# Investment Manager's Review

**For the Six Months March 31st 2020 to September 30th 2020**

The Sub-Fund, VT De Lisle America Fund, rose 38.61% against a rise of 30.12% for the S&P500. In sterling terms, the Fund rose 33.33% as the pound rose from $1.2380 at the end of March 2020 to $1.2835 at the end of September. Over the six months, the Fund increased from $27 million to $41 million, comprising $11 million of fund appreciation and $3 million of net new investment. We have 101 holdings at the end of the period, up from 93 in March 2020. The top holdings are little changed.

Once again, the big stocks outperformed, but we had a dramatic surge reminiscent of the six months to September 2009, the previous time this happened to us. Every time this has occurred, it has come off a low base and followed through in later periods.

Our holdings are small cap value. The onset of the pandemic crushed them, pricing them for existential risk. The consequent economic collapse rendered them underperforming as ever. Our community banks, which we hold as proxies for local economies failed to rally even as the market recovered. Their weight in the portfolio fell to 29% by their flatlining and the Community Bank Index (ETF: QABA) was actually down.

Below are the nearest indices to us:

S&P 600 (Small Cap) up 25.16%

S&P 600 Value Component up 22.49%

Community Bank Index (QABA) down 2.46%

For the rest of the portfolio to surge enough to generate our overall 38.61% gain, it had to rise around 64%, which is way higher than any other individual industry or ETF. This was achieved by the 65 stocks not in financials rising sharply together because we made a pivot to the Great Outdoors. Consequently we had many stocks that doubled, tripled, or even quadrupled in the six month period. Examples include Camping World, Horizon Global (towbars), Kirklands (home décor) and MarineMax (marinas), all of which more than tripled after we bought in March or April.

**Outlook**

We rode the Great Outdoors wave. The vaccine news caused a volte-face and all the pandemic beneficiaries immediately dropped including, surprisingly, Greta Outdoors stocks as though life would resume ex ante.

We disagree and expect a more nuanced result with lifestyles adapting but not reverting. It may remain pleasant to hang out down the marina rather than rebook that cancelled trip to Vegas. Following the example of the 1919 flu pandemic we look forward to another Roaring Twenties waiting to see where exuberance will emerge.

We have been cheered by the community banks finally lifting in October. Their valuations had receded even below the 2009 low. Earnings are fine, as ever, and we expect a reversion to mean as the economy returns.

Going forward, we feel that after four years of struggle the nadir for small and value arrived in the six month period of this report as the pandemic accelerated previous trends towards high cap growth. These successful large technology stocks, now accounting for around 40% of the S&P 500 were further encouraged by indefinite zero interest rates and a collapsing economy. They achieved extraordinary valuations with the top three alone being valued at more than $5 trillion by the blow off top on 2nd September. If interest rates are zero, we can value dependable growth at whatever we like and the market duly did. However, the distant promise of fiscal action, coupled with demographics and a wilfulness of society that differ from Japan's deflation means high multiple growth can no longer be bought with impunity. That is the required catalyst to change our prospects and we anticipate our momentum will continue.