Woodhill

VT WOODHILL UK EQUITY STRATEGIC FUND
Managed by Woodhill Asset Management LLP

NEWSLETTER APRIL 2021

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

Fund value at midday 30th April was 76.8486

Assets under management: £23.9m

	May-20	Jun-20	Jul-20	Aug-20	Sep-20 *	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21 *	Apr-21
Total Return	-0.48%	-0.51%	0.36%	-0.25%	-2.43% *	-0.48%	7.38%	-1.09%	1.45%	0.78%	1.13% *	-0.17%
*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

The recent, and perhaps final liquidity driven run in equity markets has been challenging for almost all investment managers, especially those that use fundamental analysis. It is also challenging for those with a little historic perspective. In short, US equity markets have on some measures, never been more expensive than they are now. The other side of this coin is that monetary conditions has also never been looser. We cannot help but wonder how long this can last and especially how long the current ultra-easy monetary conditions can last. We chose to stay hedged[1] for the month meaning a nearly flat performance for April.

From our perspective the main conundrum facing most active investment managers is not so much what the longer-term perspective is, but rather, how long the party can go on for before the outlook changes. Should an investment manager 'play the game' when he or she believes the medium to longer-term environment to be dangerous?

Due to the emergence of some genuinely impressive technology companies and of course, the monetary backdrop, value investing has now underperformed growth for 13 consecutive years. Some of the large value managers have publicly embraced investing in tech names, the ones who have chosen not to make this shift have seen the existence of their businesses seriously challenged. We remember in early 2000, when investment managers who resisted the dot com bubble saw their careers come to a sudden stop. However, those who resisted the dot com enthusiasm were right within a year. We suspect the same thing may occur for value managers today. From our perspective we want to be able to participate in markets when we can,

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.

but, if the environment is truly extreme, on both a long term and short term view it is hard for us to justify joining the party, at least for now.

There are so many signs of excess enthusiasm, so many examples of excess levels of valuation, and, on top of this, equity markets look extremely overbought. Just to put the amount of risk in perspective we would like to draw attention to the many valuation and sentimental issues.

Starting with valuation Dr Shiller's cyclically adjusted PE ratio for the US equity market is now trading at 37.6x. To put this into context (Dr Shiller's data series goes all the way back to 1871) during this 150-year period the market has only ever been more expensive than it is now in 1.4% of the recorded months. In other words, the market has been cheaper than it currently is for 98.6% of the time since the data started. The only period when it has been more expensive was in the final run of the 1999 / 2000 dot com bubble.

The reason we pay attention to Dr Shiller's data is that it is one of the only valuation tools that works. It has an excellent record of forecasting ten year returns from any starting point and is currently forecasting a negative return for equities over the next decade. It is also worth pointing out what an outlier the months of late 1999/2000 were. This was a terrible time to buy equities as the market slumped terribly over the following two years. The other things to note are that the mean value for the Shiller PE over the whole 150-year period is 16.8x and that the high point in valuation prior to the 1929 crash was around 27x. Equities are more than twice as expensive as their mean valuation level and almost 40% more expensive than they were ahead of the 1929 crash. It is also worth pointing out that other more traditional valuation levels are also signalling a warning. Price to sales multiples are actually at a record high and from some perspectives, traditional PE ratios are as well.

Turning to a more sentiment orientated perspective, margin debit is at an absolute record and has recently gone vertical (a good traditional contra indicator). Financial assets as a percentage of GDP are at a level not seen in over 70 years of data, and, like margin debt, has recently gone vertical. To a certain extent it can be said that almost everyone who can buy equities has already done so. Apart from that, it is astounding to see the speculative prices currently being paid in the art and collectable markets. Incredibly, a first-generation Nintendo Super Mario cartridge recently sold for US$660,000 (interestingly the previous record for similar items was around US$144,000 around a year ago). Then of course there is Bitcoin and similar other crypto assets as well as the boom in special purpose acquisition companies (SPACs).

Overall, despite the potential for economic recovery we believe that the odds favour caution. This may mean that some gains are missed but a combination of high valuations in US equity markets, high levels of positioning, record margin debt along with a seriously overbought market is not an attractive combination. We do not know what is going to happen in the next year, but the odds built into the market means that if there are any problems at all, the potential negative effect on equities could well be disproportional. We will continue to proceed with caution.

TOP FIFTEEN EQUITY HOLDINGS 30TH APRIL 2021

AstraZeneca	5.1%
HSBC	4.7%
Rio Tinto	4.4%
BP	4.2%
Diageo	3.9%
Royal Dutch Shell 'A'	3.8%
BHP Group	2.8%
BATS	2.7%
Prudential	2.5%
Unilever	2.4%
Ferguson	2.4%
National Grid	2.3%
Compass Group	2.2%
Lloyds bank	2.1%
Reckitt Benckiser	2.0%

Fund manager: Paul Wood

10th May 2021

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