



Review

For many years data rich, capital light, subscription-based companies have prospered as they took advantage of the explosion of mediums in which companies and consumers could access the internet. The advent of smartphones and cloud-based platforms only served to boost this uptake and increase their defensive moats. This month, however, recent updates to AI models, most notably from Anthropic and its Claude engine, have cast doubt on the viability of this business strategy, and posed the question as to whether they will eventually be disintermediated into oblivion.

The selling was particularly acute in those companies termed as offering 'Software as a service' (SaaS), but the AI threat did not stop at just software companies as investors methodically went from sector to sector inventing cases for how AI would terminally impair sectors, from asset management to freight forwarding and from payment companies to consultancy. As funds flowed out of software, the proceeds did not seem to leave the market but instead were reinvested in more capital heavy companies with tangible goods, traditional defensive companies like those in the consumer staples category and more cyclical areas such as the energy sector.

Whether Anthropic will turn out to be the eventual 'winner' in the AI race is still uncertain as we have seen leadership change from OpenAI to Gemini and then to Anthropic in just the past six months. The recent suite of models from Anthropic do appear to have significantly fewer hallucinations than the competitors and have the capability to write code quicker and better than humans which is likely to be a tipping point into the age of agentic AI, as the models can self-improve themselves without the need for human interaction.

This has led to papers such as that from Cintrini (<https://www.cintriniresearch.com/p/2028gic>), which extrapolated the shift to extremes, sending waves through the market. We are not subscribers to this doomsday view on the world, and were mildly encouraged by Anthropic's keynote presentation ([The Briefing: Enterprise Agents \ Anthropic](#)) which emphasized that its focus was on collaboration with traditional software vendors rather than displacing them. Within the Keynote they highlighted how they are helping companies from the legal profession to the healthcare sector and how the consultants, such as Accenture, are helping companies integrate their models within their customers.

For those who believed that Microsoft's Office could be displaced, it was also notable that many of the updates of Claude's Co-work were embedded within Excel and PowerPoint rather than an organic product, supporting the value of the Office software. The argument as to whether the capital spending commitments by the hyperscalers is excessive and that they will never achieve a return on investment is a topic that we will likely return to at a later date, but the market seems to have come to a conclusion already, with the Mag-7 losing their leadership, after multiple years of driving most the returns of the market.

Many of the asset-light, data rich companies are embracing the change, forming partnerships with various AI models and integrating them within their own products. Within the Fund, we have seen LSEG, Booking and Intuit all sign deals with Anthropic (amongst others) as they recognise AI is not a doomsday scenario, but working together can be mutually beneficial not only for each other but also to their end customers.



“a lot these AI models are very powerful, but they are only as good as the data that goes into them and we have an enormous amount of high quality, proprietary data that is constantly being updated. We are seeing our customers trying to access our data through these new channels, some of it is existing customers, but also new customers, so it is an expansion of our addressable market. It is a natural cross-selling machine, and we have not even made all of our data sets available yet.” David Schwimmer, CEO of LSEG.

Fund performance / Activity

Accepting the situation above brings about the question, do our current holdings stand up to the world of Agentic AI, or are their valuations more than discounting the impact from the reduction in their terminal value? This is magnified by the fact that Anthropic is unlisted, and by no means necessarily the long-term winner and its long-term profitability is also uncertain, although it is rumoured to undergo an IPO this year.

While the Fund holds positions in LSEG, Intuit, Booking and Amadeus, all of which have come under intense pressure, we believe that the valuations more than discount the worst case scenario, and that the fundamental benefit that they provide to their customers base remain unchanged, and if anything improved by integrating AI models within their offering. Most of these companies have been embracing AI for multiple years and this is just the next iteration from adding basic Large Language Models (LLMs) to agentic AI.

The Fund, however, is not concentrated by these SaaS companies, which add up to less than 9% of the Fund (11% if you include Accenture) and has always held a diversified selection of high-quality companies including those that are more capital intensive with physical assets, as well as those that operate in oligopolistic markets or are differentiated by scale such as JP Morgan, Next, Assa Abloy, Visa, Rational, and DSV to name but a few.

We also have exposure to companies that are direct beneficiaries of the build out of AI, most notably in the form of Broadcom, Amphenol, Nvidia and Schneider Electric (13% of the Fund), albeit there are many other holdings that could be seen as beneficial to the build out of data centres, networks and the AI world.

In terms of activity in the Fund this month we initiated a position in the leading Italian bank Intesa Sanpaolo which is benefiting from the wealth of its Italian client base, having cleaned up its non-performing loan book and turning its focus more towards asset management. Such is the cash generation of the company that it is now self-funding and has committed to returning half of its current market capitalisation to shareholders by 2029, through a mix of dividends (75%) and buybacks (25%).

To fund this position, we sold our remaining stake in RELX, which we had been reducing over the past six months having felt the company was being too slow in acknowledging the changing dynamics in their market. We note that towards the end of the month that they too partnered with Anthropic, however, as it had become a negligible position, we feel that the funds are better deployed elsewhere.

The performance was held back by news flow from our positions in Novo Nordisk, which although benefiting from being the first to market with an oral version of its weight-loss drug, Wegovy, shocked the market with its outlook statement, citing a significant decline in revenues, which was diametrically opposed to Eli Lilly's expectations of growth.



Capital at Risk – the value of investments can fall as well as rise and you may not get back what you invested

Past performance is not a reliable indicator of future results.

Later in the month they announced a 50% reduction in the price of their injectable version of the drug, putting it at a 33% discount to Lilly's suggesting that they are aggressively trying to recapture the growth in the injectable sector having lost its lead to Eli Lilly after a series of disappointing trial results.

In terms of performance, the biggest contributors to the Fund returns over the month came from a wide variety of sectors with Schneider Electric, Canadian Natural Resources, Nestlé, Banque Cantonale Vaudoise and AstraZeneca returning the largest gains. Conversely, our holdings in Novo Nordisk, Intuit, Accenture, Booking Holdings, and Thermo Fisher underperformed during the month. Despite all of the volatility in the month, the Fund rose by 0.37%.

Market Outlook

As the month ended, the US and Israel took offensive action against Iran, sparking turmoil across the Middle East as Iran retaliated, attacking US bases and its allies' locations across the region. The first order implications are the constraints on global oil & gas supply as Iran controls the Strait of Hormuz, through which 20% of the world's oil supply must pass. Although the messaging is that it does not want to close the strait, The Iranian Republican Guard has attacked three oil tankers since the start of the hostilities. Shipping routes and container costs are also likely to be impacted as the Houthi rebels are allied with Iran, so we may also see routes through the Red Sea closed as they were for a time in 2024-2025, forcing shipping to go around the Cape of Good Hope.

The oil price, unsurprisingly has spiked on the conflict, although prior to the conflict it had bucked the ongoing rise in global commodity prices. A rising oil price has outsized impact on inflation both for consumers and industries and may well lead to shifts in interest rate outlooks, albeit Asia accounts for 82% of the oil exported from Arabia, so Europe and the US are less impacted in the near term. With Global equity markets close to all-time highs, this inflationary factor is a significant headwind, although with active management there are themes that can benefit from rising oil prices also.

Ramifications are also likely to be seen in sectors such as travel and leisure, as well as companies with a large percentage of sales coming from the Middle East, as while the missile and drone strikes continue, visitor numbers and retail sales in the region are likely to be negligible, with residents sheltering in bomb shelters rather than being exposed on the streets.

Only time will tell how enduring this escalation will prove to be. However, as the full-year reporting season comes to a close, the main theme for companies has been that they are fairly optimistic and profits have been robust despite the disruptions to trade over the past year, so we remain upbeat on the outlook for Global equity investing despite the near term increase in volatility. As the Persian saying goes: "this too shall pass".

Richard Scrope, Fund Manager, VT Tyndall Global Select Fund, 3rd March 2026

Contact Details:

Fund Manager – Richard Scrope: rscrope@tyndallim.co.uk
Head of Distribution - Theresa Russell: trussell@tyndallim.co.uk



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Investment Manager: 5-8 The Sanctuary, London, SW1P 3JS.



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