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

NEWSLETTER SEPTEMBER 2020

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

Fund value at midday 30th September 2020 was 71.7209

Assets under management: £22.5m

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20 *	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20 *
Total Return	0.98%	0.95%	2.07%	-1.71%	2.09%	-12.36% *	0.68%	-0.48%	-0.51%	0.36%	-0.25%	-2.43% *
*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

September has been another tricky month for most investors. It is now apparent that the UK stock market has been stuck in a mildly falling trend since the summer of this year. Each time it looks as if an event is going to break the market out of this trend nothing substantial seems to develop. We have found ourselves getting [1]bumped around in these little ups and downs that ultimately went nowhere.

Ironically, there have been many events that should shake the market out of its torpor. The UK governments deadline with the EU over trade negotiations is not far away. The US presidential election will follow quickly after that and we now also seem to be well into a pandemic second wave in Europe. A second wave in the US also seems quite plausible.

It is possible that once we are past the EU/UK trade issues, and the US election, we will be in a position for a classic year-end rally to emerge. Such a rally could also be fuelled by positive news on vaccines, and by the prospect of the second wave having run its course. Until then, things look uncertain and somewhat tricky.

A substantial aspect of market dynamics in the last six months or so has been the amount of fiscal and monetary support that has underpinned markets and economies. For a while it seems that the bulk of this support is now somewhat in the past. In practical terms many central banks feel that they have done pretty much what they can. At the same time, it seems that the UK government is not willing to go on spending huge quantities on covid-19 related support forever, while in the US, nothing dramatically new on the stimulus side seems likely until the next president is in office. While the longer-term view can potentially be perceived as

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.

being more constructive, the near term one is less encouraging. Most year-end rallies do not tend to start until November, or even December, while the late autumn is often a tricky time.

It is also worth noting that the huge disparity between the performance and valuation of high-tech equites (mainly in the US) and what can broadly be described as being value, or in fact in reality, the rest of the equity world. The fact that this divergence has opened is very well known and takes up a lot of space in market commentary and strategy discussions. Many of the discussions on this issue focus accurately, from our perspective, on how huge amounts of central bank liquidity have found a home in high tech. It is also true that some high-tech names have benefitted from the lock down. What is not discussed so much is how this tech bubble may end, and what this might mean. In 2000 many value names looked reasonably valued in absolute terms and cheap from a relative value perspective. However, when the 2000 tech bubble deflated it took everything, including the economy with it. This along with deeply indebted governments and consumers could be the making of a difficult longer-term picture.

We also want to discuss a change we are making in an aspect of our operating procedures because of the collapse we saw in the Spring. This change would also be relevant in any major market dislocation in the future. Following the events in March of this year we are introducing a new “circuit breaker” type of feature to how we approach risk. We have done a substantial amount of research into when markets are much more dangerous than usual and when they are not behaving normally. In practice this means identifying moments when equities are likely to fall well beyond their ‘normal’ historical ranges. We found that if the UK stock market falls more than 5% in total over five consecutive trading days then this has been a particularly good indicator that the market is behaving unusually.

Surprisingly, this sort of event is quite rare. If we see this signal occur in the future, we will fully hedge the portfolio even if the market looks oversold and even if sentiment and volatility are already signalling that there is quite a lot of stress in financial markets. From this position we will then act to only take the hedge off with the most reliable and conservative of the data series we analyse turn positive. This should mean that we should not ever get caught again by an oversold market falling further than we would have otherwise expected. We have back tested this approach and the results are very encouraging. We hope that we will not see this sort of extreme event happen again, but we should be ready if it does.

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 SEPTEMBER 2020

AstraZeneca	7.0%
Rio Tinto	4.2%
BP	3.4%
Diageo	3.4%
HSBC	3.3%
BATS	3.0%
Unilever	3.0%
Royal Dutch Shell 'A'	2.9%
Reckitt Benckiser	2.5%
National Grid	2.4%
BHP Group	2.2%
Ferguson	2.2%
GSK	2.0%
Relx	2.0%
Prudential	1.9%

Fund manager: Paul Wood

7TH October 2020

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