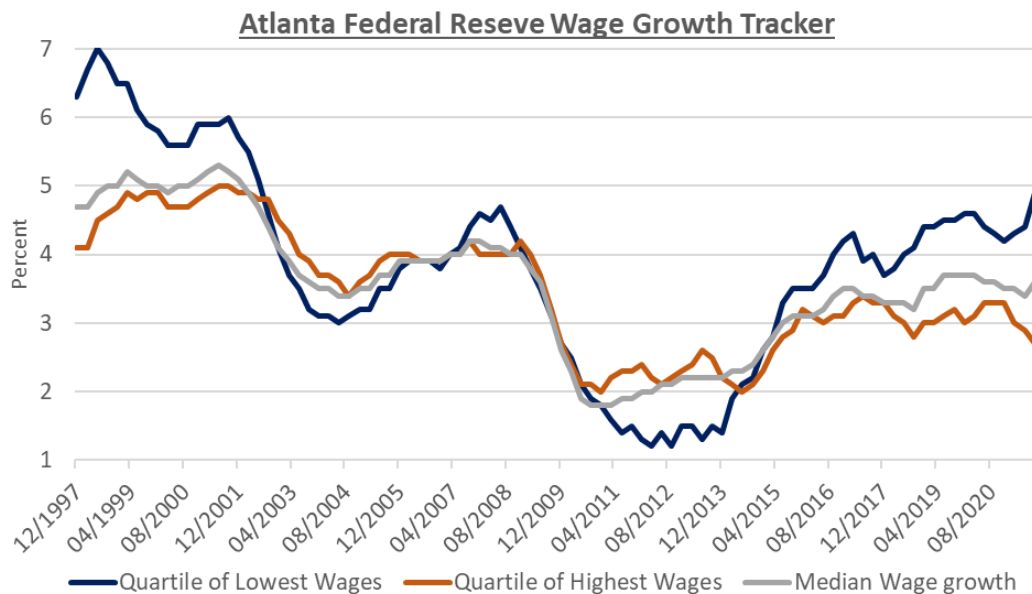


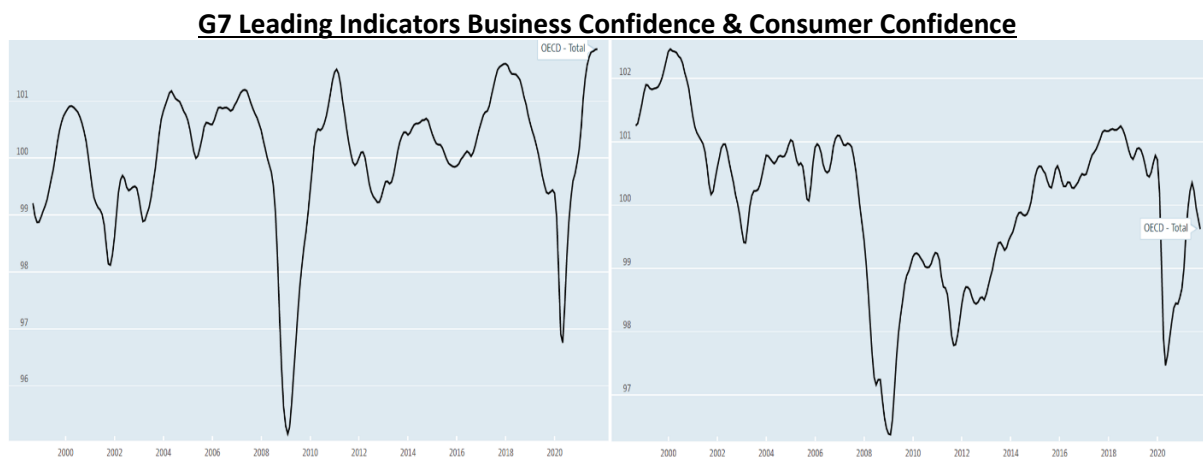
“To do a common thing uncommonly well brings success” - Henry Heinz

The various inflation releases suggest that the market will have to contend with persistent, rather than transitory as the Federal Reserve would have us believe, levels of inflation. This is particularly true of wage inflation where the supply-side dynamics do not appear to solve this headwind for companies. We have seen many companies comment on the need to raise wages, especially for the lowest paid section of the workforce; Starbucks recently raised all employees’ wages to at least \$15 per hour compared to only 30% of the workforce receiving \$15 per hour a year ago.



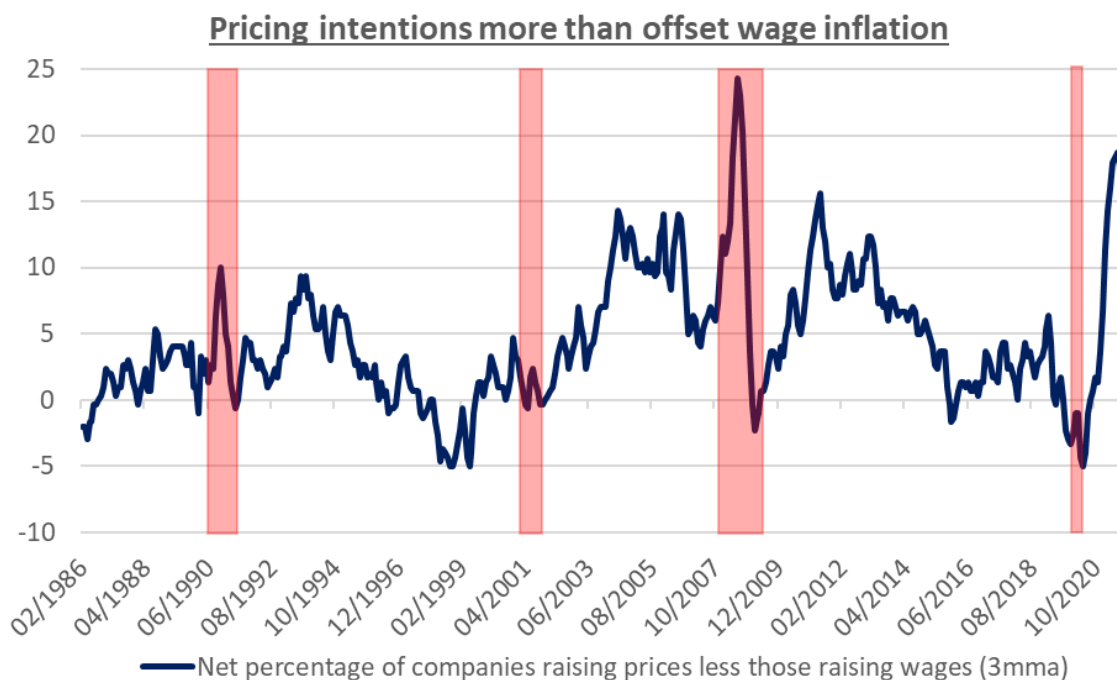
Source: TIM/ Federal Reserve Bank of Atlanta

The rising operating costs, product shortages and bottlenecks in supply chains that companies have been facing in the past six months are now widely acknowledged, and Mr Market’s expectations for 2022 have been lowered accordingly. Regardless of this, Industrial confidence in the G7 has recently surpassed that 2017 highs, but worryingly the corresponding G7 survey for consumer confidence has fallen back to the lowest level since February.



Source: OECD

We note, however, that many businesses, and not just those in the US either have, or plan to, raised prices by significantly more than inflation, so if demand remains robust, the potential for margins and earnings to increase by more than the market currently expects is a distinct possibility. In the past quarter's reporting season, the key point that we noted was the number of companies that reported record demand for their products, and it was only supply-side constraints that precluded them for posting record revenues, we see this as a positive for the coming quarters as it represents a postponement of recording revenues and a significant increase in company visibility.



Source: TIM/ National Federation of Independent Business

The question remains as to whether we have passed peak pressure in inflation and supply constraints. Certainly, management commentary, so far, appears to expect these pressures to wain in the coming months, and that a combination of price increases and the ability to fulfil the excess demand for their products and goods, should not only offset the pressure that they have experienced in the last quarter, but also see revenues and margins grow going forward.

Global equity markets eked out new highs during the month with the US leading the pack, however, European markets are testing their recent August highs also. The VT Tyndall Global Select Fund B Acc (GBP) rose 1.50% during the month, bringing the year-to-date returns to 15.07%.

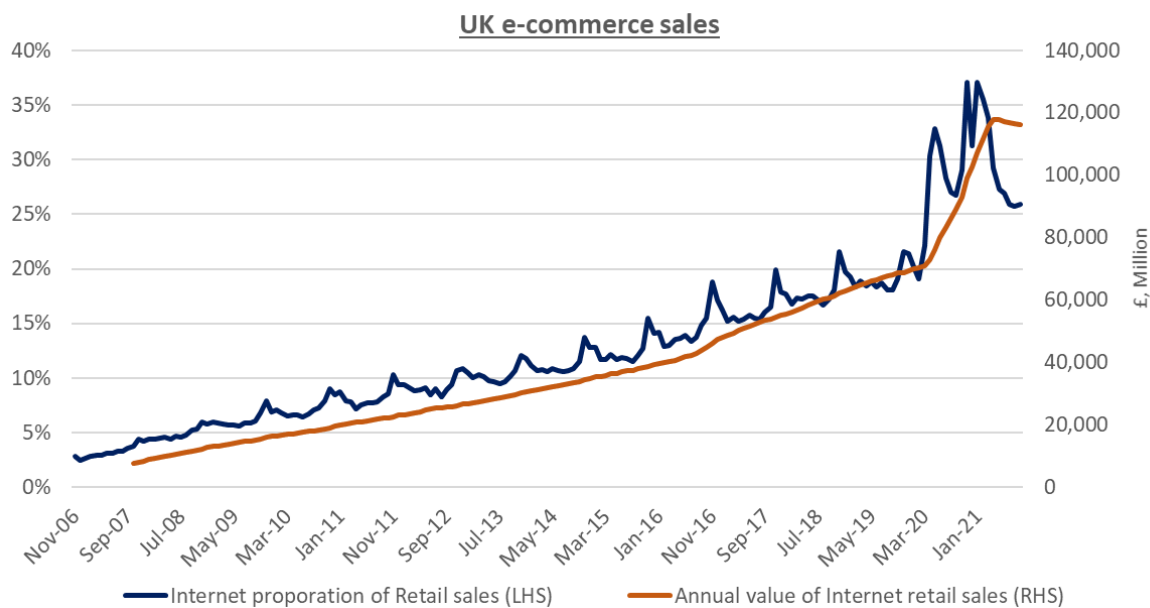
Fund Activity and News

Our collective holdings with exposure to the secular growth of digital payments have underperformed of late and this was accelerated this month by Amazon announcing that it was banning the use of Visa credit cards from next year (having already enacted this policy in Australia and Singapore). The UK is Amazon's third largest market, after the US and Germany, where in 2020 it had sales of over \$26bn and a market share of e-commerce sales amounting to 30.1% in 2019.

The headlines are unhelpful for sentiment towards our holding in Visa, however it is worth noting that in the UK credit card volumes are a fraction of debit card volumes and Amazon still permits Visa debit transactions. By way of example in August this year there were 1.9 billion debit transactions



with a total spend of £68.9 billion compared to 334 million credit card transactions with a total spend of £16.9 billion.



Source: TIM/Office of National Statistics/Statista

The UK is estimated to be approximately 6% of Visa’s revenues and Amazon a small percentage of that. The threat is that Amazon roll’s out this policy globally and switched its Amazon card contract to Mastercard from Visa as sentiment would weigh on the share price for a longer period. Globally, however, Amazon accounts for only 1% of Visa’s revenue, so while unhelpful it is immaterial in the overall Visa thesis.

In recent years both Kroger and Walmart (who are more material) tried to adopt a similar policy, however both eventually came back to accepting Visa credit cards, and we expect that Amazon has announced this to try and barter better payment terms from Visa. When Visa prized the Costco contact from American Express, they did so on better payment terms, but management stated that this was a one-off deal, so it remains unclear whether they feel the need to renegotiate terms with Amazon as this could open the door to other large retailers.

Where we do believe there is room for negotiation is in the Card Not Present (CNP) domain as in the wake of Brexit both Visa and Mastercard increased the CNP premiums for inter-regional transactions from 0.2% and 0.3% respectively to 1.15% and 1.50%; we do not believe that it was coincidental that this became effective two days before Amazon’s announcement. Visa argues that the CNP premium is due to the increased fraud protection measures that it offers for CNP transactions, however, the fraud rates at Amazon are significantly lower than the industry average so they would undoubtedly argue that this is unwarranted. We believe that Mastercard does not apply the CNP premium to Amazon transactions as otherwise they too may be facing a credit card ban.

The problem for merchants following suit and banning credit card transactions is that it limits consumer choice and the ability to purchase larger ticket items and thus risk losing a transaction to a competitor who accepts credit card transactions. For Amazon, most transactions are within debit card limits so the ban on Visa credit cards may simply see customers switching to using their debit cards, softening the impact on Visa, although we acknowledge the risk that many customers also hold American Express or Mastercard credit cards and could use them instead. Debit and credit generate a similar fee to Visa, the impact of switching from credit to debit is that it reduces the banks’ interchange fee and thus it has a more material impact on financial institutions than the card providers.



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

Data source (unless otherwise stated): Bloomberg.

Contact Details:

Fund Manager – rscrope@tyndallim.co.uk

Sales Director - hnolan@tyndallim.co.uk



Value of investments can fall as well as rise and you may not get back the amount you have invested

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

