"It is not enough to have a good mind, the main thing is to use it well" – René Descartes

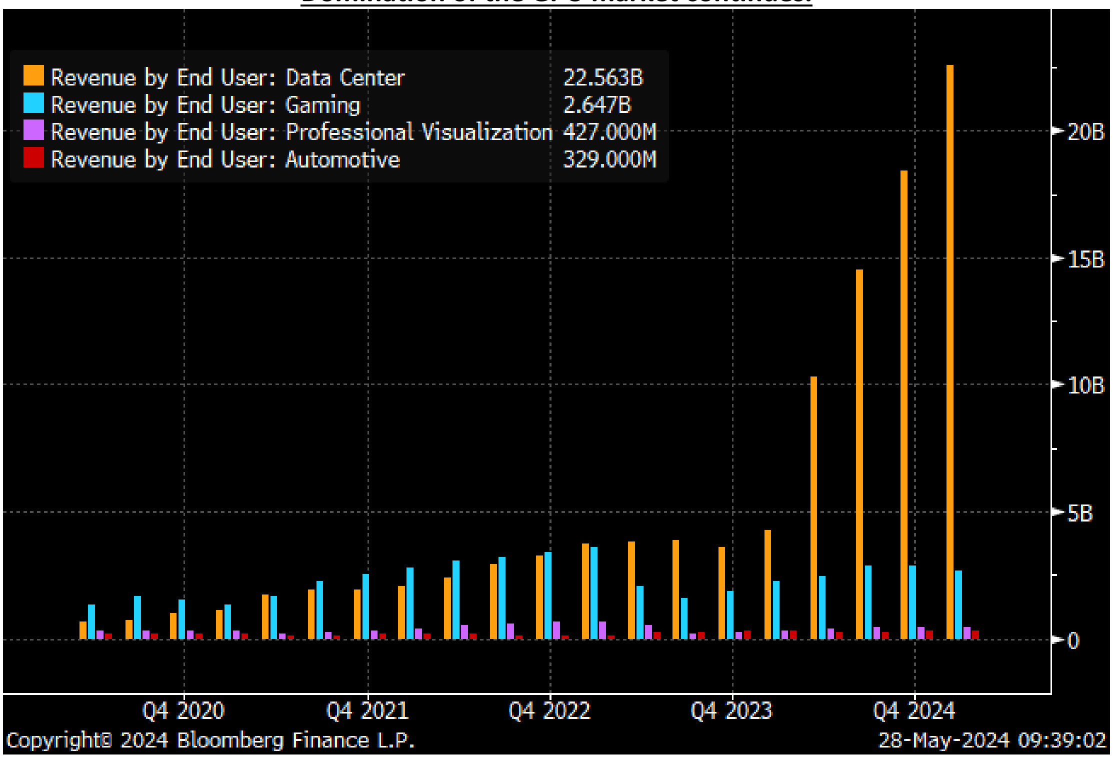
Global stock markets started the month of May on a positive footing, reaching all-time highs in the middle of the month, before interest rate expectations took a bit of the optimism out of ballon towards the end of the month. Nonetheless, companies seem to be upbeat, despite the uncertainties that surround the upcoming US Presidential election.

The surprise announcement of a July UK general election has less impact on global stock markets, especially as investors appear to think that the result is a foregone conclusion and the only question is the scale of the win. The opposition has been at pains to calm the corporate world with their "smoked salmon and scrambled eggs offensive" which has seen Rachel Reeves, the shadow chancellor hold over 250 meetings with chief executives, chairs and founders. However, it is easy to talk whilst in opposition, but it is quite something else to deliver on promises once in office.

Aside from politics, the market has moved on from quarterly reports with most of the companies now having delivered the assessment of the outlook for the remainder of 2024. Although AI remained the most prevalent topic on the management calls, the tone was for the most part fairly sanguine about the outlook despite the geopolitical and macroeconomic obstacles that persist.

The most eagerly awaited quarterly report this month was that of Nvidia, which we hold in the Fund. The company did not disappoint, despite high expectations, with 260% revenue growth and over 400% growth in earnings. Once upon a time, Nvidia, was predominantly a gaming related company, however over the past 18 months the emphasis has shifted with almost 90% of revenues coming from the data centre division.

<u>Domination of the GPU market continues.</u>

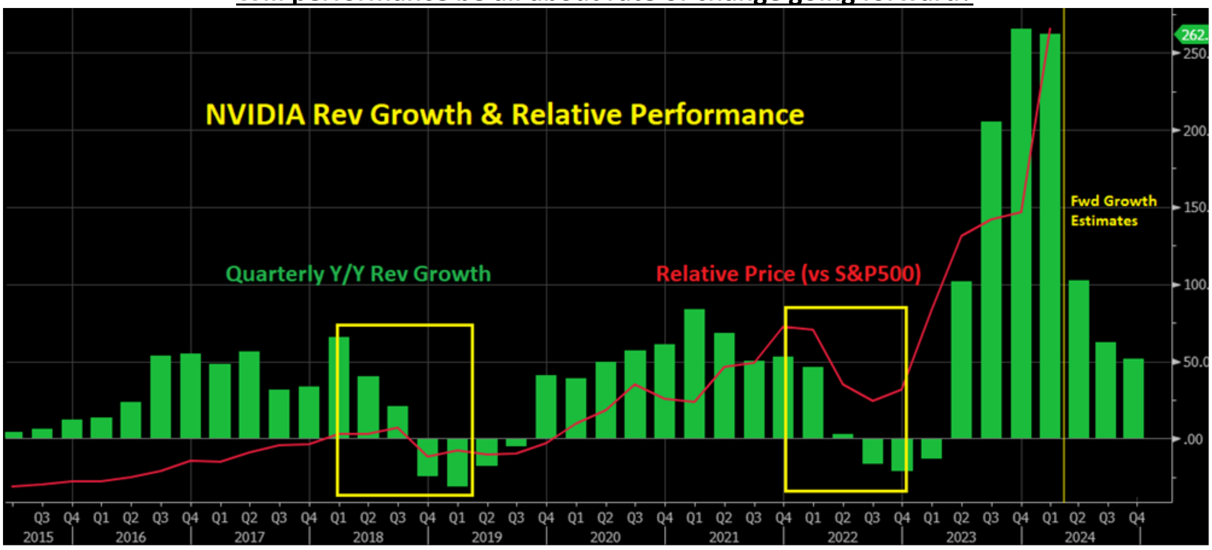


Source: Bloomberg

The shift from gaming to data centre, where revenues have grown by 426% over the past year, also had a meaningful improvement in margins, with gross margins now running at 78.4% compared to 64.6% a year ago.

We expect Nvidia to continue to dominate the GPU market, and management points to demand for the H200 and Blackwell units exceeding supply well into next year, calling it "the next industrial revolution". The question is, whether the rate of improvement in revenues can continue as technology companies performance is normally related to rate of change rather than headline numbers, albeit many will argue that Nvidia is a different case. The next quarter comparative growth rate is 102%, which seems too high even for Nvidia to surpass.

Will performance be all about rate of change going forward?

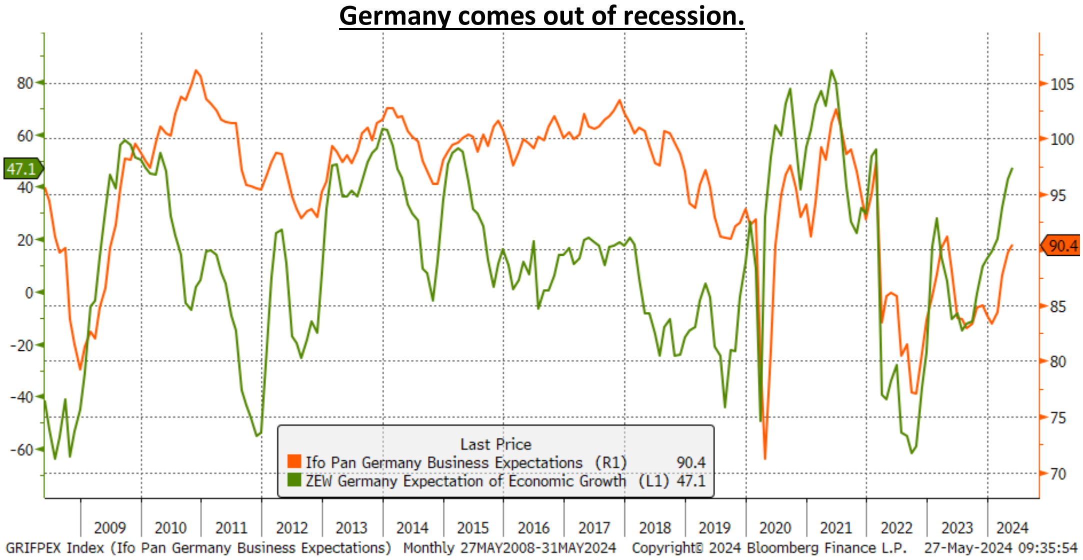


Source: R.W.Baird

With the market capitalisation of Nvidia now greater than that of TSMC, ASML, AMD, Qualcomm, Applied Materials, Texas Instruments, Micron and Intel combined, the direction of travel has an outsized impact on the market but overall sentiment. Although we continue to hold Nvidia, our position is in line with the average position size in the Fund.

Europe continues to show signs that the malaise of last year is now behind it, most notably in Germany as shown below.

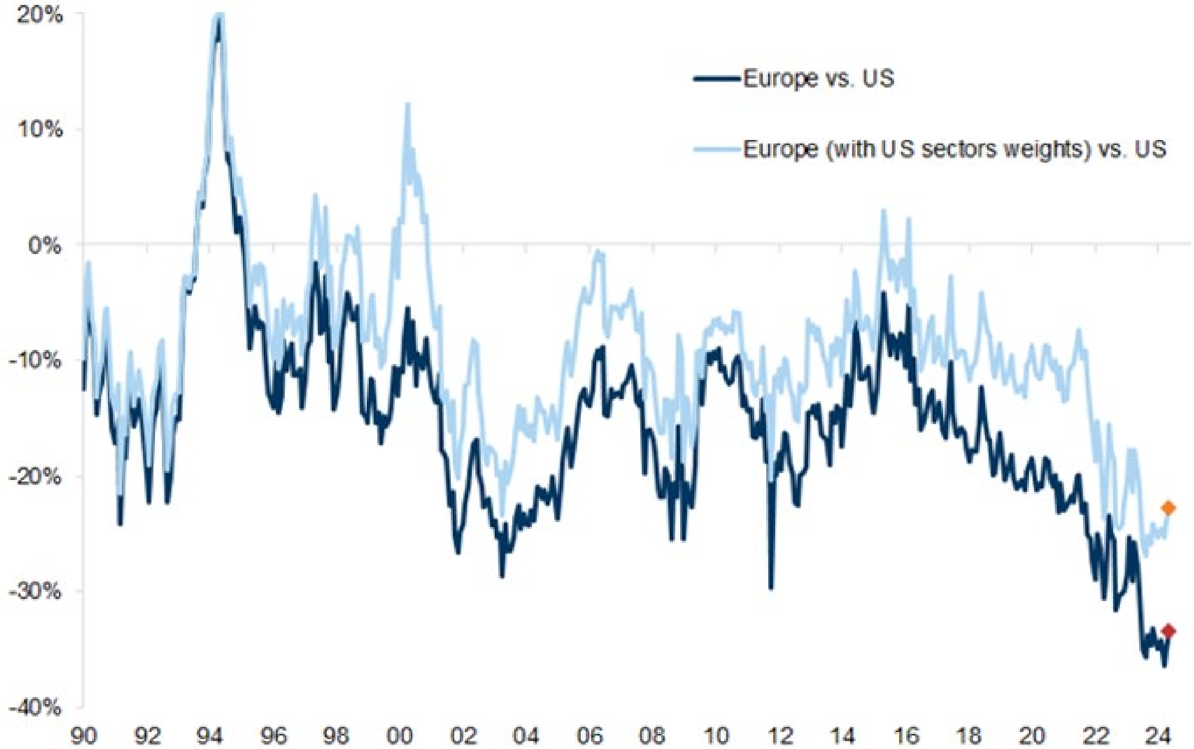
Germany comes out of recession.



Source: Bloomberg

Despite European equity markets seemingly well ahead of the improvement in economic data coming from the region, with most regional indices trading close to new highs, the discount to the US continues to climb. Whilst we acknowledge that there have been many false dawns in Europe where the green shoots have withered in the summer sun, there remain many global champions in the region that would profit from an improvement in sentiment towards their home markets. The chart below shows the possible opportunity in European equities, even after normalising the regional universes for the difference in sector weightings.

Europe normally trades on a discount to the US, but not by this degree.



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

In the Fund we do not hedge currencies, as most of the underlying companies have hedging strategies of their own and currencies have a history of mean reverting; even the Swiss Franc can cause shocks to those who believe that it only ever increases in value, like those who can remember 2011 and 2015 when the Swiss National Bank decided to peg the Franc at 1.2 Euros and then remove it four years later, will know only too well.

The reason we bring this topic to the fore this month is that Sterling, in which the Fund is priced (except for the Euro share class) has finally shown signs of life, hitting the highest level against both the Swiss Franc and the Euro since 2022. Despite the UK and UK equities being totally out of favour with a large number of investors and companies, Sterling has recovered significantly since the nadir of the Truss premiership and despite the political backdrop clouded by an election, early signs of support appear to be brewing and UK equities are also showing signs that the market is recognising the value on offer.

The Truss horror show for Sterling is now in the rear view mirror.

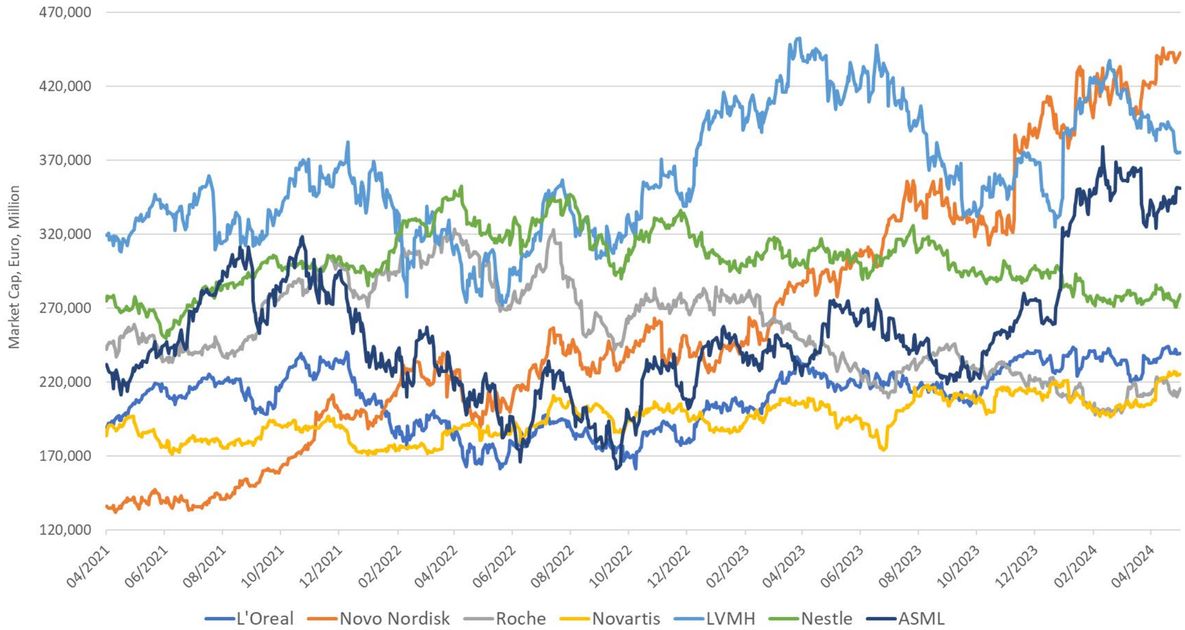
The VT Tyndall Global Select Fund B Acc (GBP) fell by 0.33%. Strong results during the month from a variety of holdings such as Nvidia, Amphenol, Apple, Amadeus IT and Costco all rising by over 10% during the month. Detracting from performance were Brenntag, Fiserv, Intuit, Diageo and Accenture, all of which failed to make gains over the month despite most of them posting strong results. The year-to-date return now stands at 4.19%.

Fund Activity and News

During the month the Fund cut back the size of its position in Novo Nordisk as it breached our self-imposed 5% limit after is Mim8 trial for reduction in haemophilia reported that it had achieved its targets with significant and superior reduction of treated bleeding episodes.

We also decided to sell our remaining holding in Roche, and reinvest the proceeds into our positions in Sika and Amphenol. Although we first invested in Roche in October 2008, and sit on sizeable gains since that point, the company has underperformed since the middle of 2022 and we see further risks of this underperformance continuing in the short and medium-terms.

The changing of the guard in Europe's mighty companies.

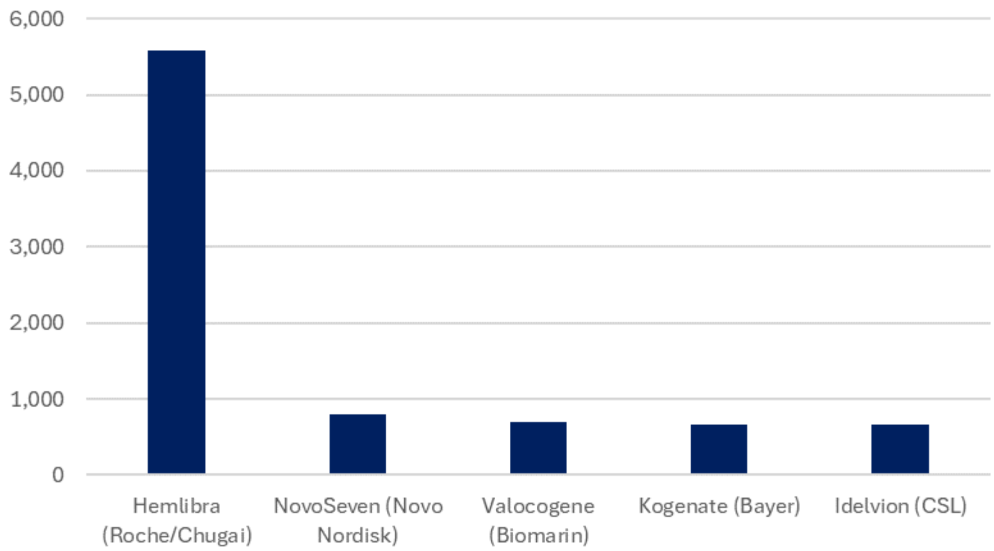


Source:TIM/Bloomberg

The underperformance thus far has been down to the threat of biosimilars to its key drugs of Perjeta (CHF 3.7bn of sales) and Actemra (CHF 2.6bn) and growing pressures on the sales of Kadyela (CHF 2bn). Although the company downplayed the threat from Novo Nordisk mentioned above at their analyst meeting this month, Hemlibra is the leading treatment for haemophilia today, with CHF 4bn of annual sales and the results of the Mim8 trial suggest that a serious rival is shortly going to enter the marketplace.

The haemophilia market is expected to grow to $17.7 billion by 2029 according to research from Data Bridge, a growth rate of 5.9% per year. Today Roche dominates the market and until the recent report from Novo Nordisk the efficacy of the peers meant that there was minimal competition.

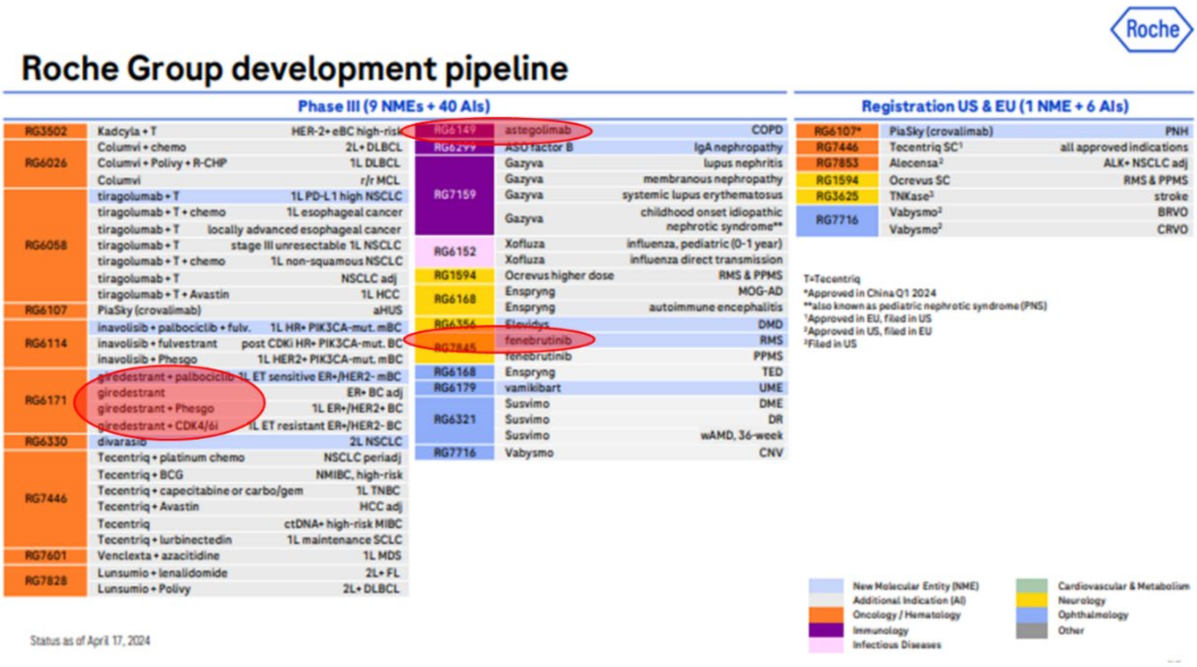
2026 forecasted haemophilia sales before the Mim8 report.



Source: TIM/Statista

Historically Roche has been able to rely on its pipeline to continue to drive sales and stave off threats from competition, however recently the company has had a few missteps in execution, most notably in Rituxan and Ocrevus, and this year they cut eight oncology and neurology programs whilst simultaneously acquiring assets from Carmot Therapeutics and Telavant to spur growth. Although Carmot reported some success in diabetes and obesity this month, the trial was very small and Roche is unlikely to get approval for the drugs in the near future, and will be trying to enter a market dominated by Eli Lilly and Novo Nordisk that have been treating both aliments successfully for many years.

We believe that Roche will struggle to grow its CHF 44.6bn pharmaceuticals arm by more than low-single digit percentage points over the forthcoming years and it is believed to be serious question marks over the trial results for Giredestrant in oncology and Astegolimab in immunology which are both expected towards the end of the year, while the neurology treatment Fenebrutinib will be entering a very competitive landscape.



Although the valuation of Roche is undemanding, with many of these headwinds reflected in the price, we felt that there are better ways to create value for shareholders and redeployed the proceeds from the last of our small position in the company into other existing positions within the Fund.

Richard Scrope, Fund Manager, VT Global Select Fund, 31st May 2024

Data source (unless otherwise stated): Bloomberg.

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