

Fund Factsheet

VT Argonaut European Alpha

Fund Commentary

At 30 September 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 | £18.0m |
| Share class | Class A/Class R/Class I |
| No. of holdings | 35 |
| Sedol codes | A (Acc) – B4ZRCDO R (Acc) – B7M1V8T7 I (Acc) – B76L737 |
| Bloomberg | A (Acc) – IMAEAAG LN R (Acc) – IMAERAG LN I (Acc) – IMAEIAG LN |
| ISIN | A (Acc) – GB00B4ZRCDO5 R (Acc) – GB00B7M1V8T72 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 30/09/2023, 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.

The fund returned -0.09% over September, compared with the IA Europe ex UK sector which returned -1.66%.

Rishi Sunak, UK Prime Minister, September 20th, 2023

Our best performing longs were all clean product tankers: Torm (+14%), DIS (+11%) and Hafnia (+11%), reflecting a further tightening of the market with Russia's self-imposed export ban. Fund returns were flattered by GBPE weakness during the month.

During the month the Federal Reserve kept the Fed Funds Rate (u/b) at 5.5% but reiterated their "higher for longer" interest rate view by removing two of the four implied 25bps cuts in 2024 from the median "dot plot". Having broken above 4% in August for the first time since last October, the yield on the US 10-year Treasury continued to climb and ended the month at 4.6%, the highest since 2007.

In Europe, the ECB raised its key deposit rate by 25bps to 4% but indicated that monetary policy was now "sufficiently restrictive"; whilst the BOE left its base rate on hold at 5.25%. Consequently, the greenback strengthened 2.5% and 3.9% against the Euro and Sterling respectively, with the market concluding that the US economy, which is now showing signs of reacceleration, can tolerate higher interest rates better than its peers.

The current "disinversion" of the US Treasury yield curve – whereby lower longer-term rates of interest rise toward those on shorter-term maturities – has perplexed many market participants given ongoing moderation of headline inflation measures. Our view is that we are witnessing the early stages of a bond market revolt against unfettered government spending at a time of full employment. The Congressional Budget Office has recently estimated that the underlying fiscal year Federal deficit is on track to double from \$1.0 trillion in 2022 to \$2.0 trillion in 2023 (8% of GDP). Only politicians still believe in magic money trees.

This time last year, President Biden, apparently without a hint of irony, was warning the UK Truss government about the "mistake" of fiscal stimulus at a time when central bankers were tightening monetary policy to combat inflation. When asked about US dollar strength in an ice cream parlour in Portland, Oregon, Biden explained: "The problem is the lack of economic growth and sound policy in other countries".

In fact, the current strength of the greenback reflects speculative capital flows based on loose fiscal policy which requires ever tighter monetary policy. The current \$2trillion primary deficit compares with the total amount of Treasury bills, notes, and bonds of \$25.5 trillion on which the current interest charge is an annual \$800billion (which will rise from a weighted average of 3% toward 5% as it is refinanced).

The Fed which owns \$5trillion of US government debt is currently reducing its holdings by \$95bn per month (\$1.14trillion annualised). Foreigners who own \$7.7 trillion (notably Japan with \$1.1trillion of Treasury assets and China with \$835bn) can no longer be relied upon to recycle their capital into Treasuries. Around \$5trillion (20%) of US government debt is currently in bills, maturing over the next 12 months. This means that there is at least a \$9 trillion gross, or \$4trillion annual net supply imbalance in the US Treasury market which speculative inflows (or overseas repatriation) of private capital must now fill.

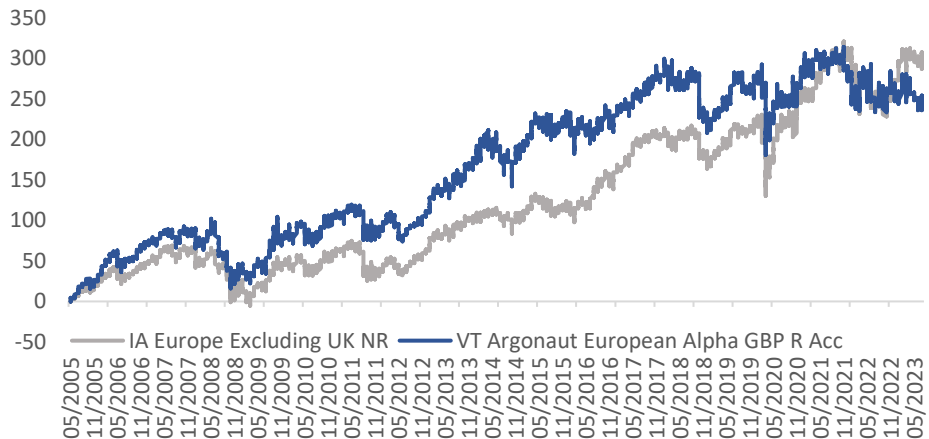
This \$4trillion funding gap compares to current Institutional Investor ownership (pension funds, banks, mutual funds, insurance companies) of US government debt of just \$8.8trillion! In other words, the need to fund the US Treasury deficit can be consistent with greenback strength but must also crowd out investment in all other asset classes: investors must continue to feed the Treasury deficit beast. It has the potential to cause a 1987 style stock market crash.

Reflecting this risk and the now competitive returns on deposits, the fund took its cash weighting near to the 20% limit during the month. Recognising the currently exceptional market circumstances this limit has now been raised to 30%, which given our cautious market view the fund has utilised.

September also witnessed UK PM Sunak backtracking from some of the more egregious government arm-twisting on "Net Zero", also calling for an "honest" political debate on its pace, if not at this stage the end goal. Nevertheless, we believe this – along with similar announcements elsewhere in Europe – marks a watershed moment in breaking the economically masochistic political consensus. Once politicians realise "Net Zero" is not the vote winner they previously believed, a democratic debate involving accountability for decisions based on cost/benefit analysis should lead to more rational outcomes.

Everywhere and always the "Energy Transition" seeks to replace an economically superior with an inferior product. Consequently, it requires an unholy trinity of free capital (from zero interest rates and ESG), government subsidies and command economy coercion to sustain it, without which the wisdom of the "invisible hand" of markets would have already consigned it to the dustbin of human folly.

In the absence of central bank quantitative easing there is no longer unlimited capital to fund multiple misallocations, Biden's pork barrel spending must take precedence, resulting in the "crowding out" other parasites. We are about to see which investments are truly "sustainable".



1 Lipper 30/09/2023, 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 | -0.09 | -0.6 | -5.4 | -1.0 | 2.1 | 20.5 | -17.9 | 14.9 | -1.00 | 16.1 | 4.0 | 31.7 | 256.6 |
| Sector | -1.7 | 5.1 | -9.2 | 15.7 | 10.7 | 20.1 | -12.4 | 17.4 | 16.8 | 9.3 | -0.8 | 26 | 298.2 |
| Quartile Rank | 1 | 4 | 1 | 4 | 4 | 2 | 4 | 3 | 4 | 1 | 1 | 1 | 4 |

Source: Lipper 30/09/2023, Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 – 30th April 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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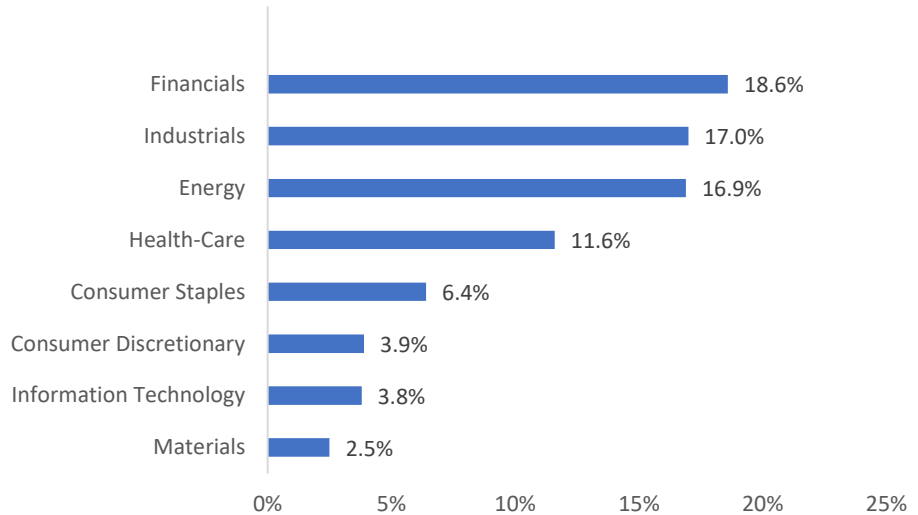
At 30 September 2023

| Top Five holdings | Fund % |
|-------------------|--------|
| Hafnia | 5.7 |
| Torm PLC | 5.1 |
| Novo Nodisk | 4.2 |
| Pandora | 3.8 |
| Mowi | 3.2 |

| Country Breakdown | Fund % |
|-------------------|--------|
| Norway | 21.0 |
| Denmark | 15.0 |
| Italy | 10.2 |
| Germany | 7.8 |
| Spain | 7.2 |
| France | 6.2 |
| Greece | 3.9 |
| Netherlands | 3.8 |
| Other European | 5.8 |

| Market Cap | Fund % |
|------------------------|--------|
| Large Cap €5bn – €20bn | 52.0 |
| Mid Cap €1bn – €5bn | 18.1 |
| Small < €1bn | 10.4 |
| Cash | 19.44 |

Sector Weights



| Risk Analysis | Since Launch | 1 Year |
|------------------------|--------------|--------|
| Beta | 0.8 | 0.1 |
| Standard Deviation (%) | 16.1 | 11.6 |
| Tracking Error | 9.5 | 15.8 |
| Jensen's Alpha | 0.7 | -0.2 |
| Sharpe Ratio | 0.4 | 0.2 |
| Information Ratio | -0.1 | -0.8 |

Source: Lipper, all figures at 30/09/2023, these figures are subject to rounding. Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 – 30th April 2023 reflects class R units. Tracking error is calculated ex post.

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Source: Argonaut Capital Partners, all figures at 30/09/2023, these figures are subject to rounding.

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Other ISINs for this fund:

| | |
|--------------|--------------|
| GB00B6TQCC60 | GB00B6T6S066 |
| GB00B5LJR434 | GB00B6VYPP25 |
| GB00BYYPB156 | GB00B7JXMD51 |
| GB00B76L7377 | GB00B4ZRCDO5 |

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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