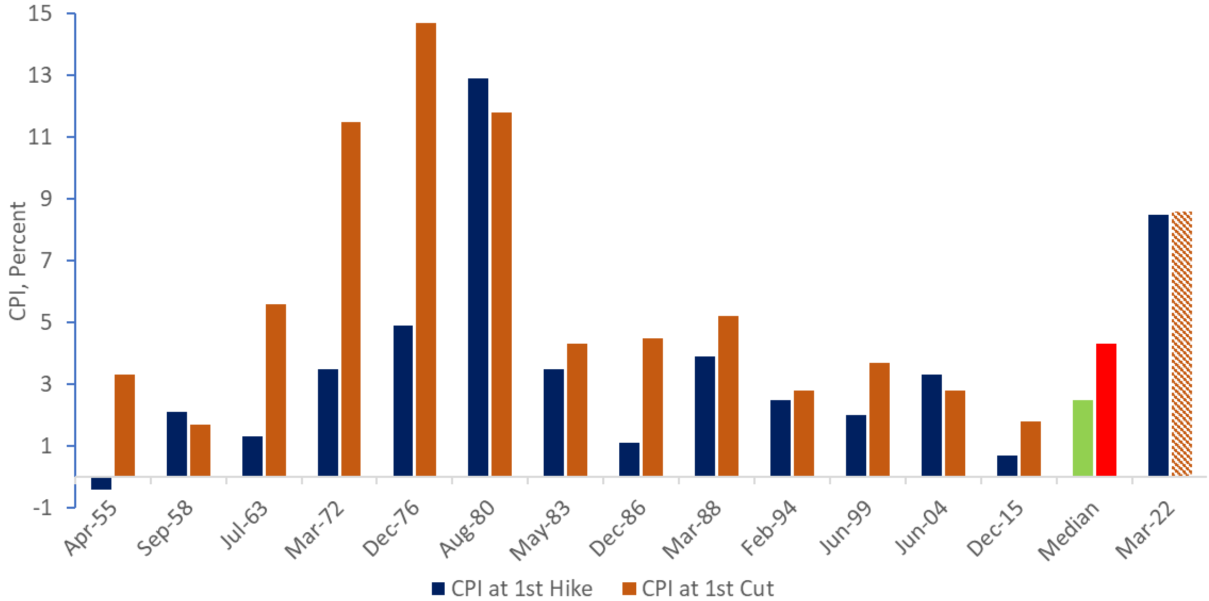
“I have climbed my mountain, but I must still live my life”- Tenzing Norgay.

The Federal Reserve and the other central banks of the Western World are all now firmly set upon a course of raising rates to try and keep inflation and the resultant cost of living crisis under control, however, getting the genie back into the bottle is a trick that few have achieved through a policy of increasing interest rates.

The policy shift has seen the ECB signal that they intend to end their eight-year period of negative interest rates in the coming months, and the Swiss National Bank surprised the market by moving their rates from -75bp to -25bp. Although inflation has played a part in the moves by the European central banks, widening spreads between the German Bund and the Mediterranean countries’ yields was the real catalyst behind the increase in the hawkish rhetoric by the ECB, as they feared a re-run of the 2011 crisis, and the SNB stated that they felt that their currency was undervalued!

The chart below shows that only on three occasions has the rate of CPI at the time when rates started to be lowered again been below that at the point when the Federal Reserve started raising rates, and only one of these occasions saw inflation drop to below 2.5%

CPI at start and end of US Federal Reserve rate cycles

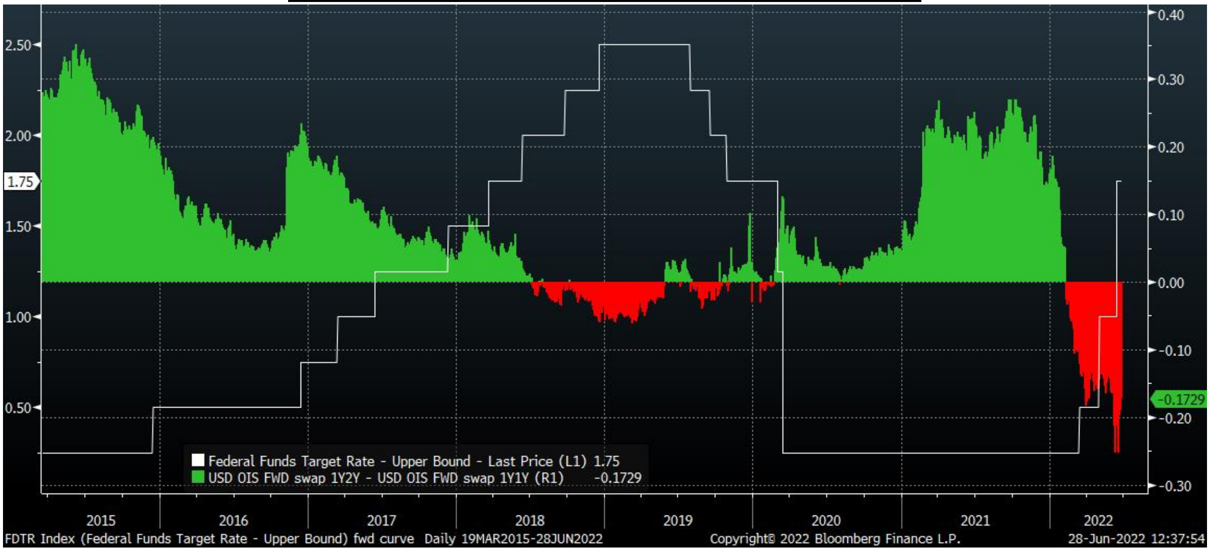


Source: TIM/ Deutsche Bank/ Bloomberg

Furthermore, the Federal Reserve historically started to raise rates when CPI was below 5% (with the exception of 1980, where inflation at the end of the cycle remained at almost 12%), while this time the Federal Reserve waited until inflation rose to 8.5% before springing into action.

The median time between last hike to first cut is only four months, and despite the current rhetoric from the Federal Reserve and their current dot plot chart of future rate intentions, the market believes that they will be forced into lowering rates in 2023.

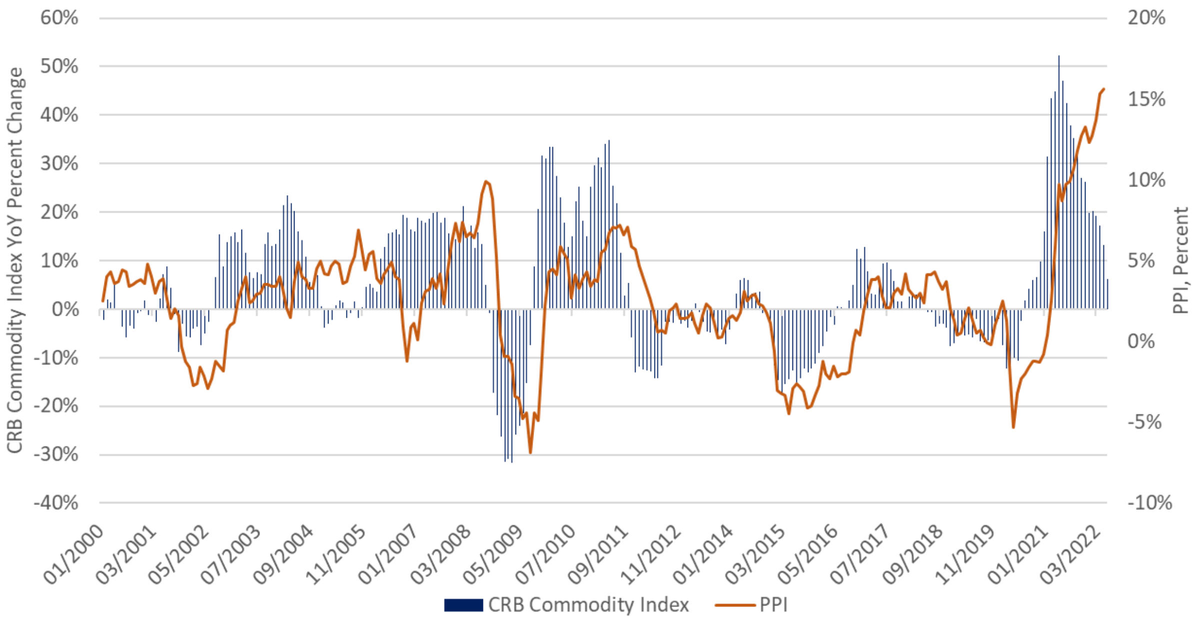
The Forward Curve implies rate cuts are coming



Source: TIM/ Bloomberg

With central banks scrambling to work out how to tame inflation, we continue to expect it to fall naturally as we annualization occurs and some of the headwinds from commodity prices and transport costs subside. Undoubtedly the Central Bankers will see this as vindication of their policy moves, but we are less willing to lay the credit at their doors. We do, however, expect inflation to remain elevated compared to what we have witnessed over the past 10 years of the foreseeable future, just significantly below the current headline rates.

CRB Commodity Index rate of change declining



Source: TIM/ Bloomberg

Despite supply chains easing and input cost inflation showing signs of improving, consumer and business confidence surveys remain at multi-decade lows. The macro-economic data, however, remains mixed, while the Purchasing manager Indices came in below expectations, they remain above 50, indicating growth, and not recession that has become many investors base case for the back half of 2022. The slowing growth of the housing market is a concern to us as it has a significant impact on consumer spending habits and bank profitability, however, we continue to believe that barring a big policy error by central banks that we will experience a period of slow growth, or only a mild recession, in the remainder of the year. The decline in the Belgian General Business Confidence index has been a good forward indicator of returns in European equity markets in the past and the decline this year exemplifies why investors remain cautious, and why we continue to hold quality companies that can continue to grow throughout the cycle. As the CEO of Nike said whilst reporting numbers last week: *These are times when strong brands can get stronger and that has never been more clear than it is today.*

Belgian General Business Confidence and EuroStoxx 600 performance

Source: TIM/ Bloomberg

Our major concern is that analysts are behind the curve in their expectations for company earnings, especially as operating margins are past their peak. Both Microsoft and Accenture within our holdings had to highlight the impact of the strength of the dollar on their headline numbers as it had become greater than they expected earlier in the year and the analyst estimates had not caught up. We expect as companies report, the analyst community with have to lower their target prices, which is never a positive backdrop for equity market returns. The CIO of Morgan Stanley wealth management confirmed our concerns last week: *Economists have begun to cut their top-down economic forecasts for GDP, and yet fundamental company analysts are sitting there like deer in headlights not knowing what to do with numbers.*

Source: Baird

Mr Market, however, tends to be ahead of market analysts and their expectations, so hopefully the market will start re-focussing on fundamentals. Most the companies we speak to, and those of the companies that we hold that have reported this month, strike a much more upbeat tone than the market would have you believe. They point to the easing of the supply side constraints and while China remains difficult, they see it in a much better place than the past few months where the lockdowns drove the country to a standstill.

Returning to Nike's recent full year numbers the CFO, Matt Friend commented: *Fiscal '22 was our largest revenue year ever, even with supply constraints challenging our ability to serve customer demand. We are optimistic as we enter fiscal '23 with our store space fully operational, production surpassing pre-pandemic levels and inventory flowing again into our largest geographies.*

Julie Sweet the CEO of Accenture also mirrored this more optimistic vision of the future, defying what the economic data would have you believe*: Our very strong financial results for this quarter reflect continued broad-based demand across markets, services and industries and the continued recognition of the outstanding talent of our 710,000 people. We continue to gain significant market share, and our services have never been more relevant as our client turn to us as the trusted partner for the solutions, they need to accelerate growth and become more resilient and efficient.*

June proved to be another volatile month with equity sectors and geographies rotating between being in favour to out of favour on almost a daily basis. The market registered new lows ruing the middle of the month before recovering much of the losses by the month end, however, remains jittery as various central bankers espouse their hawkish rhetoric with alarming regularity. The S&P 500 index finished the first six months of the year down by 20.6%, the worst start to the year since 1970, while the Nasdaq Composite had its worst ever first half of the year, falling by 29.5%. European indices faired only slightly better with the Eurostoxx 50 index down by 19.6% and the FTSE Eurostoxx 300 ex UK index down by 18.9%. The UK, with its commodity and bank heavy weightings ended up being one of the best performing regions with the FTSE All-Share index falling by 6.4%. Emerging markets also outperformed their US and European counterparts, with the Shanghai Composite down by 6.6% and the Brazilian Ibovespa Index down by 6.0%. These returns are all in local currency terms and as companies have been all too aware of the US dollar has appreciated significantly against most currencies over the same period, up 10.0% against Sterling and 7.8% against the Euro leading to significantly different returns to investors who hedged their returns to those who left their naked.

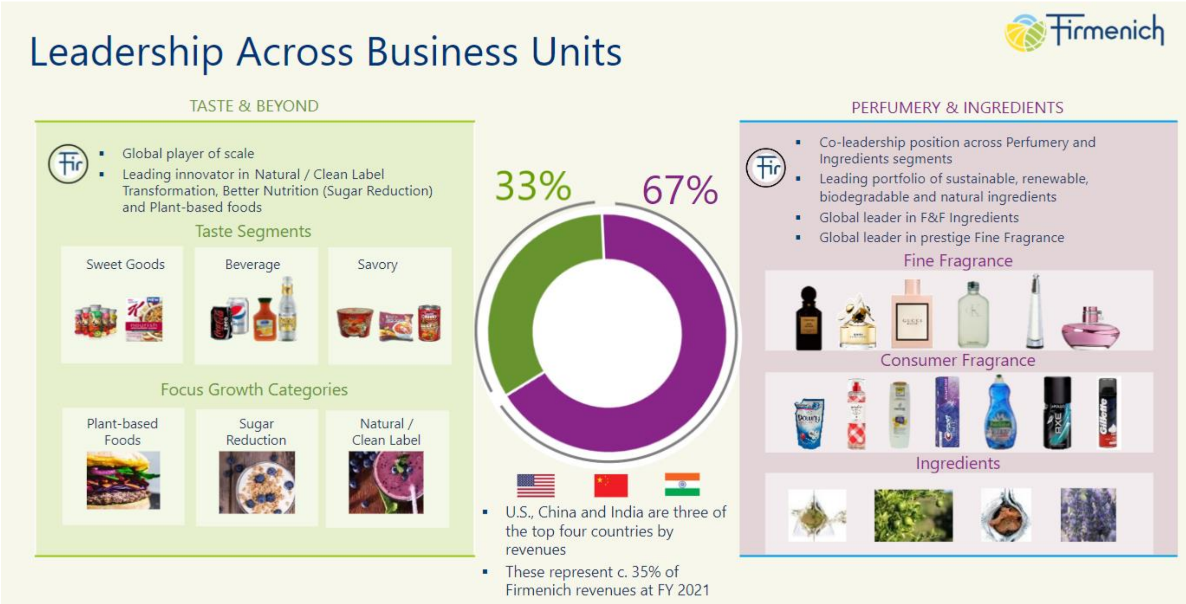
The Fund had a difficult month owing to the headwinds facing global markets, ending up 5.68% lower. As a result, the VT Tyndall Global Select Fund B Acc (GBP) returns for 2022 thus far are -17.96%.

Fund Activity and News

During the month we initiated a position in the specialty chemical company, Koninklijke DSM. The company made a couple of major announcements about their vision of the future and how the business is going to evolve. The expected news was the disposal of their engineering materials arm which was sold to Advent and Laxness for €3.85bn as the company had already announced its intention to focus on vitamins, omegas and other nutritional supplements used in human and animal welfare.

While we expected that the company was likely to bolster this division by small bolt-on acquisitions given the strength of their balance sheet, which is almost net cash, the merger with the Swiss, privately listed flavour and fragrance (F&F) company, Firmenich, was a larger and more radical a move than we had imagined.

The merged entity will become a top four player in the F&F arena, and the synergies are substantial. Firmenich was already a tier 1 player in the F&F field, specialising in perfume, flavours and ingredients, which is highly complementary to DSM's current offering.



Source: DSM Capital Markets Day 22

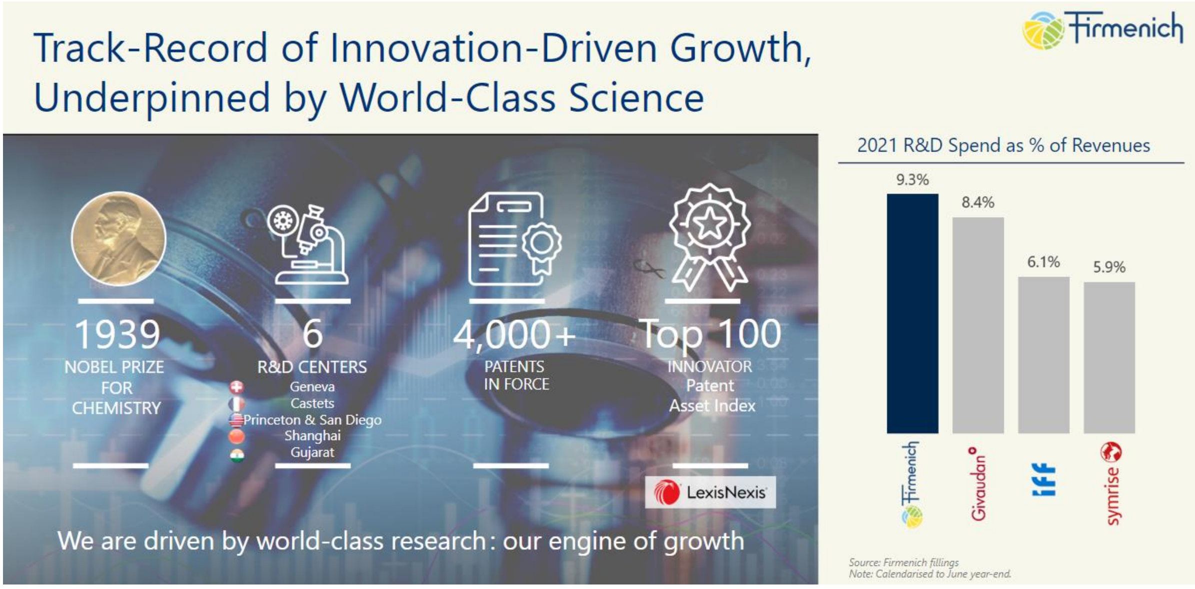
Of Firmenich's four divisions, only the Taste & Beyond part will be substantially changed, merging with DSM's Food and Beverage business, as the other divisions are entirely complementary, thus reducing the integration risk.

The DSM/Firmenich merger fills a key gap in the portfolio

	Presence in category	IFF	DSM + Firmenich	Kerry	ADM	Givaudan	Symrise	NZYM	Chr Hansen	Croda	Tate	Ingredion	Corbion	AAK
Food & Beverages	Functional Solutions	✓	✓	✓	✓	✓	✓				✓	✓	✓	✓
	Texturants	✓	✓		✓						✓	✓		
	Preservatives	✓	✓	✓	✓								✓	
	Emulsifiers & Lecithin	✓		✓									✓	✓
	Sweeteners	✓	✓		✓						✓	✓		
	Plant Protein	✓	✓	✓	✓	✓	✓				✓	✓		
Health & Biosciences	Cultures	✓	✓						✓					
	Probiotics	✓	✓	✓	✓		✓	✓	✓			✓		
	Prebiotics	✓	✓	✓	✓				✓		✓			
	Enzymes	✓	✓	✓				✓	✓					
	Animal Nutrition/Petfood	✓	✓		✓		✓	✓	✓				✓	✓
Pharma	Excipients	✓		✓	✓					✓				
	Nutraceuticals	✓	✓			✓	✓							
Flavour & Fragrance	Flavours	✓	✓	✓	✓	✓	✓			✓				
	Fragrances	✓	✓			✓	✓			✓				
	Cosmetic Actives	✓	✓			✓	✓			✓				

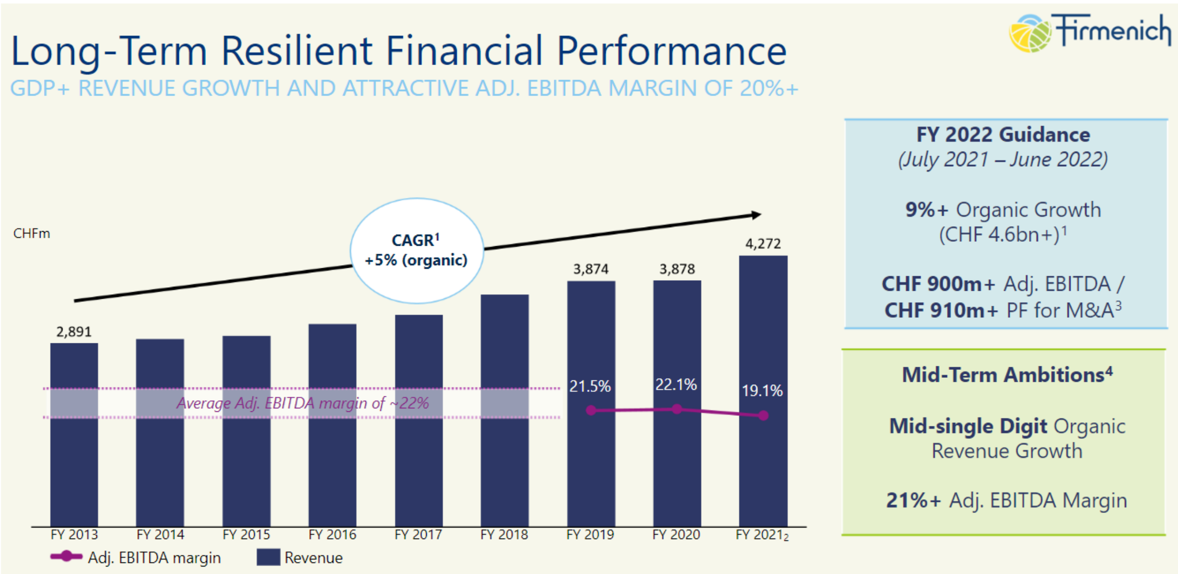
Source: Barclays Research

Post the merger, which is expected to complete in H1 2023, DSM will change from being a case of consistent portfolio change to a best-in-class growth, margin and cash generation story. Given that we expect minimal disruption on the operational side of the business during the integration, we believe that the discount to the other three leading players in the F&F sector, namely Givaudan, IFF and Symrise is unwarranted given the historical track record of above market growth and margin expansion of Firmenich and the increase in R&D and global reach the deal brings to the table.



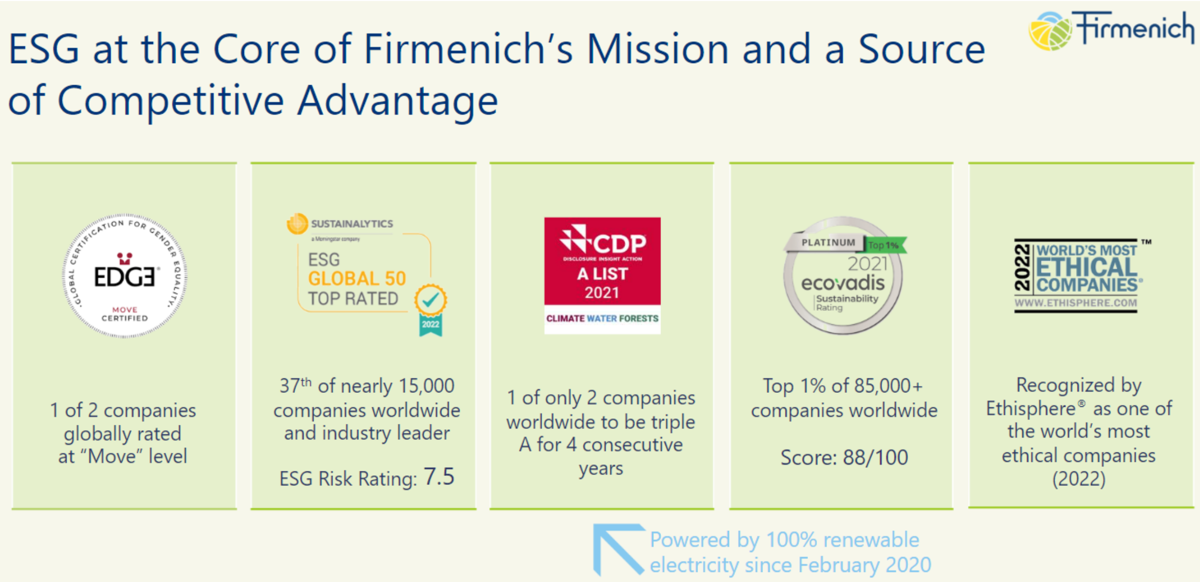
Source: DSM Capital Markets Day 22

The ability to gain market share should be supported by innovation, and DSM has a strong reputation given products brought to market in recent years, while Firmenich has the highest R&D as a percentage of sales ratio amongst the Tier 1 F&F companies. Despite the high budget in R&D, Firmenich has margins similar to Givaudan and is growing at a faster rate, suggesting that the return on this investment is accretive. Both companies are science-led with strong bio-tech capabilities and the combined R&D budget will be in excess of €700m per annum.



Source: DSM Capital Markets Day 22

We have long been favourably inclined to the F&F sector, given the high recurring revenue and cash generation of the sector. Once selected by a company to provide ingredients for one of their products, they are reluctant to reformulate, given that a competitor ingredient is likely to smell and taste differently and thus risks alienating the customer base. Furthermore, the ingredients are only a small but essential part of a customer's cost of goods sold, so are unlikely to face significant pressure from any cost cutting or rationalisation that their customer may be undergoing. Being a tier 1 supplier and having global reach, which the merger entity will be and have, is key to securing contracts from multinational players, who like to have consistency of formulation and supply close to their production sites. As the cash proceeds from the sale of the engineering arm almost cover the cash element of the merger, DSM will continue to have a strong balance sheet. We expect that they will continue the policy of small bolt-on deals to further expand their product offering portfolio before and post the merger finalises.



Source: DSM Capital Markets Day 22

Richard Scrope, Fund Manager, VT Global Select Fund, 30th June 2022
Data source (unless otherwise stated): Bloomberg.

Contact Details:

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

Disclaimer

WARNING:
Not for retail distribution. This document is intended for professional clients only.
All information about the VT Tyndall Global Select Fund ('The Fund') is available in The Fund's prospectus and Key Investor Information Document which are available free of charge (in English) from Valu-Trac Investment Management Limited (www.valu-trac.com). Any investment in the fund should be made on the basis of the terms governing the fund and not on the basis of any information provided herein.
The information in this Report is presented using all reasonable skill, care and diligence and has been obtained from or is based on third party sources believed to be reliable but is not guaranteed as to its accuracy, completeness, or timeliness, nor is it a complete statement or summary of any securities, markets or developments referred to. The information within this Report should not be regarded by recipients as a substitute for the exercise of their own judgement.
The information in this Report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. In the absence of detailed information about you, your circumstances or your investment portfolio, the information does not in any way constitute investment advice. If you have any doubt about any of the information presented, please consult your stockbroker, accountant, bank manager or other independent financial advisor.
Capital at Risk- Value of investments can fall as well as rise and you may not get back the amount you have invested. Income from an investment may fluctuate in money terms. If the investment involves exposure to a currency other than that in which acquisitions of the investments are invited, changes in the rates of exchange may cause the value of the investment to go up or down. Past performance is not necessarily a guide to future performance.
Any opinions expressed in this Report are subject to change without notice and Tyndall Investment Management is not under any obligation to update or keep current the information contained herein. Sources for all tables and graphs herein are Valu-Trac Investment Management Limited unless otherwise indicated.
The information provided is "as is" without any express or implied warranty of any kind including warranties of merchantability, non-infringement of intellectual property, or fitness for any purpose. Because some jurisdictions prohibit the exclusion or limitation of liability for consequential or incidental damages, the above limitation may not apply to you.
Users are therefore warned not to rely exclusively on the comments or conclusions within the Report but to carry out their own due diligence before making their own decisions.
Employees of Tyndall Investment Management, or individuals connected to them, may have or have had interests of long or short positions in, and may at any time make purchases and/or sales as principal or agent in, the relevant securities or related financial instruments discussed in this Report.

Tyndall Investment Management is a trading name of Odd Asset Management. Authorised and regulated by the Financial Conduct Authority (UK), registration number 660915. This status can be checked with the FCA on 0845 730 0104 or on the FCA website (UK).
Investment Manager: 5-8 The Sanctuary, London, SW1P 3JP.