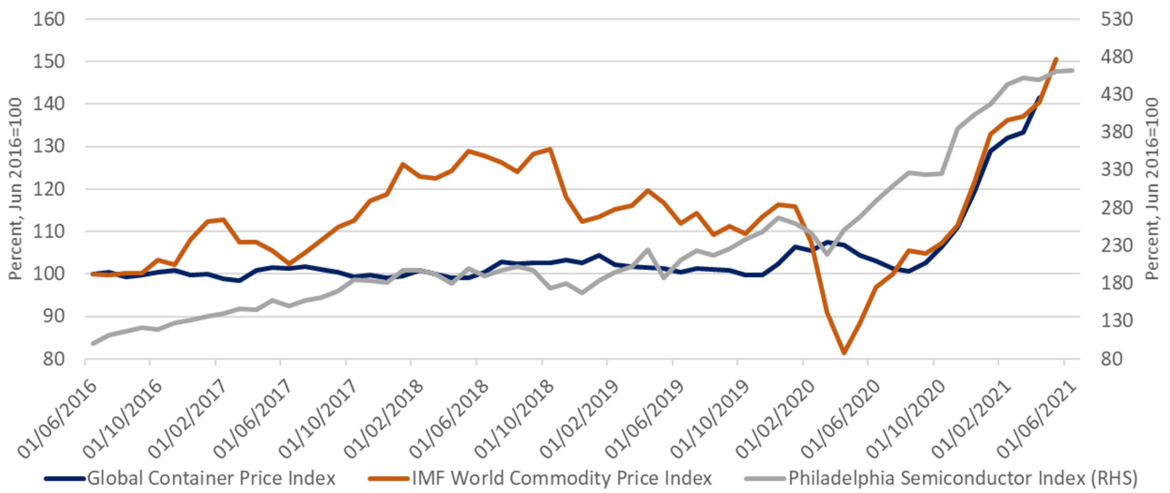
"When I get to the bottom, I go back to the top of the slide, where I stop, and I turn, and I go for a ride" -The Beatles.

June has felt like a helter skelter ride for most investors as markets shifted on differing comments by members of the Federal Open Market Committee towards tapering, inflation, and interest rates. Sector rotation abounded, in both directions, between the more defensive sectors to reopening trades and reflation trades despite the economic data continuing to be robust.

The commentaries coming from company calls are almost universal in their warnings about input cost inflation and bottlenecks causing supply constraints. The shortages in semi-conductors have been well documented but lead times have now increased to over eight weeks between placing an order and taking delivery. TSMC has signalled that it will be prioritising Apple and Auto OEM supply in the coming months, so other sectors will likely have to share the pain. Given the length of time it takes to build new supply, we see this shortage continuing to be a factor through 2022, and perhaps 2023 also. Many commodity prices have also seen substantial increases this year, and although these increases have eased slightly in the last couple of weeks, prices are still well above the levels at the start of the year.

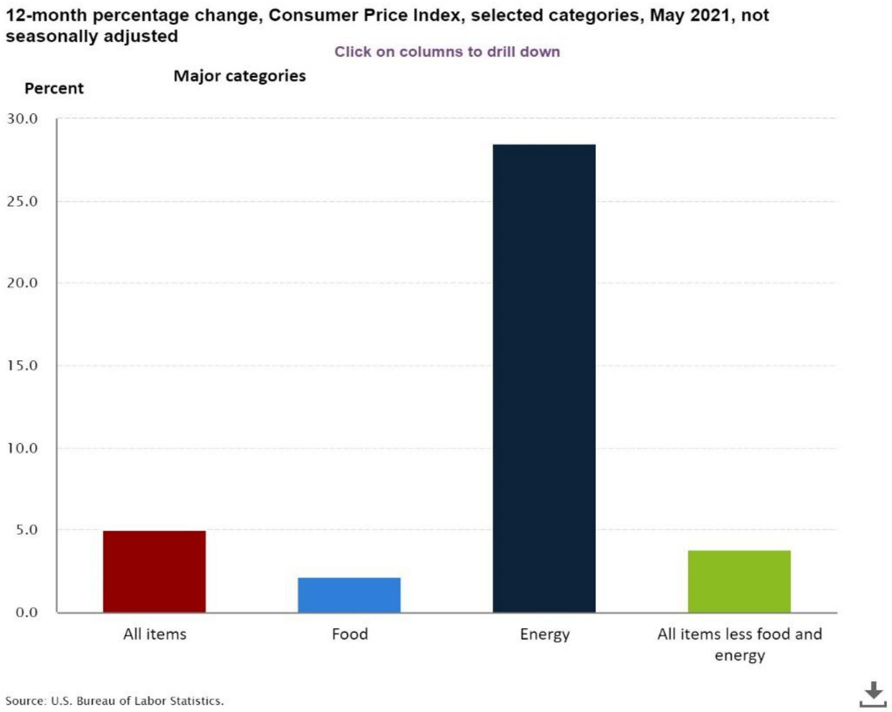
Supply bottlenecks and rising input costs



Source: TIM/ IMF/ World Liner Data Ltd/ Bloomberg

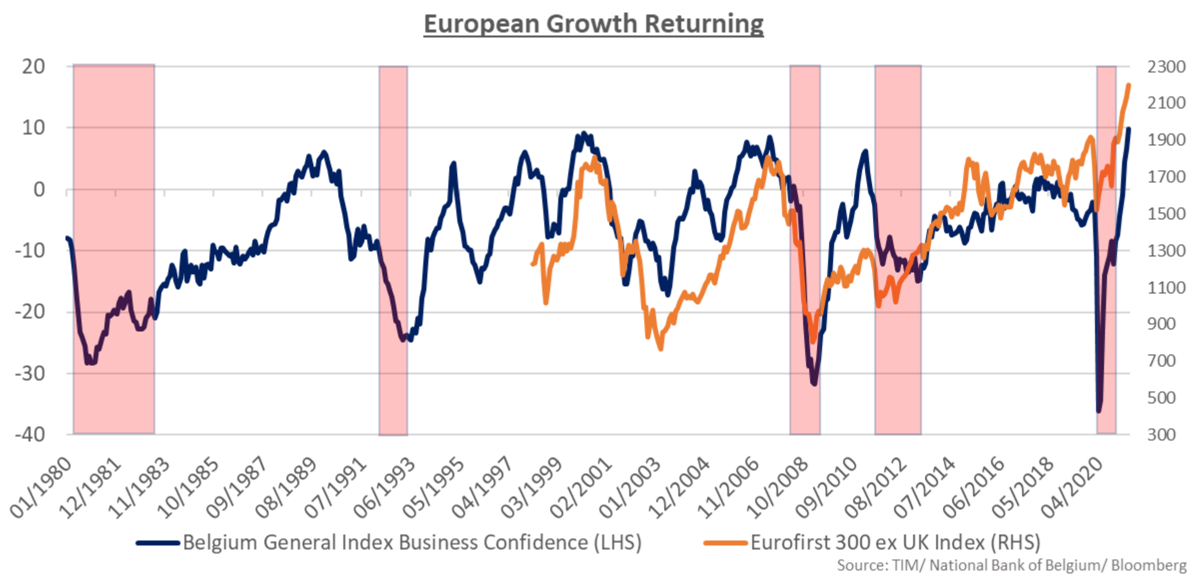
The Federal reserve would like the market to believe that the 5% consumer price inflation number posted this month is transitory. The aggressive flattening of the yield curve, post some hawkish rhetoric from the Fed, suggests that the market sees a reduced risk of the Fed 'falling behind the curve', and points to a belief that inflation is only transitory; the bond market seems to believe that inflation is transitory despite two of the strongest month-on-month inflation numbers since WW2.

While most of the CPI number is accounted for by fuel oil and gasoline (up 50.8% and 56.2% respectively), we are inclined to believe that we will continue to see prints above the long-term guidance of 2%, for longer than consensus currently appears to be believing.



Shortages in both skilled and unskilled labour, despite the argument that furlough schemes and other pandemic relief packages are temporarily discouraging a return to work, are likely to lead to a rise in wages, and when combined with commodity costs from a manufacturing led recovery, will need to be passed through to consumers not to weigh on corporate profit margins. For this reason, we continue to invest in companies that have pricing power and sustainable cash flows that can balance their profitability with beneficial consumer outcomes.

The global recovery, however, remains strong. To date the strength of the Chinese recovery and improving US growth, on the back of significant fiscal support, has led markets to continue in an upwards trajectory. The recent news of a much-anticipated US infrastructure bill being passed, albeit for a lower amount than President Biden has hoped for, should help to sustain this uptick in corporate activity, however the leadership baton now appears to have been passed to Europe and the non-China related emerging markets.

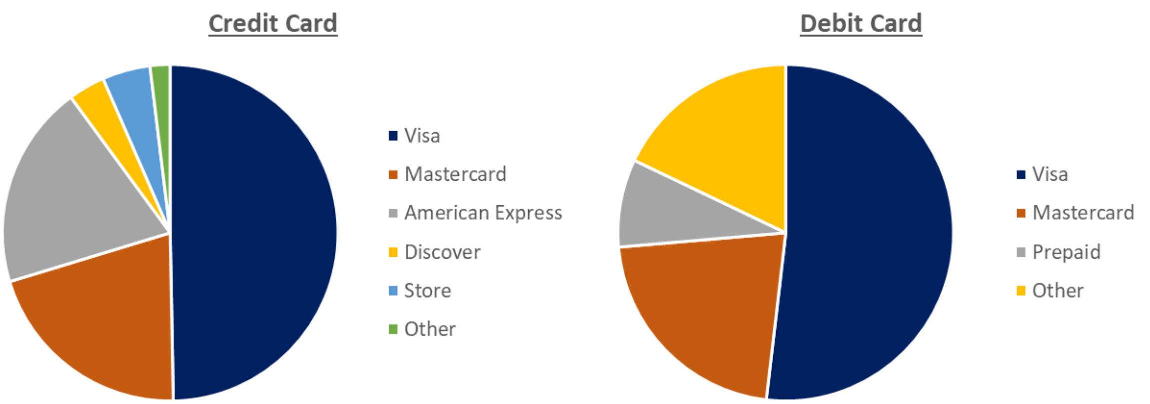


Global equity markets continued to post new all-time highs despite the increased rhetoric about tapering and interest rate rises as the underlying economic data remained robust. The VT Tyndall Global Select Fund B Acc (GBP) also made an all-time high during the month, and rose by 4.52%, bringing the year-to-date returns to 9.11%.

Fund Activity and News

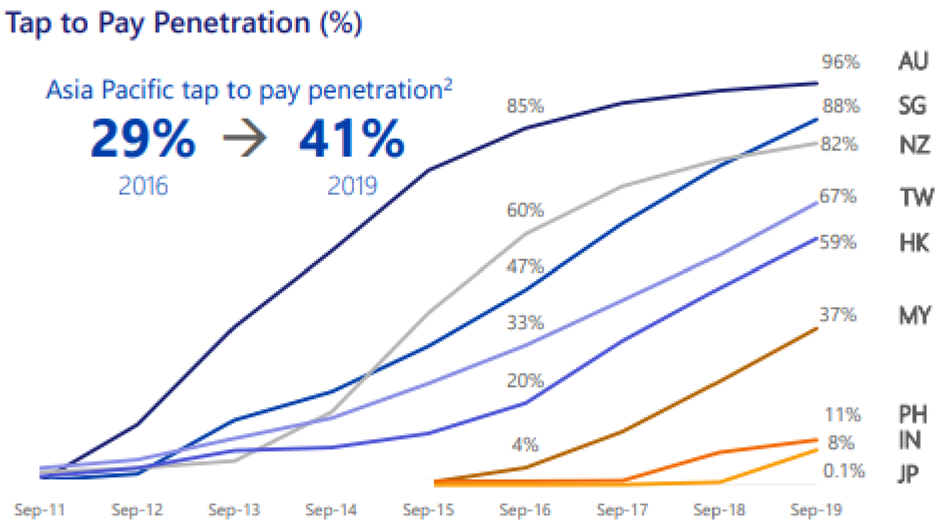
We have been adding to our position in Visa over the past couple of months. The company enjoys a duopoly with Mastercard, that has been strengthened by the pandemic, as the structural shift from cash to card has accelerated, given its ease of use, security, and cleanliness. This trend was highlighted recently by the CEO of Visa when he commented that "We have seen Visa use at ATMs decline by 7%, but debit has grown by 16%, so the 23% differential, we think, shows the structural cash to card shift."

Card Market Share by Purchase Volume



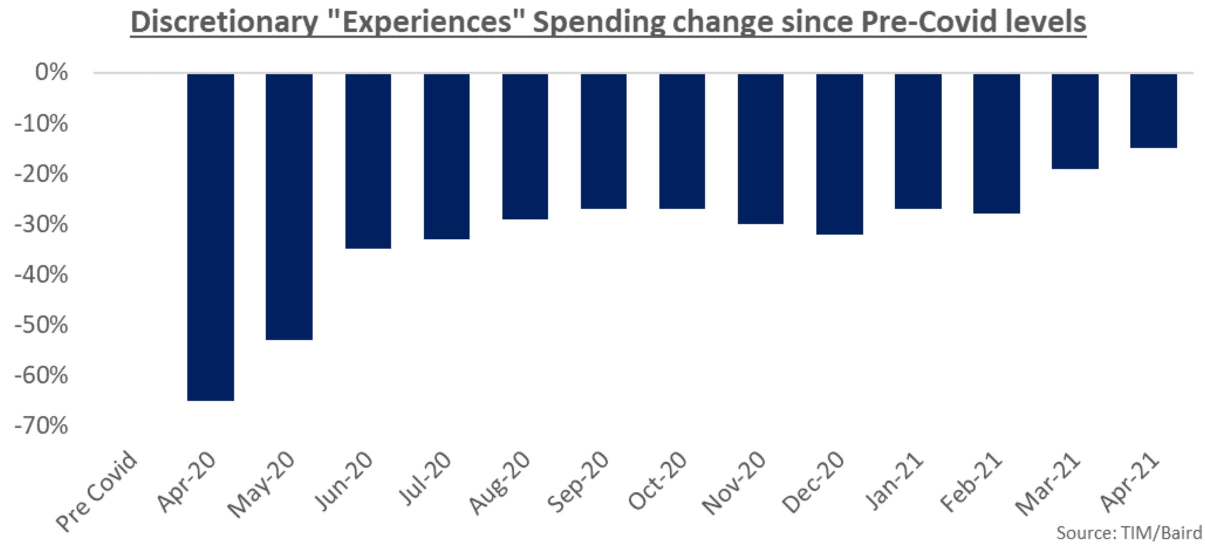
Source: TIM/Nilson

The shift to card is still in its infancy, especially in the US, where 55% of transactions <$10 are still done in cash form, and only 23.6% of total transactions are made using credit cards. To address this opportunity Visa is rolling out contactless payment (tap to pay) worldwide, and if the adoption rates in Asia prove to be a guide for the US roll-out, should provide additional transaction and revenue volumes for years to come.

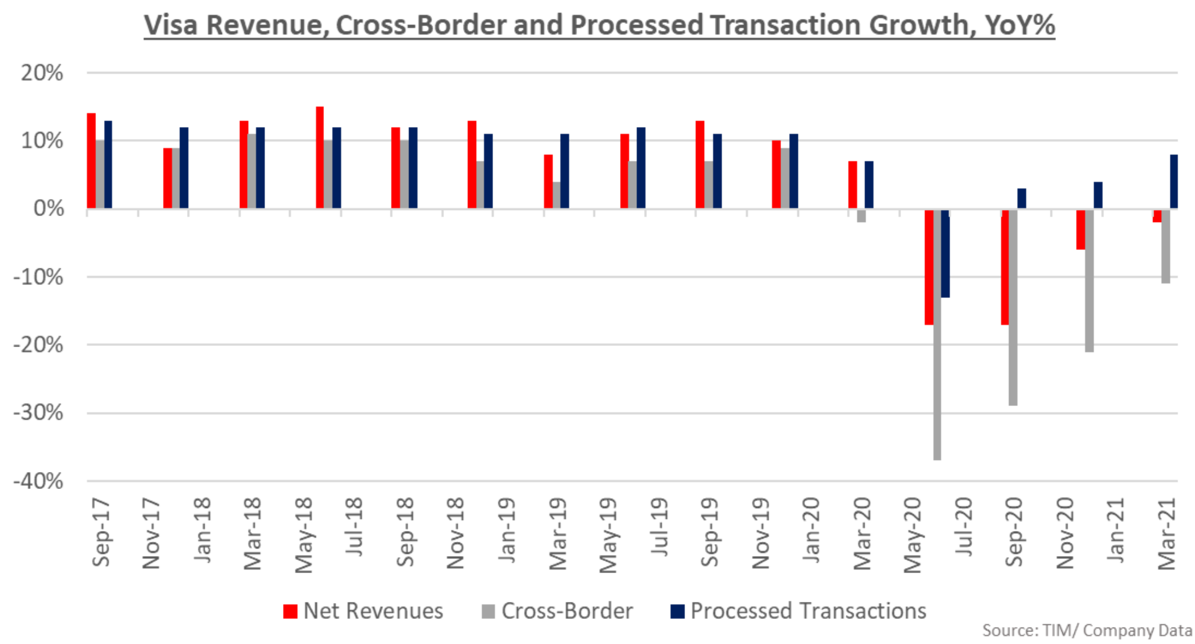


Source: Visa Analyst Day 2020

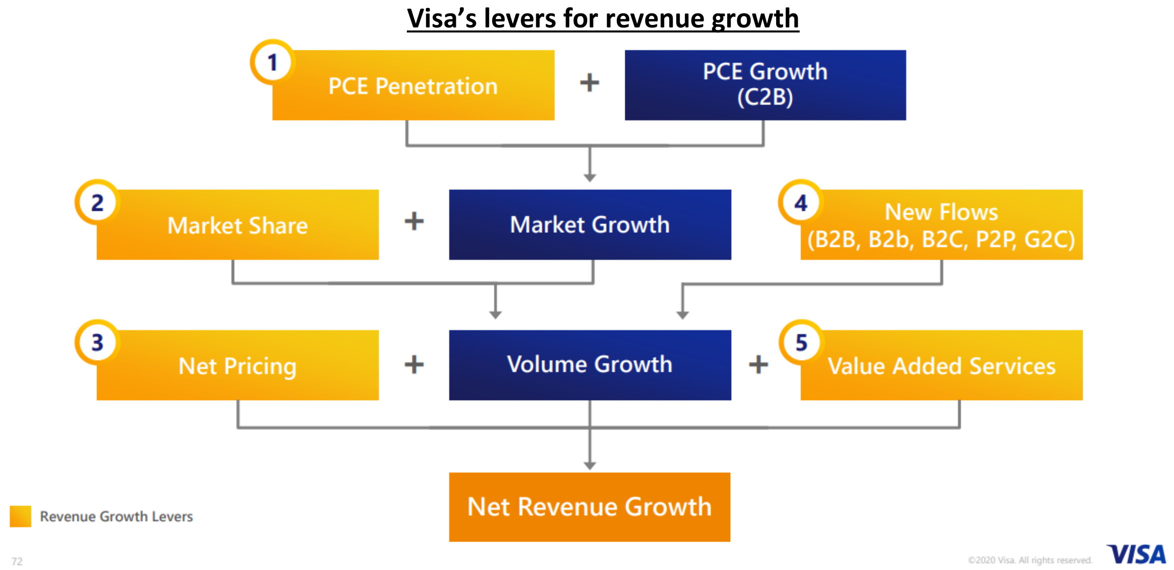
Both companies have seen credit payments decline over the past year, as credit is correlated to the more affluent section of the community, and in particular their spending on eating out and experiences. Credit improved by 4% in May as economies started to open up, and more importantly the decline in high margin cross border payment volumes have started to wain; Visa is seeing up toa 2-3x increase in volumes in the fortnight after a travel corridor opens up. With savings rates in both Europe and the US between 2-4x the historic long-term average, the ability to spend once consumer confidence returns has never been higher, and the card companies are direct beneficiaries of a return to historic savings levels.



After four quarters of negative revenue growth, the company is experiencing the best growth in debit for more than a decade, with volumes >1.5 times that recorded in 2019. Credit and cross-border are on the cusp of inflecting back to positive growth, all of which should lead to substantial and sustainable earnings growth going forward.



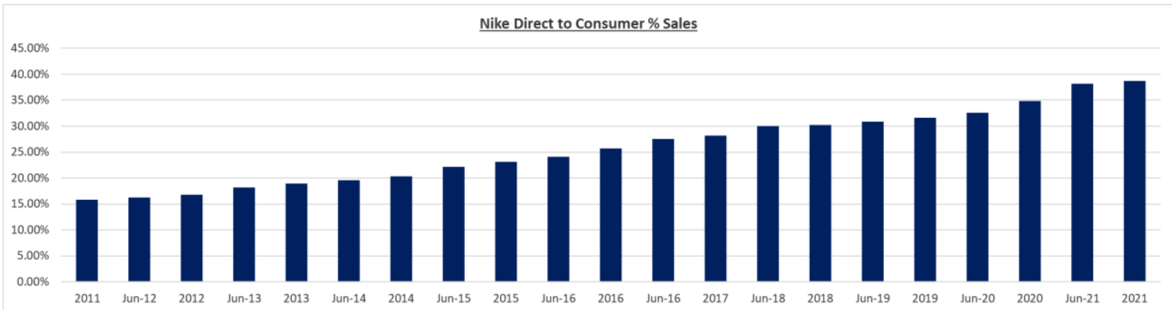
Beyond credit and debit trends, Visa also has multiple other growth drivers such as B2B, Visa direct and Value-Added Services like cybersecurity, as it seeks to expand its prevalence and integration to most facets of everyday life. Visa is a great example of a company that facilitates other companies' growth plans, and often finds that the fintech companies that are cited as threats to their business model have little option but to partner with them if they are going to succeed.



P= Person, B= Business, G = Government, C= Consumer, PCE= Personal consumption expenditures

Having commented on the increased anti-western rhetoric from the Chinese government in relation to the boycott for Xinjiang province by many brands earlier this year, Nike's full-year numbers are also worth mentioning, as post the release, the company returned to being the Fund's largest holding.

The feared deterioration in China was not as pronounced as expected, and post a slowdown in April and May, was showing signs of recovery in June; management noted that Nike had returned to the number one store on Tmall during the singles event on 18 June. Elsewhere growth was exceptionally strong, especially in digital with direct-to-consumer (DTC) up to 38% of sales, despite stores reopening.



Source: TIM/ Company Data

The increase in Digital sales, combined with operational efficiency has helped the company's margins bounce back to previous peak levels in all regions. Encouragingly the company also issued 2025 guidance that pointed to continued growth, especially from women's, Jordan, apparel, digital and international, although given recent news that their footwear is so far ahead of peers in terms of performance that non-Nike sponsored athletes are also adopting Nike footwear, we would not be surprised if footwear also drives growth!

Digital is expected to account for 60% of sales by 2025, from 40% today, and in turn has led to the company raising margin guidance incrementally each year. Despite SG&A coming back, it will remain below pre-pandemic levels, leading to through-the-cycle EBITDA margins and returns on invested capital fundamentally higher than those seen to date.

Despite the increase in the valuation post the results, we continue to see Nike as a best-in-class company on a global mega-trend of athletic leisure, with robust free cash flows and quality management. As we do not operate stop losses or price targets, only cutting weighting if our selfimposed maximum position size is exceeded, or there is a fundamental change in the investment case, we continue to hold our position in the Fund.

Richard Scrope, Fund Manager, VT Global Select Fund, 30th June 2021

Data source (unless otherwise stated): Bloomberg.

Contact Details:

Fund Manager – rscrope@tyndallim.co.uk
Sales Director - hnolan@tyndallim.co.uk

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