VT WOODHILL UK EQUITY STRATEGIC FUND

Managed by Woodhill Asset Management LLP

NEWSLETTER FEBRUARY 2023

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

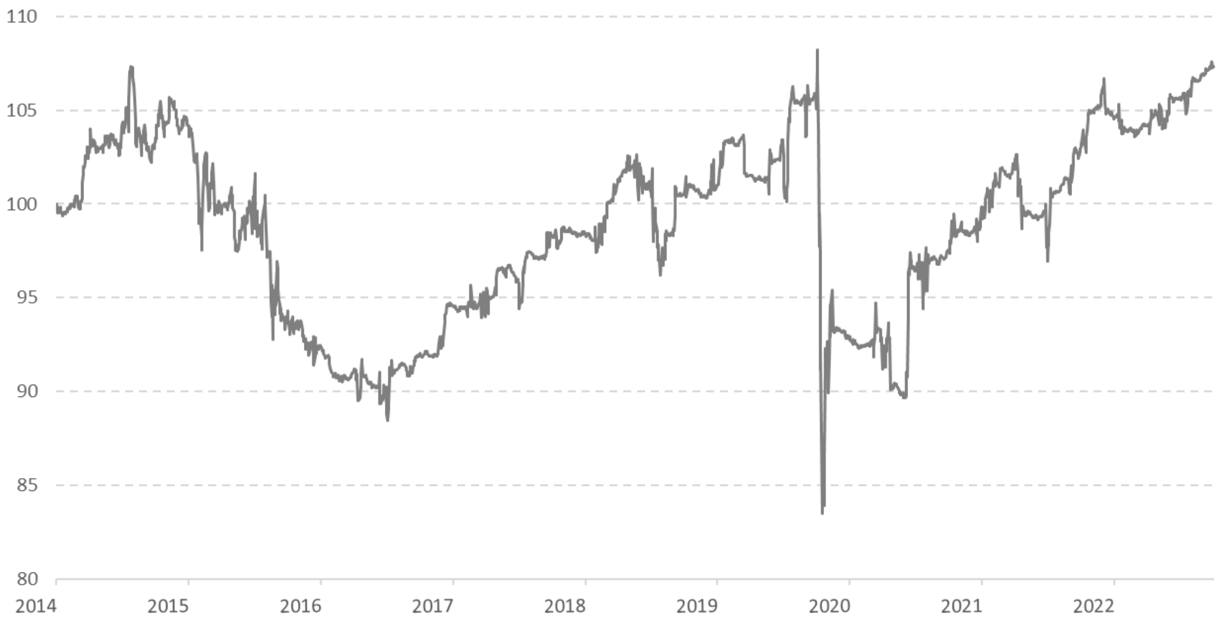
Fund value at midday 28th February was 80.0256

Assets under management: £24.8m

	Mar-22 *	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22 *	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Total Return	2.03% *	1.07%	-1.40%	-0.50%	-0.44%	0.58%	0.29% *	0.34%	0.67%	0.16%	1.15%	0.34%

*Inc. Distributed Dividend

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



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Source: VTIM

The first two months of 2023 have been probably the most unusual we have experienced in our investment careers. US corporate earnings and earnings estimates have been falling, and, at the same time, long term US interest rates have been rising. In addition it is becoming clear that Western central banks will have to increase interest rates from here. This is the opposite of a bull market environment. However, set against this deteriorating background, equity markets have bounced notably. We suspect that rather than this being the start of a new bull market that it is another false dawn driven at least partly by market participant positioning. We also believe that the next major global equity bull market will start only once a Western world recession has arrived and especially as economies begin to recover from this recession. For reasons we will go on to describe, we now believe that a recession is now more likely than it was when people expected it late last year. Given the strange nature of the market in February we have stayed hedged[1] and have consequently had a modest month. We believe there will be much better times to buy than now.

Towards the end of last year there were many reasons to believe that there would be a potentially serious Western world recession at some point in 2023. US interest rates were rising, money supply was falling (rare), housing was weak, industrial production was losing momentum and the US yield curve (the relationship between short and longer term interest rates) was indicating perhaps the most serious recession since the

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.

early 1980s. The yield curve shape is a particularly reliable predictor of recession. However, it is not especially good at predicting exactly when it will arrive. In essence, this is what we believe has caused much of the surprising market activity in the first two months of this year. All the key indicators were predicting a notable economic slowdown but as 2023 started the recession did not happen. This, along with an investment community that was defensively positioned made markets bounce. However, all the indicators that imply that recession is ahead of us are still there. The timing is difficult, but the risk is real. Strangely, and this is often the case, now that stock markets are no longer afraid of a recession arriving it is in fact both more likely and more dangerous. The fact that economies have not really weakened in any notable way so far means that interest rates are going to have to rise further and stay up for longer. The less that the economy weakens the more rates will have to rise to weaken it. It now appears that interest rates will stay at elevated levels until the recession appears. This is especially the case now that inflation statistics on both sides of the Atlantic appear to be rising again, especially at a core, underlying level.

This all puts equity markets in a tricky position. They have just had a strong month on the basis that there will be no meaningful downturn. On top of this corporate profit margins are at a cyclically high level. Any material drop in demand is likely to feed quickly through to substantially lower profits. Corporate profit margins are one of the most reliably mean reverting series in economics. Historically, it is only once profits are falling sharply that central banks feel that it is safe to stop increasing interest rates and then potentially to cut them. We suspect that the next few months could be volatile and difficult for many equity investors. As we mentioned in the opening section of this newsletter, we believe that the next genuine bull market will begin in the teeth of the next recession. Ahead of that we will try to navigate our way carefully and will only take risk when the balance of risk versus return is clearly in our favour. In an environment as strange as the one we are currently in our major aim is to preserve and protect capital. This will allow us to be ready to act positively once the real post-recession bull market arrives.

We will continue to proceed with caution and as normal, would like to thank all our supporters.

TOP FIFTEEN EQUITY HOLDINGS 28th FEBRUARY 2023

Shell	7.6%
AstraZeneca	7.0%
HSBC	5.6%
BP	4.3%
Rio Tinto	3.8%
Diageo	3.5%
BATS	3.0%
BAE	2.7%
National Grid	2.5%
Compass Group	2.5%
Relx	2.5%
Unilever	2.2%
Glencore	2.0%
GSK	1.9%
Prudential	1.9%

Fund manager: Paul Wood

3rd March 2023
www.woodhillam.co.uk