Fund Factsheet

VT Argonaut Equity Income Fund

At 31 July 2023

Barry Norris
Fund Manager

Barry Norris founded Argonaut in 2005 and manages the VT Argonaut Equity Income Fund using his "earnings surprise" investment process. Barry began managing money in 2002 at Neptune, having begun his career at Baillie Gifford. He was educated at Cambridge University and has an MA in History, and an MPhil in International Relations. He also holds the CFA charter.

Fund aim

The Fund aims to provide an income (net of fees) in excess of the yield of the European market (as represented by the IA Europe ex UK sector) with capital growth over any 5 year calendar period.

Fund overview

Benchmark	IA Europe ex UK
Launch date	30 December 2016

Dividend Yield *	2020	2019	2018	2017
Fund :	3.79%	7.04%	3.97%	4.97%
IA Europe ex UK :	1.72%	2.17%	1.45%	1.93%

Historic dividend yield [2]	4.91%
Fund size	£3.1m
Share class	Class R
No. of holdings	32
Bloomberg	R (Acc) - FPEIORA LN R (Inc) - FPEIORI LN
Sedol codes	R (Acc) – BDSFHH3 R (Inc) – BDSFHG2
ISIN	R (Acc) – GB00BDSFHH38 R (Inc) – GB00BDSFHG21
Ongoing charge (as at 28/02/23)	R Class Shares – 0.85%
Minimum investment	£500 (R Class Shares)
Minimum top up	£250 (R Class Shares)
Regular savings scheme	Yes (R Class Shares)
ISA option available	Yes (R Class Shares)
XD/Payment dates	01.03/15.04, 01.06/15.07 01.09/15.10, 01.12/15.01

*Lipper, 31/07/2023: Calculated by subtracting the total return, net of tax, from the capital return.

All information as at 31/07/2023, unless otherwise stated and measured against the fund's benchmark index.

Investor information – This fund may not be appropriate for investors who plan to withdraw their money within 5 years.

Fund Commentary

"Fitch forecasts a GG deficit of 6.6% of GDP in 2024 and a further widening to 6.9% of GDP in 2025…The interest-to-revenue ratio is expected to reach 10% by 2025 (compared to 2.8% for the 'AA' median and 1% for the 'AAA' median) due to the higher debt level as well as sustained higher interest rates compared with pre-pandemic levels…The GG debt-to-GDP ratio is projected to rise over the forecast period, reaching 118.4% by 2025. The debt ratio is over two-and-a-half times higher than the 'AAA' median of 39.3% of GDP and 'AA' median of 44.7% of GDP."
Fitch downgrade of US to AA+ from AAA, August 2nd, 2023

The fund returned +2.44% over July, compared with the IA Europe ex UK sector which returned +2.09% and an Equity Income peer group of +1.33%.

The best performing stocks were Italian defence OEM Leonardo (+18%), Spanish blood plasma manufacturer Grifols (+14%) and Norwegian salmon farmer Salmar (+13%). The worst was Italian telecom tower company Inwit (-6%).

During the month the Federal Reserve raised the (u/b) Fed Funds rate to 5.5% and the ECB raised its benchmark deposit rate to 3.75%, levels last seen in 2001 and 2000 respectively. Subsequently, the BOE raised its base rate to 5.25%, the highest since 2008. The Bank of Japan also adjusted its Yield Curve Control policy, to tolerate 10-year yields of up to 100bps, rather than previously 50bps.

The yield on the US 10-year Treasury has subsequently broken above 4% for the first time since last October (having troughed at 3.3% in April)

This year-to-date "dash for trash" is best explained by consensus that was positioned for recession but has been surprised by the resilient of economic growth, with the US economy grew an annualised 2.4% QOQ in Q2 (better than the 1.8% expected). Inflation also continues to moderate. In the UK CPI fell to 7.9% (having peaked at 11.1% in October) and is sure to fall further since the normalisation of power prices is yet to be reflected in household bills. In the US, CPI fell to 3% (having peaked at 9% in June 2022) and in the Eurozone CPI fell to 6.2% (having peaked at 10% in December). However, the base effects of commodity price moderation are now becoming more difficult, with oil having its best month in July since Jan 2019, rising 14%.

The "long and variable lags" of the effects of higher interest rates on the economy is unhelpfully being counterbalanced by ongoing fiscal stimulus. This means that central bankers must make monetary policy even more restrictive and risk the "fool in the shower" critical analogy: that instead of waiting for the pipes to warm up, they cranked up the hot water, and eventually after a lag, scolded the economy. Given that there are few examples in the history of human civilisation of governments allocating capital more efficiently than individuals and companies, the onerous liability of unfettered government spending risks crowding out private sector innovation and productivity.

Between 2000 to 2022, global central banks expanded their balance sheets from $20 trillion to $32trillion, an unprecedented $12 trillion (+60%) injection of liquidity in just two years. Now that the BOJ has also exited QE, every central bank's stated aim is to shrink their balance sheet by selling assets in the market or letting assets run off as they mature. This would not be so problematic if governments were not running significant budget deficits that require funding, which in the absence of central bank buying, will now fall entirely on private capital markets.

The US Treasury have so far avoided the predicted liquidity crisis in rebuilding the TGA post the June resolution of the debt crisis by issuing an astonishing $3trillion of Treasury bills of 6 months duration or less (84% of all Treasury issuance in the last 2 months). Put another way through offering a few basis points more than the Federal Reserve was paying non-bank entities at the Reverse Repo Facility, the $500bn rebuild of the TGA has been financed by an equivalent reduction in non-bank cash balances at the Fed.

With a $2trillion primary deficit to finance as well as a rising annual interest burden of $700bn and annualised Fed QT of $1.1trillon, todays near four trillion-dollar question is how private international capital markets will be able to sustainably fund the US government, particularly as surplus Asian countries are increasing reluctant to participate. We suggest that in the absence of a recession which would create incremental investor demand, yields will continue to go higher until this either triggers a recession, political demands to balance the budget or more likely both. Since the US Treasury price anchors the value of all other financial assets, a blow out in yields would also cause a dramatic reassessment of stock market values worldwide.

https://www.fitchratings.com/research/sovereigns/fitch-downgrades-united-states-long-term-ratings-to-aa-from-aaa-outlook-stable-01-08-2023
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[2] Lipper 31/07/2023, R Accumulation share class performance, in Sterling with net income reinvested
[3] Bloomberg 31/07/2023, Calculated by the weighted average of the forecast 12-month forward dividend yield of each holding in the portfolio

Cumulative	1 Month % Growth	YTD	2022 % Growth	2021 % Growth	2020 % Growth	2019 % Growth	2018 % Growth	2017 % Growth	Since Launch % Growth
VT Argonaut Equity Income Fund	2.4	-1.38	8.4	5.9	7.1	18.0	-11.2	20.6	53.2
IA Europe ex UK NR	2.09	9.47	-9.2	15.7	10.7	20.1	-12.4	17.4	57.3
Fund Rank	28/102	102/102	3/98	91/93	66/98	71/101	35/97	14/92	49/77
Quartile Rank	2	2	1	4	3	3	2	1	3

Income peer group performance

Cumulative	1 Month % Growth	YTD % Growth	2022 % Growth	2021 % Growth	2020 % Growth	2019 % Growth	2018 % Growth	2017 % Growth	Since Launch % Growth
VT Argonaut Equity Income Fund	2.44	-1.38	8.4	5.9	7.1	18.0	-11.2	20.6	53.2
IA Europe ex UK income fund average	1.33	6.58	-3.7	11.7	3.4	15.7	-11.2	15.7	43.37
Rank	3/9	9/9	1/10	10/11	5/14	7/16	6/15	3/13	3/8

Source: Lipper 31/07/2023, R Accumulation share class performance, in Sterling with net income reinvested and no initial charges.
*Comprised of 15 funds from the IA Europe excluding UK sector which state that they are income funds.

Past performance is not a guide to future performance. The value of shares and any income from them may fall as well as rise and is not guaranteed.

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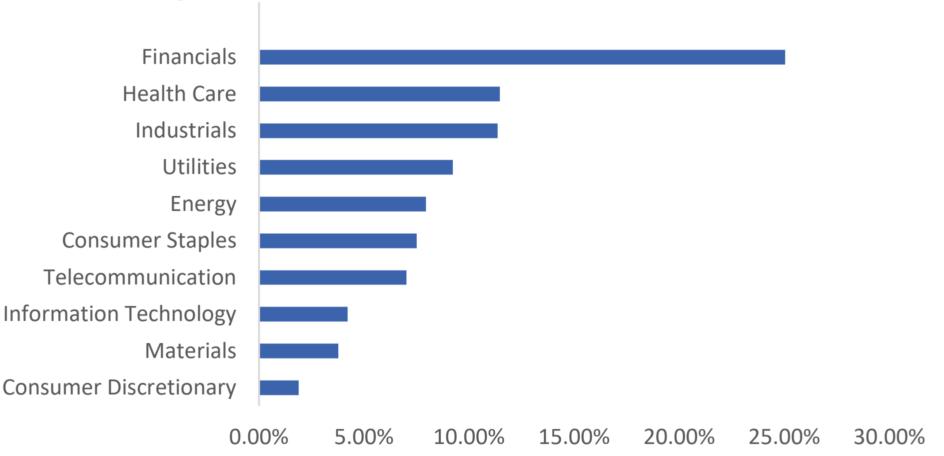
At 31 July 2023

Top Five holdings	Fund %
Koninklijke Vopak NV	4.7
BE Semiconductor Industries	4.5
Intesa Sanpaolo	4.4
Sanofi	4.3
Covestro AG	4.0

Country Breakdown	Fund %
Italy	19.0
Spain	14.0
Austria	9.0
Netherlands	9.0
France	9.0
Switzerland	7.0
Norway	7.0
Belgium	5.0
Other European	11.0

Market Cap	Fund %
Large Cap > €5bn	63.0
Mid Cap €1bn – €5bn	20.4
Small < €1bn	2.9
Cash	13.7

Sector Weights



Risk Analysis	Since Launch	1 Year
Beta	0.7	0.3
Standard Deviation (%)	13.6	14.5
Tracking Error	10.3	16.6
Jensen's Alpha	1.25	-1.3
Sharpe Ratio	0.5	0.2
Information Ratio	-0.1	-0.5

Source: Lipper, all figures at 30/09/2022, these figures are subject to rounding. Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 – 30th September 2022 reflects class R units. Tracking error is calculated ex post.

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Source: Argonaut Capital Partners, all figures at 31/07/2023 these figures are subject to rounding. Figures are based on the VT Argonaut European Income Opportunities GBP R Acc share class.

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