Woodhill

VT WOODHILL UK EQUITY STRATEGIC FUND

Managed by Woodhill Asset Management LLP

NEWSLETTER JUNE 2021

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

Fund value at midday 30th June was 77.9165

Assets under management: £24.3m

	Jul-20	Aug-20	Sep-20 *	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21 *	Apr-21	May-21	Jun-21
Total Return	0.36%	-0.25%	-2.43% *	-0.48%	7.38%	-1.09%	1.45%	0.78%	1.13% *	-0.17%	0.77%	0.62%

*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

June was the second month in a row when our fund was up slightly. We were up just over half a percent for the month compared to the overall UK market which was up slightly less. For most of the month, we were unhedged[1]. In some ways this low level of volatility is typical of the doldrums that frequently appear in the summer months. There were, however, a few interesting events going on that are worth mentioning and considering for the future.

The major event of the month was a subtle but real shift in the body language of some of the Western central banks. In the UK there are now some MPC voices that are starting to question the official Bank of England narrative that inflation is temporary, and the interest rate increases are still some way off. In the US, the Federal Reserve's June meeting caused quite a lot of drama. The consensus among the members of the Federal Reserve indicated that interest rates may rise slightly more, and slightly faster, than had previously been assumed.

These slightly more hawkish forecasts are however still astoundingly mild and distant in time. There was also a discussion about winding down of the US quantitative easing program. The most interesting thing about the June Federal Reserve meeting was not this subtle shift, but rather in the market, and especially the bond market's reaction. In normal times, when a tightening cycle begins, it is usually the case that long dated government bonds sell off pushing up the yields. This occurs because the bond market understands that the start of a tightening cycle means that the economy is strengthening. Shorter term interest rates also rise because there is inherently more risk in holding longer term bonds. As a central bank tightening cycle

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.

progresses the yield curve eventually flattens, and, as it approaches flat or even negative (when long term bonds yield less than short term bonds) this indicates that the central bank has probably tightened enough.

Nothing at all like this happened in June. In response to the Federal Reserve just talking about some very mild tightening, the yield curve flattened with long term rates notably falling. In essence, the bond market was implying that just talking a bit more about tightening is enough to slow the economy down. To put it another way, it seems that the bond market believes we are much closer to the end of an economic cycle. Another interpretation which is consistent with the one just mentioned is that it will be impossible for interest rates to ever reach 'normal' levels ever again. More and more it appears that the West is turning Japanese with high levels of debt and permanently low interest rates.

No historical analogies are ever completely correct however, but it is certainly the case that when the Japanese stock market peaked in 1989 it was an expensive market and one widely regarded as containing several significant technological leaders. The following 20 years saw the market falling and falling, and despite many stimulus efforts the economy consistently struggled to gain traction.

Following the bond market reaction to the Federal Reserve in June of this year there are still a lot of somewhat extreme and divergent opinions. These range from those who are still forecasting high and sustained inflation while others predict a deflationary bust. The future is usually never quite as good or bad as is forecast. The reality may turn out to be one where Western economies, struggling under significant debt burdens, never really get going in a sustained manner. If this occurs then, as in Japan, it will take many monetary and fiscal stimulus attempts to revive growth. As soon as the current stimulus programs run their course then another would be needed to keep things moving along.

In some ways, for equity asset prices at least, a positive case could be made in such an environment. If interest rates can never really rise significantly again, and if central banks and governments are always on hand to produce more stimulus, then this might be a good environment for risk assets. On the other hand, valuations are high on any historical context and disappointment is likely to be met with a step down in valuations. Valuations appear to us to imply both strong growth and low interest rates for an exceedingly long time. If the long-term growth outlook turns out to be lower than expected this could turn out to be a problem for markets. More and more it seems that a simple buy and hold strategy may not be all that appropriate.

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 JUNE 2021

AstraZeneca	5.7%
BP	4.3%
Rio Tinto	4.3%
HSBC	4.3%
Diageo	4.1%
Royal Dutch Shell 'A'	4.0%
BATS	2.8%
BHP Group	2.7%
Ferguson	2.6%
Unilever	2.4%
National Grid	2.3%
Prudential	2.2%
Lloyds bank	2.2%
Compass Group	2.1%
Relx	2.0%

Fund manager: Paul Wood

6th July 2021

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