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[INTRODUCTION]
Ryan Lightfoot-Brown (RLB): Hello and welcome to the Investing on the go podcast brought to you by FundCalibre. I'm Ryan Lightfoot-Brown and today I'm joined by John Bennett, the Elite Rated manager of the Janus Henderson European Focus fund. John, thank you very much for your time today.

John Bennett (JB): It's a pleasure.

[INTERVIEW]
[0:19]

RLB: Now last time you talked to us, it was just under a year ago, and you described it as a what we called a control-alt-delete recession, a resetting of the global economy. What did you make of all of it now that everything's passed?

JB: Yeah, and I think I'm kind of glad I called it that, because I think that's exactly how it has turned out to be, it was a reset. And I think if you look back at the data and the events since then, but if you look at the data, you had a naturally occurring cyclical trough in a couple of areas in the industrial world, one was inventory, and that was a naturally occurring downdraft, if you like, a downcycle pre-pandemic, and in fixed capital formation - to you and me capital investment CapEx. So those two were already in a downdraft. And what the control-alt-delete - the pandemic did - the reset - was drive both of those down in the industrial sphere into artificial troughs, deeper troughs and what, and to answer the question of what do we make of it now? What has played out quite clearly, unequivocally, is a V-shaped recovery led by the industrial sphere. V-Shape 1.0 is here, is in, is I don't want to say it's done, but it's here, it's V-shape 1.0 is the industrial sphere. We look forward to V-shape 2.0, and that's going to be led by the consumer.

[1:45]

RLB: And you also said that if we got inflation, there would be a reversal in the fortunes of growth and value. Well, we've seen that happen of late, but do you think this will be able to continue or should investors, as you said they tend to do at the time, stay in growth and holiday in value?

JB: Yes. And that's you know, I think that investors have been conditioned to doing that, they see a value rally as a straw fire, because the value rallies have only been straw fires in the last 10 or more years. You've got a generation of fund managers who are used to, well actually no cycle in a sense - the banishment of the cycle by central banks - and forever lower bond yields, the corollary of that is forever higher PEs for so-called growth stocks. Challenge? If we get inflation. I think we will get inflation, but if we get inflation, the challenge is to high multiple stocks. So I think, I believe, that we are living through a great tug of war right now between value and growth. And this time, I think it's different because I think this time inflation is embedded in the system. Inflation is the enemy of high multiple stocks, so all those sexy names led by the NASDAQ, those sexy growth names, disruptors, I think they're going to disappoint.

[3:07]

RLB: Well it sounds like quite a challenging time for an investor. So how are you going to sort of navigate your way through a time like this? You don't like to overpay for things, but you’re neither a growth nor a value investor are you?

JB: I think, I think every investor thinks of himself or herself as a value investor. Cause, you know, we all like to think we're paying the right price for something or we all like to think we're paying you know, we're getting something at a bargain or at good value. So I think we all think we're value-conscious investors. We've never been deep value investors - in that respect you're absolutely right - we've never been sort of value as in a ratio. What we have been forever, for as long as I've been doing this, is very pragmatic investors. And I think that's actually shown in the last 12 months the even, that pragmatism has I think shone through, and I actually think has been necessary if you've been, if you are to have outperformed. I think too many investors have been perhaps felt pressurised and I mean professional investors, have felt pressurised to be style investors and the style that has won for the last 10 or more years and a number of young careers have been made on it, and that is the growth style. I think that growth style’s about to be challenged, and I think you're only in the foothills of that. And so by staying pragmatic, still trying to not overpay, I think that's how we've thrived in this last 12 months, and I think we'll continue to thrive and I've been fortunate enough to thrive in markets for the last 34 years. And I think pragmatism has been at the heart of that.

[4:45]

RLB: Okay and perhaps with that in mind, are there any sectors in particular that are standing out to you as sort of good or bad in either direction?

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JB: I think that one of the things that has happened, I think it's dead easy to say “oh value’s come in from the cold” and it has to an extent, or value’s outperform growth, and it has for a few months, the straw fire effect. But much more importantly, the market's broadened out, the market has broadened out certainly in Europe. You know, and if you go to the States, people have talked about the S&P 500 has become the S&P 5 because of this dominance of the large caps and you've had the dominance of the mega caps, the dominance of tech. In Europe certainly it's broadened out, it has in the States as well actually, that's really played to our style and what we like.

In terms of sectors, we rule nothing in and we rule nothing out, if you actually looked at what we did from the summer of last year, we started to own auto stocks, historically the poster-child sector of value investors. We even started to own a few banks, historically a poster child value sector. And we even, we own oil today, historically a poster child value sector. So we also own some growth. We also own some quality growth names. The key for us is that the market has finally broadened out. I think still sectors that you do want to avoid incidentally, are sectors or companies, those who lack placing power. Why has telecoms underperformed for as long as we can recall? They don't have much in the way of pricing power. And that's going to be ever more important if we are right that inflation has come into the system. You're just at the beginning of seeing a number of companies saying this is a headwind trying to pass on these input price, inflation increase, inflationary increases. Be it steel, be it other commodities.

[6:38]

RLB: That's really interesting, thank you. I was going to go through a couple of the stocks that you hold. One of your top 10 is a company called UPM Kymmene, it makes renewable and biodegradable products. Can you tell us a little bit more about this, please? It seems to be quite a popular area, especially around ESG, and I see it's part of a project to make the world's first wooden satellite and looking to launch this year, that sounds quite unusual, can you, can you talk us through that please?

JB: Yeah, I think you're dead right that ESG has become popular. I think we have a bit of an ESG bandwagon going on in the asset management industry, frankly, and I think it's going to lead to a number of misallocations of capital. In other words, people are overpaying for popular ESG stories and we don’t like to overpay.

UPM Kymmene, for me, as well as Lafarge[Holcim], our other biggest holding in the portfolio, these two companies, but UPM Kymmene, they epitomise our approach to ESG. And what I mean by that is, is you could call it hidden ESG, for now hidden but about to be discovered, or you could call it ESG Delta, the rate of change, the direction of travel in ESG. And what I mean by that is it's dead easy to take a UPM Kymmene and say, well, there's a pulp and paper company. That's the old economy. So I won't go there and I'm an ESG investor and it sounds a bit dirty and it doesn't do nice things to the environment. So I'll just go away. And my clients won't fire me because I'm owning Tesla, it's much easier and my life is easier. Well, that'll change.

So UPM Kymmene, you're absolutely right. If you take its history in pulp and paper, pulp and paper residues are now being used by that company. So it's taking the cashflow and expertise from its traditional business, pulp, paper, wood, wood products… taking the cashflow, investing in biofuels, biodiesel's, the fuels of the future where the feedstock is in fact the residues from is from its history, its historic business, which is pulp and paper. So it has the knowledge, it has the cashflow, crucially it has the cashflow to be an ESG winner.

So if you look at that company, I think that company is going to do two things. In the next three years I think you're going to see a 50% growth in the operating profit of that company. And second 50% of that operating profit in three years' time will not come from the traditional pulp and paper business, but will come from the biofuels business, the fuels of the future business. What I love about that is it's ESG in transition, it's ESG by outcome rather than ESG by scorecard. That it's a virtue signaling company today and there's quite a few of them around.

RLB: And what about the wooden satellite situation that they have?

JB: Yeah, the wooden satellite thing is really an experiment by the company to test plywood it seems to me, and me being me, I'm probably distilling that down to hyper-simplistics because that's me. I like to keep the job as simple as I can. I think they're testing the properties of the wood itself to see if this could happen. Now could lead to some growth in the future in terms of, we probably have all sorts of, well we do have all sorts of debris in space, perhaps this is an alternative to that debris flying around in space, who knows, but I think it's just the test of the material at this stage.

[10:07]

RLB: Interesting, thank you. And now with what's going on in the world, it seems that it's quite unlikely we're going to be able to visit Europe much this summer. So perhaps you can bring some sort of interesting European ideas to us. Are there any other interesting stocks that you hold?

JB: Yes, I talked about V-shape 1.0 and as I say that's in, it's here, it's happening, stocks have rerated, industrials. Look forward to V-shape 2.0, and this is how we've tilted our portfolio. And that's a whole bunch of consumer names, European consumer names. I'm actually pretty optimistic that we will be visiting Europe this year. Always remember, European equities does not equal European politics. So the madness and the posturing of people like President Macron, the newsworthy and their fluffed lines on trying to roll out the vaccine – they're actually now only about five or so weeks behind the UK. If you look at the data and ignore the noise and everything that you do, when you're investing, look at the facts, ignore the noise. Please apply that to Europe, look at the vaccine data. The efficacy is fantastic and that, and despite what Macron says for political reasons, I'm very optimistic that you and I will be going out in our home country and indeed our home continent called Europe, and we will be eating and we will be dining, we will be partaking of some beverages, we will be traveling and we will be doing what consumers do, and that is spending money. And in that respect, I would ask you to look at a stock, which is also in my view is an ESG in disguise play at this moment because it actually has quite ugly optics and that is salmon farming. And I would look at Mowi in Norway, which is a salmon farming business because actually it's a very fast growing source of protein. And of the major food proteins, incidentally, it is actually the most environmentally sustainable. So again, there's noise, there's always noise in investing, there's always optics, but you need to lift the hood. You need to look under the bonnet and actually see what's going on, salmon versus red meat in terms of the environment, there's only one winner. And by the way, the catering industry, the restaurant industry, they're all going to open up. I think Ryanair is a winner. I think Mowi is a winner. I think Inditex, which is the Zara clothing chain is a winner because we're all going to go out and we're all going to consume.

RLB: Well, John, on that excellently jolly note, especially for some of us who have got overseas weddings this summer, we'll leave it there, thank you very much for your time.

JB: Right, enjoy, thank you.

RLB: And for more from the Elite Rated Janus Henderson European Focus fund, please visit our website fundcalibre.com and for more from the Investing on the go podcast, please don't forget to subscribe via your usual channels.