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

NEWSLETTER FEBRUARY 2024

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

Fund value at midday 29th February was 90.9572

Assets under management: £29.3m

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Total Return	1.41% *	0.33%	0.08%	-0.33%	4.00%	2.61%	2.16% *	1.23%	1.60%	0.83%	2.43%	0.01%

*Inc. Distributed Dividend

VT Woodhill UK Equity Strategy Fund, five-year performance, dividends re-invested (UKp)

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS *Source: VTIM*

Performance of both our fund and the UK stock market was roughly flat in February. This apparently quiet performance from UK equities is, however, not a sign of a calm environment. Behind what appeared to be a dull month an awful lot is going on.

At Woodhill we are historians of financial markets. At the moment, both the economic and financial market situation reminds us very much of the stock market peak seen in 2000. At that time there was huge euphoria around anything to do with the internet. Today the enthusiasm is centred on Artificial Intelligence (AI). While the excitement around names like Nvidia do not have anything so directly to do with the UK stock market the other similarities between now and then do. We have been and are cautious about the echo of 2000 and were fully hedged[1] throughout the whole of February.

Most notable similarity between today and 2000 is the way investors appear to be convinced that it is all different this time. At the turn of the millennium, the writing was on the wall for the US and world economy. Interest rates had been rising on both sides of the Atlantic, and yield curves were clearly signalling that an economic downturn was on the way. Investors however dismissed these concerns - the internet was going to mean that the business cycle was now effectively abolished. There was only growth ahead.

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.

This psychology is also present today. Post the Nvidia results, a frequently repeated statement was that AI is no less significant than the *invention of fire*. (It is also the case that the market capitalisation of Nvidia is now larger than that of all of the US listed energy companies combined). Ed Yardeni, a somewhat famous economist, made the following statement in February 2024.

'The US economy is likely headed for another roaring 20s of rapid growth'.

At the same time Bank of America's investor sentiment survey shows that on a one-year view, investors are more bullish than they have been in the whole history of the survey.

The current levels of valuation (high) and of investor bullishness (very high) have not historically been a good mix for investors. The world is usually not as great (at market tops) or as bad (at market lows) as investors assume. A return to an average level of bullishness and valuation would imply a difficult market transition. It is also somewhat ironic that at a time when many investors now are very positive that our favourite and most reliable measure of US economic momentum is turning down.

In our view, set against this overwhelming positivity, the reality is that we are entering the most dangerous part of the business cycle, at least from the perspective of equity market investors. The last three times that interest rates were being cut, equity markets tumbled – this was especially notable post the year 2000 dot-com bubble, and in the 2008 financial crisis. Equities fell because the economy turned down and took corporate earnings with it. Currently, the loss of momentum is mild enough to not be too concerning – and in fact – based on the data we have seen so far is still potentially consistent with the soft-landing narrative that has been embraced by investors. However, we will watch this data closely – if it continues to deteriorate then hope for the expected soft landing will turn into something much more concerning. From the peak in 2000, the UK stock market fell almost 50 percent and in the 2008 downturn by over 40 percent. Given how elevated positioning, sentiment and valuation are today a similarly sized decline is far from impossible. We will continue to watch developments closely and act especially carefully.

TOP FIFTEEN EQUITY HOLDINGS 29th FEBRUARY 2024

Shell plc	7.8%
AstraZeneca PLC	6.7%
HSBC Holdings PLC	5.7%
BAE Systems PLC	3.7%
BP PLC	3.6%
Relx PLC	3.4%
Rio Tinto PLC	3.3%
Diageo PLC	2.9%
Compass Group PLC	2.8%
National Grid PLC	2.5%
CRH PLC	2.3%
3i Group PLC	2.3%
GSK plc	2.2%
British American Tobacco	2.2%
Unilever PLC	2.0%

Fund manager: Paul Wood

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