VT Argonaut Equity Income Fund

At 31 July 2022

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]	4.34%			
Fund size	£2.5m			
Share class	Class R			
No. of holdings	33			
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 31/12/21)	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, 31/07/2022: Calculated by subtracting the total return, net of tax, from the capital return.

All information as at 31/07/2022, 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

CHAIR POWELL. *"So, we're trying to do just the right amount, right? We're not trying to have a recession. And we don't think we have to. We think there's a path for us to be able to bring inflation down while sustaining a strong labor market…We've said since the beginning, I think, that having a soft landing is what we're aiming for."* **FOMC Press Conference, July 27, 2022**

The fund returned +0.01%% over July, compared to the IA European ex UK sector of +5.92% and Equity Income peer group of +4.39%.

July saw a dramatic reversal of YTD price momentum, with laggard stocks bouncing hard. Our best performing stocks were all energy shipping related: D/S Norden (+25%), Torm (+20%), Euronav (+13%) and Flex LNG (+14%). Our worst performing stock was Spanish blood plasma outfit Grifols (-23%) which had a disappointing trading statement. The fund underperformed owing to us not having enough risk in the portfolio at a time when there was a general "dash for trash," price action that you would normally see following a significant easing of global financial conditions.

During the month the ECB raised its deposit rate 50bps back to zero (its first hike since 2011) and the Fed hiked by 75bps to 2.5%, which the FOMC consider to be the "neutral" rate for US monetary policy. Given that US CPI is currently +9.1%, this means that the Fed still believes that most of current inflation is still "transitory", which would require only a "moderately restrictive" rate to tame. June's "unconditional commitment to price stability" now seems to be conditional on also achieving a "soft landing". Chair Powell's impression of Paul Volcker lasted only a few weeks.

The market front-running "peak hawkishness" from central banks is based on the premise that inflation has not only peaked but will soon revert to below the 2% central bank targets. Deflationists cite recent falls in commodity prices – as if their sell off from peak had nothing to do with the Fed's June hawkishness - or more convincingly the current "glut" of retail inventory. There is little understanding of how inflation is measured – service sector is 2/3rds of CPI, largely wage increases which are sticky and rents which are lagging - or how deglobalisation and decarbonisation are structurally inflationary (https://blog.argonautcapital.co.uk/articles/2022/05/17/the-argonaut-1970s-redux-stockumentary/). The Phillips Curve – whereby wage inflation could only be tamed by higher unemployment – also seems to have been consigned to the dustbin of economic forecasting.

We believe that the Fed has a choice between and hard landing which will temporarily tame inflation and a soft landing which will enforce permanently higher inflation. There has been no period since WW2 where 5%+ inflation has not necessitated positive real interest rates which has led to a deep recession. Through its emphasis on achieving a "soft landing" through only a "moderately restrictive" monetary policy, the Fed has unwittingly reopened the risk window, which has sent all risk assets – including commodities – back up and ignited a mini reflationary cycle, just in time for the November mid-term elections, like an Arthur Burns redux.

July also saw confirmation that the US economy is in "recession", though it is no ordinary recession, in fact, it is a nominal boom, with the nominal world still expanding at 8%, owing to 9% inflation. Hence why – in contrast to a normal "recession" – corporate profits and wages continue to grow. For investors - living in the real return world - who are seeing the value of money erode by 9% per annum – this amounts to "fake" growth, since it is robbing Peter to pay Paul, meaning that valuations of all financial assets should continue to de-rate. This is poorly understood by the market, which continues to engage in a form of "Cakery[2]": cheering robust nominal profits without understanding the implications of high inflation for valuations.

Given that a deep recession caused by an aggressive hiking cycle was always the main risk to our bullish commodities thesis - and that Europe has not yet properly started weening itself off Russian energy imports - we see the reopening of the risk window as ironically most bullish for commodities, since the boom in nominal economic growth will now likely continue. We remain sceptical that the necessary political pain threshold exists to kill inflation.

Bond and equity markets are currently priced for the "soft landing" which the Fed says it can achieve, but which we think is for the birds. Stickier than expected inflation prints will slowly begin to erode investor confidence in long duration assets again, leading to the Fed shutting the risk window again. The Fed has subsequently tried to walk back the dovishness, but markets are now calling their bluff.

[2] "Cakery" is the political doctrine of having your cake and eating it, or denying a binary choice, popularised by PM Boris Johnson

[1] Lipper 31/07/2022, R Accumulation share class performance, in Sterling with net income reinvested

[2] Bloomberg 31/07/2022, Calculated by the weighted average of the forecast 12-month forward dividend yield of each holding in the portfolio

Cumulative	1 Month % Growth	3 Month % Growth	YTD % Growth	2021 % Growth	2020 % Growth	2019 % Growth	2018 % Growth	2017 % Growth	Since Launch % Growth
VT Argonaut Equity Income Fund	0.0	-2.4	1.4	5.9	7.1	18.0	-11.2	20.6	45.4
IA Europe ex UK NR	5.9	-2.7	-12.5	15.7	10.7	20.1	-12.4	17.4	40.9
Fund Rank	98/101	53/101	1/98	91/93	66/98	71/101	35/97	14/92	25/79
Quartile Rank	4	3	1	4	3	3	2	1	2

Income peer group performance

Cumulative	1 Month % Growth	3 Month % Growth	YTD % Growth	2021 % Growth	2020 % Growth	2019 % Growth	2018 % Growth	2017 % Growth	Since Launch % Growth
VT Argonaut Equity Income Fund	0.0	-2.4	1.4	5.9	7.1	18.0	-11.2	20.6	45.4
IA Europe ex UK income fund average	4.4	-2.4	-8.2	11.7	3.4	15.7	-11.2	15.7	29.1
Rank	10/11	6/11	1/11	10/11	5/14	7/16	6/15	3/13	2/9

Source: Lipper 31/07/2022, 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.

Fund Factsheet

VT Argonaut Equity Income Fund

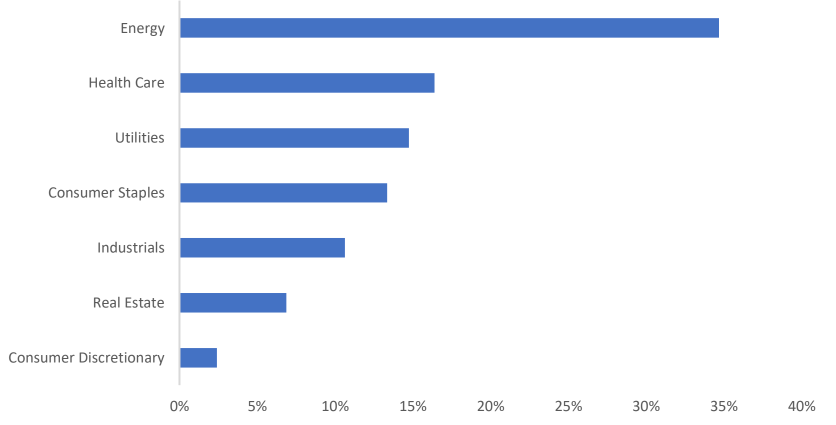
At 31 July 2022

Top Five holdings	Fund %
D/S Norden	4.9
Tenaris	4.5
Gaztransport	4.4
Euronav	4.4
Kinder Morgan	4.1

Country Breakdown	Fund %
Switzerland	16.4
France	13.2
Norway	10.6
United States	9.2
Spain	8.9
Italy	8.2
Germany	7.0
Denmark	4.9
Other European	20.6

Market Cap	Fund %
Large Cap > €5bn	62.1
Mid Cap €1bn – €5bn	16.4
Small < €1bn	20.5
Cash	0.9

Sector Weights



Risk Analysis	Since Launch	1 Year
Beta	0.8	0.7
Standard Deviation (%)	13.6	16.6
Tracking Error	8.8	13.9
Jensen's Alpha	2.0	6.5
Sharpe Ratio	0.5	0.1
Information Ratio	0.1	0.6

Source: Lipper, all figures at 31/07/2022, these figures are subject to rounding. Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 – 31st July 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 31/07/2022 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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