

Bloomberg ID: VTWARNI LN

SEDOL: BMTRT64

ISIN: GB00BMTRT641

Fund value at midday 31<sup>st</sup> May was 80.2770

Assets under management: £25.0m

	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Total Return	-0.50%	-0.44%	0.58%	0.29% *	0.34%	0.67%	0.16%	1.15%	0.34%	1.41% *	0.33%	0.08%

\*Inc. Distributed Dividend

## VT Woodhill UK Equity Strategy Fund, five-year performance, dividends re-invested (UK p)



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Source: VTIM

In May our fund managed was fully hedged<sup>1</sup>, with a small gain compared to the overall UK stock market that was down over five percent. The month was steadily dominated by the debate around the raising of the US debt ceiling, but, behind this high-profile story the economic clouds that are now circling the world appear to be darkening. For us we are more convinced than ever that we are in a time when capital preservation is important. Before coming on to describe the importance of capital preservation we want to quickly describe the issues that are concerning us.

Looking quickly at the horizon we note that house prices are now falling in both the US and the UK. At the same time inflation, especially at a core level remains sticky, at least for now. This means that there is little chance of interest rate cuts coming to the rescue in a hurry. In fact, in the UK interest rates are more likely to go up rather than down from here. Outside of residential property the commercial real estate sector (offices and shops), especially in the US is troubled, facing a hostile mixture of increased funding costs and falling demand as employees continue to work from home, and as internet retailers consistently undermine the solvency of traditional retailers. In Asia the reopening of the Chinese economy is not going especially well and there have been some genuinely weak economic numbers out of Hong Kong. Finally, once the debt ceiling law has been passed (we think that this is more likely than not) there may be an unusual, but very real liquidity issue could emerge. As the debt ceiling approached the US treasury was not able to issue a substantial amount

<sup>1</sup> 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.

of new debt. It was bumping up against the ceiling. Once the bill is passed it will rebuild its cash levels through what could be a quite aggressive bond issuance programme. This will suck money away from equities and, also, potentially out of bank deposits into fixed income or money market funds. There is even a possibility that this could reignite the troublesome flows out of weaker banks, putting the whole of the US banking system under pressure again.

Against this background we want briefly to illustrate why we think it is important to have a fund that can act to hedge risk, and to protect investors from substantial declines. We have looked at four different bear market episodes starting with the late 1920s and running right up until 2008. We have not considered the covid decline as a 'normal' economic or valuation driven bear market as to us it was much more like a random natural disaster, such as a comet hitting the earth. Something that is inherently unpredictable and that could not have been modelled.

The point we want to make is that sometimes, it can really take many years for an investor to get their money back. Even moderate mitigation of major market declines can make a huge difference to an investor, especially if they need to spend their savings in the near term. It is often the case that life events happen, and investors do not have an option to wait for a market bounce back.

Starting with the first huge bear market of the 20th century we will then move forward closer to today.

<b>Starting point</b>	<b>Time to get back to original value</b>	<b>Maximum drawdown</b>	<b>Potential return if half of drawdown saved, and portfolio thereafter remained fully invested</b>
August 1929	25 years	88%	Up 80%
November 1972	10 years	41%	Up 26%
December 1999	6 years, 8 months	34%	Up 21%
October 2007	5 years, 3 months	49%	Up 32%

*Source: Trading economics*

In the table shown above, the final column assumes that a fund manager (such as ourselves) would have acted to hedge at least some of the downside of the various bear markets described. The assumption shown in the four examples above was that through hedging, a fund would avoid half of the loss during the declines and then would have been fully invested up until the point where a long-only investor would have got their money back.

This is of course theoretical and has the benefit of hindsight. However, we hope to be able to try and protect investors as much as we can in such environments, unlike most saving mandates. We would aim to avoid more than half of any potential draw down. Nevertheless, what is most important from our perspective is that we have the willingness, ability, and desire to want to protect investors. Investors do not have to be passive victims of bear markets. We are willing and able to fight to protect investors, and, to make money for them in more conducive environments.

The situation today is more troublesome than not, and we will do all we can to navigate investors safely through it. While predicting major bear markets is never simple or straightforward, we believe that many of the conditions for a major decline are present. This is why we have been hedged a lot of the time recently and we will continue to act carefully.

## TOP FIFTEEN EQUITY HOLDINGS 31<sup>st</sup> MAY 2023

AstraZeneca	7.5%
Shell	7.2%
HSBC	6.2%
BP	3.6%
Diageo	3.3%
Rio Tinto	3.2%
Compass Group	2.9%
BAE	2.8%
National Grid	2.6%
Relx	2.5%
BATS	2.4%
Unilever	2.1%
3i	1.8%
GSK	1.8%
Reckitt Benckiser	1.8%

Fund manager: Paul Wood

6th June 2023

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