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

NEWSLETTER SEPTEMBER 2022

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

Fund value at midday 30th September was 77.9327

Assets under management: £24.2m

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

*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

For the second month in a row our fund was up (slightly) while the overall market was down. In September the UK stock market fell by over 5% while our fund was up 0.3%. Over the last two months our fund is up around 0.8% compared to the UK stock market which was down over 7%.

For much of the last two months we have been hedged and our positive performance has come from the relative performance of our underlying equity portfolio. We emphasize quality in our stock selection, and in difficult times, this is often rewarded. We did however start to go long[1] at the very end of last month. This was in response to the action the Bank of England has been taking, and because sentiment and positioning has become extremely negative.

For a while now, at least over the last two weeks, sentiment has been falling to extremely negative levels. At the same time the market is sharply down and is oversold from almost any technical perspective. The sharp fall in UK Sterling also means that many of our large, internationally orientated companies are trading at a discount that is larger than it looks. In addition, the notable rise in UK government bond yields we have seen has a type of silver lining. Many parts of the UK government bond market now trade at a yield of over 4%. In this regard a fair amount of tightening has already occurred. As has been well covered in the media, mortgage rates are well in the process of being repriced upwards even before the Bank of England has formally acted. Over the last year or so bond yields have moved from being shockingly low and abnormal, to now being at

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.

something like normal levels. This represents a reduction in the underlying risk environment for UK investors. *Normal is less alarming than abnormal.* For the first time in a long time a value case for UK government bonds can now be made. Will inflation be above 4% this year, yes, and next year, possibly? However, will inflation be above 4% every year for the next 20 years, in our view, probably not? Consequently, the prospect of a notable real yield on UK sovereign debt when viewed over the longer term is getting interesting. If gilts are now less risky, then a similar case can also be made, to some extent, for equities.

There are however risks still out there to worry about. The list is quite long, UK recession, housing market downturn, Putin doing something more shocking in the Ukraine, China devaluation/crisis to name just a few. It is also worth discussing the action taken by the Bank of England to pause QT and to buy bonds. This looked initially like a U-turn. In fact, this U-turn was, in the near term, quite sensible. It prevented a liquidity issue surrounding pension funds and gilt pricing from turning into something worse. The Bank acted to prevent a liquidity crisis from turning into a solvency crisis – this is the sort of thing it should do. Its action should also prevent further short-term selling pressure in gilts and in other liquid assets on behalf of pension funds.

We do not normally like to make predictions, but we suspect that the Bank of England has the firepower to move yields to the sort of levels needed to head this crisis off. The Bank of England should win this one. However, the Bank is also saying that it expects to restart QT at the end of October, presumably once this current drama has been sorted out. Then, by the end of the month, it is going to get back to what it was doing previously – QT and putting up base rates.

However, what this recent drama shows is that tightening policy, after decades of arguably over loose policy, has its problems. After over a decade of abnormally loose policy a return to normal could be tricky. Just anecdotally in this regard it is remarkable to hear commentary being shocked that mortgage rates could ever reach such ‘high’ levels as 4%. In the near-term base rates will certainly go up, but what will happen if another drama occurs when the Bank restarts QT? If another drama does occur it is possible that the Bank of England, and other central banks, are closer to blinking, to changing tack, then might have been thought. If this occurs, we would be nearer to the peak of the tightening cycle than many might think.

Overall, this would be certainly more of a positive for markets than a negative, but the next few months could be tricky. A market swoon when QT restarts is a possibility, something else could ‘break’ either here or abroad. A real recession with falling house prices, rising unemployment, and falling corporate earnings is more and more likely. These are real risks.

We will have to navigate the rest of the year very carefully, and we will aim to do exactly that. However, for the first time in a long time, we get the sense that a longer-term buying opportunity can at least now be seen on the horizon. It might however well take another moment of drama or two until we arrive at a safer place.

**QT; quantitative tightening*

TOP FIFTEEN EQUITY HOLDINGS 30th SEPTEMBER 2022

Shell	7.4%
AstraZeneca	6.9%
BP	4.5%
HSBC	4.5%
Diageo	4.1%
Rio Tinto	3.5%
BATS	3.3%
BAE	2.6%
Compass Group	2.6%
National Grid	2.5%
Relx	2.3%
Unilever	2.3%
Glencore	2.2%
Reckitt Benckiser	1.9%
Lloyds bank	1.5%

Fund manager: Paul Wood

4th October 2022

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