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

NEWSLETTER JANUARY 2021

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

Fund value at midday 29th January was 76.9113

Assets under management: £24.0m

	Feb-20	Mar-20 *	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20 *	Oct-20	Nov-20	Dec-20	Jan-21
Total Return	2.09%	-12.36% *	0.68%	-0.48%	-0.51%	0.36%	-0.25%	-2.43% *	-0.48%	7.38%	-1.09%	1.45%

*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

In January, our fund was up 1.5% compared to the overall UK stock market which was down around 0.7%. We went into the new year fully exposed to the market but then hedged[1] the portfolio in the first days of January. There were a few reasons for this. Measures of speculative excess were astounding as the month began. Surveyed measures of bullishness were high but other measures of sentiment, especially the options market, indicated virtual all time high bullishness. These measures are in a real way more reliable than the survey data, as in the options market, actual money is at stake. These extreme measures of positivity along with stock markets that looked very overbought have, in the past, been very consistent with markets that either go nowhere or materially down. Furthermore, the background music to these shorter-term measures are equity markets that are expensive on many measures. By the end of the month some of the short-term overbought nature of equity markets has been shaken out, and sentiment has retreated a little.

For 2021, there appears a strong consensus that the world economy will recover strongly as lock down came to an end and that increased government spending will help to propel this recovery. There is even a 'catchphrase' for this view, 'the roaring 20s'. While we do think that some sort of recovery is likely, it is not clear how sustained it will be, and more importantly a recovery in the real economy may have all sorts of unpredictable effects on investment markets.

From our perspective we cannot help but remember that what followed the 1920s was the 1930s. While we are not making this prediction, it seems to us that the world we are in today, if there is any analogy, is more like a mix between the 1920s and 1930s than anything else. Certainly, the huge amount of public debt in 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.

system along with rampant levels of speculation could certainly tip the world into more of a 1930s environment than simply looking forward to a decade long boom. At some point public finances will need to be restored and this may not be an especially easy process.

It is also curious to see how angry some parts of the world appear to be. The storming of the Capitol in Washington in the US was a shock, there have been riots in Holland, a coup in Myanmar, trouble in Thailand and a rising wave of protest in Russia. Even the recent patch of smaller investors ramping up heavily shorted stocks to take on hedge funds has an aspect of riotous behaviour. The trauma of World War One produced the conditions for a revolution in Russia, the destruction of empires and across Europe politics took a turn to the extreme. The current pandemic, as bad as it, is not equivalent to WW1, but following any major traumatic event, patience is worn thin. All sorts of things could happen in Russia, in China, in Iran and even in the more distressed parts of Europe. In short, we could be entering a period of substantial change, and while it is possible that the world will emerge with some notable improvements, the path is likely to be a bumpy one.

As a final note, the European bond market. Ever since the Japanese financial bubble broke in the early 1990s, Japanese interest rates have been extremely low and despite huge central bank intervention it has been hard for the economy to really get going. The stock market has performed dismally since the peak of the bubble with the main Japanese index still down over 25% versus the peak in 1989 (over thirty years ago!). At one point the market was down around 80% versus the peak and this was all despite huge central bank action and government spending.

Returning to the European bond market today, it seems astounding to us that at every point on the yield curve European interest rates are now both lower than in Japan and negative at every point. While it is certainly the case that the European bond market is distorted by central bank action this is also true for all the world's major bond markets. If these bond markets do impart some insightful information beyond just central bank activity, it suggests that Europe could be facing its own version of what happened in Japan in the 1990s and beyond. In the UK, the situation (as imputed from the bond market) is not as bad but hardly very encouraging. It is also worth noting that Japanese society is and was homogeneous and has been able to endure decades of relative stagnation. Despite the claims and ambitions of the European Commission the European continent is not homogeneous and the tensions are already clear.

Overall, we feel that the aftermath of the pandemic may not be all that easy and this contrasts starkly with the uniformly positive view of most investors. As usual we would like to thank everyone that supports us and, we will be proceeding with caution.

TOP FIFTEEN EQUITY HOLDINGS 29TH JANUARY 2021

AstraZeneca	5.0%
Rio Tinto	4.1%
HSBC	4.0%
BP	3.8%
Royal Dutch Shell 'A'	3.8%
Diageo	3.5%
BATS	2.8%
BHP Group	2.6%
Unilever	2.5%
Ferguson	2.2%
National Grid	2.2%
Relx	2.0%
Reckitt Benckiser	1.9%
Prudential	1.9%
Compass Group	1.9%

Fund manager: Paul Wood

4th February 2021

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