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[INTRODUCTION]
James Yardley (JY): Hello and welcome to the Investing on the go podcast brought to you by FundCalibre. I'm James Yardley and today I'm joined by Ben Wallace, Elite Rated manager of the Janus Henderson UK Absolute Return fund. Ben thank you very much for joining us.

Ben Wallace (BW): My pleasure, my pleasure.

[INTERVIEW]
[0:20]

JY: Now, Ben your fund is an interesting one because you have the ability to short stocks, so you can make money when share prices go down. And this obviously helped enormously in the crash we had in February and March. I think your fund fell about 4% while the UK market was down some 34%. Can you just tell our listeners, what kind of shorts did you have going into the crisis and how did they protect the portfolio?

BW: Yeah, of course. So we actually, if I look at where we were, let's say a week before the crisis really hit, I struggle to think that we could have had a worse-positioned portfolio, in that if I look at a lot of the businesses that we were long of, we were long a lot of civil aerospace companies, a lot of travel and leisure, and we had a few longs in the portfolio where the businesses had a lot of debts. You know, we were confident they could pay it down and were great potential investments, but they did have a lot of debt. And so, for us, you know, thankfully we made the mindset change in that we looked at what was happening in China. And again, you remember at this point it was, it wasn't very widely reported. You'd had the lockdown in Wahun and a few things like that. And our really simple view was, we don't understand this, you know, despite having, you know, been an investor for over 20 years, this is obviously new, but what we can see is that by China doing what they're doing locking down the population, if other governments around the world don't follow a similar course of action, then they're going to be seen to be letting down their citizens. So we thought there's gotta be a big risk that this spreads.

Now, the decision we took was to eliminate our long positions - our holdings in those civil aerospace companies, those travel companies, and so on. And in a couple of cases, we actually put on a few short positions to bet on those falling share prices. And we did companies like Royal Caribbean, Carnival and so on. And that's basically what insulated the portfolio. I think if we just kind of sat there on our hands, not taken advantage of some of the ability to short, like you said, I think we would have a pretty different outcome, but thankfully, you know, we were reasonably reactive and proactive as we always are. And that's why we kind of survived the big drawdown if you like.

[2:50]

JY: Well done, was this sort of done in early February then, before we had the big crisis over here, before that the virus spread to Italy and so forth?

BW: I think it was actually just as it started to emerge in other bits because we've been kind of observing it, but it was pretty unclear that the virus was everywhere if you like. And I think it was exactly as you identified, it's when we started to see it spreading in Europe, we thought, well hang on, you know, given the amount of the interconnectivity of the world, if it's in Italy, if we're starting to see it in Spain, there's no way it's not in the UK when you think about how, you know, international traffic comes through Heathrow and what a global country we are. So that was kind of the trigger point for us to, you know, to eliminate a lot of those long holdings. Now, again, with the benefit of hindsight, we should have been more aggressive and actually ended up, you know, net short the market or short a lot of these types of businesses. But I think the decision to at least take those long positions out of the portfolio was very rational based on what we were seeing.

[3:57]

JY: Very good. And we've obviously seen that the equity market bounced back a lot since March. So, did you reposition the fund for that once we had that initial fall? Did you maybe take some of those shorts off?

BW: Yeah, so I would say we almost in our heads divided the stock market into three areas, as it started to collapse. We looked at kind of area one, which was to say, you know, these are businesses that genuinely COVID has no effect on. All that’s happened is the share prices have fallen. And we were pretty confident to start buying those businesses during the fall off. So let me give you an example, a really boring company, something like Seven Trent, you know, it's a regulated water utility. It's had its review. We know the returns it's going to make, we know the capex [capital expenditure] it’s going to spend, and we've got a strong view of what that business is worth. And you know, water's water, people need water, you know, so shares get hit hard during the sell-off. We've got the confidence to kind of step in and buy those shares - that's bucket one. So we started to buy bucket one. Then going, let me skip bucket two, I'll go to bucket three.

Bucket three is businesses that probably are going to be affected by COVID medium term. And it's going to be really volatile. So ,here we're talking about cruise companies, we're talking about maybe London offices, we're talking about business travel-exposed companies. You know, these are going to be really volatile with lots of, you know, huge scenarios as to what will 2022/2023 look like these businesses? So our view was where we had these shorts as they fell, we'd cover those positions, take money off the table and just have no exposure either way, because they were so volatile.

But for us, the real excitement and the real bit we wanted to do work on was it was kind of list two, bucket two. And so these were businesses where we thought the medium term prospects for the business were unchanged, you know, medium term, but obviously short term, there's going to be a ton of disruption. So, a classic example for me would be something like CRH. So, you know, they're a building materials company that do aggregates, you know, asphalt, all that kind of stuff. Medium term, good business, you know, governments are going to spend money on infrastructure, you know, all that kind of good stuff. But over the short term, you know, building sites are shut, you know, social-distancing, you name it, lockdowns, lot of disruption short term. And, but our view is on that, we have identified those businesses that are still winners and it's temporary disruption. Let's start to ease into those slowly.

So bucket one, go for it, bucket three, book your profits and move on, and bucket two's going to be the real area of potential excitement. The reality is, the market bounced back so quickly that we never got enough money into bucket two. So, if I look at it now, let's say the FTSE is ballpark down 17% this year. We're probably up 2% absolute this year. So obviously we done very well relative to the stock market in the UK. But if I had my time to do again, I'm really pleased about the way we reacted to the initial part of the crisis. And that we didn't sit on our hands and we reacted quickly. Do I think we could have gone a bit harder into stuff during the crisis? Yes, I do.

[7:33]

JY: Thank you. And you've got quite a few house builders in your top 10, what is the attraction of this sector?

BW: So, what I like about the sector medium term is that net-net, we still don't build enough houses in the UK for housing demand. So, I think you've got a market where structurally, it's always quite nicely in balance. I think you've also got the benefit that because of the government help to buy scheme, first time [buyers] and the desire to promote home ownership, new build housing is always slightly structurally advantaged compared to secondary stock. I don't think the final thing is that interest rates are going to be low for a long time. So actually affordability, all those kinds of stats still look pretty good. And actually it's still cheaper if you can get a mortgage to buy than it is to rent. And so there's lots of dynamics there and you can buy a lot of these businesses trading kind of near book value, where the government is still very pro home-ownership. I think they're good medium term investments. And as I think, as we kind of roll through to next year, you'll see a lot of these businesses because of the good balance sheets, be some of the quicker companies to come back to paying dividends and, you know, Persimmon who we heard from just yesterday were one of the first companies to return to the dividend list. You know, in the sector in the UK stock market.

[9:06]

JY: Now you've only got about 50% of your fund invested in the UK. I know increasingly in recent years you've done a lot more overseas. How much can you have in overseas stocks? And are you finding a lot of opportunities there at the moment?

BW: Yeah, it's interesting. So, what we say is that we will have 60% of our capital invested in the London market. Now, the reality, is as you and your listeners know, the London market doesn't have a lot to do with the UK economy. You know, 75% of the earnings in the UK stock market are international, not domestic, but undoubtedly we're starting to see more investment opportunities emerge both in, you know, Europe and in the US but, but quite interestingly in a lot of different areas.

So, in Europe what's attracting us on the long side is we're starting to see some quite interesting opportunities in a lot of the European 'Green Deal'. A lot of the kind of infrastructure growth, a lot of the green technology growth in Europe is that something that Europe is really promoting aggressively and the returns being allowed by companies to earn good returns there as a result look pretty attractive to us. You know, the US is very interesting as well. You know, there's some, you know, we're starting to, there's some obviously very attractive technology businesses there for the long side, but equally we're finding a lot of businesses that look very overvalued in that sector.

On the flip side, we've got the presidential election coming up and, you know, the scope for tax changes under the Democrats, different policies under the Democrats, if they, if they win. And the polling at the moment seems to indicate that as likely, we think there's going to be a lot of volatility potentially in that US stock market, which is going to give us good opportunities within the tactical side of the portfolio to hopefully, you know, drive the returns for our investors going forward.

[11:00]

JY: And so you're finding quite a lot of shorting opportunities as well, overseas?

BW: Yeah, definitely. I mean, that's one of the, I think the exciting things at the moment is it's not just long ideas or short ideas. Now, again, we don't, we don't mind if the fund is tilted to be long overall, or tilted towards being short overall, we'll go to where the opportunities are. But what we're definitely observing at the moment is we're finding good opportunities on both sides of the book, which is quite exciting because what we always aim to do is kind of try and deliver returns that are, you know, pretty uncorrelated to equity markets. We just want the fund to go up in absolute terms, regardless of whether stock markets are going up or down.

JY: Ben that was very interesting. Thank you very much for joining us. Thank you to our listeners for listening. I'm James Yardley and if you'd like to listen to more of our Investing on the go podcast, please subscribe to FundCalibre.