Woodhill

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

NEWSLETTER DECEMBER 2020

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

Fund value at midday 31st December was 75.8124

Assets under management: £23.6m

	Jan-20	Feb-20	Mar-20 *	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20 *	Oct-20	Nov-20	Dec-20
Total Return	-1.71%	2.09%	-12.36% *	0.68%	-0.48%	-0.51%	0.36%	-0.25%	-2.43% *	-0.48%	7.38%	-1.09%
*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

We had a tricky end to December which was at least partly a result of what we regard as market pricing being a little unreliable in the low volume days towards the end of the year. We removed the hedge[1] at the beginning of the month and were successfully long during the vaccine announcements, the US presidential election and through the EU/UK trade negotiations. We have stayed long through the end of December and into the new year. The low volume sell-off seen on the last day of the year meant that we were slightly down for the month but have already recovered this on the first trading day of the year.

From where we are now, we believe that we are likely to be hedging the portfolio again at some point in January, and potentially before the first half of the month is over. The market is now quite extended and equity market valuations, especially in the US are high. Using cyclically adjusted valuation metrics the market is now back to a valuation where returns over the next decade are likely to be poor or negative. It seems clear that the main phenomena keeping equities at their current levels are central bank support and government spending. While we certainly do not want to dismiss these important forces, an economic recovery is likely to make both of these two factors fade away, or even reverse at some point in the next year. Equity markets (and bond markets) may find themselves in a situation where good news in the 'real world' is bad news in the desperately distorted world of financial markets.

A combination of a successful vaccination program in the first half of this year along with the end of the winter really does seem to mean that there may be a return to 'normal' by the summer. This is likely to mean an initially strong economic bounce back and perhaps even some inflationary pressure. This is all clearly good news, but at some point, it is likely to mean the tailing off, or even the end of the huge central bank money

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.

creation we have seen. Markets could even be looking at the possibility of interest rates rising at some point, most probably at the long end of the gilt market first. Looking at UK interest rates since the foundation of the Bank of England in the Seventeenth Century the average or even the normal interest rate has been around 5%. It is also worth noting that periods of low interest rates have usually led to interest rates rising to above the average over time. These trends are slow to work and waves in interest rates are usually measured in years or even decades.

Even allowing for this if we are at a structural interest rate low then we could be looking at a long period of steadily rising interest rates. It is also worth noting that even a return to a base rate of 5% could have a significant effect on asset prices. It is not certain that such a rise in interest rates will happen at all quickly, it could take years to happen, but the conditions for having seen a structural low, or even a generational low in interest rates are in place. An initially strong economic recovery is likely, the increase in money supply seen in 2020 has been astounding, and government debt levels and budget deficits are extremely large. Any of these forces are potentially inflationary. It is also possible that central banks wait too long to increase short term rates and if this happens a notable sell off in longer dated gilts is possible.

At this point it is worth discussing a strong consensus that has emerged in the broking and forecasting industry. This is that the economy will be strong and that there will be a pickup in inflation. However, a strong consensus often creates an unusual constellation of forces that prevent things turning out as expected. First, if everyone agrees that this is what is going to happen, then, from a financial market perspective this implies that a lot or even all the consensus view is already discounted. While we agree that a recovery and some inflation is likely we are concerned that it could be quite short lived. If long term interest rates start to rise this will have a chilling effect on asset prices and the economy. It is also the case that at some point the furlough schemes will have to be allowed to run off and that public finances will have to be brought into some type of order. Consequently, we fear that the likely recovery could be powerful but quite short and that the Western world will find itself in what was, in the 1970s, called a stop / go environment. A recovery in the first half of this year could quickly reverse itself, and the stronger the initial surge, the more likely it is that a reversal will take place.

Overall, we feel that this is likely to be another volatile year and once that could present some notable surprises away from the consensus. We will continue to act cautiously when necessary and as always, we would like to thank everyone for their support.

TOP FIFTEEN EQUITY HOLDINGS 31ST DECEMBER 2020

AstraZeneca	4.9%
Rio Tinto	4.0%
HSBC	4.0%
Royal Dutch Shell 'A'	3.7%
BP	3.6%
Diageo	3.5%
BATS	2.8%
Unilever	2.6%
BHP Group	2.5%
Ferguson	2.4%
National Grid	2.2%
Prudential	2.2%
Reckitt Benckiser	2.1%
Compass Group	2.0%
Relx	2.0%

Fund manager: Paul Wood

7th January 2021

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