VT WOODHILL UK EQUITY STRATEGIC FUND

Managed by Woodhill Asset Management LLP

NEWSLETTER OCTOBER 2022

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

Fund value at midday 31st October was 78.1938

Assets under management: £24.2m

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22 *	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22 *	Oct-22
Total Return	-2.42%	3.81%	-0.08%	2.29%	2.03% *	1.07%	-1.40%	-0.50%	-0.44%	0.58%	0.29% *	0.34%

***Inc. Distributed Dividend**

VT WoodHill UK Equity Strategy Fund, dividends re-invested (UK p)

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Source: VTIM

We had another positive month in October with the fund rising in value by 0.34%. We have now had three consecutively positive returning months in a row. While these returns are not enormous by themselves, they contrast very well with the performance of almost anything else over the last three months. During this same period the UK stock market is down over 4% and has experienced high levels of volatility. Some of the world's favourite tech names have performed poorly and even bonds have had a torrid time. By contrast we are up over 1%.

Our performance over the last three months underlines the nature of our investment approach. We aim to preserve capital[1] in difficult times and to make money when we feel the risk and return are appropriate. By doing this our investors capital is protected and grown a little during tricky times so we ready to participate fully when better times return. It is a simple bit of mathematics that if the value of an investment falls by 35% (say) then to get back to break even this investment would have to rise by more than 50%. This is what we want to protect our investors from. If we continue to do our work in the way we intend to, when a better climate arrives our investors should benefit more fully, rather than having to climb out of a deep hole first.

The last month has been an especially volatile and challenging time for most UK investors. The bond market meltdown in response to the mini budget was an especially strong signal that the days of both never ending government spending and ultralow interest rates are over. Despite all the turmoil in UK politics and in the

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.

pension industry it is still the case that I our view, the BoE is well behind the curve. Interest rates still need to rise to control inflation and at the same time, the government is going to find it very hard to spend more money. Along with the shocks that have been felt in the mortgage market mean that the prospects for the UK economy in the next six months are not good. For the first time possibly since the early 1990s a 'real' recession is possible. This will undoubtably effect corporate earnings. Unless interest rates are being cut at the same time as company profits are falling there will be a naturally downward momentum in UK equities. This can certainly change, but given where UK base rates are and inflation, we still may be some way away from a change in direction in UK interest rates.

Overall, however it is not sensible to give up on the possibility that there will be better times. It just might take a little while to get there. There are some things to watch for. While the war in the Ukraine appears to be intensifying rather than calming down any chance or movement towards a negotiated settlement would be positive. If such a settlement could involve Putin stepping down, then all of the issues around gas and grain prices would dramatically improve. The other thing to look for, and related to the war, would be a clear downward trend in inflation. When this emerges the current central bank tightening campaigns would probably be at an end. There would also, at this point, be at least the possibility that interest rates could fall.

One of the notable aspects of UK politics over the last half a year or so is that politicians and the public seem to want to have their cake and eat it (this is somewhat natural). Most people understand that inflation needs to be defeated but until very recently governments have wanted to spend extra money to cushion or even prevent an economic downturn. The sad reality, and something that was very well understood in the 1980s and 1990s is that to defeat inflation a patch of real economic weakness may be necessary. In the early 1990s one of the political slogans related to the conservative party at the time was that 'if it isn't hurting it isn't working'. Such a slogan seems almost impossible to imagine in the battle against inflation and government spending today, but the reality of this slogan may now be with us again.

For markets the key will be the balance of interest rates and corporate earnings as the future unfolds. The worst mix would be an actual recession with no interest rate cuts. The best would be a type of soft landing in which the damage to company earnings might not be so bad. The reality is probably something in between these extremes. Our strategy will be to do all we can to keep reading the tealeaves, and to navigate what might still be stormy seas ahead.

TOP FIFTEEN EQUITY HOLDINGS 31st OCTOBER 2022

Shell	7.8%
AstraZeneca	7.0%
BP	4.8%
HSBC	4.2%
Diageo	3.8%
BATS	3.5%
Rio Tinto	3.2%
BAE	2.6%
Compass Group	2.6%
Relx	2.5%
National Grid	2.5%
Unilever	2.3%
Glencore	2.2%
GSK	2.0%
Reckitt Benckiser	1.8%

Fund manager: Paul Wood

3rd November 2022

www.woodhillam.co.uk