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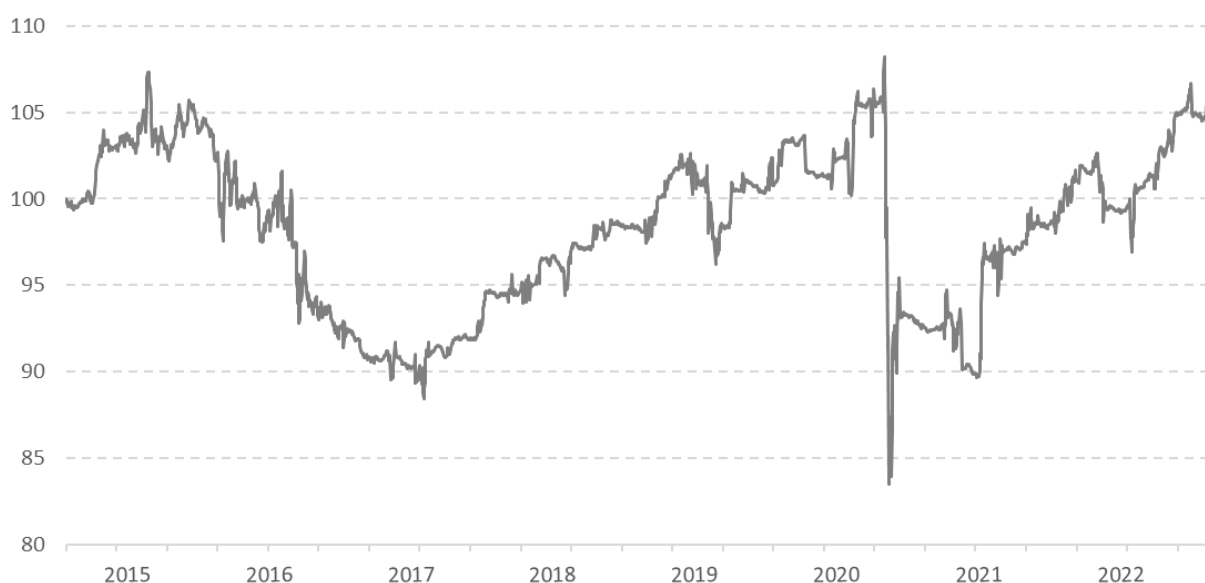
Fund value at midday 30th June was 78.8893

Assets under management: £24.5m

	Jul-21	Aug-21	Sep-21 *	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22 *	Apr-22	May-22	Jun-22
Total Return	1.99%	0.01%	-2.36% *	-0.08%	-2.42%	3.81%	-0.08%	2.29%	2.03% *	1.07%	-1.40%	-0.50%

*Inc. Distributed Dividend

VT WoodHill UK Equity Strategy Fund, dividends re-invested (UK p)



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Source: VTIM

Markets are getting harder and harder to navigate. In June we were down 0.5% but at least this was notably better than the performance of the UK equity market which was down nearly 6%. We remained hedged¹ for the full period. Year to date the UK market is down almost 3% while we are more happily up around 2%.

Almost all asset classes are notably down so far in 2022. For US high tech shares it has been the worst first half of the year performance ever. Even for broader markets such as the S&P 500 (down around 20%) it has been the worst first half since 1970. The performance of most commodities (except for energy) has rolled over, and the performance of more marginal assets, and especially crypto, has been truly poor.

So far this year we have tried to catch what we think are bear market bounces. Sentiment on each occasion was very low, the market was very oversold, and it also appeared that the economic deterioration we have been seeing was pausing. This is normally a good mix for assets to bounce, but even so, these bounces were very short, and hard to navigate. We think that something else has changed, the shift from quantitative easing to quantitative tightening (QT). This is an especially notable feature in the US, where the central bank balance sheet is now shrinking. This, in simple terms, means that there is just less money around to support the price of financial assets of all sorts.

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.

It is hard for markets to 'discount' this. Last time QT was tried in the US was in 2018. The result was a similarly difficult patch for markets when normal ranges did not work. With the start of QT, it seems that we have entered a new type of environment where the normal rules do not seem to apply. Back in 2018 the Federal Reserve continued with its QT policy for ten months, until it was, in the end, forced to abandon it. At the time the economy was starting to notably weaken, and perhaps more importantly, there was strong evidence that some significant parts of the financial system were getting into trouble. As soon as the Fed changed direction market performance improved and more normal trading correlations returned.

This turn in direction may however be some way away. QT in the US has just started, and the Federal Reserve's balance sheet only began to shrink in earnest in around January of this year. In addition, it is worth pointing out that the scale of QT this time around is potentially much bigger than in 2018 (and this is just because the starting point is much higher). Various estimates of the outlook for QT are that between May of this year and May of next year, the world's largest central banks will do around US\$4 trillion between them. This is around four times as much as was seen in 2018.

The other thing of course is that Western world inflation was not a problem in 2018, while today, even if it has possibly peaked, it is still far away from most central bank target levels. This suggests that unless 'something breaks' that QT is going to continue for some time. It is curious, in this regard, to look at the enormous gulf that appears to be opening up between what central banks say they are going to do and what fixed income futures markets are predicting. Central banks are clearly saying that interest rates are going to continue to rise, potentially well into next year. By comparison fixed income futures markets are now predicting as many as three interest rate cuts in the early part of 2023. This divergence is troubling. It suggests that fixed income markets believe that there is either going to be a serious recession before next year begins, or that 'something will break'. At times equity markets like this idea but from our perspective, if the fixed income markets are correct, then it is also the case the corporate earnings estimates are going to have to be notably revised down. On average, since WWII, a recession has seen corporate earnings fall 28%. On the other side of the coin, if central banks are right then rate rises and QT will continue to march ahead maintaining the tricky environment, we currently find ourselves in.

Overall, although this year is certainly a tricky year, we are pleased that we have produced a positive return. We do however recognise that the environment we are working in is difficult and will proceed very carefully indeed. As always, we would like to thank everyone involved with our fund.

TOP FIFTEEN EQUITY HOLDINGS 30th JUNE 2022

AstraZeneca	7.4%
Shell	6.9%
HSBC	5.1%
BP	4.0%
Diageo	3.7%
Rio Tinto	3.5%
BATS	3.5%
National Grid	2.7%
BAE	2.7%
Compass Group	2.3%
Relx	2.3%
GSK	2.3%
Unilever	2.1%
Glencore	2.0%
Reckitt Benckiser	1.9%

Fund manager: Paul Wood

4th July 2022

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