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

NEWSLETTER JULY 2021

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

Fund value at midday 30th July was 79.4703

Assets under management: £24.8m

	Aug-20	Sep-20 *	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21 *	Apr-21	May-21	Jun-21	Jul-21
Total Return	-0.25%	-2.43% *	-0.48%	7.38%	-1.09%	1.45%	0.78%	1.13% *	-0.17%	0.77%	0.62%	1.99%
*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

July saw the UK stock market trade sideways to slightly down in what was a volatile and difficult to navigate pattern. We were able to benefit from some of this volatility, and, as a result our fund was up just a little less than 2% for the month.

Going into July the market had another set of risk events to consider. Most notably there were more inflation numbers to worry about both in the UK and the US as well as central bank reaction, or more correctly lack of reaction, to the inflation data. Inflation continues to surprise both in its scale and duration. In the UK inflation has been above the BoE target level of 2% for two months in a row now. Some commentators are now estimating that UK inflation may hit almost 4% by the end of the year. In the US headline inflation is already above this level. For now, although the body language of some central banks is starting to shift, the message remains the same, that inflation is transitory and that although economic progress has been made there has not been enough to justify tightening.

The upshot is that real interest rates keep falling (which itself is an inflationary force) and as a result, equity markets remain in an environment where dips are bought and where bounce backs are rapid. However, at some point and perhaps even in the second half of this year it is possible that central banks may have to start to act. The US central bank has a major policy meeting this month from which it is quite possible that a timetable for the wind down in quantitative easing could be announced. In the UK the dissenting voices in BoE's policy committee are getting louder.

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.

To put all of this into longer term context it is remarkable how potentially distorted the government bond market in the UK has become. The BoE has a mandate to keep inflation at around 2% over the longer term. Since 1997 real interest rates have been as high 6%, as well as negative, as they currently are. Finding an average is hard but outside times of economic difficulty a real interest rate of 1% is not unusual. Adding 1% to the inflation target of 2% would suggest a 10-year Gilt yield of something like 3% compared to today's 10-year Gilt yield of about 0.54%. Any move towards something like 3% would have a profound reshaping of how assets are priced. We are in an unusual world where a return to something approaching normal is regarded as being an almost impossible outlier. However, just to put things in context, prior to the financial crisis 10-year Gilts traded for quite a few years around the 5% level.

This discussion is we feel relevant because any shifting on quantitative easing may start to allow bond yields to return to something approaching normal. We cannot imagine a 3% UK 10-year Gilt yield in a hurry, but it is surely out there somewhere. In the nearer term it has been interesting to have had a look at how equity markets navigated the end of Quantitative Easing the last two times this happened (2010 and 2013). In both cases US equity markets had a tumble of over 10% in the months running up to the end of QE. In our view, it was the change in central bank language and feel that caused a decline. Once QE had stopped it was relatively safe to get back into the markets. If this is to be the case again, we may now be closer to equity markets pricing in the end of QE than markets would otherwise suspect. Unless central banks in the West prove to be more dovish than expected, and in the face of rising inflation, we may be close to entering a turbulent period.

We are fully hedged[1] now and will try our best to navigate what could be a tricky period ahead. Coming back finally to bond markets it is notable that UK Gilts have been in a relentless bull market for a long time now. If we are now on the other side of what has been a forty-year trend, then the market environment for all assets will be very different. Consistently falling interest rates have been like a following wind and its opposite, if that is where we are headed, will require a nimble and defensive approach.

As always, we will do all we can to navigate the currently strange environment but will also to proceed with a positive mindset and armed with caution.

TOP FIFTEEN EQUITY HOLDINGS 30TH JULY 2021

AstraZeneca	5.3%
Rio Tinto	4.3%
Diageo	4.1%
HSBC	4.0%
Royal Dutch Shell 'A'	3.9%
BP	3.9%
BHP Group	2.8%
BATS	2.7%
Ferguson	2.5%
Unilever	2.3%
National Grid	2.3%
Relx	2.2%
Prudential	2.1%
Compass Group	2.1%
Lloyds bank	2.1%

Fund manager: Paul Wood

4th August 2021

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