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

NEWSLETTER NOVEMBER 2020

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Fund value at midday 30th November was 76.6467

Assets under management: £23.9m

	Dec-19	Jan-20	Feb-20	Mar-20 *	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20 *	Oct-20	Nov-20
Total Return	2.07%	-1.71%	2.09%	-12.36% *	0.68%	-0.48%	-0.51%	0.36%	-0.25%	-2.43% *	-0.48%	7.38%

*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 almost six months of the stock market moving steadily down November marked a clear end to the summer malaise. News of success in vaccine development has seen the market move sharply ahead. This move was also given a following wind by the US presidential election moving into the rear mirror. We had been fully hedged[1] during the decline in October and then went long during the final days of the US election. As a result, we were up 7.4% for November after being pretty much flat in October.

Towards the end of November, we re-hedged the portfolio. There were a few reasons for this. Sentiment had become very positive, and the market was dramatically overbought from a short-term perspective. Furthermore, we think the market had absorbed the good news on vaccines and had also, in a positive way, put the news of what turned out to be a relatively calm US election behind it. Normally the end of any year is quite rewarding for equity market investors and this may still turn out to be the case. It is also worth pointing out that November was the strongest month for the UK market for 31 years. In essence it is hard to tell if we have already had a ‘end of year’ rally or not. Most fundamentals, and how overbought the market is suggests that some short-term prudence is reasonable.

From where we are now the market picture is quite confusing despite the clear prospects of an economic recovery next year. On the one hand, if the economy returns to something like normal next year then logic might suggest that a return to the pre COVID-19 UK market highs would also be possible. There are however some cross currents at work. The first is the valuation and the level of the US stock market, which still sets much of the tone for developed markets globally. A mixture of central bank support and enormous retail activity

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.

in the US stock market has pushed the main US indices to record highs. As a result, valuations are back at levels that imply negative returns over a ten-year period.

This type of long-term analysis is robust, but it is not especially useful from a short-term timing perspective. Markets could go higher in the short term, but the balance of risk and reward is not compelling. Companies and governments are now notably more indebted than they were before the crisis started. This suggests that even if the overall enterprise value of a company (the combined value of the debt and the equity) returns to the old highs that the equity portion of the enterprise value would be smaller than might otherwise be expected. In addition, much of the economic dislocation caused by the crisis has yet to be fully felt. Official government forecasts for UK unemployment suggest that the unemployment rate could rise to around 7.5% next year. Once the employment support and the rental and mortgage holidays end, there will have to be a substantial adjustment to company earnings forecasts.

It is also worth discussing the change in politics in the US. Markets have benefitted from a sense of relief that the election has been concluded relatively calmly. There has also been substantial market excitement about another potential stimulus package. However, it is interesting to see how markets have reacted to the change in US politics and compare this to when President Trump was elected. With President Trump the stock market was weak into his election but then rose when his tax cutting, and deregulation program became clear. This time the market has been strong into Mr. Biden taking over which suggests disappointment is possible. Certainly, over time, it seems that tax increases and higher levels of regulation are possible, as well as changes to rules around share buy backs, which have been a substantial supportive factor for US equities. It also seems that the new president may be tested quickly by some of the international pressures that President Trump had arguably supressed. We are already seeing a drama emerging regarding Iran and there may well be further challenges to come from Russia, North Korea, and China.

Finally, the UK and the EU may now be close to some sort of resolution regarding trade. It is, at the moment impossible to know what will happen. If there is a deal then this could be a positive, but it could also mean a notably stronger Sterling currency. In recent weeks, the stock market has responded relatively poorly when the pound has been strong. As counter intuitive as this seems a trade deal could be a short-term negative for UK equities given that at least 60% of the UK Market earnings are derived from abroad. It is difficult to model exactly what the market reaction will be to a deal, and hopefully, when this issue is finally resolved, the market will be able to put this issue behind it. This may then set the stage for a positive run towards the end of the year.

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 30TH NOVEMBER 2020

AstraZeneca	5.3%
HSBC	4.1%
Royal Dutch Shell 'A'	3.7%
Rio Tinto	3.6%
BP	3.5%
Diageo	3.5%
BATS	2.7%
Unilever	2.7%
National Grid	2.2%
Ferguson	2.2%
BHP Group	2.2%
Reckitt Benckiser	2.1%
Compass Group	2.0%
Prudential	1.9%
Relx	1.9%

Fund manager: Paul Wood

4th December 2020

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