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

NEWSLETTER AUGUST 2023

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

Fund value at midday 31st August was 85.3887

Assets under management: £26.6m

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Total Return	0.29% *	0.34%	0.67%	0.16%	1.15%	0.34%	1.41% *	0.33%	0.08%	-0.33%	4.00%	2.61%
*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 August our fund rose in value by 2.6%. This compares to the UK stock market which was down by 3.4% in August. Our positive performance in August is the second of two consecutively good months. While the UK market was down around 1% over the last two months our fund saw a positive return of 6.6%. It is not only the UK stock market that was down over the last two months. UK property, the home for so many people's retirement savings was down 1.2% over the last two months*. The same goes for gilts where longer dated gilt prices fell by 1.7% cumulatively over July and August**. It is also worth noting that we have achieved these returns by sticking to our strategy of improving returns by reducing risk. We have produced much better returns than experienced by a UK long only investor (in an index fund for instance) while taking much less risk.

We went into August in a defensive and fully hedged[1] position. The market was overbought, and sentiment was, in our view, overly positive. As the month unfolded, fear surrounding a substantial deterioration in the Chinese economy along with 'higher for longer' interest rates in the West pulled the market down. Once sentiment had turned notably negative, and once the market was oversold, we were able to go long again. We have, for a while now, had good reasons to think that inflation is now falling in the West. A notable decline in energy prices is still feeding through and this is likely to continue. We also felt that the Chinese economy

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.

slowing down would and will mean that the negative inflation currently seen in China is likely to be exported to the rest of the world. These trends are, we believe, likely to mean that we are at or near a peak in short term Western interest rates. The ‘higher for longer’ fear that had helped push equity markets down is likely to go into reverse. On top of that, given that China has negative inflation and quite shockingly high levels of youth unemployment, we believed that some sort of stimulus would be introduced by the Chinese government. This has started to happen, and these were the reasons we felt it was reasonable to be exposed to the market in the second half of August.

Looking a little further out, our sense is that we are entering a rather delicate period in which falling inflation rates will be positive for equities, but that at the same time, the Western world is lurching ever closer to a recession. In our opinion we have already entered this delicate moment. Longer term interest rates have been falling during the second half of this month and expectations for further interest rate increases are receding. This should be a positive backdrop for equities. However, we have also noted some clear signs of weakness occurring in the UK, European and US economies. This is positive up to a point. A slowdown reinforces the downward drift in inflation. If, however this slowdown becomes more profound there will be a shift to fear of a recession. We believe that such an outcome is likely.

This cycle has already been different from previous interest rate hiking campaigns. One of the subtle differences is how many mortgage holders in the US and the UK have benefitted from fixed interest rate mortgages. This has meant that the effect of rising short term interest rates has not been felt as quickly or profoundly as in previous cycles. Rather than a soft-landing arriving this, to us, means that the recession has simply been delayed. Recent data suggests to us that we may now be very close to seeing Western economies slip into recession. We will continue to watch short term economic momentum closely and we intend to protect our investors from an economic downturn as it arrives. In the past few cycles stock markets have performed quite poorly once interest rates have peaked and especially as they are then cut in response to an economic downturn. This is mainly because as economies weaken then corporate earnings are also likely to come down.

We will continue to proceed carefully and would like to thank everyone for their support.

*Nationwide UK property price index

**Price of Ishares 15year plus gilt etf

TOP FIFTEEN EQUITY HOLDINGS 31st AUGUST 2023

Shell plc	7.3%
AstraZeneca PLC	6.7%
HSBC Holdings PLC	5.2%
BP PLC	3.7%
Diageo PLC	3.0%
Rio Tinto PLC	3.0%
BAE Systems PLC	2.8%
Compass Group PLC	2.5%
Relx PLC	2.4%
British American Tobacco	2.3%
National Grid PLC	2.2%
Unilever PLC	2.0%
GSK plc	1.8%
3i Group PLC	1.7%
Glencore PLC	1.6%

Fund manager: Paul Wood

5th September 2023
www.woodhillam.co.uk

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