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

NEWSLETTER JULY 2024

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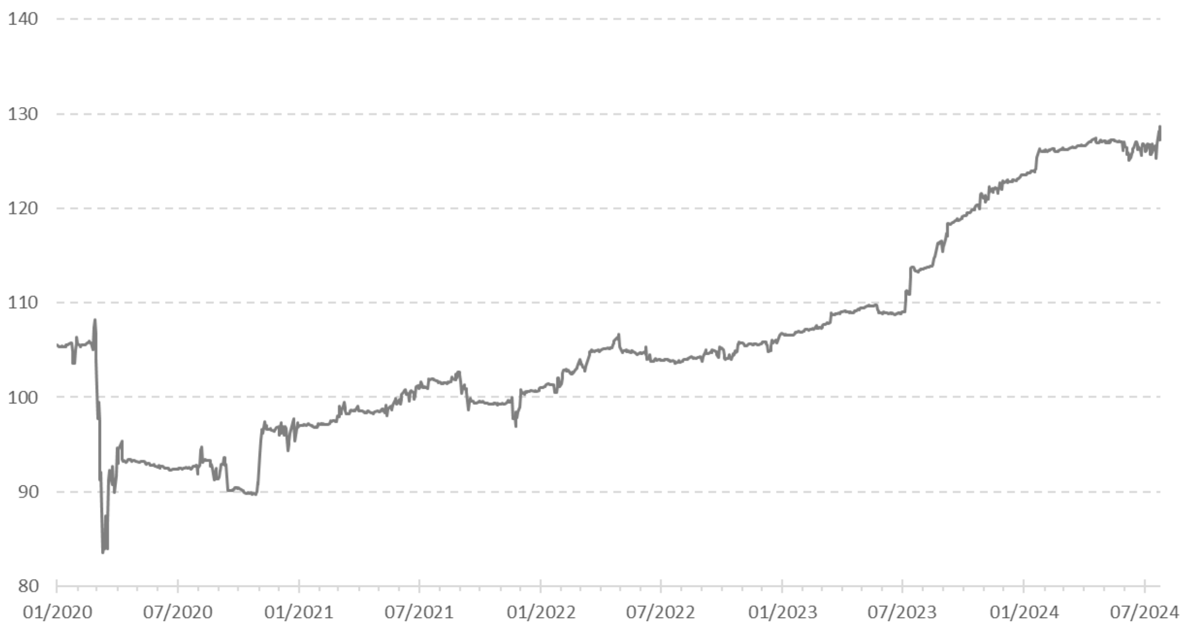
Unit price at midday 31st July was 91.0

Assets under management: £30.2m

	1 month	6 month	1 year	3 year	5 year	Inception
Total return	1.7%	2.0%	12.9%	23.8%	23.7%	27.5%

VT Woodhill UK Equity Strategy Fund, five-year performance, dividends re-invested (UKp)



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS *Source: VTIM*

In July our fund was up 1.7%. So far this year we are up a little less than 4.5%.

We were unhedged[1] and exposed to the UK equity market in July. From mid-May through until the second half of July the UK market had gone down in a steady but low volatility manner until in our view, it had become oversold. We got the sense that there was quite a lot of generalised pessimism and lack of enthusiasm for UK equities. From our perspective this made the market more interesting than it had been for a while. In addition, the UK general election was being concluded and there was (and still is) the potential for further interest rate cuts.

Historically the issue of interest rate cuts and how equities respond to them is far from clear cut. On one hand, lower interest rates act as an economic stimulant and make equities more compelling from a relative valuation perspective. In the UK it is also interesting that the Bank of England has been willing to cut rates ahead of a cut from the US Federal Reserve. We do agree with the Bank of England that it is time for interest rates to fall, and with US formal policy interest rates not yet falling, there is further potential for UK sterling to decline relative to the US Dollar. Given how international the UK market is from an earnings perspective (miners, oils, HSBC etc.) any notable fall in UK sterling is likely to translate to better UK corporate earnings. Given just how gloomy

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.

UK investors have become, we think the combination of an exchange rate and interest rate falls should be supportive to UK equities.

However, there is a ‘goldilocks’ period in which economies slow, interest rates fall, and equities can do well for a while. If a true recession emerges then equites tend to fall, and potentially fall a lot, even if interest rates are declining. We think that whatever happens with the economy in the medium term, we may still be in a goldilocks type of environment, at least for a little while. This is not to say however that the clouds are not darkening. Recent US labour market statistics are hinting that a recession may be on the way. In addition, a reasonable case can be made that the US Federal Reserve should already be cutting rates, but that it has not done so for political reasons. If this is the case it is possible that unlike the Bank of England, the US Federal Reserve has now kept rates too high for too long. The result could easily be a recession that starts to gain momentum as soon as the US presidential election is over. If this occurs history suggests that equities are unlikely to perform well. If company earnings start to fall, then equities will fall with them. We are doing all we can to try and navigate this tricky road as carefully as we can.

At the same time, the road has become increasingly bumpy elsewhere. The French elections have provided a lot of drama, and now the unwind of the Japanese carry trade is making itself felt. We wrote a newsletter about this a few months ago. We did not however expect its impact to come so soon. From where we are now, we feel that the dramatic moves in the Yen, and in the Japanese stock market, may have passed. We feel that the Japanese central banks tightening cycle may now be over. The currency has strengthened dramatically which is deflationary (imports to Japan will now be cheaper) and the fall in stock prices is another dampening effect (regarding confidence and spending). In addition, the size and volatility of the moves we have seen in Japan (and elsewhere in the world) along with very large trading volumes suggest to us that forced selling (margin calls) have mostly taken place. Looking at similar spikes in volatility in the past would suggest that in the shorter term, markets are likely to do better. We are however very alert to the possibility that a large leveraged fund, insurance company or bank could have been damaged. Our sense from here is that there will be a relief rally but that new all-time highs may not be seen for a while. This is especially the case if the US falls into recession next year. Overall, we are, we believe, now in a situation where we may see falling highs and lows. In other words, we may be on the cusp of markets moving from being in a bull market to being in a bear market. We will do all we can to act cautiously in this new environment.

TOP FIFTEEN EQUITY HOLDINGS 31st JULY 2024

Shell plc	7.3%
AstraZeneca PLC	7.2%
HSBC Holdings PLC	5.5%
BAE Systems PLC	3.4%
BP PLC	3.2%
Relx PLC	3.1%
Rio Tinto PLC	2.9%
Compass Group PLC	2.8%
National Grid PLC	2.7%
3i Group PLC	2.5%
GSK plc	2.3%
British American Tobacco	2.3%
Unilever PLC	2.2%
Diageo PLC	2.1%
Barclays PLC	1.7%

Fund manager: Paul Wood

8th August 2024
www.woodhillam.co.uk

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