# Annual Report 2020

# VT De Lisle America Fund Investment Manager's Report

# For the period 1st April 2019 to 31st March 2020

## Investment Objectives and Policy

The VT De Lisle America Fund seeks to achieve capital appreciation by principally investing in US smaller companies. We have 93 holdings, of which just four stocks are large cap and total 10% of the Fund. This is to provide some small hedge which is put on when macro conditions clearly favour large growth stocks. The rest of the holdings are typically below $1 billion in market cap and so the Index which we most might be closely compared with is the Russell Microcap Index. Our largest holding remains FS Bancorp, which ended the year at 8.4% of the Fund.

The Fund's objective is to increase the price of its units and it is not contained by any thematic type of investment. However, we will always likely be the smallest cap fund around and our self imposed hedges will not go far beyond their current levels. This hedging is an attempt to keep up with the large cap growth theme which has been the dominating market feature since the start of 2017.

## Manager's Review

The share classes within the VT De Lisle America Fund fell by 24.29% for the US dollar class and fell by 19.36% for the sterling class. The sterling class fell less because over the period the pound fell from $1.32 to $1.24 and the Fund does not hedge its full US dollar exposure. The two share classes have the same value per share if measured in a single currency. In the period, the Fund fell from $39 million to $27 million of which $10 million was from market action and $2 million from withdrawals.

As I review the previous year's report, little has changed. The report can be trotted out again. Here was the start: "In the year, we were in the worst place." The pandemic created a waterfall effect, getting things wobbly from the third week of February and then cascading into a March low on the 23rd, and effectively our year-end. The initial crash just imagined a sudden and deep recession and our stocks were ideally badly positioned for this effect and got crushed from a low base.

Our 24.29% loss only becomes bearable when we examine it in a wider context. To this effect, I am going to let the numbers of reasonable comparisons tell the story:

S&P400 (mid cap) down 23.9%

Russell 2000 (small cap) down 25.11%

S&P600 (small cap) down 27.27%

Russell Microcap (very small cap) down 27.73%

Community Bank Index (very small cap) down 29.43%

S&P600 Value Component (small cap) down 32.26%

Of all these, we are nearest the last two, being a value fund and being overweight community banks. We are least near the S&P400 because we have only two stocks in the 400 and they are generally much bigger companies. In the year our weighting in community banks reduced from 44.5% to 40.0% but we remain overweight.

If we now look where we are in the historic context, we go back beyond the 2000 top to 1904 which was the last time the P/E ratio of value stocks to growth stocks was this compressed and concomitantly the P/E ratio of small stocks to large stocks (Source: Two Centuries Investments).

## Outlook

Our relative performance changes as MMT bites. Already, there is no politician anywhere who would dare push austerity and a 90 year Kondratieff pendulum is at an extreme. In 1980, inflation was to be beaten at all costs including unemployment. Today, unemployment is to be beaten at all costs even including inflation. The bite is marked first in the bond market. I think the top here is already in on March 9th. Our relative performance picks up when bonds start to fall meaningfully, although that may take a while. In the meantime, we are pushing hard our post-pandemic plays based on previous behaviour. We are invested in exuberance, the Great Outdoors, and will invest in biotech, expecting regulatory ease as needs must.