

VT Cantab Global Equity Fund

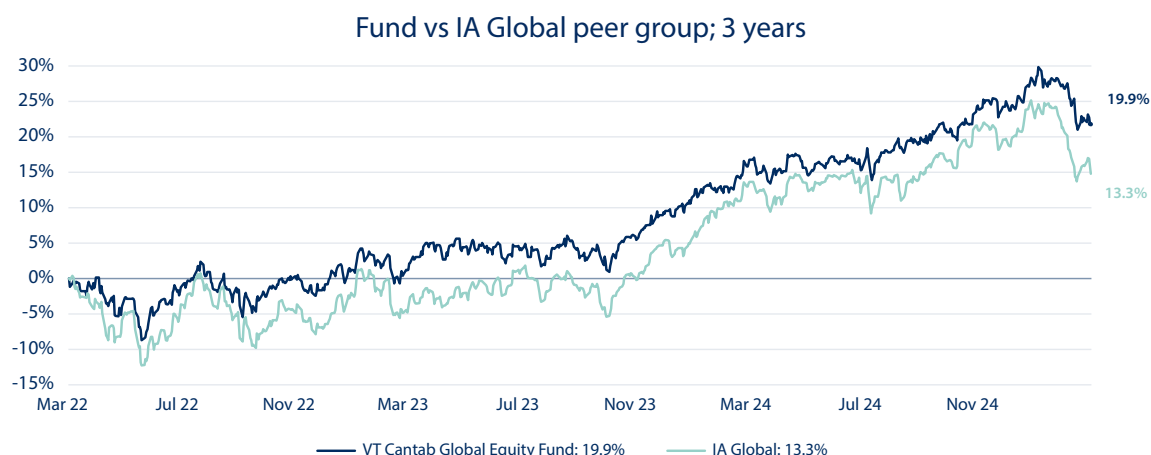
Q1 2025 Letter

Overview

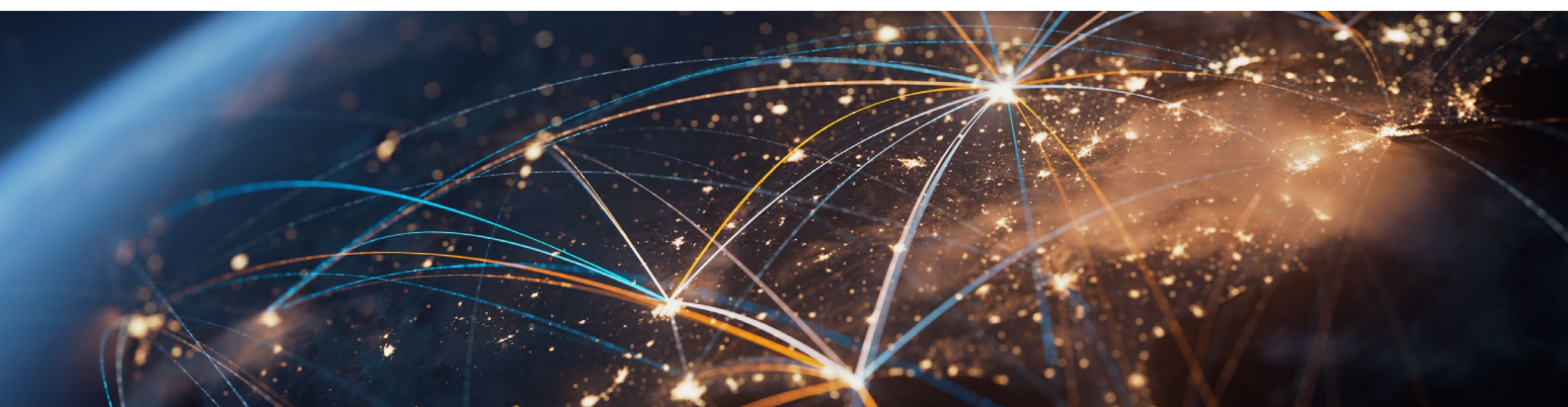
The fund is global, large-cap, and long only. We utilise a bottom-up, stock-picking process with a focused portfolio and long-term holding periods. We hunt for responsible companies with sustainable franchises at attractive valuations.

Portfolio Performance

In the three years to the end of March, the fund generated a gain of 19.9%, versus +13.3% for the IA Global peer group, placing it in the 2nd quartile. Over the last 12 months, the fund returned +2.6% versus -0.3%, respectively.

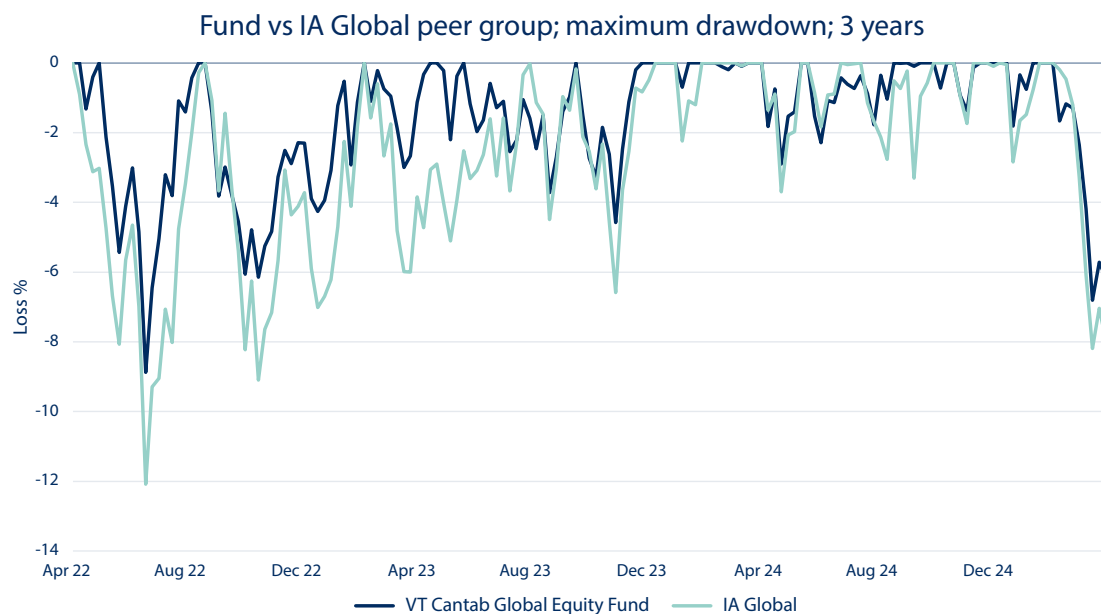


Source: FE Analytics; 31/03/2025.



To be honest, the first quarter of 2025 already feels like a long time ago, and I deliberately delayed the writing of this letter until early May in the forlorn hope that we might have more clarity by then. In general, I usually have very little time for market pundits complaining of 'lack of visibility' or 'elevated levels of uncertainty'. Isn't the future always unknown? Isn't it more to do with lower levels of complacency than higher levels of uncertainty?

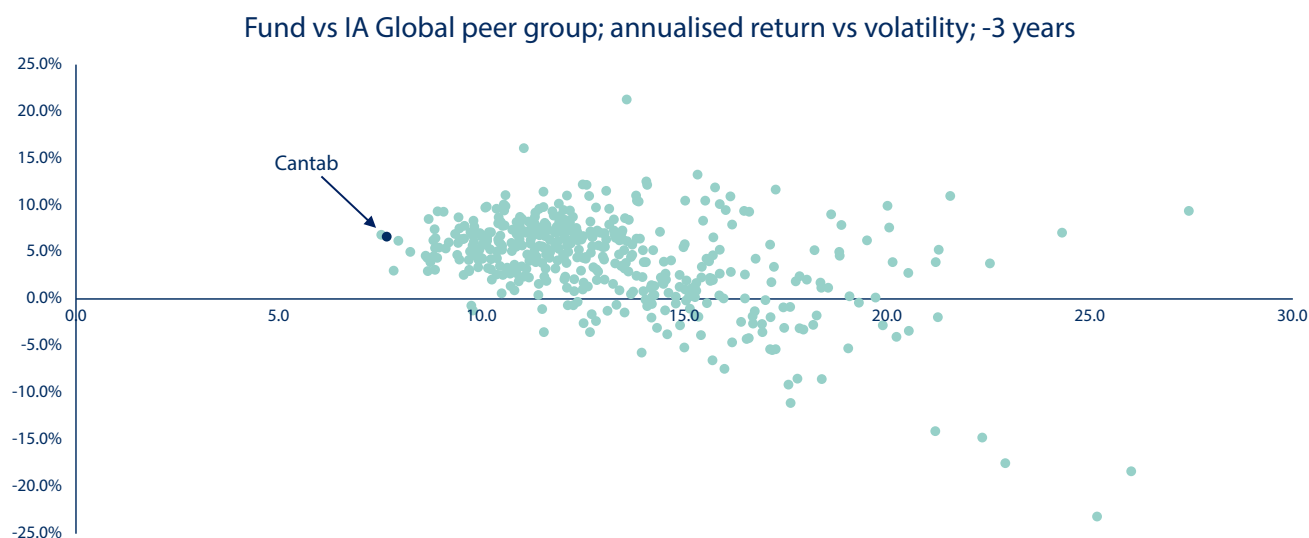
Today, however, I am willing to concede that uncertainty really does appear to be greater than usual. What, exactly, is going on? Is this textbook 'Art of the Deal' stuff from the US President: shock and awe them, bring them to the table, negotiate, deal, and move on? Or are we witnessing in real time a rare inflection point in our global system? That Donald Trump 'blinked' when he saw the damage being done in the Treasury market suggests the former. That global equity markets had recovered all of their Liberation Day sell-off by the beginning of May suggests this may also be consensus, and I don't necessarily mean that in a good way.



Source: FE Analytics; 31/03/2025; weekly data.

From the above, one can see that the fund's bear market capture characteristics have remained attractive during this most recent bout of volatility. A chief concern of mine is that, at some point, the strategy's characteristics will fail to protect to the downside. So far, however, so good. Be it March 2025, the 2022 bear market, 2020's COVID panic, 2015's China slowdown, 2011's Eurozone crisis, or the Global Financial Crisis (GFC), the strategy has delivered some level of protection.

This cannot be a guarantee, however. For example, we do not screen for low-beta stocks or volatility-scale our position sizes. But maybe there is something to be said for maintaining balance while focusing on quality and relatively attractive valuations. Whilst the strategy is not designed to shoot the lights out when making money is easy, nor is it specifically designed to be a safe harbour, this is something that merely falls out of the bottom of the process, as if it were in its DNA.



Source: FE Analytics; 31/03/2025.

Fund vs IA Global peer group; 3 years

	Absolute	Rank	Percentile
Volatility annualised	7.94	5/486	2
Beta	0.59	23	5
MaxDrawDown	-7.67	44	8
Sharpe annualised	0.34	112	23

Source: FE Analytics; 31/03/2025; monthly data.

We tend not to get too much pushback in terms of this underlying philosophy. It appears to be a prudent strategy, and if it works for Warren Buffett & Co., what's not to like?

The devil is in the detail, however. Often, I have been met with nodding heads when explaining philosophy and process. But when the conversation turns to recent trades – of which there are usually very few – there can sometimes be gasps of 'why are you doing that?!'

In reality, buying quality companies at attractive valuations means buying quality companies at a point in time when other investors are having doubts as to whether they still are quality companies. How else do you engineer a margin of safety?

A few cherry-picked examples of stocks I have bought in the past: Estée Lauder in 2007 – 'its brands are broken' (plus ça change); Expedia in 2009 – 'global recession, no-one's travelling'; Microsoft in 2012 – 'tech dinosaur'; Pearson in 2020 – 'it's Pearson'.

With the benefit of hindsight, most – if not all – successful investments seem obvious. At the point of initiation, however, there is almost always an element of discomfort (maybe there always should be). The alternative is to buy the most popular names, but we all know where that can lead in the long run.

'Time arbitrage' is a great friend to the patient investor. All too often I have seen stocks go from hero to zero, when the truth is probably somewhere in between – is there an investor who hasn't experienced the journey from excitement to despair? Discipline and patience, said Charlie Munger, are all you need.

3-month attribution by stock (top and bottom five)

	Portfolio	Average Weights Benchmark	Active	Portfolio	Returns Benchmark	Active	Attribution Total
Trend Micro	3.16%	0.01%	3.15%	19.21	19.21	0.00	1.06
NVIDIA*		3.60%	-3.60%		-21.69	21.69	0.65
Nestlé	3.25%	0.24%	3.00%	18.58	18.58	0.00	0.64
Roche Holding	2.67%	0.26%	2.42%	16.72	16.72	0.00	0.46
Tesla*		1.08%	-1.08%		-37.73	37.73	0.44

	Portfolio	Average Weights Benchmark	Active	Portfolio	Returns Benchmark	Active	Attribution Total
Alphabet	4.55%	2.32%	2.22%	-20.64	-20.64	0.00	-0.39
Taiwan Semiconductor Manufacturing	3.17%	0.34%	2.83%	-18.12	-18.52	0.00	-0.40
Akamai Technologies	2.83%	0.01%	2.81%	-18.34	-18.34	0.00	-0.42
Novo Nordisk	2.41%	0.05%	2.37%	-22.58	-22.58	0.00	-0.44
PayPal Holdings	3.42%	0.09%	3.33%	-25.82	-25.82	0.00	-0.79

Source: Refinitiv; Cantab Asset Management; 31/12/2024-31/03/2025; *not held.

The table above details the main winners and losers for the fund for the period under review. Of the 10 companies listed, five appeared in this same table for the previous period, with three of the five switching from either the winners' camp to the losers', or vice versa.

This says about as much as needs be said as regards short-term performance of the stocks within the fund – one should not read too much into it! I firmly believe that one of the keys to delivering superior, long-term, risk-adjusted returns is to think and trade with the long term in mind.

As humans, we are not well equipped just to stand there rather than do something, yet inaction has been the bedrock of Buffett's and Munger's stellar track record, and we should seek to learn from that. Anything that pushes us away from this path, such as pouring over quarterly stock attribution, should be resisted as much as possible.

How can valuations help long-term sector selection?

In need of a confirmation bias hit, I happily came across an interesting piece of research from the quants at JP Morgan Markets, who in January posed the above question.

Their starting belief was that long-run sector performance is driven by price/value and earnings growth: “higher-priced sectors are generally also high-growth, and vice versa for low-priced sectors”.

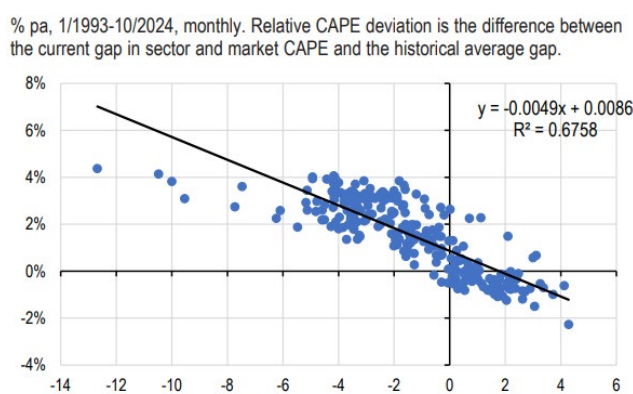
To adjust for this, the analysis compared the current deviation between the valuation of a – US – sector and the market to the long-term historical average deviation, to see if this helped predict excess returns relative to the market over the subsequent 10 years.

Their unsurprising finding was that “when a sector is cheaper relative to the market than it has been on average in the past, it is more likely than not to outperform the market over the next decade, and vice versa”.

The authors tried out two valuation signals for their regression analysis: the trailing price-to-earnings (PE) multiple, and the cyclically adjusted price-to-earnings (CAPE) multiple that was conceived as an improved signal for long-term returns as it smooths out shorter-term volatility that may not reflect long-term value.

While both metrics demonstrated a degree of long-term predictive power for returns, unsurprisingly, the CAPE was again found to be the superior tool. (Smoothing out shorter-term volatility is one of the many reasons I use the sales multiple rather than an earnings multiple – more on that another time.)

Health Care sector relative valuation deviation from trend versus subsequent 10-year excess returns



Source: J.P. Morgan, Refinitiv/LSEG Data and Analytics, Bureau of Labor Statistics, % pa, 1/1993-10/2024, monthly.
Relative CAPE deviation is the difference between the current gap in sector and market CAPE and the historical average gap.

Using the Health Care sector as an example, the above chart plots the sector's relative valuation deviation relative to trend on the horizontal axis and what happens next in terms of 10-year excess returns on the vertical axis. In short, the sector has typically underperformed when relative valuation was stretched and vice versa. Valuation matters – who would have thought?!

To be fair, the analysis works better for some sectors than for others. The table below shows a very low R-squared for Energy, Financials, and Consumer Discretionary. In the case of the first two, maybe asset multiples might be preferred over earnings multiples. JP Morgan's take is that Energy and Financials appear to have suffered from a sea change once post-GFC data entered the mix. Likewise, Consumer Discretionary, but in the other direction – possibly on account of non-typical Consumer Discretionary stocks becoming an ever-larger part of the sector.

Current CAPE deviations and long-term excess return implications

	Historical difference	CAPE deviation	Sigma	Recursive R^2	Implied excess return
Consumer Staples	2.0	-14.4	-2.3	0.48	5.2%
Health Care	6.3	-9.9	-1.6	0.68	4.3%
Energy	-5.8	-9.9	-1.6	0.11	1.6%
Financials	-5.4	-6.6	-1.0	0.09	1.3%
Basic Materials	-3.3	-8.1	-1.3	0.63	0.8%
Industrials	1.2	-0.6	-0.1	0.37	0.8%
Telecoms	-4.5	-11.7	-1.8	0.67	-0.1%
Consumer Discretionary	2.2	4.0	0.6	0.00	-0.9%
Utilities	-7.9	-1.4	-0.2	0.35	-1.5%
Technology	11.4	14.9	2.4	0.57	-2.1%

Source: J.P. Morgan, Refinitiv/LSEG Data and Analytics, Bureau of Labor Statistics.

Source: Source: J.P. Morgan, Refinitiv/LSEG Data and Analytics, Bureau of Labor Statistics. Future forecast figures are not a reliable indicator of future results.

The table, using data as of 31/11/2024, also shows the model's implied excess returns for the decade ahead, implying, for example, Technology underperformance and Consumer Staples and Health Care outperformance.

It is possibly no coincidence that the fund entered 2025 with an underweight position in Tech and overweight positions in Staples and Health Care. However, I must stress that the fund is purely bottom-up driven, with no top-down inputs.

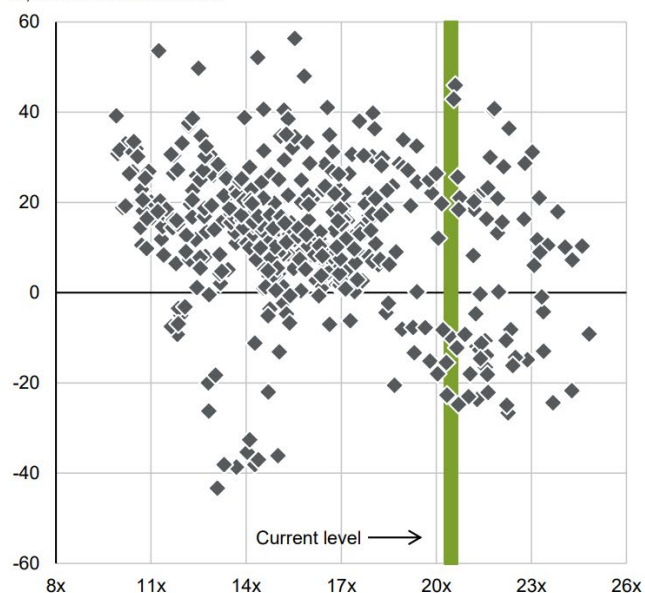
It is at a stock level that we screen for (i) quality at an (ii) attractive valuation, which we quantitatively define as stocks that (i) typically trade at a premium valuation relative to the market that are (ii) currently trading at a discount to their trend relative valuation. Hence my (confirmation bias!) interest in analysis suggesting such an approach has merit.

Finally, any talk of valuation versus what happens next always has me running to one of my all-time favourite charts, this time from the buy side of JP Morgan, detailing at a US market level what subsequent returns investors have enjoyed from various valuation starting points.

With data since 1988, the two charts below show subsequent 1-year and 10-year annualised total returns on the vertical axis, shown against entry-point forward PE ratios on the horizontal axis. These charts have been used by many market practitioners – and with good reason.

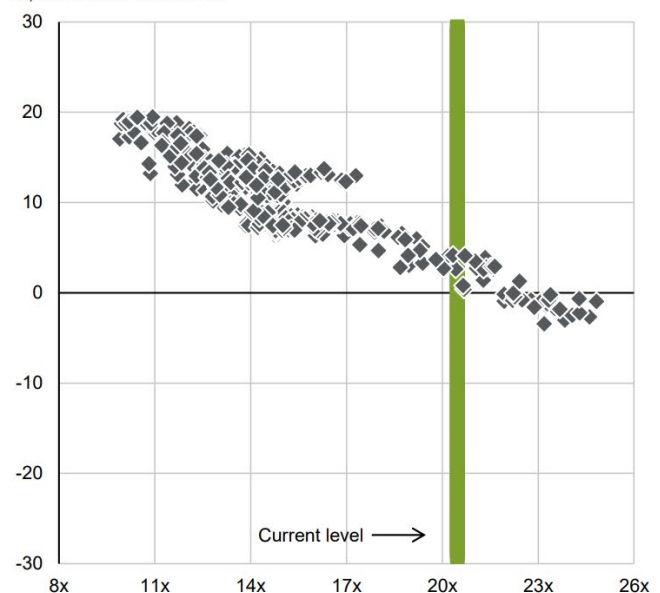
S&P 500 forward P/E ratios and subsequent 1-year returns

%, annualised total return*



S&P 500 forward P/E ratios and subsequent 10-year returns

%, annualised total return*



Source: IBES, LSEG Datastream, S&P Global, JP Morgan Asset Management. *Dots represent monthly data points since 1988, which is the earliest available. Forward P/E ratio is price to 12-month forward earnings, calculated using IBES earnings estimates. Past performance is not a reliable indicator of current and future results. Guide to the Markets – UK. Data as of 1 May 2025.

The above informs us that market valuations tell us nothing about what will happen in the near future, but almost everything you need to know about what will happen in the long run.

Narrative, valuation, fundamentals – and in this order, I believe – are what drive the prices of risk assets. And, while fundamentals do trump valuation in the long run, at extremes this could be a very, very long time. Consider the ‘I invested in Cisco’ class of March 2000: a quarter of a century later, they are still underwater.

Whoever said “in the short run, the market is a voting machine but, in the long run, it is a weighing machine” must have been an intelligent investor!

Mark Wynne-Jones
Fund Manager

May 2025

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cantabam.com

Cantab Asset Management Ltd
50 Station Road, Cambridge CB1 2JH
01223 52 2000
advice@cantabam.com

88 Wood Street, London EC2V 7QR
020 3651 0570
advice@cantabam.com