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

NEWSLETTER SEPTEMBER 2023

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

Fund value at midday 29th September was 85.6304

Assets under management: £27.3m

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Total Return	0.34%	0.67%	0.16%	1.15%	0.34%	1.41% *	0.33%	0.08%	-0.33%	4.00%	2.61%	2.16% *

*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*

September was another positive month for us. Our fund was up 2.2% (pre going ex-dividend). So far this year our fund has risen in value by just under 12%. This compares to the UK market that is up a little more than 4%. What is more important from our perspective is that the largest monthly drawdown our fund has experienced so far in 2023 is less than 0.4%. In the same period, the UK market has experienced three notable drawdowns, two of almost 9% and another of over 6%. The combination of much lower drawdowns along with better returns does illustrate that we are able to both reduce risk and improve returns. In the year to date we were fully hedged[1] (i.e., the funds NAV was protected) for 88% of the time. This means that our positive, and better than market returns have been generated through us only being exposed to market risk for 12% of the time compared to the alternative of being exposed to market risk all the time. In what we see as the environment ahead our ability to navigate away from trouble is likely to continue to be highly valuable.

The main development in September was a pause in rate hiking by the US, European and UK central banks. This had long been looked forward to and was met with equity market enthusiasm. However, as soon as the pauses were announced something quite unexpected happened. From a maturity of 10 years and further out, the response to the pause has been a notable increase in bond yields. The US 10-year yield has risen from a shade over 4% to almost 4.6% in September and similar increases have been seen elsewhere.

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.

It is historically very unusual to see long term rate rising like this while inflation is falling. The strange nature of this change makes us feel cautious by itself. This combination of falling inflation and rising long term interest rates is a form of tightening - real interest rates are rising. It could be that this rise in yields is implying that central banks have given up too early in their flight on inflation. It could also be that the world is waking up to the reality that the fiscal position of the West is very far from ideal. Government debt levels are high across the whole of the Western world and budget deficits are only adding to the problem. The budget deficit in the US this year is likely to come in at around 7% of GDP. This is a level that has more normally been seen in a recession when governments spend more to stimulate the economy and when tax receipts have fallen. To have such a large deficit at a time of around full employment is troubling. In the good years it would be more prudent for a country to run a balanced budget so that it has the space for the deficit to rise in a recession or slowdown. Just how large the resulting budget deficit might be if a recession arrives is concerning. It may be that bond investors are waking up to this reality.

It is also worth noting that over the last few weeks the correlation between government bond yields and the oil price has been very tight. This correlation is not always as close as it has been recently – but it does appear that the oil price is helping to drive the rise in yields. There are a few important implications. The most pressing is that there is a good historic relationship between inflation rates and oil prices. Unless oil prices start to fall soon there is a very real possibility that headline, and core inflation rates will start to rise again. This really would not be good news. Markets have just celebrated the end of the central bank rate hiking campaigns – if investors find out that they have celebrated too early a potentially serious adjustment to expectations would be likely. Furthermore, it seems that the only thing that can seriously put a stop to the rise in long term interest rates would be a notable fall in oil prices. For this to happen a significant slowdown in the world economy is probably necessary.

Rather worryingly it is starting to seem that the oil price and the bond market are, between them, leading the world down the path to recession. If this occurs the West is not prepared. Overall, it seems to us that the challenges ahead for markets could soon be very significant. We feel that our ability to hedge, to protect investors from the worst of any market turbulence, will be especially valuable over the next few years. As always, we will proceed with caution and would like to thank everyone for their support and trust.

TOP FIFTEEN EQUITY HOLDINGS 29th SEPTEMBER 2023

Shell plc	7.8%
AstraZeneca PLC	6.8%
HSBC Holdings PLC	5.6%
BP PLC	3.9%
Rio Tinto PLC	3.2%
Diageo PLC	2.8%
BAE Systems PLC	2.8%
Relx PLC	2.5%
Compass Group PLC	2.4%
British American Tobacco	2.2%
National Grid PLC	2.2%
Unilever PLC	2.0%
GSK plc	1.8%
Glencore PLC	1.8%
3i Group PLC	1.8%

Fund manager: Paul Wood

3rd October 2023
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