VT WOODHILL UK EQUITY STRATEGIC FUND
MANAGED BY WOODHILL ASSET MANAGEMENT LLP

NEWSLETTER APRIL 2020

Bloomberg ID: VTWARNI LN **SEDOL: BMTRT64** **ISIN: GB00BMTRT641**

Fund value at midday 30th April 2020 was 75.2453

Assets under management: £23.637m

	May-19	Jun-19	Jul-19	Aug-19	Sep-19 *	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20 *	Apr-20
Total Return	0.66%	2.36%	-0.10%	-1.71%	-0.24% *	0.98%	0.95%	2.07%	-1.71%	2.09%	-12.36% *	0.68%

*Inc. Distributed Dividend

VT WoodHill UK Equity Strategy Fund, dividends re-invested (UK p)

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS *Source: Morningstar*

After allowing the market to bounce sharply into early April we hedged[1] the portfolio during the middle part of the month. This meant that we missed some of the performance seen towards the end of April, but, for many reasons, we think that this was an appropriate thing to do. We were mildly up on the month and while this whole crisis has been unprecedented in its speed and nature, we suspect this strange and shocking 'nonlinear' moment may be ending.

There have been a few things that encouraged us to put the hedge back on in April. The market had, from a relatively short-term perspective, become extremely overbought. The other more important issue is just how far and fast some markets (especially in the US) had bounced back. This is most obvious with the NASDAQ index which towards the end of the month found itself down only around 6% from the peak, and at levels that were unchanged from February, less than a month before the crisis started. To us, this just looks far too fast and far too soon.

Looking more broadly at the US, the annualized earnings per share of the S&P 500 at the end of last year (before the crisis hit) was $139. This meant that the S&P was trading on a trailing price earnings multiple of around 24x. Whilst we know that this year's earnings are going to be terrible, we also know that they are somewhat irrelevant and investors are willing to look through them to the recovery. The issue however is that at the end of the month, the S&P 500 was trading on around 21x these *peak* earnings. This is not a low level

1 From time to time, the fund uses FTSE 100 equity futures to protect the value of the fund. When the hedge is applied, net equity exposure is reduced, and the capital should be largely protected.

and means that even if earnings bounce back strongly, and even if they go straight back to the pre-crisis highs, the valuation levels are going to be high.

The other things that made us a little cautious in the short-term are some of the possible second-order effects of the crisis. The most obvious one is that rather than the world coming together post the crisis, it looks much more that it is going to emerge in a more fractious and combative mood. The most obvious example of this is the relationship between the US and China. Already, President Trump has been making statements that sound like the trade conflict between China and the US is going to get worse rather than better.

Another area of likely tension is within Europe where Italy appears to feel that it has been substantially let down by the EU. Debt to GDP levels in countries such as Italy and Greece were extremely high before the recent crisis (over 200% for Greece and over 150% for Italy) and are likely to be much higher by the time that the crisis is over. Sadly, this is the makings of another potential Southern European debt crisis. Are Germany and the EU really going to be able to push for austerity in Italy post the crisis, and if they do are the Italian people and political establishment going to accept it?

Hopefully, we will have an opportunity to remove the hedge before too long. We will however be careful; the violence of stock price movements has been astounding. As have been seen with the reaction to Shell cutting its dividend (at the time of writing the stock is down around 15% since the announcement) UK investors are happy to look through a lot of bad news but are not willing to ignore a dividend cut. If Shell, which had not cut its dividend since WWII can reduce its pay-out then so can many other large UK corporations, and if the reactions are even slightly similar then more volatility will be on the horizon.

We will, of course continue to follow developments closely and as always, we would like to thank-you for your continued support. We will continue to do all we can to produce low volatile and steady positive returns while taking as little risk as we can.

TOP FIFTEEN EQUITY HOLDINGS 30TH APRIL 2020

AstraZeneca	7.4%
BP	5.1%
HSBC	5.0%
Royal Dutch Shell 'A'	4.4%
Diageo	3.7%
Rio Tinto	3.6%
BATS	3.6%
National Grid	2.7%
Unilever	2.7%
GSK	2.5%
Reckitt Benckiser	2.4%
Compass Group	2.3%
Relx	2.3%
Prudential	2.1%
BAE	2.0%

Fund manager: Paul Wood

7th May 2020

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