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

NEWSLETTER MARCH 2020

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

Fund value at midday 31st March 2020 was 74.7387

Assets under management: £23.474m

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19 *	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20 *
Total Return	-0.44%	0.66%	2.36%	-0.10%	-1.71%	-0.24% *	0.98%	0.95%	2.07%	-1.71%	2.09%	-12.36% *
*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*

After a good start to the year we had a very difficult March. We were exposed[1] to the market too early in the recent events. We incorrectly analysed the current decline as being potentially similar to that in 2008/2009 where there were several important moments in which there were significant bounces. By early March the market was as extended on the downside and volatility was as high as it had been at key moments during the 2008/2009 bear market. This along with the notable improvements in China regarding the progress of the virus, along with the first serious action from central banks made us believe that a bounce was likely. Sadly, this was not correct. The market declined more quickly (in fact more than twice as fast) as in 1929. The appropriate analogy was not an economic one but rather that of the outbreak of a major war, the clearest examples being the outbreak of WWI and then of WWII.

Regarding our actual performance there are two important caveats. The first is that at the end of March our fund went ex-dividend. Adding the dividend back in to get a clearer and more accurate picture of our performance, our fund fell just over 12% in the month. It is also worth noting that our NAV is struck at midday every day. Normally this does not make very much difference compared to the end of the day prices, but in these times of very much heightened volatility, it did. Especially on the last day on the month when the market rose 2.2% between midday and the close. Overall, this means that we managed to keep the loss for the month, once these adjustments have been made to about 10%. Since the start of the year, the decline will have been

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.

around 9.8% compared to the overall UK stock market that was down about 25% for the same time period. We are not at all proud of this but in these astoundingly strange times we did managed to at least alleviate some of the losses that would have been experienced by a long-only UK equity market investor.

Looking ahead, if the comparison to the outbreak of WWI and WWII is anything like reasonable it is worth pointing out that by the end of these wildly destructive wars, stock markets were at a higher level than they had been at the start. A main difference being, of course, that both wars lasted for around four to five years, when the current crisis should be over much more quickly than that. It is also worth mentioning that when we look across at the various stock market commentators, the view is astoundingly negative. Articles range from the outlook being a deflationary depression, to a stagflationary depression to hyperinflation. We have often taken the view that 'things are never quite as good as they seem and never quite as bad as they seem'. In this sense the current astoundingly bleak commentary might be a positive rather than a negative sign.

In the light of this we would like to propose a possible scenario which has not been widely or even slightly discussed in the financial market community (or at least not to our knowledge). Although it is quite a long time ago now, the Russian debt default (the largest sovereign default in history) and the LTCM crisis, both of which took place in 1998 may provide a useful analogy. What is occurring today is much larger in size than the events of 1998, but the outcome and duration may be more similar. In response to the Russian crisis and then to the LTCM collapse central banks took decisive action and when the bounce back happened the monetary tailwinds helped to produce the final but very powerful leg of the 1990s bull market.

Comparing the stimulus that has been announced today to the stimulus seen in 1998 it can only be said that the recent monetary and fiscal stimulus packages are of a magnitude that dwarfs anything that has come before. The biggest surprise would be that we see a repeat of 1999/early 2000 with markets making notably new highs before declining. Commentators favourite analogies are either the Great Depression or the long-term collapse in Japanese equities during the 1990s. In both cases the banking system was substantially compromised which meant that while interest rates were very low, the transmission mechanism of getting money out in the economy no longer worked as usual. At least this does not seem to be the case today.

Regarding 'it all coming to an end', commentators are already saying that the current stimulus will lead to sovereign debt problems or hyperinflation. It is our view that even if the current stimulus (hopefully) turns out to be too much, that markets will respond to it positively, and potentially for quite a while, before problems emerge. If the world does recover strongly from the current crisis, then the problem is most likely to emerge when the stimulus is reversed. This is probably some way away and if it happens, could be the making of a classic end-of-cycle moment and a more normal and slower recession. From our perspective, it is quite possible that things can get better from here and for a long time, before things get worse again.

With the stimulus in place, and with health systems getting organised we hope that markets can hold themselves together (even if this is in a volatile way) until the infection rates peak. We suspect that once they do start to fall that this will be positive for equities. We will keep watching closely and act accordingly. Thank you to everyone and good luck to all.

TOP FIFTEEN EQUITY HOLDINGS 31ST MARCH 2020

AstraZeneca	6.5%
HSBC	5.7%
BP	5.6%
Royal Dutch Shell 'A'	4.7%
Rio Tinto	3.7%
Diageo	3.6%
BATS	3.3%
National Grid	2.9%
Unilever	2.8%
GSK	2.3%
Reckitt Benckiser	2.3%
Relx	2.2%
Compass Group	2.1%
BAE	2.0%
Prudential	2.0%

Fund manager: Paul Wood

5th April 2020

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