Woodhill

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

NEWSLETTER AUGUST 2020

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

Fund value at midday 28th August 2020 was 74.5861

Assets under management: £23.43m

	Sep-19 *	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20 *	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Total Return	-0.24% *	0.98%	0.95%	2.07%	-1.71%	2.09%	-12.36% *	0.68%	-0.48%	-0.51%	0.36%	-0.25%

*Inc. Distributed Dividend

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

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Source: Woodhill Asset Management LLP

August has been a slightly tricky month for us. On two occasions, we have taken the hedge[1] off during the month and the results have been a little bumpy. From where we are now sentiment is low but improving. Economic momentum continues to build, support from central banks is clearly continuing and the market is now quite oversold on a series of measures. We will continue to be careful and will not hesitate to re-hedge if we need to but at the end of the month, we were unhedged.

The current small ranges and bumpy nature of the UK stock market is slightly tricky to navigate, and taking a much longer perspective this has, in fact, been very much the nature of the UK stock market for really quite a long time now. Amazingly, on the last day of August in 2000, twenty years ago, the UK large company market index was about 10% higher than it is today, excluding dividends.

The first thing that stands out to us about this is that the usual investment advisor's mantra, that stocks always go up, and that you only have to *wait things out* has not been true at all. Furthermore, the volatility within two decades of the market going nowhere has been shocking. From the end of August 2000, the UK market fell 47% to its 2003 lows. Investors had to endure another almost 50% decline in 2008 / 2009 and then of course the recent Covid-19 events. For many investors, professional and non-professional there is always a fatal tendency to invest near tops and to sell near lows. If an investor had done this even only once during the last three major declines, then the long-term results would have been extremely poor indeed.

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.

It is also worth pointing out just how poorly some of the UK's household names have been from a stock price performance perspective. Vodafone and HSBC were at roughly their current share price levels in 1998, BP was at its current stock price in 1996 and the Barclays share price was the same in 1993 as it is today. Given how much effort that would have taken place at these companies by the staff and managers, the dramatic declines the UK has seen in interest rates, huge quantitative easing as well as corporation tax cuts and a massive increase in chief executive salaries it is amazing how little progress has been made in these share prices, and in the market as a whole.

In some ways the poor performance of larger UK equities in the last two decades should, on the face of it, make for a strongly bullish case. The last time that equities were clearly in a sustained bull market was in the 1990s. However, sadly, the long-term case for equities is still not that great in our view. Our favourite valuation measure has been and remains the cyclically adjusted price earnings ratio. If anything, the poor performance we have seen from UK equities in the last decades is evidence that this approach is sensible from a longer-term perspective.

The actions of central banks have, in our opinion, acted to lengthen the period of poor performance. Rather than let asset prices fall to valuation levels from which they could begin a sustainable bull market the actions of the monetary authorities have always been to flood markets with money and, in effect prop equity markets up. The history of the last two decades suggest that this leads to long periods of high volatility and ultimately, at least for the UK market, low levels of return.

It is likely, given the current valuation starting point, and the likely further action of central banks to wheel out more quantitative easing if any slowdown occurs, that we may be in for more of the same; high volatility and poor ultimate returns. This is not really an encouraging outlook for buy and hold equity market investors. In effect central banks are acting to draw out the adjustment process that should naturally occur after a period of extremely high valuation. We know that the cyclically adjusted price earnings ratio works well over a ten-year time frame. This sadly, may now, because of central bank intervention, have changed to a poor period of performance that lasts for a lot longer than 'just' ten years.

While we get things wrong sometimes, and right other times, the history of the UK stock market over the last few decades suggests that our approach is an appropriate one. Simply holding on has been a poor strategy and at least we have the capacity to act to protect investors if needed. As in Japan where the market seems to have never got over the ultra-high valuation levels of the late 1980s it seems in the West, we are still living in the shadow of the ultra-high valuations seen around the year 2000.

As always, we will do everything we can to try and navigate the changing world we find ourselves in and as always would like to thank everyone for their support.

TOP FIFTEEN EQUITY HOLDINGS 28TH AUGUST 2020

AstraZeneca	6.6%
Rio Tinto	4.0%
BP	3.8%
HSBC	3.5%
Royal Dutch Shell 'A'	3.2%
Diageo	3.1%
BATS	2.7%
Unilever	2.7%
Reckitt Benckiser	2.4%
BHP Group	2.2%
National Grid	2.2%
Prudential	2.0%
GSK	2.0%
Ferguson	2.0%
Relx	1.9%

Fund manager: Paul Wood

4TH September 2020

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