Woodhill

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

NEWSLETTER MARCH 2021

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

Fund value at midday 31st March was 76.9764

Assets under management: £24.0m

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20 *	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21 *
Total Return	0.68%	-0.48%	-0.51%	0.36%	-0.25%	-2.43% *	-0.48%	7.38%	-1.09%	1.45%	0.78%	1.13% *

*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 some ways March was a quiet month. After a strong open to the month, equity markets have largely gone sideways. We were unhedged[1] for some of the month and were up 1.1% for March on a Total Return basis. So far this year we are up 3.4% and have had a steady accumulative performance against the background of a market environment that looks increasingly tricky. So far this year our performance has been just behind the UK market overall while taking substantially lower amounts of risk. Given what we see as a somewhat bubbly environment, we are pleased to have mostly kept pace with the market while also keeping risk to a minimum. Our fund paid a dividend of 1.41UKp at the end of March, payable at end of May.

Despite the apparently quiet nature of March, with vaccination rates surging in many Western countries, the age of Covid-19 central bank liquidity may now be behind us. Central banks will continue to be highly accommodative, but, unless something dramatic happens, new massive central bank liquidity is unlikely from here.

Geopolitically, China is behaving increasingly belligerent. President Biden has, so far, turned out to be much more assertive in his early foreign policy statements than many had expected. The Trump era of China tariffs remain in place. Russia is building up troop and military hardware on the Ukrainian border. It seems that Russia feels pressured to act before the Ukraine becomes a NATO member. Meanwhile, with a disappointing vaccine roll-out, the EU's actions are increasingly erratic. All of this could easily come to nothing, but it does seem to us that the world is more fractious than it was before the arrival of Covid-19.

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.

Another notable event over the last month has been the failure of the Archegos family office / hedge fund in Asia, which has led to multi-billion-dollar losses for some prime broking operations. What has been less well reported is that Archegos used at least eight different prime brokers to build up an astounding amount of leverage. Some reports suggest that the company had as much as $100bn of exposure compared to its actual capital that was around $10bn. It is usually either excessive concentration, or excessive leverage, that destroys hedge funds and Archegos had both. Even more alarming was that Archegos apparently used contracts-for-difference to build up its stock positions. It held stakes in companies that were above the levels that would normally trigger a requirement to notify regulatory authorities. The reason it did not have to do this was because from a purely legal perspective it was the prime brokers that owned these positions and not Archegos (although Archegos was of course exposed to the economic consequences of these positions).

Given the huge losses and credit quality downgrades that have followed for some of the prime broker banks, we suspect internal risk officers are now looking very carefully at exposure limits. A notable de-risking is possible. In terms of prime brokerage leverage, Archegos is probably not alone. While central bank liquidity is running at top speed this may be understandable (if not actually prudent) but when the tide starts to go out, we may find that the drama at Archegos could be just the overture to something bigger.

From a shorter-term perspective, we also note that sentiment has been high, often a troubling dynamic for equity markets. In addition, volatility is low. At the same time, non-profitable tech stocks in the US have performed poorly and names like Tesla are already well off their peaks. In this regard there does seem to be a genuine echo of what occurred in early 2000. Back then it took quite a lot of capital destruction before the glamour of tech names and the media and societal enthusiasm for them was finally lost.

From where we are now, we will try and do all we can to be exposed to the market when appropriate while maintaining a cautious overall approach. However, given the background described in this note, we will proceed carefully and as always would like to thank everyone for their support.

TOP FIFTEEN EQUITY HOLDINGS 31ST MARCH 2021

AstraZeneca	4.8%
HSBC	4.5%
BP	4.1%
Rio Tinto	4.0%
Royal Dutch Shell 'A'	4.0%
Diageo	3.6%
BATS	2.8%
BHP Group	2.6%
Prudential	2.5%
Unilever	2.4%
Ferguson	2.3%
National Grid	2.2%
Compass Group	2.1%
Reckitt Benckiser	2.0%
Lloyds bank	2.0%

Fund manager: Paul Wood

9th April 2021

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