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

NEWSLETTER MAY 2020

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

Fund value at midday 29th May 2020 was 74.8804

Assets under management: £23.523m

	Jun-19	Jul-19	Aug-19	Sep-19 *	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20 *	Apr-20	May-20
Total Return	2.36%	-0.10%	-1.71%	-0.24% *	0.98%	0.95%	2.07%	-1.71%	2.09%	-12.36% *	0.68%	-0.48%
*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*

We replaced the hedge[1] at the beginning of May, choosing to protect the value of the portfolio after an initial sharp bounce from the lows in April. This does mean that we have missed some of the recent market performance, but we think that after the bounce we have seen, that the risk reward for equities is not especially favourable. There are a few issues.

The most important is the large bounce back we have seen in some equity markets, especially in US high tech. The fact that US high tech shares are now up year to date is quite astounding. These were not cheap equities even before the recent crisis. While it is obvious that computing based companies have been much less exposed to the virus than say an airline, it seems implausible to think that these companies are entirely detached from the economy. Much of the revenues of tech companies are driven by purchases from other non tech corporates or consumers, either from actual purchases of software or through advertising revenues. These are bound to be affected by the sharp economic downturn that the world has seen, and this eventuality seems to be entirely undiscounted in valuations. While this is not, on the face of it, directly relevant to much of the UK stock market, any material decline in high tech is likely to affect us. While earnings forecasts are especially difficult to make now, it seems that equity markets may be expensive not just on end 2020 earnings forecasts, but also on dramatically recovered end-2021 earnings estimates. Investors have also become positive, even euphoric on some measures. A combination of somewhat euphoric investors, high valuations and substantial economic uncertainty is not in our view a great combination.

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.

This set up would not be especially encouraging even in normal circumstances but the situation we are in is almost uniquely unusual. There is the possibility of a second wave of infection. So far, the multiple vaccination developments and other therapies seem to have been a little more difficult than might have been hoped for. Quite apart from all of this it does seem that relations between the West and China seem to be more troubled than ever, and there is certainly some scope for an upset here.

Finally, we would like to make some comments about the astounding monetary stimulus that is occurring around the world. From our perspective there seem to be two possible and somewhat opposite outcomes. One might expect that extremely low interest rates and huge growth in monetary aggregates would lead to high inflation. If inflation does start to pick up, we expect that the initial reaction for equites, and certainly for bonds, would be poor. It is true that central banks could hold bond yields down through further quantitative easing, but would central banks be willing to do this if inflation is rising at the same time? We think not.

The other alternative and somewhat opposite scenario is that central banks find themselves 'pushing on a string'. Before we went into the recent crisis consumer leverage was on the high side and there is a possibility, after all the drama that we have seen, that consumers may be more cautious about new substantial borrowing. One of the notable aspects of the recent crisis is that it has shown how vulnerable consumers and some companies are to a sudden stop in economic activity. It is consequently possible that consumers and companies may want to shore up their own financial position to make themselves more robust. This would mean corporates paying down debt and consumers increasing their savings. If this does occur, then the large amounts of central bank money creation could potentially stay within the banking system and remain essentially un-lent. If this occurs then the recovery will be disappointing and possibly more importantly from the perspective of the equity market, central bank action will have become impotent.

If either of these two situations arises then it will mean a world that is quite different to the one that most investors working today will have experienced. We will be in a changed environment, and one that will be volatile, surprising, and potentially quite dangerous. We suspect that the world has indeed changed, and the large monetary stimulus we have seen will be important. The outcomes from these huge and entirely unprecedented monetary surges may be quite different from what is general expected, or more importantly from what has gone before. 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 29TH MAY 2020

AstraZeneca	7.8%
BP	4.8%
HSBC	4.4%
Rio Tinto	4.2%
Royal Dutch Shell 'A'	4.1%
Diageo	3.9%
BATS	3.8%
Unilever	2.9%
National Grid	2.7%
Reckitt Benckiser	2.6%
GSK	2.5%
Relx	2.3%
BHP Group	2.3%
Vodafone	2.0%
Compass Group	2.0%

Fund manager: Paul Wood

4th June 2020

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