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

NEWSLETTER APRIL 2023

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

Fund value at midday 28th April was 80.2164

Assets under management: £24.9m

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Total Return	-1.40%	-0.50%	-0.44%	0.58%	0.29% *	0.34%	0.67%	0.16%	1.15%	0.34%	1.41% *	0.33%
*Inc. Distributed Dividend												

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

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Source: VTIM

In April our fund was up modestly. We were hedged[1] for all of the month and we were surprised to see how much equities bounced following the US's mini banking crisis. We did avoid both the drama around the collapse of Silicon Valley Bank (SVB) and the demise of Credit Suisse that followed soon after. Following these banking problems, we did perceive that the amount of economic risk in the Western world had risen appreciably. We believed and still believe that the crisis would mean tighter lending standards, falling loan volumes and rising bad debts. This sort of shock to the US banking system is exactly the sort of thing that could push the economies of the Western world from slow growth into a recession.

If the risk of a loss of economic momentum is real (which we believe it is) then why did equities bounce as much as they did? We think there were and are two issues. First, post the collapse of Credit Suisse there was no immediate further large bank dramas. This itself created a sense of relief. The second is that an issue of timing. The economic effects of tighter lending standards will take time to work through into the real economy. In the period before this arrives it seemed on the surface that nothing was wrong. As the market bounced something else happened. It appears that many hedge funds had become aggressively short following the banking crisis. We believe that they took this negative stance for good reasons, but their timing was unfortunate. As equities started to bounce, and as the real-world effects of a banking slowdown were yet to

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.

arrive, hedge funds found themselves having to reverse their negative positioning. We believe that this positioning related rally is now over. In addition to this there is now tangible evidence that the banking drama is having an actual effect. Measured US lending standards (banking sector survey) have tightened substantially. At the same time US money supply growth (which was negative already) has reaccelerated on the downside. This all points to a slowdown ahead. It would be ironic for the hedge fund's negative view to be correct and that they will have had to cover their short positions just before the actual evidence of economic reason arrives.

This April rally has also caused something else to happen. At least so far, the rapidity of the bounce back has made central bankers feel confident to go forward with their tightening campaigns. On both sides of the Atlantic official short term interest rates are now higher than they were prior to the collapse of SVB. Also, slightly worryingly, Western world inflation, especially at a core inflation rate level is proving sticky or even reaccelerating in some places. This further increase in interest rates, along with the continuation of quantitative tightening, and ahead of a likely economic slowdown is not a great mix for equities. This is especially the case given that we believe equities have recently bounced upwards for technical reasons and are now extended.

As a final word on the banking issues, it is worth discussing the recently released accounts from First Republican Bank. Just to recap, this is one of the regional US banks that got itself into trouble following the SVB drama. One of the most notable statistics from the accounts was the reported yield on the First Republican Bank loan book, which was 3.75%. This loan book yield compares with the current yield on the US sovereign 3-month government bond of just over 5%. This illustrates very clearly the central problem facing banking in the Western world. If First Republican had to compete with the US government for funding (which it did as could be seen in deposits leaving the banking sector to go into money market funds), it was likely that the cost of deposits would have to be above the yield they received from the loans they had made. There is only one straightforward way out of this problem for banking. The Western banking system needs to have a yield curve that is positively rather than negatively sloped. We believe that this could happen, and the cause is likely to be either evidence of the economy dipping and or a renewed flight of deposits from weaker banks.

Overall, we do believe that the balance of risk and reward for equities is unattractive. More economic or banking sector drama is likely. Ultimately however, we are now getting closer to a situation where we can become more positive over the longer term. Interest rates are now somewhat normalised (although we are absolutely living with the consequences of this), the economy is weakening and is likely to continue weakening. Once an economic low has been seen, especially if equites and earnings forecasts have both come down, the environment for equity investors should improve. Until then we will remain cautious and would like to thank everyone for their support.

TOP FIFTEEN EQUITY HOLDINGS 28th APRIL 2023

Shell	7.7%
AstraZeneca	7.5%
HSBC	5.9%
BP	4.2%
Diageo	3.6%
Rio Tinto	3.3%
BAE	3.0%
National Grid	2.7%
BATS	2.7%
Compass Group	2.7%
Relx	2.6%
Unilever	2.4%
Glencore	1.9%
GSK	1.9%
Reckitt Benckiser	1.8%

Fund manager: Paul Wood

3rd May 2023
www.woodhillam.co.uk