3 Years of the VT Astute Funds!

The VT Astute funds have turned three years old – an important milestone in the fund world! Whilst three years is well below the minimum recommended investment time horizon for each of the funds, the anniversary is a good excuse to reflect on the past three years and consider what calls we got right and what we got wrong. It has certainly been the most difficult period in markets for a decade: a global pandemic, rampant inflation, a land war in Europe, a trade war with China, a banking crisis...and we haven't even mentioned politics. Let's take a whistle-stop tour of the last three years in markets...

	VT Astute Conservative	Average Low-Risk Multi-Asset Fund	VT Astute Balanced	Average Medium-Risk Multi-Asset Fund	VT Astute Growth	Average High-Risk Multi-Asset Fund
Since Launch	4.12%	-2.24%	9.14%	5.08%	12.00%	12.32%
Sector Rank	3/50[1]		56/146[2]		100/178[3]	

The VT Astute Funds launched in July 2020 – a year in which "unprecedented" was the People's Choice 2020 word of the year, and for good reason. It was only 4 months after the Covid-19 pandemic struck the world: the 2m social distancing rule was fresh, and you were permitted to get your first professional haircut in months. Whilst many office workers were still working from home, we were all one month away from "eat-out-to-help-out" deals, masterminded by a relatively unknown new chancellor... Rishi something.

Crucially, we were still more than three months away from a working vaccine. Interest rates were at rock bottom, central banks were printing money and governments were spending it. This would prove to be the peak in a 30-odd year bond bull market. With rates at the lower bound it was a relatively easy decision to be underweight bonds in the funds at this time.

Despite Donald Trump's best efforts to "stop the count" (and later more nefarious attempts to subvert democracy), Democrats swept congress and the White House through the turn of the year, opening the door for bigger government spending packages. When combined with the incredible news on vaccines, markets quickly turned to previously unloved cyclical stocks in the expectation of an economic rebound in 2021. Across the portfolios we also started to tilt more towards economically sensitive stocks but with a preference for mid and small sized companies, which tend to perform better in the early stages of economic cycles.

Navigating the do-it-yourself, "meme-stock" investing frenzy of January and into the tentative re-opening in spring, the scale of global supply disruption became apparent. China's successful suppression of the virus (so far!) gave the administration confidence to embark on a huge regulatory crackdown, with restrictions impacting for-profit private education, technology companies, and property. The highly indebted Chinese property developer, Evergrande, became the poster child of financial mismanagement.

Throughout this period, we maintained an overweight position to emerging markets, wrongly assuming they would be the first to emerge from the pandemic era restrictions and thus the first to return to growth. The ongoing zero-covid policy kept Chinese consumers at home but also closed factories and ports, severely exacerbating global supply chain disruption. Shipping costs ballooned to record highs, queues of container ships surrounded major ports, one even managed to get stuck in Suez canal. This demand-supply imbalance in goods started to push inflation higher.

Source: Morningstar. [1]-Measured using the Investment Association mixed 0-35% equity sector average over the period 20.07.2020 to 20.07.2023. [2]-Measured using the Investment Association mixed 20-60% equity sector average over the period 20.07.2020 to 20.07.2023. [3]-Measured using the Investment Association mixed 40-85% equity sector average over the period 20.07.2020 to 20.07.2023.

Unprecedented pandemic spending from governments across the world coupled with unique supply chain disruption and labour market dynamics had lit the inflation touchpaper. Three successive prints of above 5% inflation in the US had central bankers backtracking on their easy policy (talk of "Transitory" inflation was forgotten) and suddenly markets were realising rates would have to go higher. This marked the high-water mark for most markets and the funds, as we entered the most painful period of monetary tightening in modern history. The flickering embers were then well and truly stoked into flame when Russian tanks lined up on the border with Ukraine for a "military exercise". Markets had now started well on their way for one of the worst years in modern history, with almost nowhere for asset managers to generate returns.

In response to high inflation (which has been rampant for over half of the life of the funds) interest rates have been aggressively ratcheted up in many key regions: the Bank of England has increased the base rate from 0.1% in December 2021 to 5% in June 2023. The Federal Reserve has increased the Federal Funds rate from 0.25% in March 2022, to 5.25% in May 2023. And between July 2022 and June 2023, the European Central Bank increased rates by 4.00%!

The pace of this tightening killed off budding hope of a new economic cycle and the debate became, IF, not when the global economy entered recession. This period also defined the returns on our funds. In equities, while we reduced our risk-taking slightly in response to increasing rate expectations, we believed we could "look-through" a potential recession and so held on to our mid-caps. This led to relative underperformance, but we remain more concerned about catching the next upswing than worrying about short-term underperformance versus peers. The opposite was true in bonds, where we relatively outperformed. We don't claim any fantastic foresight of the bond market collapse in 2022, but it was clear to us that interest rates would rise at some point, and that bonds would struggle in that environment. We identified a potential risk and set about managing that risk as best as possible without compromising long-term investment objectives. While this saw us relatively outperform peers, it still led to losses in the short term and a painful underperformance versus our actual benchmark, inflation.

Mapping these dynamics across to the funds themselves means better relative performance on lower risk funds and worse relative performance on higher risk funds. Given investment time horizons however, we believe the latter will reverse over time, and we firmly believe that minimising the impact of the bond market collapse will be crucial to achieving long term growth objectives.

Inching closer to the present day, the unforeseen consequence of monetary tightening started to impact markets. First, a bodged "mini-budget" in the UK triggered a near gilt market crisis (the less said about the politics the better!) while 2023 had barely got going before a mini-banking crisis emerged. Ultimately, this caused the collapse of multiple US banks, and the shot-gun acquisition of global banking giant Credit Suisse by bitter Swiss rival UBS.

Spot-On Decisions	Overweight growth/technology in 2020	Pivot to cyclical in early 2021	Underweight bonds through 2022
Lessons Learnt	Underweight US in 2020	Overweight emerging market equity & China 2021	Overweight mid & small cap entering 2022

Performance Chart

ASTUTE
INVESTMENT MANAGEMENT

VT Astute Conservative A Acc
VT Astute Balanced A Acc
VT Astute Growth A Acc

30%
25%
20%
15%
10%
5%
0%
-5%

Jul/20 Jan/21 Jul/21 Jan/22 Jul/22 Jan/23 Jul/23

First vaccine dose delivered
Meme stock frenzy
Evergrande collapse fears grow
Rise of the delta variant
Omicron variant emerges
First BOE interest rate increase
Bond Market Collapse
Mini-Budget
Banking Turmoil
Regulatory Crackdown in China
Inflation begins to hot up
Russia invades Ukraine
Democrats sweep Congress
Eat out to help out

Reduced interest rate sensitivity in our fixed income holdings

Remained underweight fixed income

Purchased structured products to take advantage of market drawdowns

Where do we go from here? I am looking forward to sitting down with the Astute Investment Management team in the next week to discuss the last three years in more detail; we'll be sure to discuss our thoughts on the path ahead. Look out for this video towards the start of August.

Finally, when we first launched the funds, we promised that they would be invested with disciplined, repeatable research processes, carefully calibrated risk controls, and a healthy cynicism towards those who claim knowledge of the future. Values which we believe have carried us through these difficult three years. We will continue to learn and improve our process and look forward to many more, hopefully less volatile, years ahead. As always thank you for your continued support.

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Head of Group Communications.

Source: Morningstar. This document has been produced by Astute Investment Management Limited, whom provide investment management services to Astute Private Wealth Limited. Past Performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. All data is valid to the 20th July 2023 and collated by Astute Investment Management. The views expressed herein should not be taken as statements of fact or relied upon when making investment decisions. This document does not constitute an offer to subscribe for, buy or sell the investment mentioned herein. An investment into the Astute Funds should only be made having read the Key Investor Information Document ("KIID"). Past performance is not a reliable indicator of future results. Investors may not get back the amount invested. Astute Investment Management Limited is the appointed investment manager of the VT Astute funds. Registered in England & Wales No. 11782438. Registered Office: Vista, 2nd Floor, St David's Park, Ewloe, Flintshire, CH5 3DT. Authorised and regulated by the Financial Conduct Authority. Financial Services Register Number 842580. ValuTrac Investment Management Ltd is the Authorised Corporate Director (ACD) of the VT Astute OEIC. Valu-Trac is registered in England No. 02428648 and is Authorised and regulated by the Financial Conduct Authority, registration number 145168. Registered office: Level 13 Broadgate Tower, 20 Primrose Street, London, EC2A 2EW.