

## Fund Factsheet

# VT Argonaut Absolute Return

At 31 December 2023

Barry Norris  
Fund Manager



Barry Norris founded Argonaut in 2005 and manages the VT Argonaut Absolute Return 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

To provide positive absolute returns in Sterling share class currency over a 3 year rolling period, utilising a variety of asset classes and regardless of market conditions. The fund will not be managed against any formal benchmark. Capital invested in the fund is at risk and there is no guarantee that the investment objective will be met over the 3 year rolling periods or in respect of any other time period. Historically, the fund has delivered lowly correlated returns to European equity markets.

## Fund overview

Sector	IA Targeted Absolute Return
Launch date	18 Feb 2009 (GBP A Acc) 28 May 2009 (GBP I Acc) 16 Jul 2012 (GBPR Acc)
Fund size	£120.1m
No. of long holdings	31
No. of short holdings	33
Share class	Class A/Class R/ Class I
Sedol code	A (Acc) – B7MCO9R R (Acc) – B7FT1K7 I (Acc) – B79NKW0
Bloomberg	A (Acc) – IIMEAAG LN R (Acc) – IIMEARAG LN I (Acc) – IIMEAIAG LN
ISIN	A (Acc) – GB00B7MCO9R0 R (Acc) – GB00B7FT1K78 I (Acc) – GB00B79NKW03
Initial charge	0.0%
Ongoing charge GBP (as at 28/2/23)	A Acc Class Shares –1.56% R Acc Class Shares –0.81% I Acc Class Shares –0.81%
AMC	A Class Shares –1.50% R Class Shares –0.75% I Class Shares –0.75%
Performance fee	20% of anything above the hurdle rate (5% per annum) subject to the price exceeding the high water mark (HWM)
Minimum investment	£500 (A Class Shares)
Minimum top up	£250 (A Class Shares)
Regular savings scheme	Yes (A Class Shares)
ISA option available	Yes (A Class Shares)
XD/Payment dates	01.03/30.04, 01.09/31.10

Any past performance or references to the period prior to 14 July 2012 relate to the Ignis Argonaut unit trusts.  
Source: Internal. All information as at 31/12/2023 unless otherwise stated.

Funds performance based on GBP share class, return may increase or decrease as a result of currency fluctuations on each share class.  
Investor information – This Fund may not be appropriate for investors who plan to withdraw their money within 5 years.

## Fund Commentary

"Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy."

### Federal Reserve Chairman Powell, Jackson Hole, August 26<sup>th</sup>, 2022

The Fund returned +0.04% over December compared with the IA Targeted Absolute Return sector which returned +1.85% and the Lipper Global Alternative Long/Short Equity Europe sector return of +1.03%. The correlation to the market was only 0.12 and the annualised daily volatility just 5%.

The Fund made 3% in its long book but also lost 3% from its short book. The best performing longs were US construction merchant Builder's FirstSource (+24%); US housebuilders DR Horton (+18%) and Lennar (+16%). This was offset by a strong short cover bid, which the fund mitigated through a further prudent reduction in gross exposure.

During the month the 10-year US Treasury yield having briefly touched 5% in October for the first time since 2007, fell to 3.87%. This came after a curious FOMC press conference during which Chairman Powell failed to repeat his previous warnings of "high for longer" interest rates or "vigilance" around inflation, and instead appeared to endorse the market view that the battle against inflation had been won without the need for a recession.

Whilst Q3 US real GDP growth was revised back to +4.9% (or +8.4% nominal), Q4 GDP (as estimated by the AtlantaFed NowCast) has seen steady upwards revisions from just over 1% in October and is now running at +2.5%. With the same institution forecasting Q4 PCE inflation of +2.9%, if correct, Q4 would still see nominal growth of 5%. The US economy also currently has full employment with wage increases averaging +5.2% (down from +6.8% in the summer of 2022 but still double the average of the last decade). This is a "no landing" slowdown, not an economy that currently needs stimulus.

Yet US Federal deficit spending is still estimated to be at least 7% during the fiscal year to September 2024, which aside from the previous year's absurd 8%, would still represent the biggest fiscal stimulus outside World War, Great Financial Crisis and COVID. Now encouraged by the FOMC, US interest rate futures are factoring in seven 25bps interest rate cuts next year, beginning in March, with monetary stimulus already front-loaded by the loosening of financial conditions that has already taken place in anticipation, adding monetary stimulus to reckless fiscal spending.

Despite having persistently warned about repeating the perceived mistake of Arthur Burns in premature easing into President Nixon's 1972 re-election, it was almost as if the Chairman's "volte face" at the December FOMC could only be explained by Jerome Powell having been discretely deposed, displaced by a dovish Democratically determined Doppelgänger.

<sup>2</sup> Lipper 31/12/2023, I Accumulation share class performance, in GBP with net income reinvested and no initial charges.

<sup>3</sup> Correlation compares the hedged GBP I Acc share class daily returns against the Lipper Global Equity Europe.

"The word went out that 1972, by God, was going to be a very good year" confessed a US Treasury official, according to legend. It is now even more likely that 2024 will be a surprisingly good year for the US economy. Whilst this should lend support to cyclical areas of the market, it is likely that duration – on which recent surveys have shown record bullishness – sells off again. A good year for Main St. can still be an ill portent for Wall St.

Over 2023 the Fund returned +14.58% compared with the IA Targeted Absolute Return sector which returned +4.42% (3/85 funds) the Lipper Global Alternative Long/Short Equity Europe sector return of +4.30% (3/67 funds). The Fund had a correlation of just 0.01 to MSCI Europe and an annualised daily volatility of 13% (vs. 12% for the market).

During 2023 our average long position gave a ROIC of +12% (+11% total contribution to return with an average gross of 95%). Our best performing longs of 2023 were Builder's FirstSource (+134%), product tanker outfit Hafnia (+54%), Amazon (+61%) and Uber (+67%).

Over the year, our average short position delivered a ROIC of +8% (+3.6% total contribution to return with an average gross of 45%). The best performing shorts were bust banks Silicon Valley, Signature and First Republic Bank (-99%), but we also had winning shorts across a range of other industries: Hexatron (-81%), Farfetch (-71%) and Orron (-65%).

Given the strong market return during the year we can conclude that although our longs contributed more to return, our long alpha was somewhat dull (-3%) (particularly in Europe) whilst our short alpha was exceptional (+24%), even if its contribution to return was more modest, leading to a very positive combined stock picking alpha (+20%).

The value of short selling is more easily identifiable in periods of market weakness. There were 5 negative market months in 2023 during which MSCI Europe delivered a negative return of 11%. In those same months the Fund delivered a positive return of 24% (a negative downside capture ratio for the Fund relative to the market of -223%).

We believe that a hedged fund should offer not only compelling returns but returns which come at different times to commoditised market beta, which will always be more easily manufactured and can therefore be bought more cheaply through the passive fund management industry. We would also note that our Fund returns are always quoted after all costs and that our return profile is truly unique and valuable as a diversifier, with no correlation to either equities, bonds, growth, or value.

The Fund has now delivered 5 calendar years in a row of double-digit positive returns, which to our knowledge is a unique feat amongst three-and-a-half-thousand regulated investment funds in the UK industry. Whilst the future is guaranteed to be challenging, this demonstrates that there is value in seeking diversification in Argonaut's active management. We remain grateful to our unitholders for their continued support.

	1 Month	3 Year	5 Year	10 Year	Since Launch	2023	2022	2021	2020	2019
Fund	0.04	40.57	84.9	79.6	211.5	14.6	11.3	10.3	16.6	12.8
AR Sector	1.85	5.84	14.0	22.0	51.4	4.42	-2.3	3.8	2.9	4.7
Rank	70/85	6/82	1/74	3/37	1/13	3/85	8/99	13/101	5/111	6/113
Quartile	4	1	1	1	1	1	1	1	1	1
L/S Sector	1.09	7.4	15.3	17.9	41.9	4.3	-4.3	8.74	1.0	6.1
Rank	53/70	4/60	2/52	4/27	2/13	3/67	6/62	19/64	6/82	20/94
Quartile	4	1	1	1	1	1	1	2	1	1

	2023	2022	2021	2020	2019	5-year Average	2023	2022	2021	2020	2019	5-year Average	
Correlation	-0.7	0.4	0.6	0.1	0.1	-0.4	Average Long Alpha	-3.0	13.2	-17.0	11.8	0.8	1.2
Downside Capture Ratio (%)	-223	-68	-28	-86	-158	-180	Average Short Alpha	24.1	2.4	27.4	12.9	5.7	14.5
Standard Deviation (%)	16.9	16.4	11.6	19.2	12.9	15.4	Average Combined Alpha	21.1	15.6	10.4	24.7	6.5	15.6
Sharpe Ratio	0.6	0.6	0.9	0.9	0.9	0.8	Average Long ROIC	12.8	3.7	8.1	8.5	26.9	12.0
Sortino Ratio	0.5	0.5	0.8	0.8	0.7	0.7	Average Short ROIC	8.3	11.9	2.3	16.2	-20.4	3.6

Source: Argonaut Capital Partners & Lipper 31/12/2023, I Accumulation share class performance, in Sterling with net income reinvested and no initial charges. The AR is the IA Targeted Absolute Return NR (TAR) and L/S Sector is Lipper Global Alternative Long/Short Equity Europe, both quoted in local currency. The market's (Lipper Global Equity Europe) performance is quoted in Euros, but the fund's performance is quoted in Sterling, as the fund is currency hedged back to Sterling, so it should be measured relative to local currency (Euros). Standard deviation is based on monthly return data.

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 December 2023

### Glossary:

#### Long position

Positions that will deliver a positive return if the stock goes up in value and a negative return if the stock falls in value

#### Short position

Positions that will deliver a positive return if the stock falls in value and a negative return if the stock goes up in value

#### Gross exposure

The overall exposure of the fund - the sum of the value of the long positions and the short positions

#### Net exposure

The directional market exposure of the fund - the value of the long positions minus the value of the short positions

Top Five Long Positions	Fund %
Hafnia	6.4
Torm PLC	6.1
Builders First Choice	5.9
Pandora	4.5
BW LPG	4.4

Exposure	Fund %
Long Exposure	81.8
Short Exposure	-16.8
Net Exposure	65.0
Beta Adjusted Net	0.12
Gross Exposure	98.6

Correlation to the Lipper Global Equity Europe	
Monthly Correlation	0.12

Market Cap Fund %	Long	Short
Large Cap €5bn - €20bn	55.4	-6.1
Mid Cap €1bn - €5bn	23.7	-3.4
Small Cap <€1bn	2.7	-7.3

Days to Liquidate	% of Invested Portfolio
Less than 1 day	87.7
1-5 days	12.3
More than 5 days	0.0

Days to liquidate positions in the portfolio using 20% of the 90 days average trading volume

Source: Argonaut Capital Partners, all figures at 31/12/2023, these figures are subject to rounding. 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.

### Dealing Contact:

Tel: +44 (0)1343 880 217

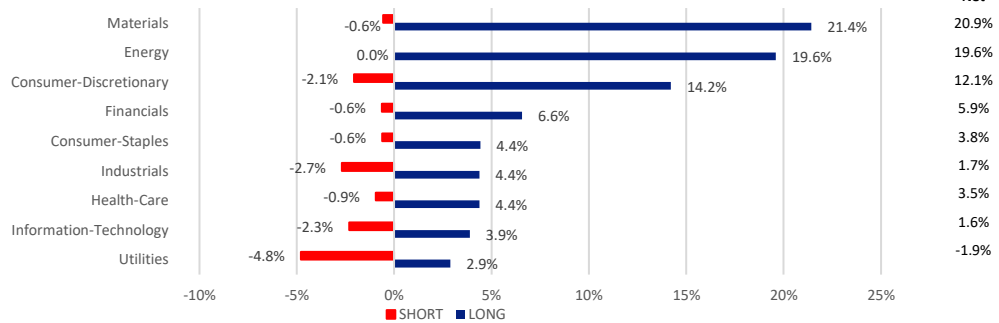
Tel: +44 (0)1343 880 344

Fax: +44 (0)1343 880 267

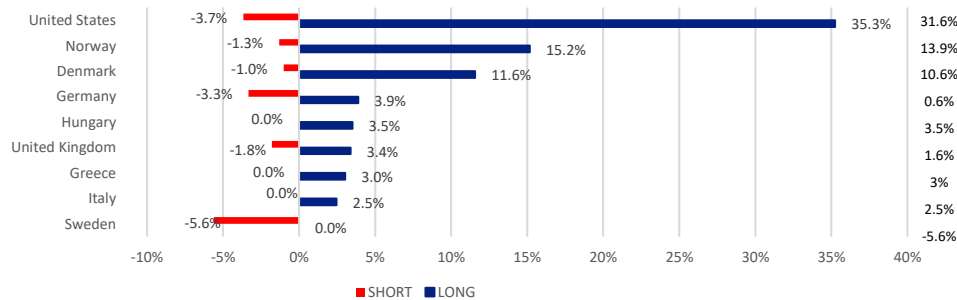
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### Long/Short Positions

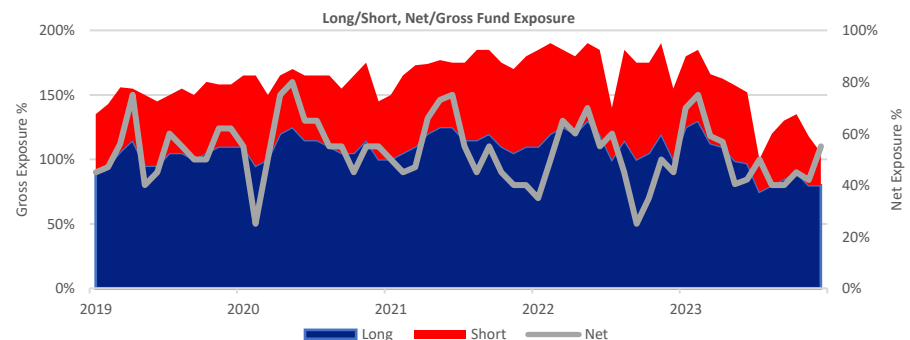
#### Sector



#### Country



### Overall Fund Exposure



\*\*Lipper Global Equity Europe quoted in € and the VT Argonaut Absolute Return GBP I Acc quoted in £ as the fund is currency hedged back to Sterling, so it should be measured relative to local currency (Euros).

### Important Information

The fund takes long and short positions based on the fund manager's views of the market direction. This means the fund's performance is unlikely to track the performance of broader equity markets. While this creates the opportunity for the fund to deliver positive returns in falling markets, it also means the fund could deliver negative returns in rising markets. The use of independent ratings is not a recommendation to buy and is not a guide to future returns. This Fund is marketed to professional investors and eligible counterparties. Retail investors should seek further advice before investing. Valu-Trac Investment Management Limited is the Authorised Corporate Director (ACD) of VT Argonaut Funds and is authorised and regulated by the Financial Conduct Authority. Registered office: Level 13, Broadgate Tower, 20 Primrose Street, London, EC2A 2EW.

Investors should refer to the Key Investor Information Document (KIID) and Supplementary Information Document (SID) before investing. For a copy, please telephone Valu-Trac Investment Management Limited on 01343 880 217 or visit [www.argonautcapital.co.uk](http://www.argonautcapital.co.uk). Alternatively write to Valu-Trac Investment Management Limited- Argonaut, Orton, Moray, Scotland, IV32 7QE. The prospectus, KIIDS, the articles, the annual and semi-annual reports of the Fund may be obtained free of charge from the ACD. This communication is for general information purposes only and does not constitute professional advice. Argonaut Capital Partners accepts no responsibility for any loss arising from reliance on the information it contains. The value of shares and any income from them can fall as well as rise and is not guaranteed. Exchange rate movements may cause the value of overseas investments to fluctuate.

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