# Investment Manager's Review

**Six Monthly Report**

The Sub-Fund, VT De Lisle America Fund, rose 3.67% against a rise of 5.02% for the S&P500. In sterling terms, the Fund rose 10.34% as the pound fell from $1.3105 at the end of March 2019 to $1.2301 at the end of September. Over the six months, the Fund increased from $39.1 million to $40.7 million, comprising $1.6 million of fund appreciation and $0.2 million of net new investment. We have 84 holdings at the end of the period, down from 86 in March 2019, and down from 91 in September 2018. The top holdings are little changed.

Once again, the big stocks outperformed, but we did better than every index we might be compared with. For instance, the Russell 2000 and the S&P600 (small cap) were both up less than 1% and the community bank index was up 3.5%, a bit less than the Fund. Additionally, the rate of outperformance of large stocks has fallen and the high ratings of growth stocks seem to have peaked with the bond market at the end of August. Various other signs are confirmatory, all suggesting the great multiple expansion has run its course and our days of neglect in the value corner are approaching an end.

Last year, in this report, I wrote how, for instance, our RV manufacturers had moved to much lower multiples. Thor had gone from $160 to $66 and Winnebago from $58 to $25. Today, November 6th, Thor is $67, which is not very inspiring but they did buy Erwin-Hymer in Europe which is enough to make their recovery postponed. Winnebago, however, is back up to $50 with most of its recovery recently. Some recognition has returned to value when all is well with the underlying company. During the six month period, August and May were nasty recession scares again and although between them they sank performance, the sinking was not so dramatic as December 2018 and when the buoyancy of the depressed cork is allowed to return to the surface, value is now showing a tendency to recover and even outperform. Conversely, the one decision growth stocks are becoming more wobbly in normal times and this is enough to make long-term holders nervous and fund flows into the various ETFs which have been driving them have become less pronounced than for a few years.

Community banks remain the important weighting at 44%, similar to a year ago. The stocks have been going sideways on low volatility but their earnings have continued to come in. Consequently, we now have many holdings which have reached a P/E of 10 or less of trailing 12 months earnings. While the flat yield curve was supposed to do for their Net Interest Margins, the results have been different with the resourcefulness of these small banks in still finding a way to make similar spreads. Returns on equity and bad loans remain fine while dividends and tangible book value increase. We are waiting, just as we are waiting with the RVs and other value holdings. These propositions are becoming more compelling and while we do not expect a catalyst to explode them off the launch pad we do expect a gradual appreciation as they stand out more. This is happening as we are now only about 10% below our Fund highs made in August 2018 despite all the sell-offs.

We also retain holdings in other consumer cyclical and industrial areas. We are light in energy and other commodities despite them being in the value sectors. In individual stocks, we have added a couple of utilities for safety and are coming out of Westwood Holdings, our fund manager which cannot attract new money flows even though many of its funds are doing well. We have had success with our Meals on Wheels stock, Vectrus, which is more respectfully known as a military contractor, although the overall environment is such that not much in the value arena goes for it. Consequently, plodding along is about as good as it gets and multiple expansion on an improving story has become rare indeed.

Today, the portfolio is cheaper than a year ago in P/E terms and the price of our units has increased. We have a greater cushion of cheap valuations under us to inhibit a steep sell off while being well positioned to steadily increase as growth investors come to consider that we're a safer place to go. The momentum is slowly moving our way and one day people will come looking for us again.