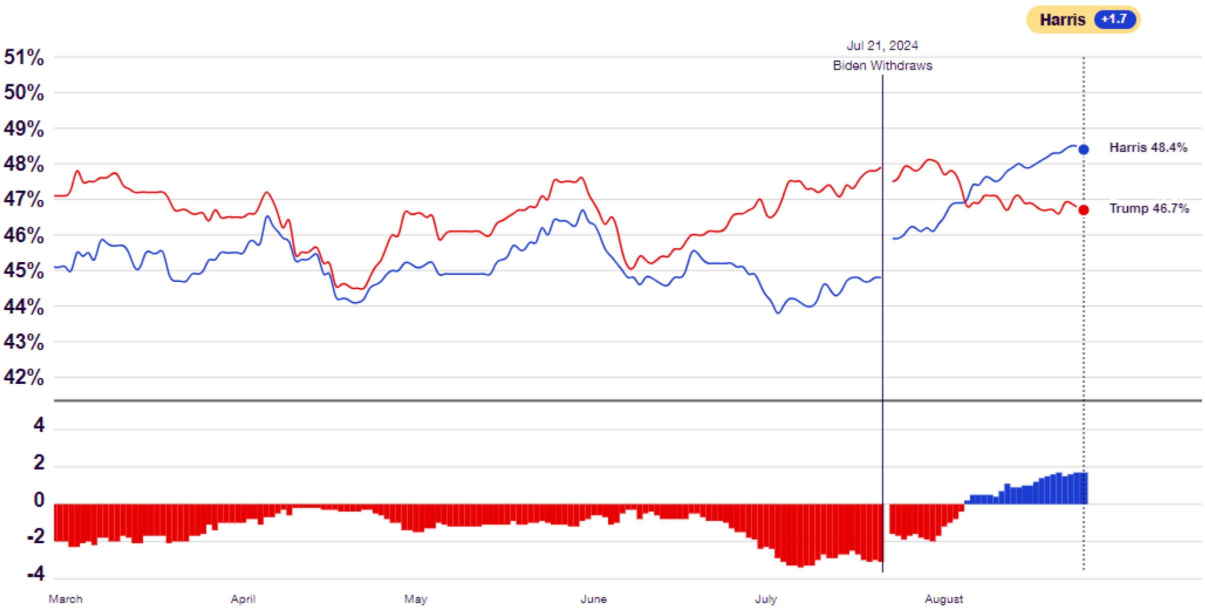
"Great things are done by a series of small things brought together" – Vincent Van Gough

Within a month the public opinion on whether the Democrats can retain control of the White House has shifted from, absolutely not, to perhaps. Kamala Harris replacing Jo Biden at the top of the ticket has seen her leapfrog Donald Trump in the polling average, and leading in three of the seven swing states. Strategists are now busily drawing up baskets of companies that will benefit from a Harris White House having pushed Trump baskets only a month ago. Rest assured that the Tyndall Global Select Fund does not churn its holdings on these short-term ideas, but remains focussed on the fundamental properties of the quality companies that we have held through multiple electoral cycles.

Did Trump peak too early, or is he preparing for an sprint finish?



Source: TIM/Real Clear Polling

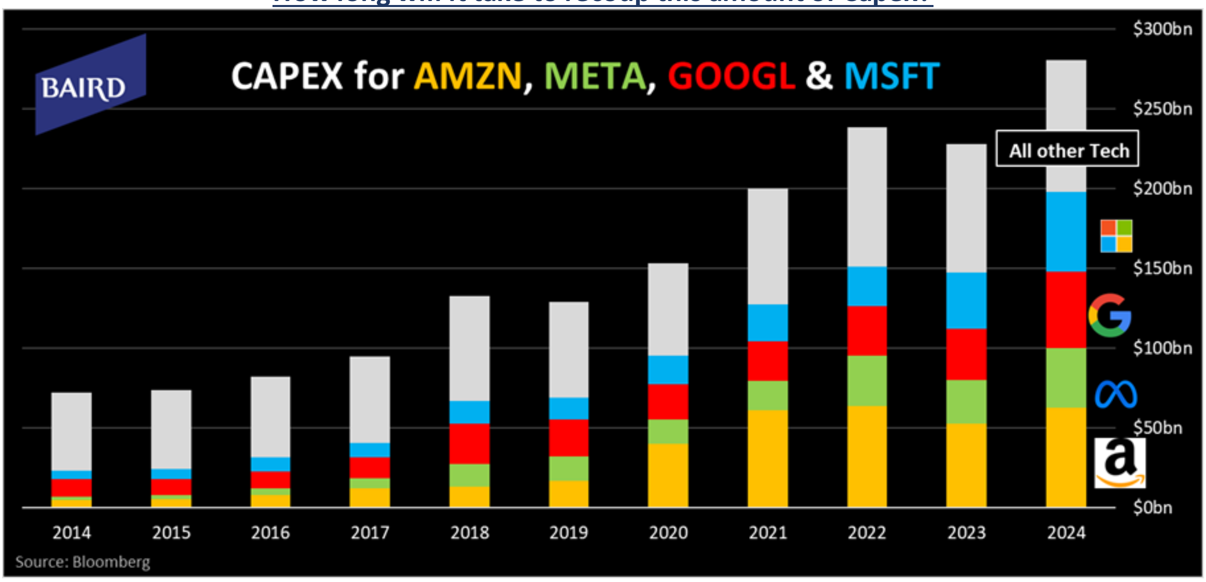
We highlighted last month the revival in the performance of Sterling, which has been as much as the weakness of the Dollar since the June CPI print. Sterling, at 1.32 to the Dollar is now at levels not seen since before the Brexit vote. Against the Euro sterling has also appreciated in the past couple of weeks, but finishes the month much where it started August.

Jerome Powell signalled that the Federal Reserve is more than likely going to start cutting interest rates at the next meeting of the FOMC, which helped equity markets. However, the market expectations for the path of interest rates is at the widest dispersion from the path signalled by the FOMC this century. As the FOMC remain 'data dependent' on their decisions there is an inbuilt lag in their decision making, given that most the data points that they look at are backward looking, thus increasing the risk of cuts coming too late and too little.

Source: Yardeni Research

August was not an easy month for equity investors. There was a sharp correction in AI related names as the questions were raised as to the return on investment from the gargantuan amounts that companies have been spending on building out datacentres and other AI related requirements. Although the 8.5% correction in the S&P 500 (13.1% in the Nasdaq and 7% in the World Index) was short lived, it was noticeable that the large cap tech names lagged in the recovery and the breadth of the market increased significantly.

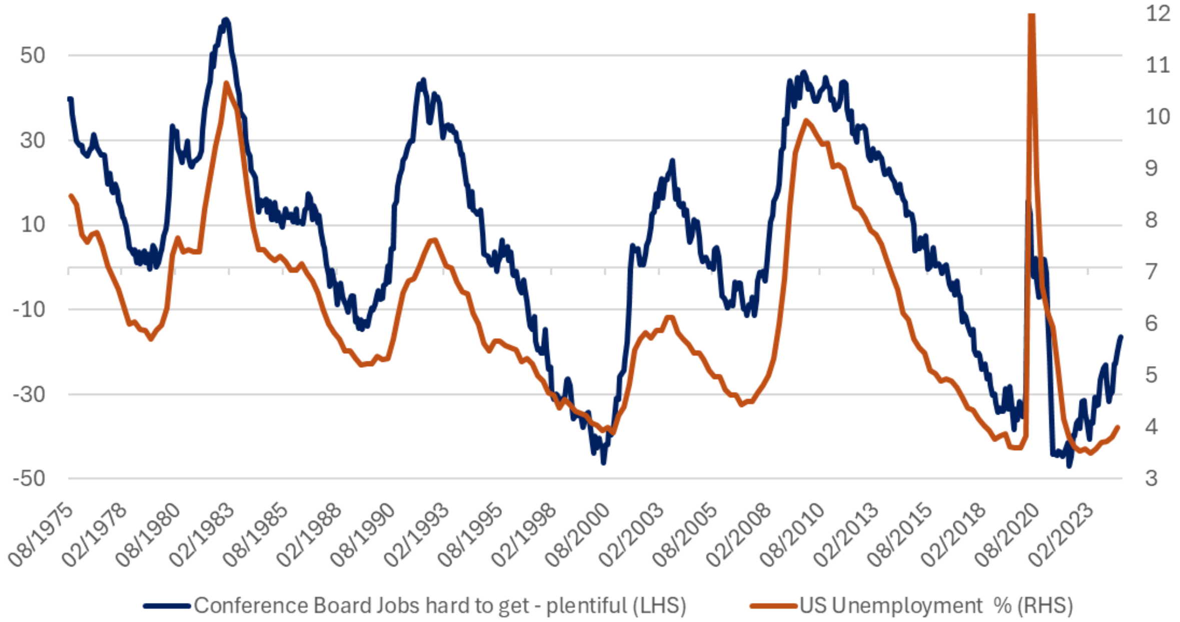
How long will it take to recoup this amount of Capex?



Source: Baird

Adding to the concerns for investors is the sign that the US jobs market has started to cool down. The number of states with higher month on month unemployment has risen to the highest level since the Great Financial Crisis, exceeding the levels seen in the Pandemic, and the Philly Fed non-manufacturing survey is showing that a greater proportion of jobs are on a part-time basis rather than permanent. The Confidence Board surveys of jobs plentiful and hard to get have strong correlation with official unemployment numbers, and as the chart below shows, the signs are that unemployment is like to continue to rise from the low levels of the past few years.

Jobs not as plentiful as once they were.



Source: TIM/ Bloomberg

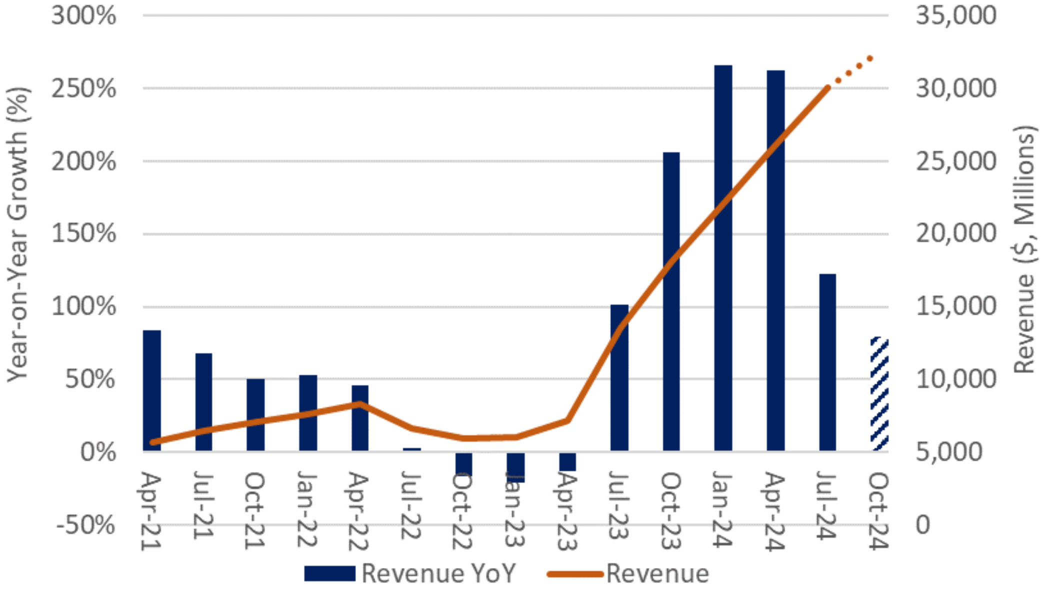
Despite these macroeconomic concerns, the breath of global equity markets has increased significantly over the summer months, which is normally a good sign for the health of the market, and surveys of consumer confidence in the developed world remain in positive territory. We believe that active management focusing on quality companies with strong cash flows and returns on invested capital is the best way forward not only for long-term investors but also those who wish to navigate times of uncertainty.

The VT Tyndall Global Select Fund B Acc (GBP) rose by 1.03%. Holdings in Amazon, DSV, RELX, Intuit and BCV detracted from performance, while our positions in Rational, Nvidia, Nike, Next and Costco all performed strongly gaining over 10% in the month despite the market turbulence. The year-to-date return now stands at 7.33%, leaving the Fund at a new all-time high.

Fund Activity and News

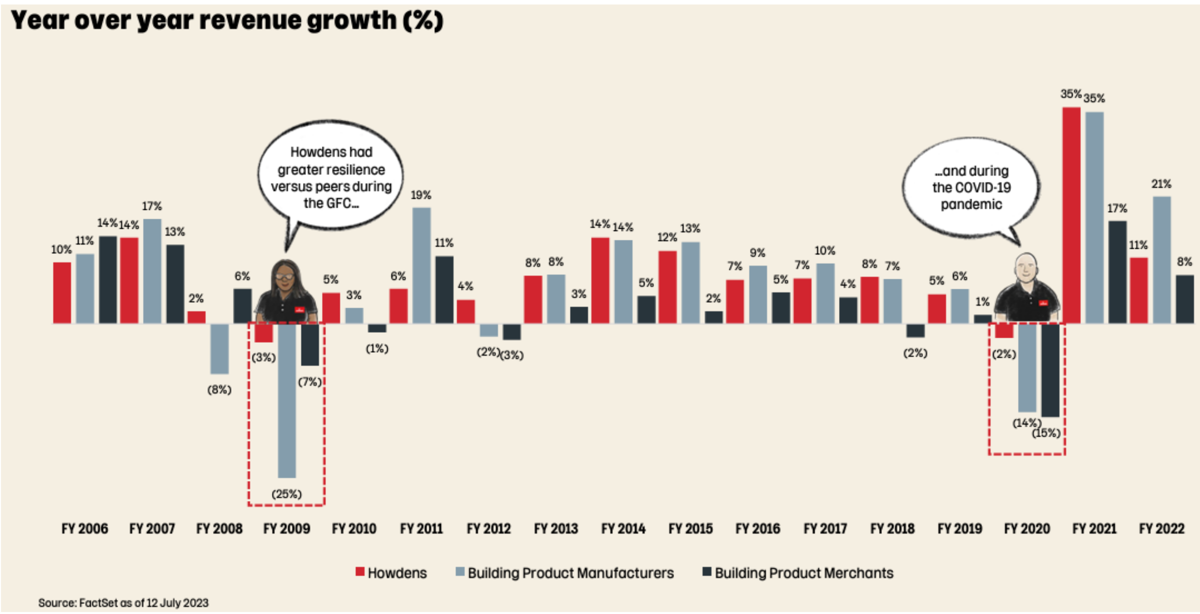
During the month we continued to trim our exposure to Nvidia over concerns how sustainable the growth in revenues and profits are likely to be. Although we believe that, as the designated AI-winner, revenues and profits will continue to grow significantly, the rate of that change is likely slow given the law of large numbers and the rate of growth last year. Highly rated tech stocks performance usually has more to do with the rate of change in growth rates rather than the underlying metrics of the company.

Nvidia forecast to grow, but at a slower pace.



Source: TIM/ Company data

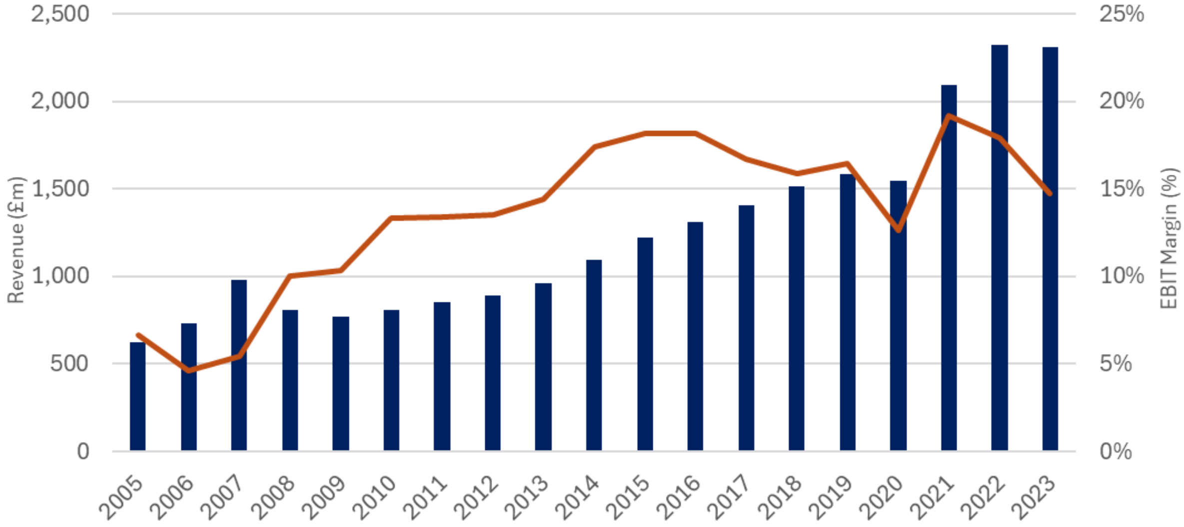
We also used the market correction to add to our new position in Howden Joinery that we had started to build in late July. Howden is the UK market leader in kitchen repair, maintenance and improvement, with a 23% market share of a £5.4bn addressable market. Howden is the only vertically integrated trade-only supplier in the UK, which has helped the company to consistently grow faster than the underlying market, and thus grow market share. Wren, the largest competitor, with 11% market share is focussed on retail-only. Howden's market share has increased by 880bps between 2014-2023, helped in particular by significant share gains in 2021 when less vertically integrated peers were suffering from supply issues.



Source: Howdens

Given the scale advantage and competitive advantages of the business model, We anticipate that Howdens has the potential to increase its market share, as it progresses with its UK rollout, revamps the existing portfolio, and expands to France and Ireland.

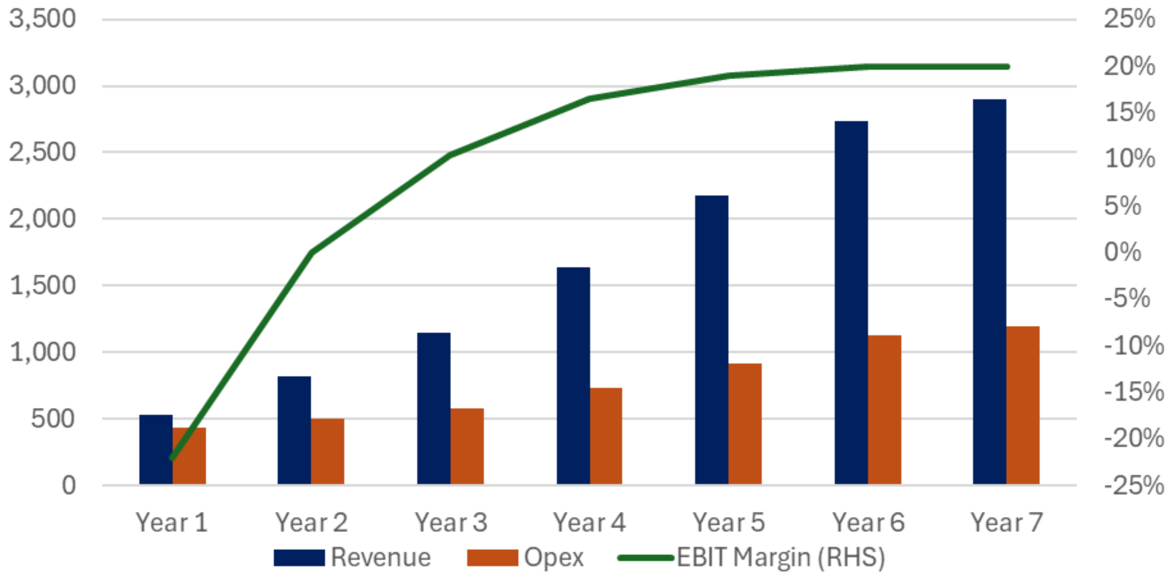
Revenues increase almost five-fold in 20 years



Source: TIM/Company reports

Hoden currently has 840 depots in the UK and see that there is scope for 1,000, so with the 30 that it plans to open this year, the footprint roll-out is close to completion. The next stage is revamping the existing store base. At the end of 2023, 274 depots has been reformatted and a further 85 are underway this year, at which point 64% of depots will be in the few format. The renovation program temporarily supresses margin, but evidence from those that have been completed is that it results in an increase in sales with a four-year return on investment. A new depot costs £500m to fit out, about two years to break even, and seven years to reach maturity, so with the footprint projected to be complete by the end of 2028, margins should incrementally increase from the initial roll-out also. Of the targeted 1,000 depots, only 660 will have reached maturity, and full margin potential, by the end of this year; therefore take until 2035 for the full portfolio to be at maximum profitability at the current run-rate.

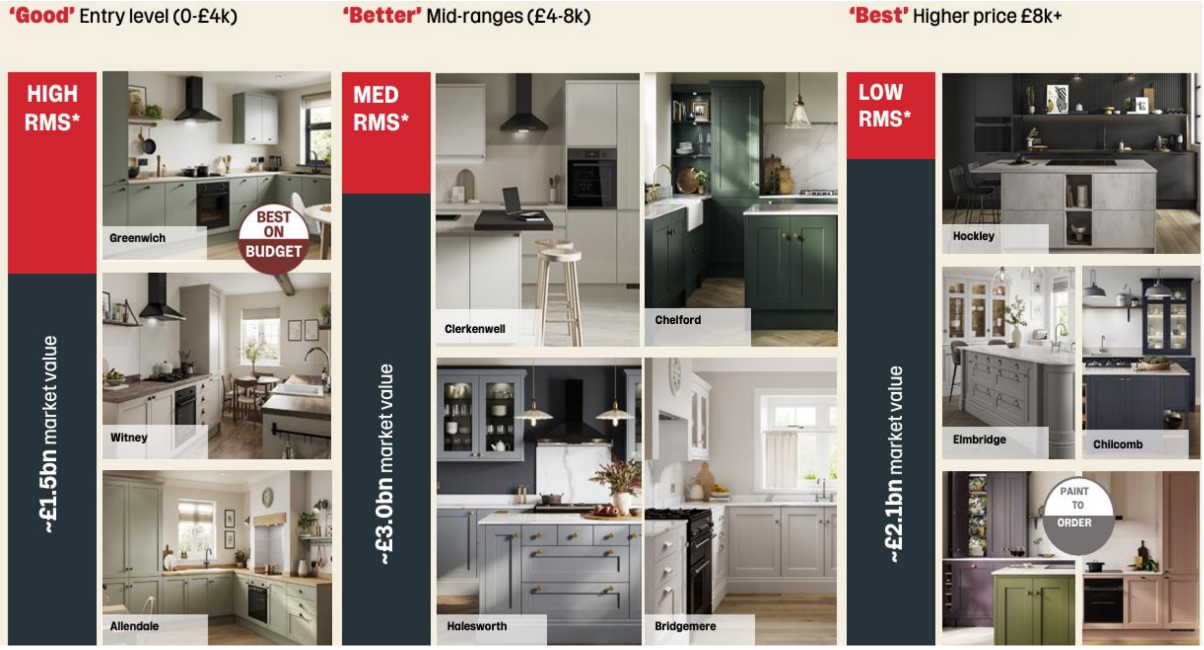
Howden standard depot maturity profile.



Source: TIM/ Deutsche Bank

Alongside the depot roll-out Howden is constantly evolving its offering, not only in the kitchen space but now also in the bedroom fitting market. The in-stock, trade-only business model enables tradesmen, who on average operate with 5 miles of a depot, to have confidence that they will be able to supply whatever the client wants, across a range of price points, in a timely manner. This is supported by the structural driver of the ageing hosing stock that increasingly needs renovating. According to the Office for National Statistics the average age of the UK housing stock stands at 70 years.

Howden's relative market share by price brand.

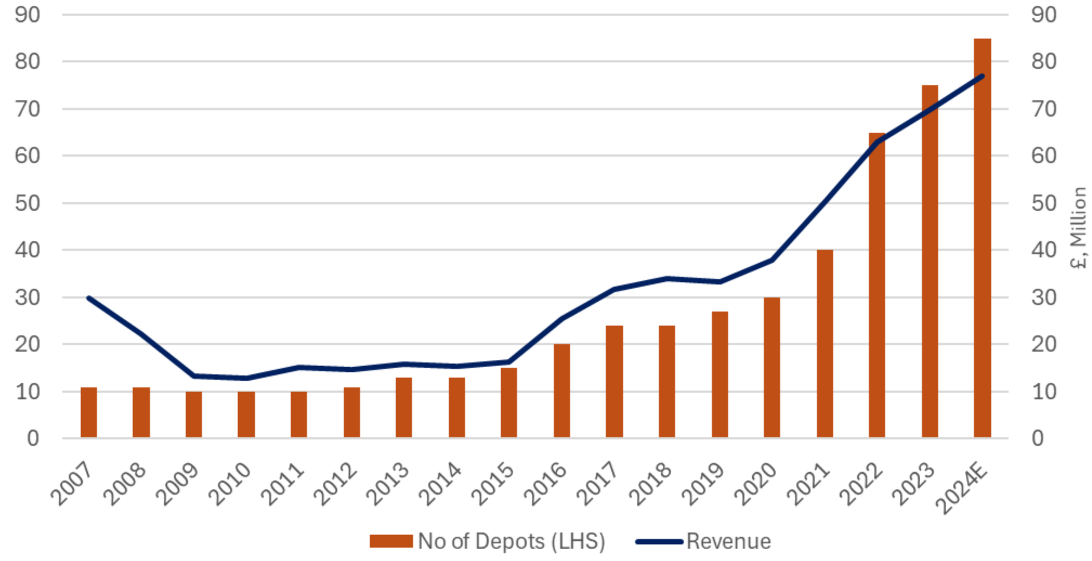


Source: Howdens

Under the leadership of Andrew Livingstone, who joined in 2018, there has been an increased focus on increasing revenues and EBIT of the mature depots. Vertical racking in the warehouses has led to space utilisation improvements of up to 25%, leading to more space for client interaction, display of a wider range of designs, as well as stands for the sale of everyday essential items. He has also introduced regional cross-docking centres that improves the local availability to fast-selling lines, which strengthens the competitive advantage that Howden has over peers, with its ability to match demand with supply at point of order. This cross-docking is tied into the improved digital experience that tradesmen have through the trade app, and management has noted that online customers now spend more time with Howdens, on a wider range of products, if they manage their accounts online.

As well as recently adding bedroom fittings to the range of offerings in the UK, which has a wide degree of overlap in the components required to fit out a kitchen, Howdens has increased its overseas presence in the French, Belgian, and Irish markets. While Ireland is similar to Scotland in terms of scale and approach to market, France currently has a more retail than trade market mindset and a lower population density. Management believes that France is like the UK in the mid-90's, and the market will evolve to a more trade market as the customer sees the benefits of a trade assisted approach to renovation, just as the UK did as Howden emerged.

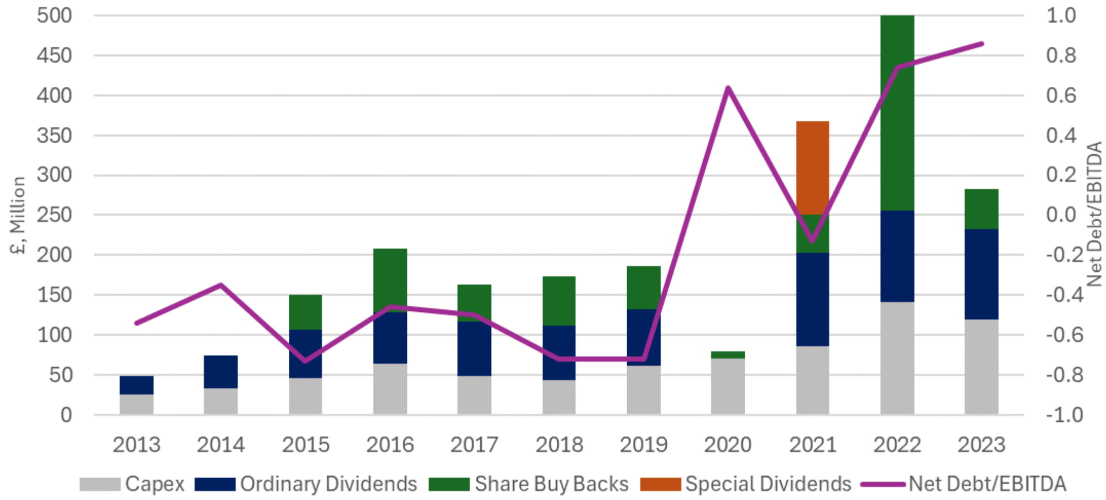
Going international opens new doors, Europe's contribution.



Source: TIM, Company reports

The free cash flow generation of the company Is such that, from 2010-2019, the company ran with little or no debt. Since the pandemic investments in growth and expansion has led to some debt on the balance sheet. However Net Debt/EBITDA remains below 1x. The company did slip up, dropping its dividend in 2020, but then paid a special dividend to make up for it in 2021, and we expect shareholder returns to improve through increases in both buy-backs and dividends as the capex requirements subside.

Cash flow more than exceeds capex needs.



Source: TIM/ Bloomberg

We believe that Howden's business model sets it apart from its peers and that there are multiple paths to continued growth and margin expansion. The company weathered the recessions of 2009 and 2020 well, and despite the downbeat outlook of the new UK government, Howdens has the potential to maintain its growth trajectory and outperform the market.

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

Data source (unless otherwise stated): Bloomberg, FE Analytics

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