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

NEWSLETTER JULY 2020

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

Fund value at midday 31st July 2020 was 74.7696

Assets under management: £23.49m

	Aug-19	Sep-19 *	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20 *	Apr-20	May-20	Jun-20	Jul-20
Total Return	-1.71%	-0.24% *	0.98%	0.95%	2.07%	-1.71%	2.09%	-12.36% *	0.68%	-0.48%	-0.51%	0.36%
*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 spending the last couple of months going nowhere, it appears, at least for now, that the market has decided to end its doldrums by going down rather than up. For the month, the UK equity market was down over 4% while our fund was up slightly.

A few things seem to be going on. Most importantly it seems, sadly, that the virus is not going away. In the US it is hard to even characterise the current situation as a second wave, it looks more like a continuation of the first. For the UK, and for Continental Europe, we seem to be fighting fires quite successfully but autumn and winter, traditional flu season, is not so far around the corner. At the same time some of the momentum in both real economy and stock market stimulus is starting to fade. The rate of money supply growth in the US has fallen notably, while the overall central bank balance sheet is now actually declining. This has taken at least some of the wind out of the market's sails. In the UK, the end of the furlough scheme is in sight. It is possible, likely even, that these sorts of programmes will be extended but first, we may get to see what the underlying picture.

We remained fully hedged[1] for the month. This is a little unusual for us but the world and markets in our view are particularly unusual. From a longer-term perspective valuation are not especially low and uncertainty is high. Hong Kong and China, the US and China, and waves of social unrest and protest around the world appear to have signalled that something has changed. These geopolitical events have a habit of being ignored

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.

by investors for long periods, but this can change very quickly. We are also approaching the US Presidential election. Anything can happen of course, but this campaign is likely to be even more bitterly fought than the last one. President Trump is well behind in the polls and just the uncertainty surrounding a potential change of President is probably enough to unsettle markets. One of the most substantial supporting factors for US equity markets has been the astounding run of company share buy backs. A new administration, if it happens, may well choose to take a less favourable view on buy backs, and, if this occurs, one of the more important planks supporting the market may fall away.

Despite the huge significance of the virus we cannot help wondering if, from a market perspective, that something potentially even larger is going on. With the virus consuming all attention it is hard to take a wider view. However, in the corner of our minds we cannot help wondering if the steady decline in interest rates and the relentless rise in central bank support that has been going on since at least the 1980s has now reached its zenith. This is long wave stuff indeed! Looking back from the future to recent events it may, one day seem as if it was the virus itself that created the peak, and final surge in central bank support and perceived omnipotence.

Over the last forty years interest rates have fallen from double digit levels down to essentially nothing and central bank money printing, which seemed like an oddity from the 1930s or post bubble Japan, is now huge and everywhere. The consistent fall in interest rates over the last forty years has been a powerful positive force for investors. If we are at an inflection point, or at least at a peak, then this will be deeply significant. It will make the next forty years quite different to the past and is likely to have longer lasting effects than the virus itself. The fall in interest rates we have seen has been accompanied, unsurprisingly, by a steady rise in debt levels. This long wave movement from a low debt and high interest rate world to a low rates and high level of debt world is sometimes called the interest rate or debt super cycle. If the amounts of debt in society cannot be pushed up any further, then real economic momentum will be lost.

In some ways, and with the benefit of hindsight, the most ideal time for a long-term equity investor to invest would be at the start of a debt super cycle, when few people have debt, and all the spending and business investment benefits of decades of leveraging up would be ahead. Sadly, we are currently, quite possibly at the wrong end of this cycle, and it will have been the central bank response to the corona virus that created the peak and end of what has been a fantastic four decades for many asset prices.

Coming back to today, while we are still hedged, there are a few things going on that are starting to make us think that a buy signal may be closer than it has been for a while. Sentiment has fallen to low levels and certainly to levels that have been associated with market lows in the past. Also, as every day passes, we are probably getting closer to a working vaccine.

A curious aspect to the stock market this year is that despite the huge events that have taken place the stock market has been broadly following its traditional ‘seasonal’ patterns. The market was strong at the end of last year and in the first few months of the year. Then this summer the market has fallen into a traditional patch of summer doldrums and then as autumn has loomed the market has been relatively weak. If this ‘normal’ seasonal pattern is maintained, then a sensible opportunity to buy may present itself in late autumn ahead of a traditional end of year rally. We will see of course; we will stick to our processes and will proceed with caution.

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 31ST JULY 2020

AstraZeneca	6.9%
Rio Tinto	4.0%
BP	4.0%
HSBC	3.7%
Diageo	3.4%
Royal Dutch Shell 'A'	3.3%
BATS	2.8%
Unilever	2.7%
Reckitt Benckiser	2.5%
National Grid	2.3%
BHP Group	2.1%
GSK	2.0%
Prudential	1.8%
Ferguson	1.8%
Relx	1.8%

Fund manager: Paul Wood

10th August 2020

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