Fund Factsheet

VT Argonaut European Alpha

At 31 July 2024

Barry Norris
Fund Manager

Barry Norris founded Argonaut in 2005 and manages the VT Argonaut European Alpha 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

To achieve above average returns and attempt to perform a top quartile profile when measured against competing funds in the same sector.

Fund overview

Sector	IA Europe ex UK
Launch date	12 May 2005 (GBP A Acc) 6 December 2005 (GBP I Acc) 16 July 2012 (GBP R Acc)
Fund size	£19.5m
Share class	Class A/Class R/Class I
No. of holdings	31
Sedol codes	A (Acc) – B4ZRCD0 R (Acc) – B7MW8T7 I (Acc) – B76L737
Bloomberg	A (Acc) – IMAEAAG LN R (Acc) – IMAERAG LN I (Acc) – IMAEIAG LN
ISIN	A (Acc) – GB00B4ZRCD05 R (Acc) – GB00B7MW8T72 I (Acc) – GB00B76L7377
Initial charge	0.0%
Ongoing charge GBP (as at 31/12/23)	A Acc Class Shares – 1.89% R Acc Class Shares - 0.89% I Acc Class Shares - 0.89%
Minimum investment	£500 (A Class Shares)
Minimum top up	£250 (A Class Shares)
Regular savings scheme	Yes (A Class Shares)
ISA option available	Yes (A Class Shares)
XD/Payment dates	01.03/30.04, 01.09/31.10

Any past performance or references to the period prior to 14 July 2012 relate to the Ignis Argonaut unit trusts.

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

Funds performance based on GBP share class, return may increase or decrease as a result of currency fluctuations on each share class.

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 -2.9% over July, compared with the IA Europe ex UK sector which returned +0.1%.

The best performing stocks were Norwegian anti-ship missile manufacturer Kongsberg (+21%); German healthcare conglomerate Fresenius (+19%); Greek bank Piraeus (+16%); and Dutch food delivery outfit JustEatTakeaway (+11%). 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.

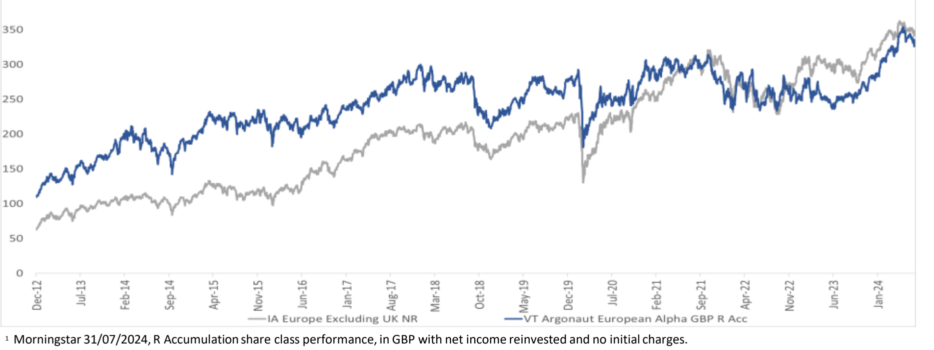
Scepticism around return on investment on AI capital expenditure became more mainstream during the month. It is worth noting that Nvidia's data centre revenue was just $15bn in its financial year ending January 2023 (2022 calendar equivalent); increased <u>$32bn in 2023/4</u> (2023) to $47bn (+213%); 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.



[1] Morningstar 31/07/2024, R Accumulation share class performance, in GBP with net income reinvested and no initial charges.

£	1 Month	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	Since Launch
Fund	-2.9	12.0	6.3	-5.4	-1.0	2.1	20.5	-17.9	14.9	-1.00	16.1	4.0	31.7	324.8
Sector	0.1	5.7	13.5	-9.2	15.7	10.7	20.1	-12.4	17.4	16.8	9.3	-0.8	26	363.9
Quartile Rank	4	1	4	1	4	4	2	4	3	4	1	1	1	3

Source: Morningstar 31/07/2024, Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 to date reflects class R units, in Sterling with net income reinvested and no initial charges. The sector is the IA Europe ex UK NR quoted in Sterling.

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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Fund Factsheet

VT Argonaut European Alpha

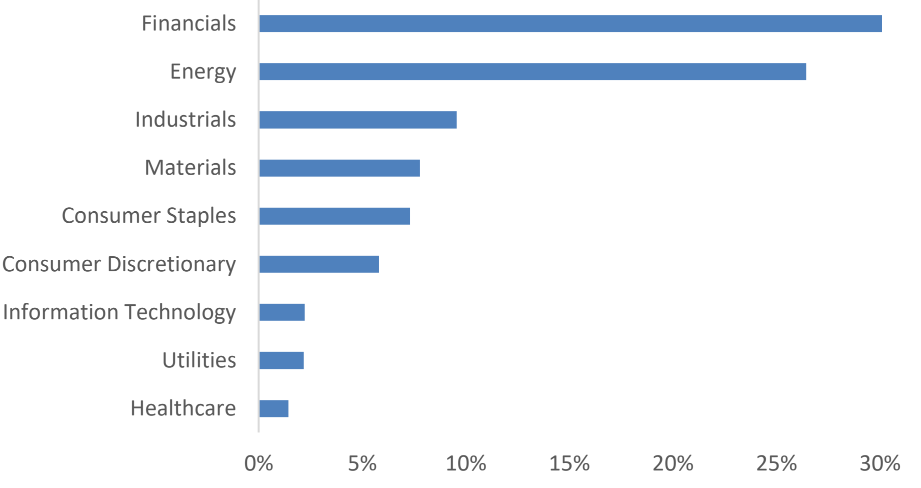
At 31 July 2024

Top Five holdings	Fund %
Hafnia Ltd	7.1
Torm Plc	7.1
Eramet	6.2
Intesa Sanpaolo	4.9
CaixaBank SA	4.5

Country Breakdown	Fund %
Norway	25.0
Italy	10.7
Germany	8.9
France	8.8
Greece	7.8
United States	7.3
Denmark	7.1
Netherlands	4.6
Spain	4.5
Other European	10.5

Market Cap	Fund %
Large Cap > €5bn	54.4
Mid Cap €1bn – €5bn	36.1
Small < €1bn	4.7
Cash	4.8

Sector Weights



Risk Analysis	Since Launch	1 Year
Beta	0.7	0.7
Standard Deviation (%)	15.9	9.6
Tracking Error	21.0	8.0
Jensen's Alpha	1.7	10.5
Sharpe Ratio	0.3	1.0
Information Ratio	0.0	1.3

Source: Morningstar, all figures at 31/07/2024, these figures are subject to rounding. Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 to date 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.

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Other ISINs for this fund:

GB00B6TQCC60	GB00B6T6S066
GB00B5LJR434	GB00B6VYPP25
GB00BVYPB156	GB00B7JXMD51
GB00B76L7377	GB00B4ZRCD05

Important Information

Information Ratio: a risk-adjusted measure of fund performance relative to a benchmark; the higher the number, the more risk-adjusted outperformance the fund has generated.
Jensen's Alpha: a measure of a fund's outperformance of a benchmark over a given period. Jensen's Alpha is used to evaluate the contribution of active management – higher alpha means better fund performance.
Tracking Error: measures the deviation of fund performance from benchmark performance. Funds with a high tracking error have historically deviated more from their benchmark, and vice versa.
Beta: a measure of the sensitivity of fund performance relative to changes in the market. A fund with a beta of one tends to experience movement in line with the market. A beta higher than one suggests the fund will go up by more than the market when it rises, but go down more when the market falls. A beta less than one will go up by less than a rising market, but fall less when the market is down.
Standard Deviation: shows how much variation in return exists from the average. The lower the standard deviation the less variation from the average.
Sharpe ratio: a measure of the excess return per unit of deviation in an investment asset or a trading strategy. The higher the figure means the excess return generated from the increase in risk undertaken.