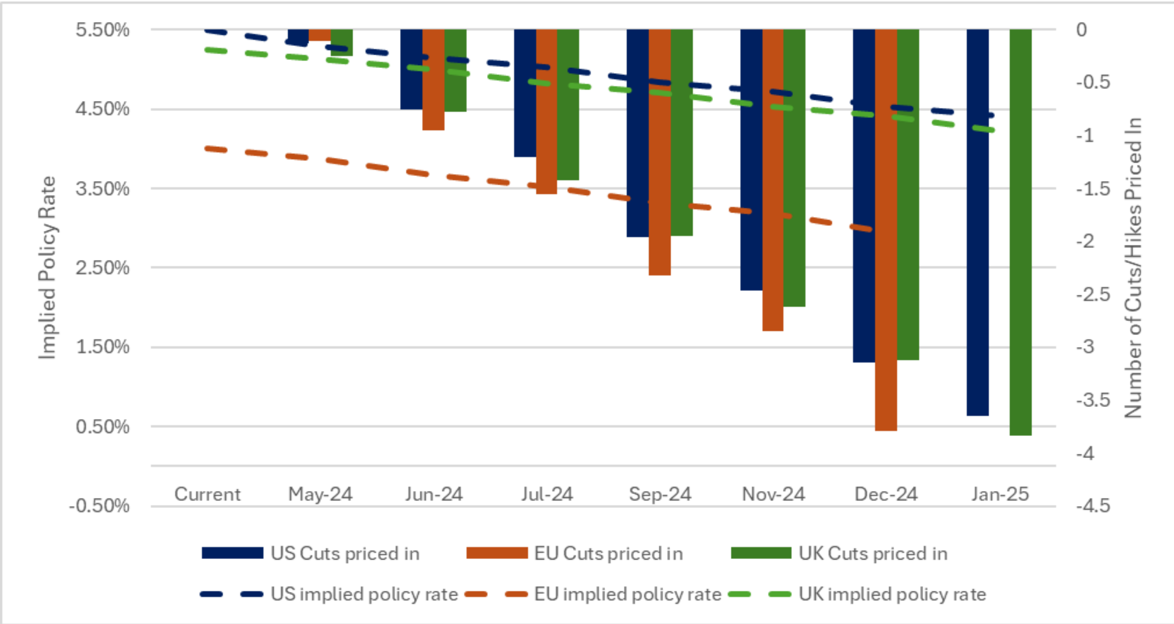


Exhibit 5: 75% of the valuation gap between the US and Europe comes from the composition
S&P 500 vs. MSCI Europe re-weighted based on the S&P 500's industry group weights (2014-3/15/24)

Source: BofA US Equity & Quant Strategy, FactSet, Datastream
Note: We adjusted MSCI Europe's valuation by matching its industry group weights to the S&P 500's (GICS level 2) and multiplying each group's fwd P/E to the new weight.

Central bankers have been openly talking about cutting interest rates this year, with Jerome Powell now guiding the market to three cuts during the course of the year, although the market still predicts more than that. The timing of any cuts will depend on the central bankers view on the economy and inflation; historically their predictions have been wide of the mark, so the market views them with some degree of scepticism.

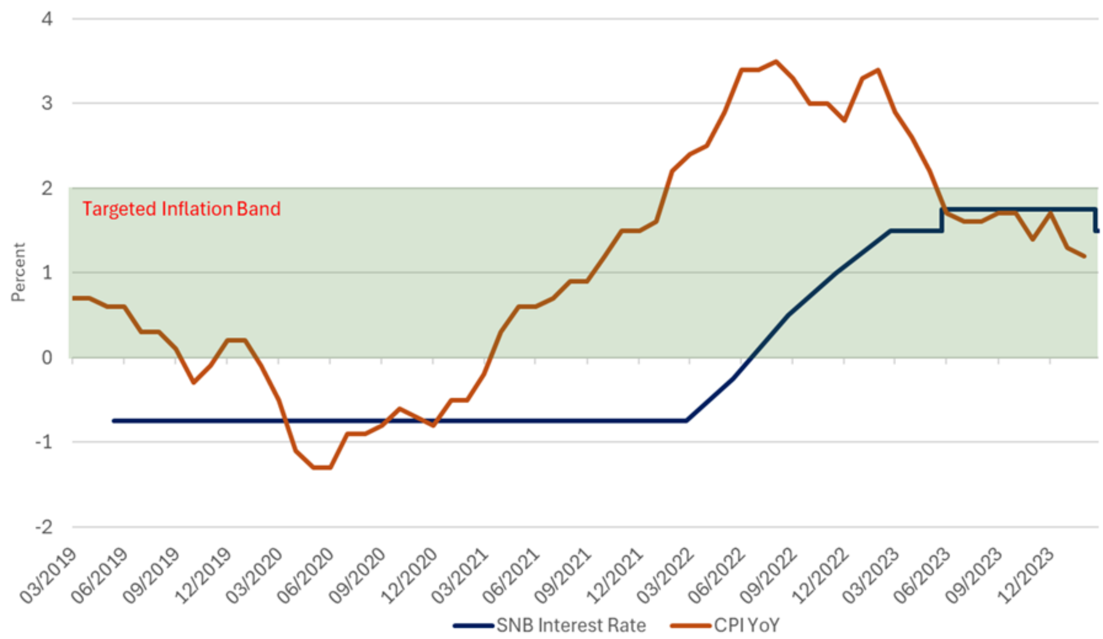
The market doesn't believe the Central Bankers.



Source: TIM/ Bloomberg

Contrasting with the herd instinct that most central bankers adopt, the Swiss broke away from the pack this month, cutting interest rates from 1.75% to 1.50%. With inflation well within their target range, having peaked at 3.5%, the country has been an anomaly during the recent period of inflation shocks.

The Swiss show the Western world the way.



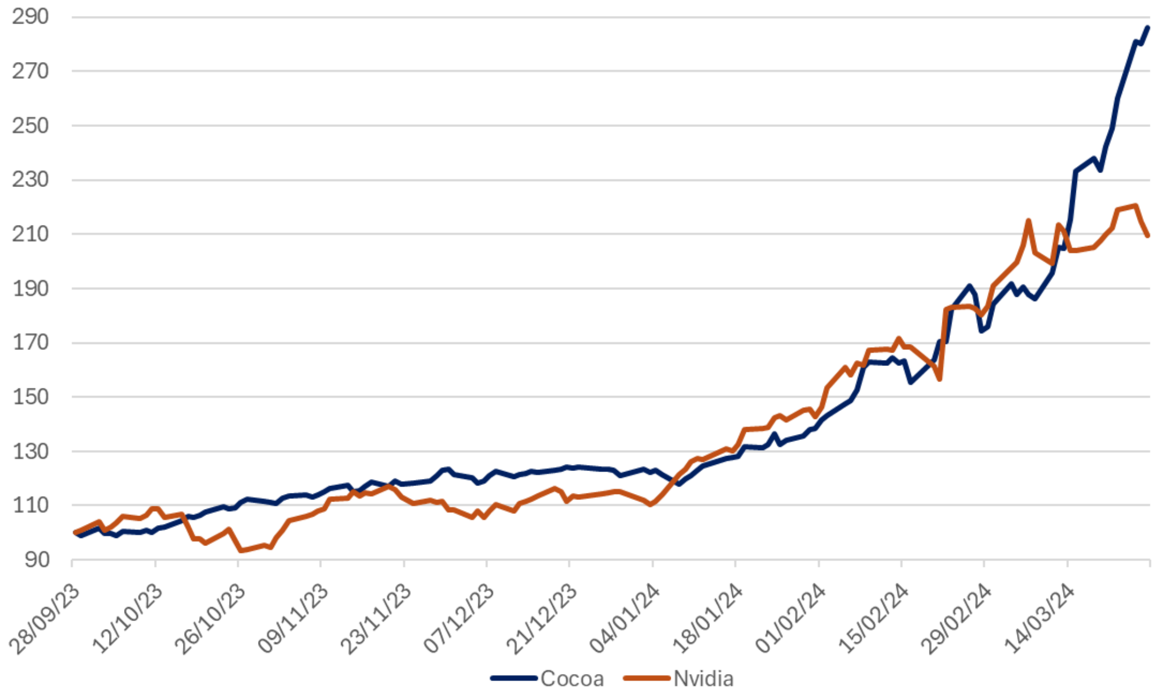
Source: TIM/Bloomberg

Going one step further Japan finally announced that it will abandon its policy of yield curve control and the market now expect interest rates to increase to 0.3% by the end of the year after eight years of negative interest rates. The future interest and exchange rates however are likely to remain in a state of flux given the Bank of Japan's holdings in Japan's Government Bonds (JGBs) which it used to implement yield curve control. Their current holding in long-term JGBs amounts to ¥546.9 trillion, or 53% of all JGBs in existence, which has caused other traditional buyers to reduce their holdings, if short-term instruments are included then the BOJ own 46.3% of all Government debt versus 19.4% for insurance and pension funds, 13.8% by overseas investors and 12.5% by banks.

The issue here is how the BOJ plans to unwind this position. In the latest bi-annual recalculation of book value, which assumes that the positions are held to maturity, registered its largest unrealised loss of ¥10.5 trillion in September up from ¥157.1 billion in March, raising concern over the BOJ's finances. When this month's report is released, the loss is likely to be even larger, which may mean the BOJ is forced to sell some of these holdings before maturity, realising the losses, long-term interest rates would be likely to rise and possibly need an infusion of public capital from the government.

While Switzerland may have inflation under control and interest rates already being cut, there is one of their key import (and export) costs that has seen a momentous increase. As the chart below shows, even the performance of Nvidia this year looks paltry in comparison, namely Cocoa. The diminishing size of your Easter egg may not be due to your children helping themselves to it, but the changes decided by the manufacturers to offset the input costs. Cadbury (Mondelez) and Lindt have already admitted to doing this, however if you are of American stock, there is less to worry about, as Hershey is <30% cocoa!

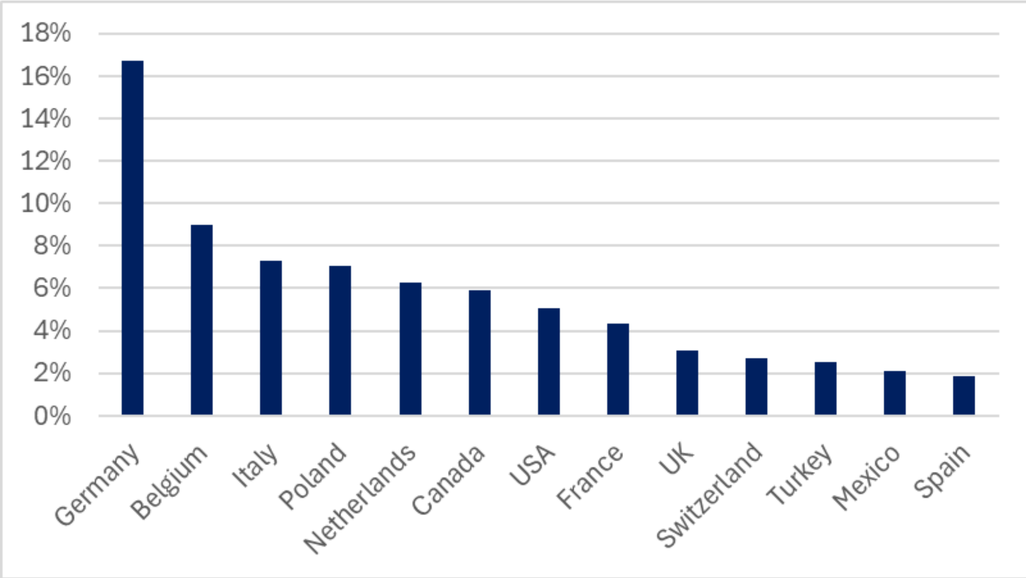
Why your Easter egg shrank.



Source: TIM/Bloomberg

Switzerland imported $741m worth of cocoa and cocoa preparations in 2023, and over 70% of all the chocolate produced in Switzerland is exported. Surprisingly for a country stereotypically known for watches, chocolate and cheese and cuckoo clocks, Switzerland is only the 10th largest exporter of chocolate and it only accounts for 0.28% of all exports. In fact, the main exports from the country are precious metals and stones (30%), pharmaceutical products (24%), organic chemicals (9.6%) and then clocks and watches (7.1%).

Your chocolate may not come from where you expect: exports of global chocolate market.



Source: TIM/ OEC.world

The VT Tyndall Global Select Fund B Acc (GBP) rose by 1.57% over the month helped by a variety of holdings such as Canadian Natural Resources, Nvidia, Next, JP Morgan and Zebra Technologies. Detracting from performance were Accenture, Nike, Zoetis, Apple and Brenntag all of which failed to make gains over the month. The year-to-date return now stands at 6.52%.

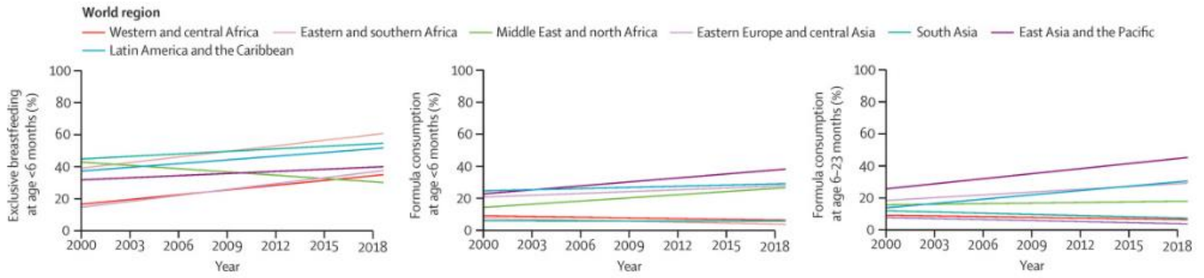
Fund Activity and News

The Fund made a couple of changes during the month. We sold our position in Abbott Laboratories. The company had faced a recall of its infant formula in 2022 after a potential Cronobacher sakazakii bacterial infection that can lead to illness or death of infants. Earlier this month Mead Johnson was ordered to pay $60 million to a mother whose baby died of intestinal disease after using their baby formula. Although Abbott was not a co-defendant in this case, it has 993 cases outstanding, in which many are alongside Mead Johnson. Given that infant nutrition is 10% of company revenues and the damages are now incalculable and may hang over the company for decades, this provided a warning for us as investors.

Infant deaths are a particularly emotive catastrophe, and implication for a company being responsible can have very damaging and lasting consequences. If evidence of this is needed, the example of Nestlé should serve as a good example; having been implicated in a 1974 report, which accused it of causing infant illness and death by promoting infant formula over breastfeeding, it faced an international boycott in 1977. This boycott was despite the company winning its libel action against Third World Action group and it argued that its actions could not be directly linked to malnutrition or death.

The issue of promoting the sale of infant formula still impacts the industry today, with the WHO and UNICEF complaining that it should be regulated like a medicine rather than a food product. The bodies argue that the International Code of Marketing of Breastmilk Substitutes which was introduced in 1981 post the Nestlé scandal, should be more rigorously enforced, especially in age of digital media. As a study by the Lancet showed, although work by multiple international organisations has increased the percentage of mothers breastfeeding it remains below the 50% target, especially in low-income regions.

Formula consumption by region.

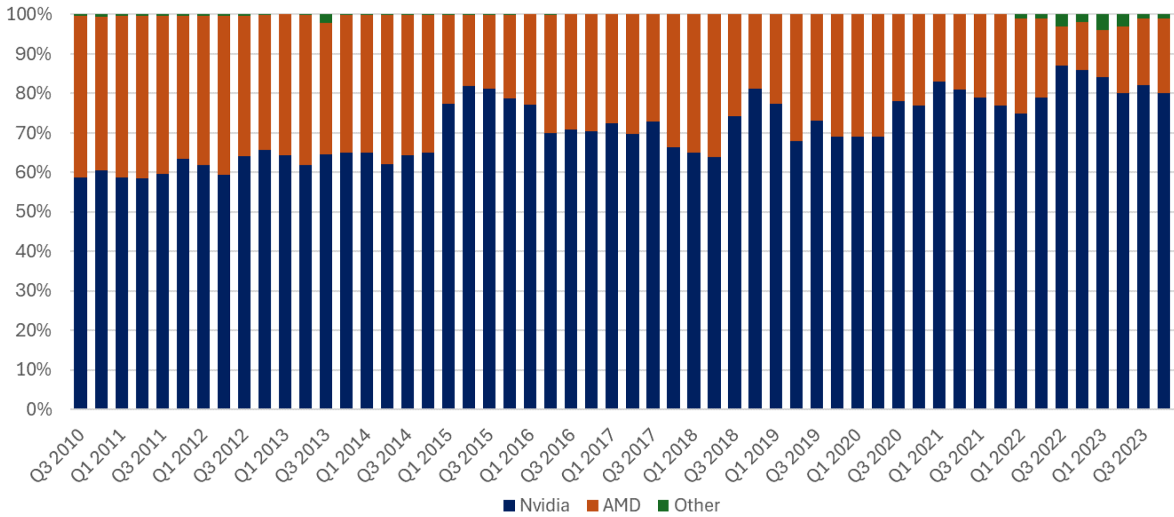


Source: The Lancet

With Mead Johnson (Reckitt) and Abbott now in the front line for the wrath of the international bodies and litigation, we have concerns about the potential impact and longevity of litigation and decided to place the fund’s capital elsewhere.

The war in graphics processing units (GPUs) is in full flow, where Nvidia has taking the driving seat and is seen to be throwing down the gauntlet to all the other competitors, most recently at this month’s three-day product update event. Although at 80% of the Add-in board market Nvidia seems unassailable, since the launch of the MI300x chip, AMD has seen its market share increase by 7% to 19% of this growing market. In the final quarter of 2023, global shipments increased by 32% from the previous quarter to 9.5 million units, achieving a third consecutive quarter of increased shipments.

Add-in board market share by company



Source: TIM/Jon Peddie Research

While we do not presume that AMD will supplant Nvidia, we do believe that there is room for both companies to thrive. One of the primary reasons why AMD has an important role to play in the market is that the end customers do not want to be over-reliant on a sole supplier. As such AMD has large contracts and partnerships with Microsoft, Meta and Oracle as well as many others, who now face a nine-month backlog for H200 GPUs and over a year should they want the new Blackwell B200 GPU that Nvidia launched this month.

Performance of AMD’s MI300x vs Nvidia’s new and old GPUs

	Nvidia Blackwell B200	AMD MI300X	Nvidia H200
FP4	20 petaFLOPS	N/A	18 petaFLOPS
FP8	10 petaFLOPS	5.2 petaFLOPS	4 petaFLOPs
INT8	10 petaOPS	5.2 petaOPS	4 petaFLOPS
FP16	5 petaFLOPS	2.6 petaFLOPS	2 petaFLOPS
TF 32	2.5 petaFLOPS	1.3 petaFLOPS	989 teraFLOPS
FP64	45 teraFLOPS	163 teraFLOPS	40 teraFLOPS
Memory	192GB HBM3e, 8TB/sec	192GB HBM3, 5.3TB/sec	141GB HBM3e, 4.8TB/sec
Power	1,200W	750W	1,000W

*OPS= Operations per second, FLOPS= Floating-point operations per second
Source: TIM/ Company Data

One of the other reasons that AMD has managed to regain some of the market share from Nvidia was that it has kept pace in the operational functionality of its GPUs, especially in the top end. The MI300x briefly became the market leader, surpassing the H200 and H100 GPUs at almost every data point; even today it remains the leader in the most precise, computationally intensive FP64 format. We expect that AMD will not stop at the MI300x and will continue to launch upgrades throughout the year as the battle with Nvidia ensues.

Although AI has been developed for many companies for many years, the explosion in interest in generative AI has seen many companies expand their use cases, and in turn this has led to an increase in data centre build out to incorporate the step up in compute requirement. In 2022 AMD estimated that the TAM for the data centre market would increase from $30 billion in 2023 to $150 billion by 2027, however upon launching the MI300x the company increased the TAM estimates to $45 billion and $400 billion respectively. We believe that we are still in the foothills of AI adoption and thus the hardware vendors are in the sweet spot of a multi-year build out.

On of the major differences between Nvidia and AMD is that AMD adopts an open ecosystem and interoperability model while Nvidia uses its proprietary Cuda software. This open ecosystem has led Lamini to partner with AMD. Lamini is the leading company that provides the backbone to enable companies to develop and control their own large language models (LLMs). LLMs are a rapidly growing feature of generative AI, helping the companies analyse their own data sets and predict outcomes specific to the customer. Another difference is the cost of the GPUs as performance per kilowatt hour is a key factor for CFOs and CTOs deciding which GPUs to use in their infrastructure build out, here the MI300x has a lower power consumption than the H200 and costs approximately $20,000 versus $30,000 for the H200 and $30,000-$40,000 for the Blackwell GPU.

While we still believe in the growth and potential of Nvidia, which we have owned in the Fund for the past year, we believe that there is plenty of opportunity for both them and AMD to grow profitability given the scale of the market and thus we have added a position in AMD to capture this opportunity.

Richard Scrope, Fund Manager, VT Global Select Fund, 31st March 2024
Data source (unless otherwise stated): Bloomberg.

Contact Details:
Fund Manager – rscrope@tyndallim.co.uk
Fund Distribution – trussell@tyndallim.co.uk

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