Fund Factsheet

VT Argonaut European Alpha

At 31 July 2022

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	£29m
Share class	Class A/Class R/Class I
No. of holdings	35
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 31/07/2022, 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

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 -2.05% over July, compared to the IA European ex UK sector of +5.92%

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%), 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.

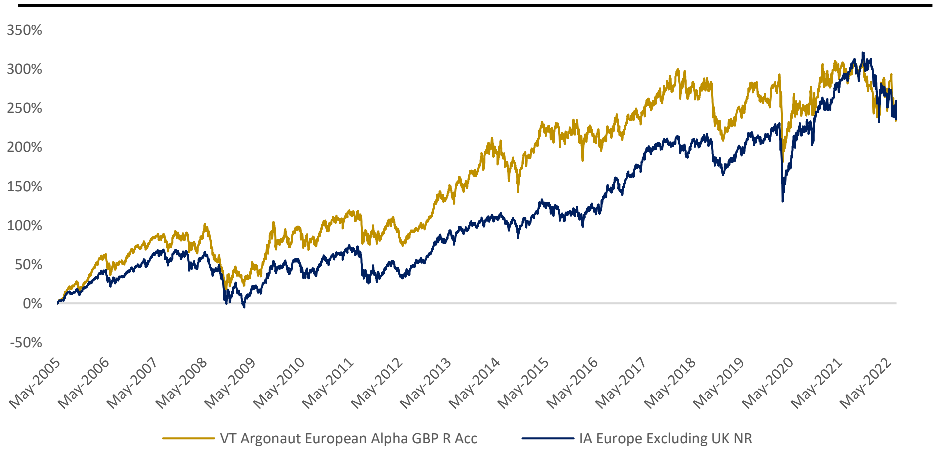
We believe that the Fed has a choice between and hard landing which will temporarily tame inflation and a soft landing which will enforce permanently higher inflation. There has been no period since WW2 where 5%+ inflation has not necessitated positive real interest rates which has led to a deep recession. 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[1]": 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".

[1] "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 GBP with net income reinvested and no initial charges.

£	1 Month	3 Month	YTD	1 Year	3 Year	Since Launch	2021	2020	2019	2018	2017	2016	2015	2014	2013
Fund	-2.1	-7.2	-8.9	-11.6	-8.9	245.5	-1.0	2.1	20.5	-17.9	14.9	-1.00	16.1	4.0	31.7
Sector	5.9	-2.7	-12.5	-9.2	12.8	259.1	15.7	10.7	20.1	-12.4	17.4	16.8	9.3	-0.8	26
Quartile Rank	4	4	1	3	4	3	4	4	2	4	3	4	1	1	1

Source: Lipper 31/07/2022, Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 – 31st July 2022 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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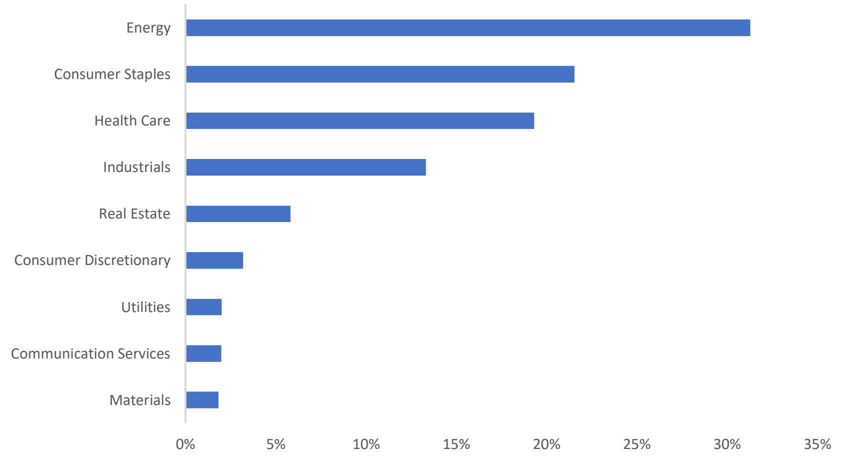
At 31 July 2022

Top Five holdings	Fund %
Euronav	5.0
Tenaris	4.8
Gaztransport	4.7
Bayer	5.4
Suedzucker	4.3

Country Breakdown	Fund %
France	20.1
Switzerland	17.9
Germany	12.7
Italy	8.4
Norway	8.1
Spain	7.6
Belgium	5.0
Sweden	5.0
Other European	15.6

Market Cap	Fund %
Large Cap €5bn – €20bn	61.6
Mid Cap €1bn – €5bn	19.4
Small < €1bn	19.3
Cash	-0.25

Sector Weights



Risk Analysis	Since Launch	1 Year
Beta	0.8	0.7
Standard Deviation (%)	16.3	15.5
Tracking Error	8.9	13.1
Jensen's Alpha	1.2	-6.7
Sharpe Ratio	0.4	-0.8
Information Ratio	0.0	-0.3

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.

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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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