argonaut

Fund Factsheet

VT Argonaut European Alpha

At 31 July 2023

Barry Norris
Fund Manager

Barry Norris founded Argonaut in 2005 and manages the VT Argonaut European Alpha 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 achieve above average returns and attempt to perform a top quartile profile when measured against competing funds in the same sector.

Fund overview

Sector	IA Europe ex UK
Launch date	12 May 2005 (GBP A Acc) 6 December 2005 (GBP I Acc) 16 July 2012 (GBP R Acc)
Fund size	£18.4m
Share class	Class A/Class R/Class I
No. of holdings	31
Sedol codes	A (Acc) – B4ZRCD0 R (Acc) – B7MW8T7 I (Acc) – B76L737
Bloomberg	A (Acc) – IMAEAAG LN R (Acc) – IMAERAG LN I (Acc) – IMAEIAG LN
ISIN	A (Acc) – GB00B4ZRCD05 R (Acc) – GB00B7MW8T72 I (Acc) – GB00B76L7377
Initial charge	0.0%
Ongoing charge GBP (as at 31/12/21)	A Acc Class Shares – 1.89% R Acc Class Shares - 0.89% I Acc Class Shares - 0.89%
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.

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

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

"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 +3.51% over July, compared with the IA Europe ex UK sector which returned +2.09%.

The best performing stocks were Italian defence OEM Leonardo (+18%), Greek bank Piraeus (+14%) and Spanish blood plasma manufacturer Grifols (+14%). The worst was Swedish streaming platform Spotify (-8%).

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%.

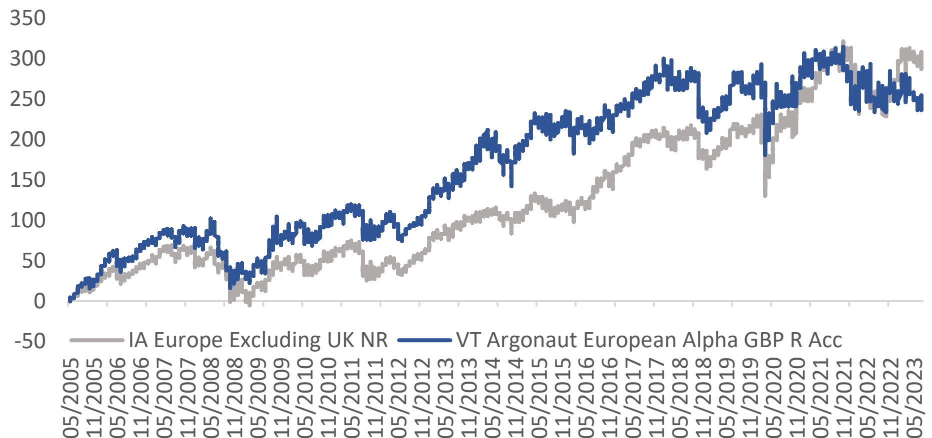
The "long and variable lags" of the effects of higher interest rates on the economy is unhelpfully being counterbalanced by ongoing fiscal stimulus. This means that central bankers must make monetary policy even more restrictive and risk the "fool in the shower" critical analogy: that instead of waiting 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



[1] Lipper 31/07/2023, R Accumulation share class performance, in GBP with net income reinvested and no initial charges.

£	1 Month	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	Since Launch
Fund	3.5	-1.5	-5.4	-1.0	2.1	20.5	-17.9	14.9	-1.00	16.1	4.0	31.7	257.1
Sector	2.1	9.5	-9.2	15.7	10.7	20.1	-12.4	17.4	16.8	9.3	-0.8	26	306.1
Quartile Rank	1	4	1	4	4	2	4	3	4	1	1	1	4

Source: Lipper 31/07/2023, Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 – 31st July 2023 reflects class R units, in Sterling with net income reinvested and no initial charges. The sector is the IA Europe ex UK NR quoted in Sterling.

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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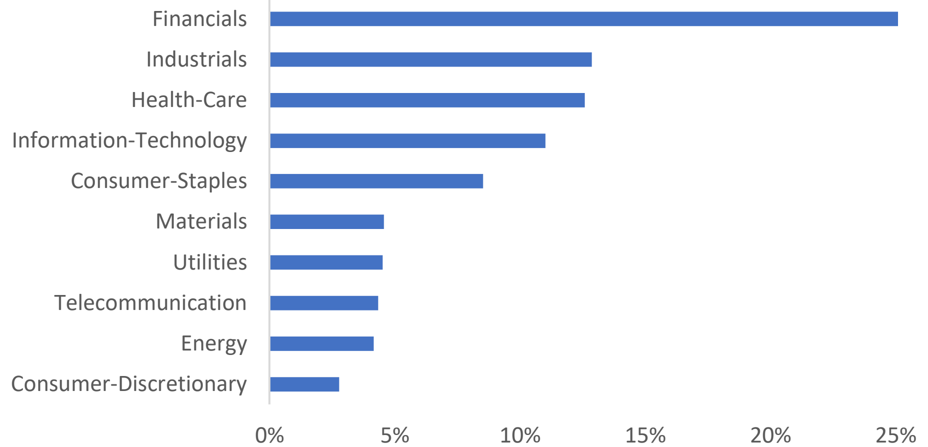
At 31 July 2023

Top Five holdings	Fund %
Covestro	4.6
Grifols	4.1
Piraeus Financial	4.0
OTP Bank	3.9
National Bank of Greece	3.8

Sector Weights



Country Breakdown	Fund %
Italy	16.0
Germany	12.3
Norway	11.0
Netherlands	9.0
Greece	7.9
France	7.8
Spain	6.7
Switzerland	6.0
Other European	16.1

Market Cap	Fund %
Large Cap €5bn – €20bn	76.0
Mid Cap €1bn – €5bn	17.3
Small < €1bn	4.1
Cash	9.1

Risk Analysis	Since Launch	1 Year
Beta	0.8	0.3
Standard Deviation (%)	16.1	13.2
Tracking Error	9.5	16.3
Jensen's Alpha	0.7	-3.6
Sharpe Ratio	0.4	-0.1
Information Ratio	-0.1	-0.7

Source: Lipper, all figures at 31/07/2023, these figures are subject to rounding. Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 – 31st July 2023 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.

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Other ISINs for this fund:

GB00B6TQCC60	GB00B6T6S066
GB00B5LJR434	GB00B6VYPP25
GB00BVYPB156	GB00B7JXMD51
GB00B76L7377	GB00B4ZRCD05

Important Information

Information Ratio: a risk-adjusted measure of fund performance relative to a benchmark; the higher the number, the more risk-adjusted outperformance the fund has generated.
Jensen's Alpha: a measure of a fund's outperformance of a benchmark over a given period. Jensen's Alpha is used to evaluate the contribution of active management – higher alpha means better fund performance.
Tracking Error: measures the deviation of fund performance from benchmark performance. Funds with a high tracking error have historically deviated more from their benchmark, and vice versa.
Beta: a measure of the sensitivity of fund performance relative to changes in the market. A fund with a beta of one tends to experience movement in line with the market. A beta higher than one suggests the fund will go up by more than the market when it rises, but go down more when the market falls. A beta less than one will go up by less than a rising market, but fall less when the market is down.
Standard Deviation: shows how much variation in return exists from the average. The lower the standard deviation the less variation from the average.
Sharpe ratio: a measure of the excess return per unit of deviation in an investment asset or a trading strategy. The higher the figure means the excess return generated from the increase in risk undertaken.

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