argonaut

Fund Factsheet

VT Argonaut Equity Income Fund

At 31 August 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]	4.92%
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, 31/08/2023: Calculated by subtracting the total return, net of tax, from the capital return.

All information as at 31/08/2023, 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

Income Commentary

The fund returned +0.00% over August, compared with the IA Europe ex UK sector which returned -2.36% and an Equity Income peer group of -1.41%. The annualised standard deviation was 12.3%.

Our best performing stocks were Norwegian product tanker outfit Hafnia (+17%), which will benefit from higher refined product imports, Hungarian bank OTP (+14%), which reported exceptional current trading, and leading insulin-for-obesity pharma outfit Novo Nordisk (+17%), which rose on medical studies showing that use of its drug could also reduce cardiovascular diseases.

The yield on the US 10-year Treasury broke above 4% for the first time since last October, reaching a peak of 4.34%, the highest since 2007. Since the US Treasury price anchors the value of all other financial assets, a blow out in yields will cause a dramatic reassessment of stock market values worldwide. There is a parallel to 1987, when the 10-year Treasury yield steadily climbed from 7% to over 10% by October. This proved to be the tipping point for global stock-markets, which promptly crashed by 30%.

Recent economic data suggests that whilst Europe is slipping back into recession and China is stuck in a Japanese-style debt trap, the US economy has recently reaccelerated, with the St Louis Fed GDP best estimate of Q3 now +5.6%. Core inflation (CPI ex Food and Energy) is also still stuck at +4.7% in the US (+5.3% in the EU). This means that the Fed cannot yet pause hikes without a likely further steepening of the yield curve.

Post WW2 Western economies followed a Keynesian consensus of countercyclical fiscal spending, with deficits rarely more than 5% GDP at the peace time recessionary trough. Today we have the absurd situation where despite full employment and the Federal Reserve implementing 525bps of rate hikes in 18 months to slowdown a red-hot economy, the US fiscal deficit is currently running at 8% of GDP, inefficiently stimulating the economy through subsidies of "strategic" industries and pork barrel politics ahead of the next Presidential election in 2024. When the "long and variable lags" of tighter monetary policy finally hit the economy, government will have already fired its bullets, making the likely slump deeper and more painful.

Currently 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 history 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.

The most obvious misallocation of capital today can be witnessed in the ongoing energy transition away from fossil fuels. Over the last decade $4trillion has been spent on wind and solar projects, yet the share of fossil fuels in global energy use has fallen from 84% to just 83%. In previous energy transitions – from wood to coal to oil and gas – an inferior fuel in terms of energy density and useful application has been replaced as private industry and capital markets have recognised the economic growth potential, resulting in a flourishing of human civilisation. It is therefore a monumental folly for our economies to transition back to wind and solar with poor energy density and weather dependency, a process which would not happen in a free market and is entirely dependent on government subsidy and coercion.

The wind industry is currently in crisis. Having made ridiculous claims that wind power was cost competitive with natural gas – ignoring the costs of intermittency, from which the industry shielded itself by government guaranteed prices – wind farm operators can no longer deliver projects for anywhere near the costs previously communicated to governments. Now suffering "buyer's remorse" the begging bowl is out again: asking governments for even more subsidies, at a time when politicians are finally realising that the net zero project has had no cost benefit analysis and is increasingly unpopular with the electorate, who have never been asked for their consent.

We understand that some institutions think our "anti-ESG views" rock the consensual industry boat. Sadly, this reflects the absence of critical thinking in the fund management industry and its capture by a groupthink culture that regards the implementation of "ESG" as a political compliance regime. It seems clear to us that the inability of the fund management industry to freely debate and therefore understand the economic consequences of this energy transition is exacerbating the misallocation of capital, leading to a higher probability of a financially ruinous outcome.

Our fiduciary responsibility to our unitholders is to allocate capital according to our own understanding of the best and worst investment ideas. We want to be long wisdom and short stupidity. In the land of the blind, the one-eyed man is king.

[2] Lipper 31/08/2023, R Accumulation share class performance, in Sterling with net income reinvested
[3] Bloomberg 31/08/2023, 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	0	-1.4	8.4	5.9	7.1	18.0	-11.2	20.6	53.2
IA Europe ex UK NR	-2.4	6.9	-9.2	15.7	10.7	20.1	-12.4	17.4	53.5
Fund Rank	1/103	98/103	3/98	91/93	66/98	71/101	35/97	14/92	43/77
Quartile Rank	1	4	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	0	-1.4	8.4	5.9	7.1	18.0	-11.2	20.6	53.2
IA Europe ex UK income fund average	-1.4	5.0	-3.7	11.7	3.4	15.7	-11.2	15.7	41.1
Rank	1/9	9/9	1/10	10/11	5/14	7/16	6/15	3/13	2/8

Source: Lipper 31/08/2023, 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.

VT Argonaut Equity Income Fund

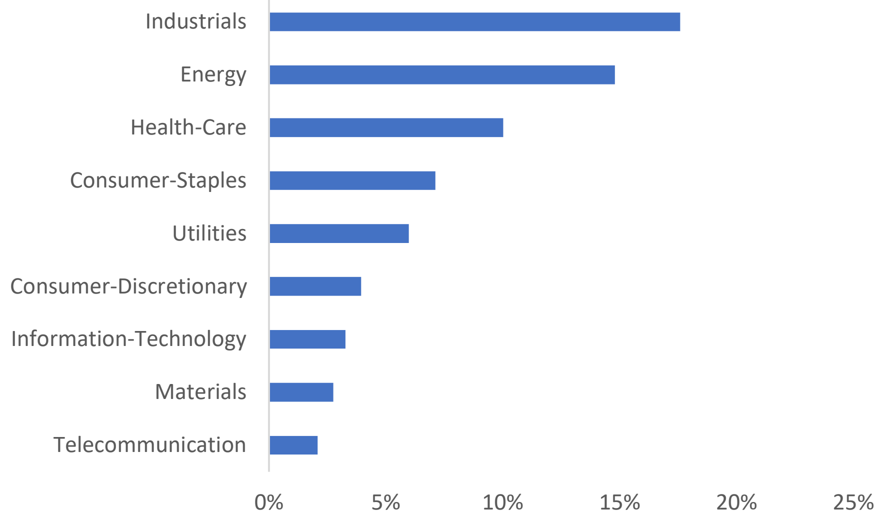
At 31 August 2023

Top Five holdings	Fund %
Hafnia	6.1
Novo Nordisk	4.8
Euronav	4.5
Torm	4.2
Repsol	4.0

Country Breakdown	Fund %
Italy	16.9
Norway	13.9
Spain	11.0
Denmark	9.0
Greece	8.0
Switzerland	6.3
France	5.7
Netherlands	5.2
Other European	24.0

Market Cap	Fund %
Large Cap > €5bn	60.7
Mid Cap €1bn – €5bn	27.0
Small < €1bn	4.2
Cash	8.1

Sector Weights



Risk Analysis	Since Launch	1 Year
Beta	0.7	0.4
Standard Deviation (%)	13.5	13.2
Tracking Error	10.3	14.1
Jensen's Alpha	1.5	-8.5
Sharpe Ratio	0.5	-0.3
Information Ratio	-0.0	-1.0

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.

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.

Source: Argonaut Capital Partners, all figures at 31/08/2023 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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