WOODHILL
ASSET MANAGEMENT LLP

VT WOODHILL UK EQUITY STRATEGIC FUND MANAGED BY WOODHILL ASSET MANAGEMENT LLP

NEWSLETTER JUNE 2020

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

Fund value at midday 30th June 2020 was 74.4988

Assets under management: £23.405m

	Jul-19	Aug-19	Sep-19 *	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20 *	Apr-20	May-20	Jun-20
Total Return	-0.10%	-1.71%	-0.24% *	0.98%	0.95%	2.07%	-1.71%	2.09%	-12.36% *	0.68%	-0.48%	-0.51%
*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 June, most equity markets have continued to move up slightly, but it is getting clearer to us that the outlook for markets is less than favourable and potentially increasingly unstable. Central banks and governments around the world, in their efforts to provide a solution to the current crisis, have, we suspect, created some real long-term problems for markets. The current *sugar rush* has the potential to have some serious and enduring repercussions. Consequently, we have remained hedged[1]. This is not a situation that we like but the balance of risk and reward from where we are now means that the alternative is simply to chase momentum without regard to fundamentals.

Our underlying portfolio, which had had a long run of outperformance over time, gave a little bit of this outperformance back during the last month. We concentrate on higher quality companies where balance sheets are strong and ironically, we suspect that it is this tilt to our portfolio that led to the recent small pull-back in relative performance. The most recent leg in the stock market rally has favoured lower quality companies, and this hints that the rally may be long-in-the-tooth, and that investors may be a little too complacent. We fully expect that quality will outperform lower quality in the future.

The scale of the monetary stimulus has been, as everyone knows, enormous. This has created a huge and unprecedented fast bounce-back in some markets and has put the risk reward balance into an unusual position. We do not know how fast the economic recovery from the current crisis is going to be, and in a way

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.

all the speculation about V shaped or W shaped is somewhat futile. From a market perspective, it appears the stock market is assuming a V shaped recovery. This puts markets into a situation where they have largely discounted a good outcome and where anything else would be a serious problem.

It is also worth talking about valuation. All sorts of attempts have been made to assess future earnings with a lot of focus being on earnings estimates for the end of next year. The uncertainty built into these forecasts is at an unprecedently high level, but even on these estimates it is hard to make equities look ‘cheap’. More interesting is the Shiller cyclically adjusted price earnings ratio. This measure of valuation, which is the only one we know of that has some empirical utility, considers earnings over a long period, and, given the current extreme earnings uncertainty, seems especially useful. This multiple stands at just over 26x. This is a level that is about the same as it was just before the 1929 stock market crash and has only ever really been sustainably surpassed during the dot-com bubble. Could this multiple expand from here given the amount of stimulus that is around? It is possible, but sadly this 26x multiple is now at a level that has accurately predicted poor equity returns over the next decade.

If the market gets more expensive from here the implied longer-term returns will become increasingly more negative. The surge in central bank liquidity has created a situation in which a stock market recovery which may normally have been expected to take years, has instead, taken a few months. In our view, we are now back to a position in which the longer-term outlook for equities is not that favourable. This is of course without considering issues such as budget deficits in many western countries that are around 20% of GDP, overall debt to GDP of 100% plus and soaring corporate indebtedness.

What is perhaps most interesting about the position that markets now find themselves in is that it seems that the mood music and the momentum in monetary stimulus appears to be abating. The amount of funding going into the US repo market is falling rapidly. While this may represent the fact that normal bank funding of this market is now healthier, it is also true that total US central bank assets appears now to have at least stopped expanding. Given how elevated many equity markets are this change in monetary momentum may turn out to be an issue for stock markets. It is also the case that some central bankers, most notably at the Bank of England and the Chinese Central Bank are clearly warning that markets should not think that the current levels of monetary support are normal, and, that they are likely to be normalised at some point.

Overall, we cannot help but think that while government and central banks have certainly acted successfully and determinedly to turn markets around, the result is that they have stored up all sorts of problems for the future. Years of potential stock market recovery have been compressed into a short period. We will continue to monitor developments closely. As always, we will do everything we can to try and navigate the changing world we find ourselves in and as always would like to thank everyone for their support.

TOP FIFTEEN EQUITY HOLDINGS 30TH JUNE 2020

AstraZeneca	6.6%
BP	4.4%
HSBC	4.0%
Rio Tinto	3.9%
Royal Dutch Shell 'A'	3.7%
Diageo	3.3%
BATS	3.3%
Unilever	2.6%
National Grid	2.6%
Reckitt Benckiser	2.4%
GSK	2.2%
BHP Group	2.1%
Relx	2.1%
Prudential	2.0%
Ferguson	1.8%

Fund manager: Paul Wood

7th July 2020

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