argonaut

Fund Factsheet

VT Argonaut Equity Income Fund

At 31 July 2024

Barry Norris
Fund Manager

Barry Norris founded Argonaut in 2005 and manages the VT Argonaut Equity Income Fund using his "earnings surprise" investment process. Barry began managing money in 2002 at Neptune, having begun his career at Baillie Gifford. He was educated at Cambridge University and has an MA in History, and an MPhil in International Relations. He also holds the CFA charter.

Fund aim

The Fund aims to provide an income (net of fees) in excess of the yield of the European market (as represented by the IA Europe ex UK sector) with capital growth over any 5 year calendar period.

Fund overview

Benchmark	IA Europe ex UK			
Launch date	30 December 2016			
Dividend Yield *	2023	2022	2021	2020
Fund :	6.43%	4.35%	3.79%	7.04%
IA Europe ex UK :	4.66%	3.46%	1.72%	2.17%
Historic dividend yield [2]	6.54%			
Fund size	£4.1m			
Share class	Class R			
No. of holdings	29			
Bloomberg	R (Acc) - FPEIORA LN R (Inc) - FPEIORI LN			
Sedol codes	R (Acc) – BDSFHH3 R (Inc) – BDSFHG2			
ISIN	R (Acc) – GB00BDSFHH38 R (Inc) – GB00BDSFHG21			
Ongoing charge (as at 31/12/23)	R Class Shares – 0.85%			
Minimum investment	£500 (R Class Shares)			
Minimum top up	£250 (R Class Shares)			
Regular savings scheme	Yes (R Class Shares)			
ISA option available	Yes (R Class Shares)			
XD/Payment dates	01.03/15.04, 01.06/15.07 01.09/15.10, 01.12/15.01			

*Morningstar, 31/07/2024: Calculated by subtracting the total return, net of tax, from the capital return.

All information as at 31/07/2024, unless otherwise stated and measured against the fund's benchmark index.

Investor information – This fund may not be appropriate for investors who plan to withdraw their money within 5 years.

Fund Commentary

"the risk of underinvesting is dramatically greater than the risk of overinvesting for us here, even in scenarios where if it turns out that we are overinvesting…they have long, useful lives and we can work through that." **Alphabet CEO, Sundar Pichai, Q2 Conf Call**

"I'd rather risk building capacity before its needed rather than too late, given the long lead times." **Meta CEO, Mark Zuckerberg, Q2 Conf Call**

"in the benign AI scenario, we're headed for an age of abundance where there is no shortage of goods and services and anyone can have pretty much anything they want." **Tesla CEO, Elon Musk, Q2 Conf Call**

The fund returned -2.5% over July, compared with the IA Europe ex UK sector which returned +0.1% and the Income peer group average of +0.1%.

The best performing stocks were Norwegian anti-ship missile manufacturer Kongsberg (+21%) and Greek bank Piraeus (+16%). This was offset by losses from Dutch semiconductor equipment manufacturer BESI (-24%) and French miner Eramet (-17%).

At the end of the month, the Bank of Japan raised its overnight lending rate to 0.25% (from 0.1%), also signalling a further "normalisation" of rates ahead. On the same day, the Federal Reserve held Fed Funds (u/b) at 5.5%, but signalled that the bar was low for a cut at their next meeting in September. Just after month end, the Bank of England made its first interest rate cut, reducing its base rate to 5.0% (from 5.25%) but was non-committal about future policy.

The interest rate differential between Japan and the rest of the world, in particularly the US, has encouraged a "carry trade" whereby investors (in reality largely Japanese institutional international investors) borrowed in Yen to either fund higher yielding or speculative fund asset purchases elsewhere. It is difficult to determine the exact amounts involved, not least because any international investor who has domestic liabilities has a "carry trade" type currency mismatch when they invest in international assets. However, Japan is currently the world's largest creditor nation with $10trillion of overseas assets ($3.3trillion net).

Since its July 10th low, and with the diverging monetary policies of Japan and the US confirmed on July 31st, the Yen has strengthened 12% against the US dollar, wiping out nearly all of its YTD losses. This degree of foreign exchange volatility in the world's biggest creditor nation is the prime cause of recent volatility in other asset classes, and primarily equities.

All of the winning consensual trades of H1 2024 broke down in July: long Japanese stocks (now -25% from high); long copper (now -18% from high); long semiconductors (now -23% from high); long GLP-1 drugs (now -15% from high) and long "Magnificent 7" (now -13% from high). When market leadership fails it is usually a worrying sign that global financial markets have run out of liquidity, a so-called "Minsky Moment", made famous by an economist who otherwise had nothing useful to say.

Scepticism around return on investment on AI capital expenditure became more mainstream during the month. It is worth noting that Nvidia's data centre revenue was just $15bn in its financial year ending January 2023 (2022 calendar equivalent); increased <u>$32bn in 2023/4</u> (2023) to $47bn (+213%); and is estimated to be up <u>$58bn in 2024/5</u> (2024) to $105bn (+123%); and then is forecast to be <u>up another $45bn in 2025/6</u> (2025) to $150bn (+43%). Nvidia's estimated total annual revenues to January 2026 (2025) have risen by $127bn since the beginning of 2023 from just $40bn to $167bn today (meaning that data centre/AI spend has gone from 55% of sales in 2022 to 90% in 2025).

Just four companies (Amazon, Meta, Alphabet and Microsoft) are thought to account for just over half of Nvidia's revenues. These four "Hyperscalers" increased their capital expenditure <u>by $60bn in 2024</u> from a combined $136bn in 2023 to $197bn (+45%) and are estimated to increase this by another <u>$35bn in 2025</u> to $232bn (+18%). Around two thirds of this incremental Capex is currently estimated to benefit Nvidia, so assuming the "Hyperscalers" stick to sole sourcing but don't up their spend, this implies that unless Nvidia finds new customers, its forecasted rate of revenue growth won't be met. Nvidia has always been a boom and bust stock.

At the beginning of 2023, the market estimate for aggregate 2025 "Hyperscaler" Capex was just $154bn. In other words, its 2025 Capex has been revised up 50% in the last 18 months. But the Q2 "Hyperscaler" conference calls were unconvincing in addressing investor concerns around whether this Capex will generate sufficient new revenue streams in the foreseeable future. It is worth noting that since the beginning of 2023, revenue revisions for 2025 for these four companies have increased by just 4% (and have actually fallen by 9% since the start of 2022), meaning that their aggregate capex/sales ratio has increased from 10% in 2023 to an estimated 15% in 2025. Investors won't have unlimited patience for profligate capital expenditure that appears to have no immediate return.

Fed Fund Futures are currently pricing in a 90% probability of a 50bps interest rate cut from the Fed in September, followed by 25bps cuts in November, December, and January. The US labour market has shown some initial signs of weakness, with the unemployment rate rising to 4.3% (from 4.1%). Q2 corporate earnings have also highlighted a mixed consumer outlook. Although the immediate cause of recent equity market weakness seems endogenous to financial markets, this could start a negative feedback loop to the real economy.

We remain vigilant on macro and geopolitical risks, remaining bullish on oil tankers and defence stocks. We have also increased long exposure to select financials, given the benign credit environment and re-steepening of yield curves. After the "dash for cash" indiscriminate highly correlated sell-off in the first few days of August, we see opportunities from illogical dislocations.

[2] Morningstar 31/07/2024, R Accumulation share class performance, in Sterling with net income reinvested
[3] Bloomberg 31/07/2024, Calculated by the weighted average of the forecast 12-month forward dividend yield of each holding in the portfolio

Cumulative	1 Month % Growth	YTD % Growth	2023 % Growth	2022 % Growth	2021 % Growth	2020 % Growth	2019 % Growth	2018 % Growth	2017 % Growth	Since Launch % Growth
VT Argonaut Equity Income Fund	-2.5	13.4	5.2	8.4	5.9	7.1	18.0	-11.2	20.6	85.2
IA Europe ex UK NR	0.1	5.7	13.5	-9.2	15.7	10.7	20.1	-12.4	17.4	74.8
Fund Rank	99/108	2/108	104/108	3/98	91/93	66/98	71/101	35/97	14/92	23/88
Quartile Rank	4	1	4	1	4	3	3	2	1	2

Income peer group performance

Cumulative	1 Month % Growth	YTD % Growth	2023 % Growth	2022 % Growth	2021 % Growth	2020 % Growth	2019 % Growth	2018 % Growth	2017 % Growth	Since Launch % Growth
VT Argonaut Equity Income Fund	-2.5	13.4	5.2	8.4	5.9	7.1	18.0	-11.2	20.6	85.2
Europe ex UK income fund average	0.1	4.9	11.1	-3.7	11.7	3.4	15.7	-11.2	15.7	57.0
Rank	8/9	1/9	9/9	1/10	10/11	5/14	7/16	6/15	3/13	1/8

Source: Morningstar 31/07/2024, R Accumulation share class performance, in Sterling with net income reinvested and no initial charges.
*Comprised of 12 funds from the IA Europe excluding UK sector which state that they are income funds.

Past performance is not a guide to future performance. The value of shares and any income from them may fall as well as rise and is not guaranteed.

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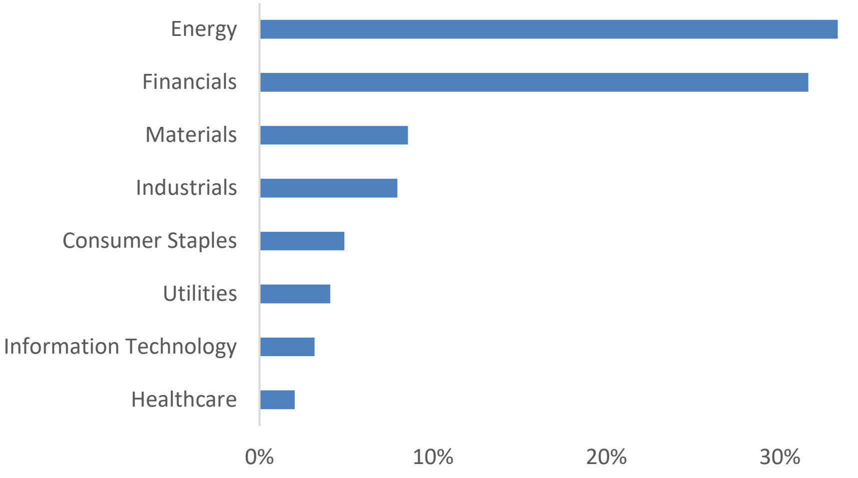
At 31 July 2024

Top Five holdings	Fund %
Torm Plc	7.4
Hafnia Ltd	6.8
CaixaBank SA	4.9
Eramet	4.8
Swiss Re AG	4.7

Country Breakdown	Fund %
Norway	25.7
Italy	14.3
France	7.9
Denmark	7.3
Germany	6.2
Greece	6.1
Spain	4.9
Switzerland	4.7
Other	18.6

Market Cap	Fund %
Large Cap > €5bn	58.0
Mid Cap €1bn – €5bn	34.6
Small < €1bn	3.1
Cash	4.3

Sector Weights



Risk Analysis	Since Launch	1 Year
Beta	0.7	0.6
Standard Deviation (%)	13.3	10.9
Tracking Error	18.1	10.4
Jensen's Alpha	2.8	11.1
Sharpe Ratio	0.5	1.0
Information Ratio	0.1	1.0

Source: Morningstar, all figures at 30/09/2022, these figures are subject to rounding. Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 – 30th April 2024 reflects class R units. Tracking error is calculated ex post.

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Source: Argonaut Capital Partners, all figures at 31/07/2024 these figures are subject to rounding. Figures are based on the VT Argonaut European Income Opportunities GBP R Acc share class.

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