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[INTRODUCTION]
Sam Slator (SS): I'm Sam Slator from FundCalibre and it's the Investing on the go podcast. After a year like 2020 it seems almost foolish to try and guess what 2021's going to be like, but we thought we'd have a go. So today I've been joined by Darius McDermott, who's going to give us his views, by playing an investment version of 'Would you rather?'

[INTERVIEW]
[0:21]

SS: So Darius, to kick it off: would you rather be 'risk on' or 'risk off' in 2021?

Darius McDermott (DM): A really good question to start us off, thanks Sam. I think broadly I'd be on the side of positive for 2021. There's been some good news recently with the approval of the Pfizer vaccine and there are two more that are expecting approval in the next, the next couple of weeks really. As we end 2020, we have the Brexit headlines still going on. Will we, won't we, but one way or the other in 2021, that's going to be done, either with a deal or without a deal. And the US election looks like it's coming to a conclusion, a month after the vote. So you would think that those broadly all look like positive indicators for 2021.

The other thing I think which we've learned is not to fight the Fed. The US and global central banks have pumped so much money into the system and that will continue into 2021. So that looks positive for risk assets. I think we need to be wary of the continued havoc caused by vaccines. The whole global population isn't going to be vaccinated in the first part or any part of 2021, I would guess. The printing of money that I discussed has left huge mountains of debt. There's definitely going to be recession and greater unemployment. So, you know, it's a bit of a balancing act, but with low GDP in 2020, an increase in growth in 2021 and vaccine and sort of government and fiscal and financial support, I would expect it to be a solid 'risk on' year for both equity and bond assets.

[2:15]

SS: And thinking about that risk on, would you rather invest in developed or emerging economies then?

DM: Well, the two big positive stock markets in 2020 have been one developed and one emerging. So it's been the story of technology. The US has been the dominant developed market and China, the dominant emerging market. The other thing, and it's now becoming a bit consensus, which tends to worry me, but the US Dollar has been weak and is forecast to stay weak. That is always broadly positive for Asia and emerging markets as capital flows into those markets. I think there should be calmer relationships between the US and China, that should help. Also, whilst the pandemic may have begun in Asia, they also dealt with it probably better than developed markets have. They don't appear to be having the second waves and lockdowns that we are having in Europe and you know, developed markets today. So I think if you add those up, I would tilt towards Asia being a favoured market and emerging markets, over developed markets for 2021.

SS: And what kind of funds might you consider there then?

DM: Well, I think again a really good question. There's been a huge pressure on dividends particularly in developed markets where dividends are more ingrained in the culture. So I think something like Guinness Global Emerging Market Income might be an interesting diversifier for income investors. Fidelity Asia Pacific Opportunities is just a broad Asian fund with an experienced manager and excellent past performance. And the most unloved market, I think out there is our own home market. And if that were to have any form of mean reversion following Brexit, something like AXA Framlington UK Mid Cap where you get that more domestic exposure could be an interesting fund pick for the year ahead.

[4:23]

SS: And thinking more about companies themselves. Would you rather invest in large caps or small caps?

DM: Historically, generally, we would always say small caps for the long-term. And in the last couple of years, particularly in those two big markets that we just touched on in the last answer, US and Asia, US large cap has dramatically outperformed mid cap. And in Asia it's the same thing, with the handful of big tech stocks, which were winners pre-COVID, but have gone on to continue to win because of COVID. So well-versed, but the big US tech and the big Chinese tech have so dominated their own markets, that smaller caps have underperformed and because of less research in small cap areas, it's an area we always think where good active managers can be outstanding and find those next big companies. So long term, always smaller companies for us, whilst I admit that that's not been the correct answer in those two dominant markets for the last few years.

SS: And perhaps you could mention there a couple of the Elite Rated smaller companies funds that might fit the bill?

DM: Yeah so there's not many that would generally be global smaller companies funds. A really top performing franchise is the Aberdeen Standard Investments Global Smaller Companies fund. That's run out of Harry Nimmo's team. He's one of the most experienced small cap managers we have in the UK, but he's broadened his team's products into global smaller companies. So it's not a new product. If we are looking in, back into the emerging markets, Federated Hermes have a longstanding top performing global emerging market franchise, and a couple of years ago they launched a global emerging market small and mid-size companies called [Federated Hermes Global Emerging Markets] SMID Equity. And we think that is a really good opportunity for looking for those next winners in the emerging market, in the emerging market regions.

[6:49]

SS: Then I suppose the million-dollar question for everybody at the moment: would you rather invest in growth or value?

DM: Well, I think if we all knew the answer to that, we would have all maybe been millionaires. It's, the landscape has been so totally dominated by growth and growth companies, particularly tech. To me, it's not so much about value or growth it's have you had tech or haven't you had tech? And if you've been invested in those tech areas, then you wouldn't imagine in a year where the world was taken over by a pandemic, but some global and US funds have returned a 100% in 2020, which is astonishing, but I can tell you they've been totally focused in the technology areas.

In my mind, most investors are full of growth funds. That's just naturally what happens. And I think people do need to be, do need to remember that value as a style will have its day again. I can't promise you it will be 2021, but on the announcement of the vaccine, we've seen a very sharp rotation into value strategies and value stocks. Some value stocks were up 30%, 40% in one day and some value funds up 10% in a day. So I wouldn't certainly be all in one way or another, but I think there are investors now who are full of growth funds, whether they be global or, or US or single strategy tech. So I think adding some value at this stage might be a sensible play.

SS: Perhaps again here you could mention a couple of value funds, because it's not always obvious in a fund's name, what kind of strategy the fund manager has?

DM: Absolutely, really good point. So I'll give a couple of examples. We'll start with a global fund. The other thing which we've seen in the pandemic is actually a lot of value managers either retiring or losing their jobs. So there are some good value or value oriented franchises out there. One of the key ones for us is the Schroeder Global Recovery. Their value team runs multiple products across UK, Europe and the globe. The Global Recovery fund is a sort of their global flagship fund. For

Asia, I'd look towards something like Invesco Asian. I wouldn't say that they were deep value. They do try to find some growing companies, but they're always very sensitive about valuations that they would pay. And maybe nearer to home the TM CRUX UK Special Situations fund. This is a fund with a strong valuation focus, but also looking for out of favour growth companies. So he likes growth companies but he likes to buy them cheaply. And then there, it's a multi cap fund, but you know, two thirds of it in mid and small size companies, which again, if we favour those for the long-term, buying some value opportunities in those areas. So not all out value, but I think people should remember value and maybe add some value into a portfolio that I'd guess are now dominated by growth funds.

[10:08]

SS: Moving away from equities. Would you rather invest in corporate bonds or government bonds?

DM: Well, if you had the rear view mirror from January to the middle of March, you wanted government bonds and from the middle of March you aggressively wanted to switch out into corporate or high yield bonds. Many managers in the fixed income space we spoke to at that time, described it as the second opportunity to buy fixed income with real capital upside as well as income upside in the great market sell-off that we had, particularly in fixed income in March. Like most assets they've all rebounded and quite often strongly. But the simple answer to your question is definitely corporate bonds over government bonds, because government bonds are yielding next to nothing. And in large parts of the world they're actually yielding negative - what that means is you buying in a government bond for a pound and they're promising to give you back less. Not might give you back less depending on how the market moves. When that bond matures, you will get back less. And that's not an appealing investment to me. So corporate bonds definitely over government bonds, but a lot of the capital appreciation opportunity in fixed income has already played out in the second half of 2020.

SS: And which bond funds would you pick here do you think?

DM: Yeah, broadly I do want to be paid for taking some risk so something like Baillie Gifford High Yield bond. So yes, they're buying sort of the lower quality bonds, but they're trying to buy the best of breed – they're great stock pickers. And don't try to do anything too fancy, just find the best bonds in their asset class and they've got an exceptional long-term track record.

For a slightly lower risk fund BlackRock Corporate Bond run by Ben Edwards. Again, another long-term track, good long-term track record. And, you know, he's very well-resourced, experienced manager. And again, we've talked about emerging markets, a number of times, I think you need to be selective within emerging markets, but the M&G Emerging Market Bond fund is a bond fund within itself that has the ability to invest in emerging market government and emerging market corporate companies, ie individual company bonds, both in dollars, which is known as hard

currency, and local currency bonds. And having done a number of sort of end of year roundups on market outlooks with fixed income managers there's definitely a favour for local currency bonds and the M&G Emerging Market Bond fund has generally has around 30% of its fund in that. So I think that's really strong opportunity for 2021.

[13:16]

SS: And you've mentioned technology already, but I suppose the last question would be: technology again or do you think another sector is going to do better?

DM: The structural drivers that have driven technology accelerated in 2020 by COVID, look set to continue to be here. I always described we've been online shoppers in our house for a very long period of time, but we've gone from the occasional Amazon, to the weekly Amazon, to the now daily Amazon. Do I think behaviours will change and going back to pre COVID behaviours? They'll change a bit, but I do think online shopping has now ingrained itself in our psyche. So I think that technology, whether it's chips in gaming, streaming services like Netflix, platforms like Zoom or the five big technology companies with Microsoft being cloud and the working from home culture, I think those will definitely continue, but I also think that their stock prices have appreciated to presume they will continue. And I think some of those technology companies are very fully valued and need to continue to grow at these high growth rates to continue to stay at the current share price.

So again, I wouldn't have no technology in my portfolio, but if you're saying, what would I look to add today? Well, another thing I'm known for is being a bit of a gold bull. I think a bit of gold in a portfolio has certainly been sensible for the last 18 months. So I'd like to have a little bit of gold. Oil really had its depreciation and appreciation earlier this year. So, I mean, having gone from sort of the oil futures actually went negative earlier this year, but oil prices is already back to sort of $50, $60. So I think, you know, the returns there are probably done. But commodities generally, I think are interesting. We should have an economic recovery from a low level because of COVID. Governments appear to be wanting to spend, as well as central banks, on infrastructure products and all that should be positive for commodities.

Another boost for commodities and often overlooked, are things like the structural move to electric vehicles. At the middle of your electric vehicle is a big battery and the big middle of a big battery is commodities: lithium, copper, et cetera. So, you know, all these commodities need getting out of the ground. So yeah, again, an overlooked sector with oil having been very volatile this year, gold's probably been the standout commodity in the last 18 months, but I'd still want to keep a little bit going forward.

SS: Well, thank you very much. We’ll catch up again this time next year and see what you’ve got right!

DM: Yes I'm sure I've probably got none of it right. But you try to make sensible decisions based on the evidence you have, clearly 2020 saw the evidence totally change in a three to four week period. And I'd like to think globally we can hopefully see off this vaccine and have some form of recovery, both in our normal working lives but also in the economy and potentially stock markets and investments.

SS: Thank you very much. And if you'd like to find out more about investing in 2021, visit fundcalibre.com and don't forget to subscribe to the Investing on the go podcast.