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

NEWSLETTER DECEMBER 2021

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

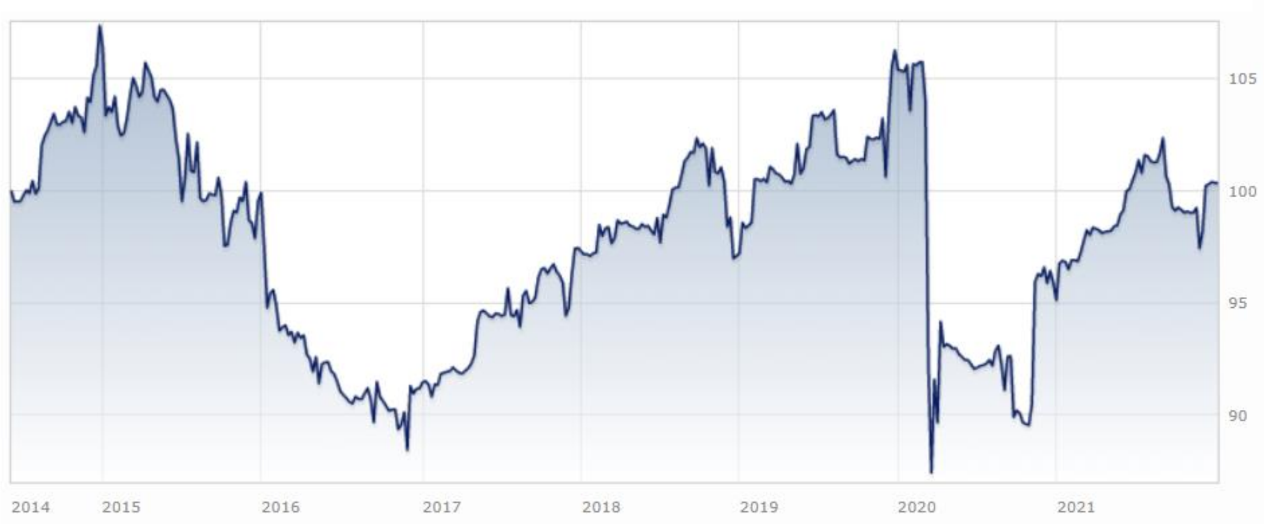
Fund value at midday 31ST December was 77.4891

Assets under management: £24.0m

	Jan-21	Feb-21	Mar-21 *	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21 *	Oct-21	Nov-21	Dec-21
Total Return	1.45%	0.78%	1.13% *	-0.17%	0.77%	0.62%	1.99%	0.01%	-2.36% *	-0.08%	-2.42%	3.81%

***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 positive December with the fund rising by 3.8%. We were exposed to the market for much of the month but then re-hedged[1] as the month came to an end. We believed that the market's initial drop in response to the arrival of the omicron variant had been overdone. However, once the market had bounced back, we decided to act to protect the portfolio. The market had more than reclaimed the omicron related losses and the underlying position of the market had returned to its previous unfavourable risk and reward situation.

Overall, we find the current market environment to be quite unusual. The era of massive central bank support is starting to come to an end, but so far, stock markets have either not noticed or have decided that this does not matter. When irrational situations like the current one emerges, it is normal to try and look for justifications for the market's continuing levitation. We think, like the years around 2000, the market is being driven by retail enthusiasm and momentum chasing behaviour. Today, as during the turn of the new millennium it was important to step away from the retail excitement and look at the fundamentals. When an investor does take this step back the picture is far from comforting.

From lots of perspectives equity markets look very expensive and, on top of that, the data on positioning is at extreme levels. There are many ways of looking at valuation but sadly virtually all of them are saying the same thing. From a price to sales perspective US markets are trading at record levels, higher even than in the year 2000. Compared to the underlying economy the same is true (this is often called the Buffett indicator, named after the famous US value investor.) If an investor takes an average of price to sales, price to book, market cap vs GDP and price to earnings then the result is a market that is as expensive as it was in the year 2000,

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.

and in the late 1960s and in the late 1920s. In all these previous examples the resulting outlook for equity investors was poor.

Positioning is telling the same story. Cash as a percentage of most unit trust holdings is at a record low. The popularity of money market funds has collapsed, and margin debt is at an astounding high. Putting together extreme positioning and extreme valuation produces a poor risk and return balance. In essence, for equity markets to make any sense, everything must go perfectly for a long time. Any upset, could, by contrast, have an oversized negative effect.

Unlike in the year 2000, we are also very worried by inflation. Although it is well known that inflation across the Western world is high, and well above formal central bank targets, so far there has been a feeling that this may be somewhat temporary. This view was kicked into touch by comments from the head of the US central bank, while more recently, an analysis from the London School of Economics claims that inflation in the UK is now becoming embedded and persistent. The Bank of England has been the first major central bank to increase interest rates and the reality is that there may be much more to come.

To take a longer-term perspective it is interesting to look at long waves in interest rates. Over multi-decade periods it has been the case that very low interest rates tend, over time, to eventually produce much higher interest rates and vice versa. It took around 35 years for the low interest rates seen just after WWII (around 2%) to rise to over 15% by the early 1980s. Since then, interest rates have been consistently falling and a turn is due. Just as in the late 1940s it would have been hard for investors to predict that interest rates could rise as much as they did. In the UK, which has interest rate history going back into the 17th century a somewhat normal level of interest rates is around 5%. Historically, the more interest rates move away from this midpoint the further they eventually swing back on the other side.

Now we are experiencing the lowest interest rates in history, and as a result, some of the highest levels of global debt ever seen. If interest rates rise steadily over the next few decades this will lead to deleveraging and a difficult environment for equity market investors and for the economy as well. With central banks now starting to take a less accommodating stance, and especially with QE programmes coming to an end, there is a real possibility that market derived interest rates will be able to start to move up. From moving from a stance that the current inflation is temporary, central banks are now saying that interest rates will only have to move up very slightly. However, history is saying that something quite different; that interest rates may have to rise a lot more and a for a lot longer than is currently widely expected.

Overall, we feel that the odds for equity investors over the medium term are not great. We will continue to act with caution and to take advantage of opportunities when we can. If central banks continue to move too slowly, and if inflation runs ahead of interest rate increases, then this would mean real interest rate declines, which is likely to be positive for equities. However, the longer central banks drag their feet the more serious the eventual effort to control inflation will ultimately have to be.

We wish everyone a happy and profitable 2022 and thank everyone for their support.

TOP FIFTEEN EQUITY HOLDINGS 31st DECEMBER 2021

AstraZeneca	5.3%
HSBC	4.6%
BP	4.6%
Royal Dutch Shell 'A'	4.5%
Diageo	4.4%
Rio Tinto	3.5%
Ferguson	3.4%
National Grid	2.8%
BATS	2.8%
BHP Group	2.8%
Relx	2.6%
Compass Group	2.3%
Unilever	2.3%
GSK	2.1%
Prudential	2.0%

Fund manager: Paul Wood

5th January 2022

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