

# VALUE IS BACK

January 2021

**Stephen Payne**  
Portfolio Manager

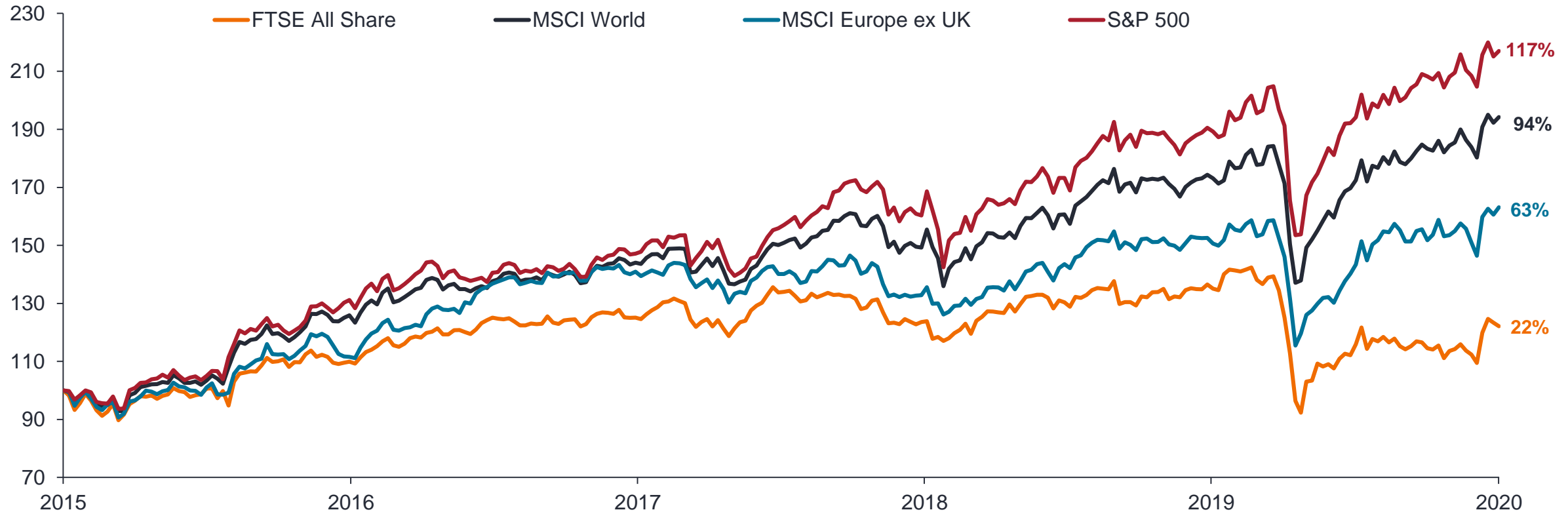


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# THE UK HAS MATERIALLY UNDERPERFORMED OTHER GLOBAL MARKETS

## Broad Market Index Performance



Source: Datastream, as at 30 November 2020. Total return, GBP, rebased to 100 as at 30 November 2015

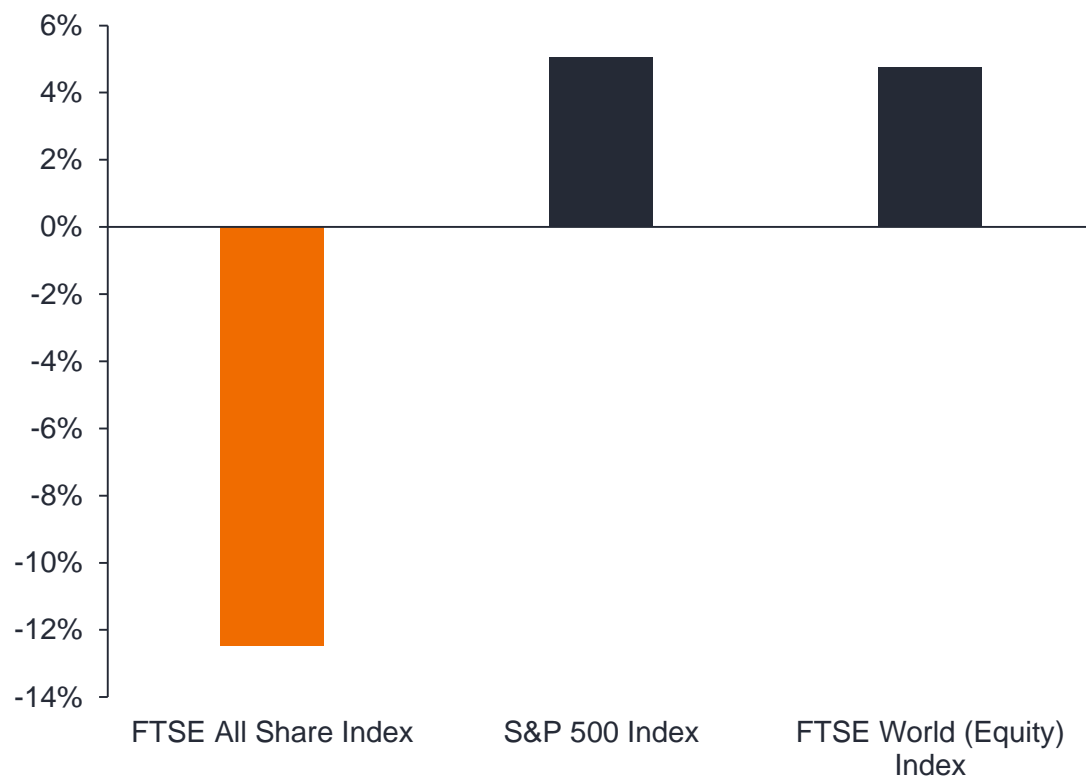
Note: For illustrative purposes and not indicative of any actual investment

**Past performance is not a guide to future performance.**

# TOUGH TIMES FOR THE UK

UK disproportionately suffered in this crisis

## Index Drawdowns



## Sterling Weakness



Source: Bloomberg data as at 19 November 2020

Note: The chart shows the Deutsche Bank Trade weighted GBp Index.

Changes in currency exchange rates may cause the value of your Investment and any income from it to rise or fall.

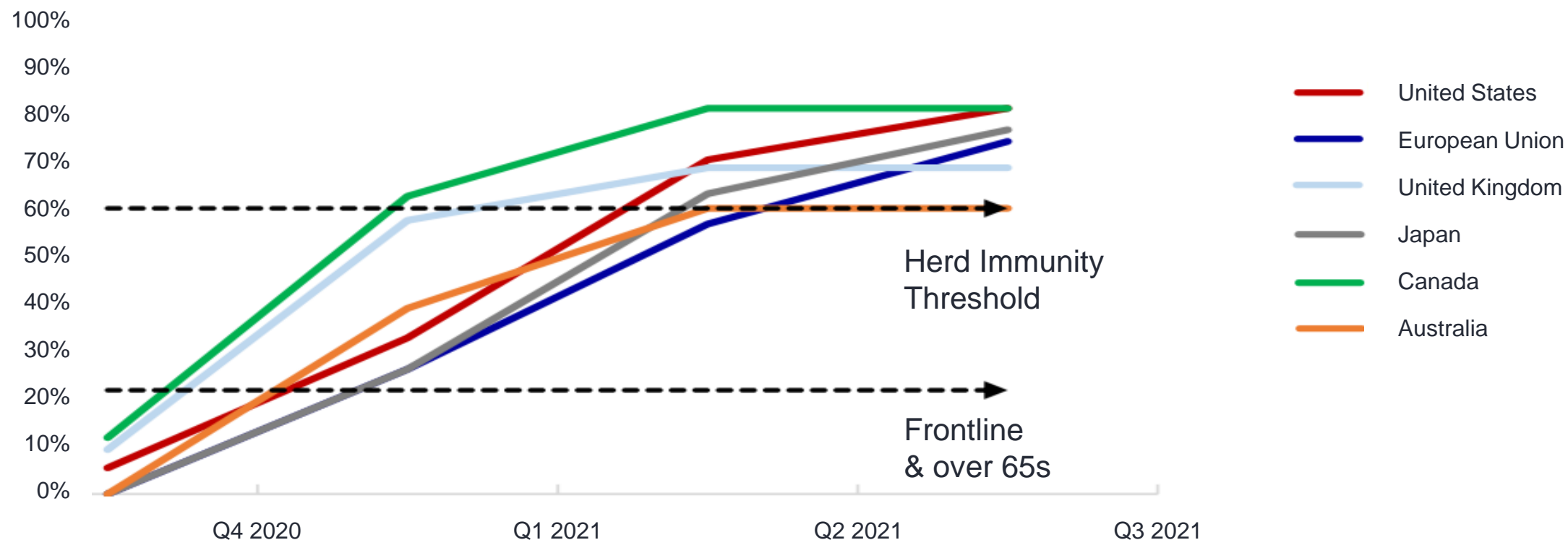
Source: Bloomberg data as at 30 November 2020

Note: % Drawdown since 20 February 2020

# LIGHT AT THE END OF THE TUNNEL

Projections of national immunity levels (Deutsche Bank estimates)

## Immunity Ratio



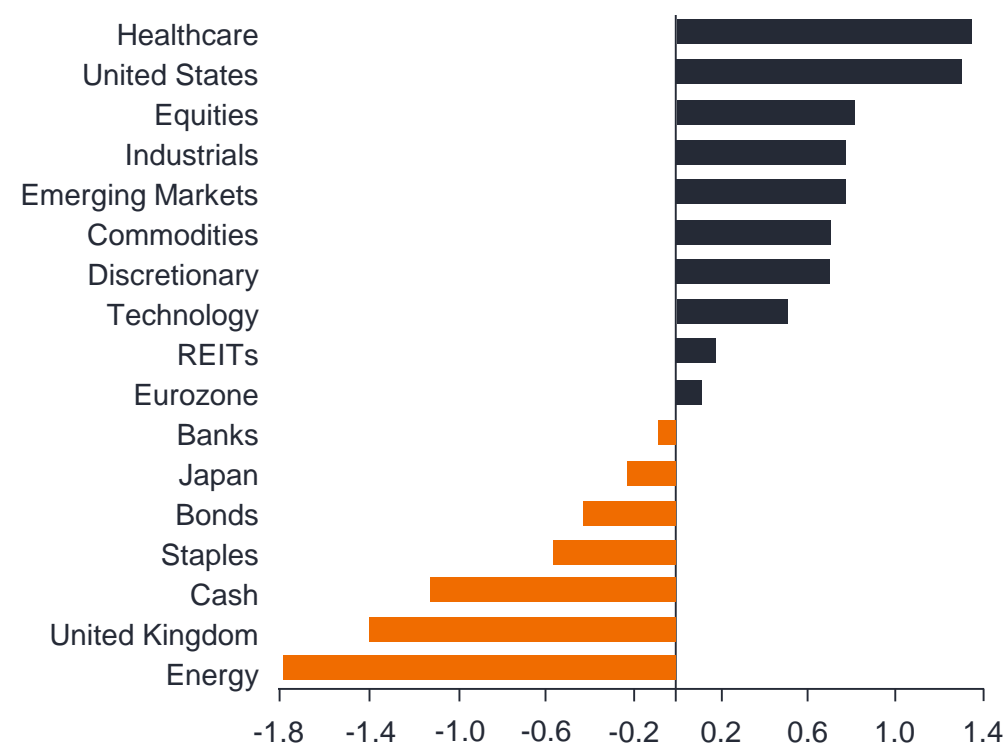
Source: Deutsche Bank, World Bank, corporate and governmental press releases

# WEAK SENTIMENT PROVIDES AN OPPORTUNITY

Underweight and lowly rated

## The UK Remains a Large Underweight Position

Nov '20 Global FMS – Positioning vs. History (Z-Score)



## The UK Looks Lowly Valued Relative to Other Global Equity Markets

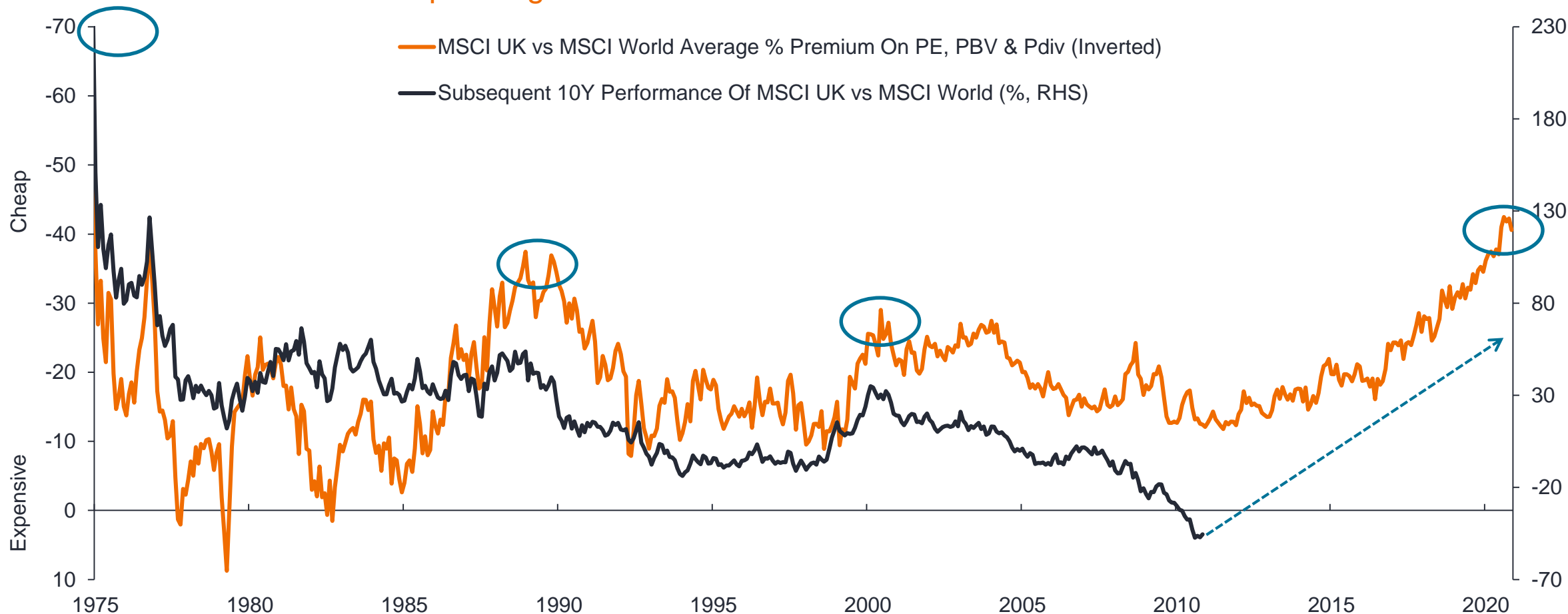


Source: Bank of America, as at November 2020

Source: Credit Suisse, Datastream, as at 9 December 2020

# UK EQUITY MARKET SET-UP FOR A STRONG DECADE

When the market is this cheap strong returns follow



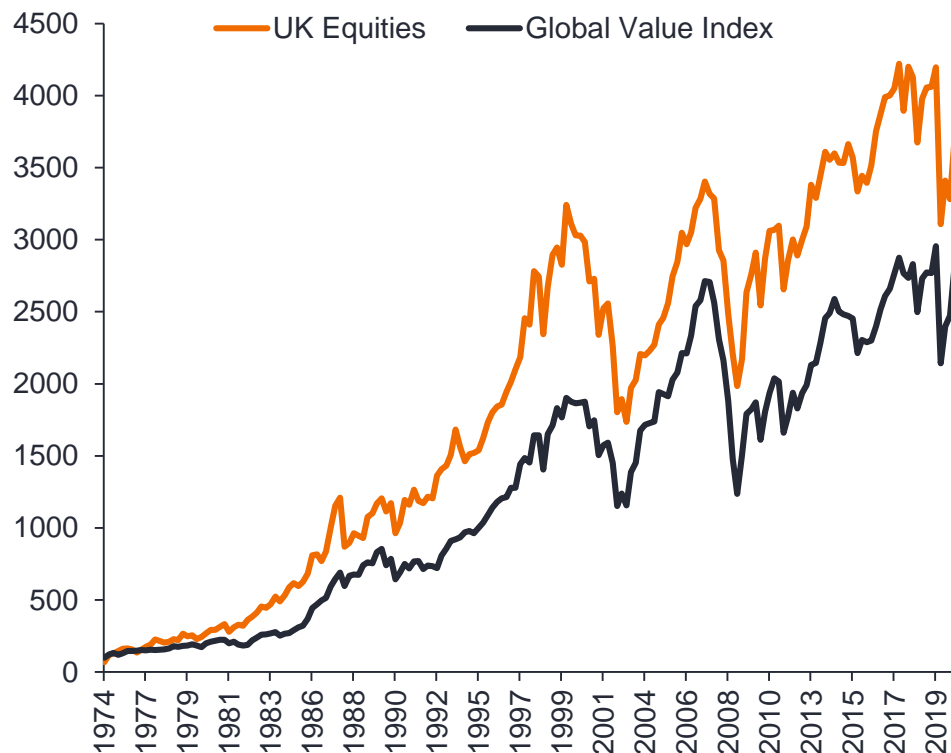
Source: Morgan Stanley, MSCI as at 30 November 2020

Note: There is no guarantee that past trends will continue, or forecasts will be realised.

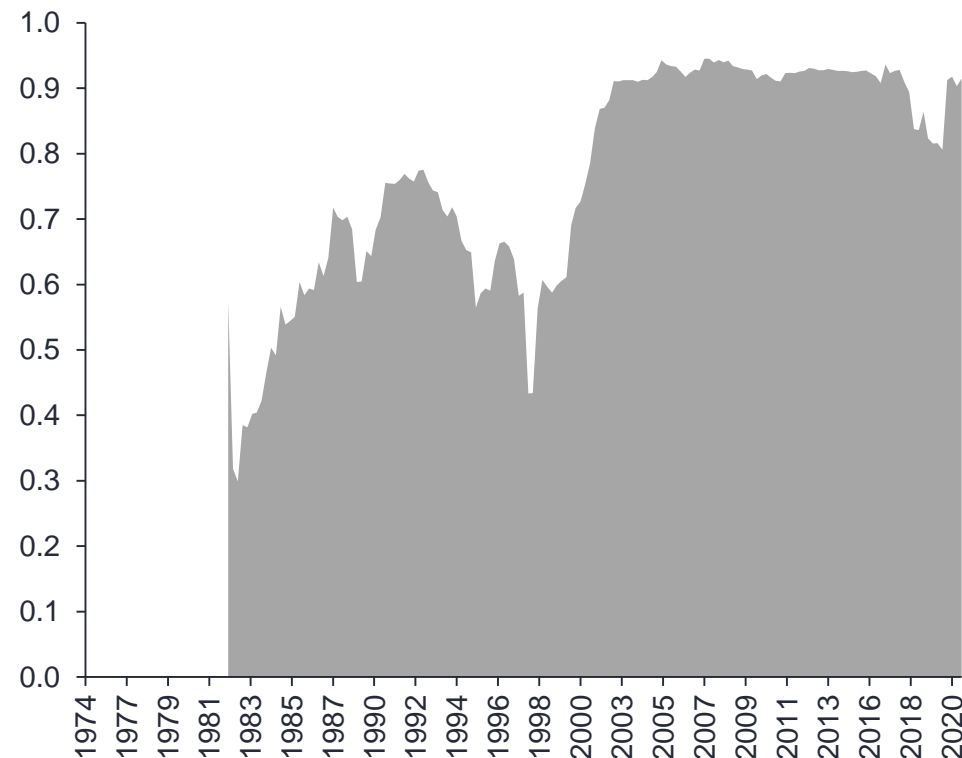
# UK EQUITIES ARE A PLAY ON THE VALUE ROTATION

UK equity and value style returns are highly correlated

## The UK Equity Market is a Value Market



## UK Equities Correlation to Value

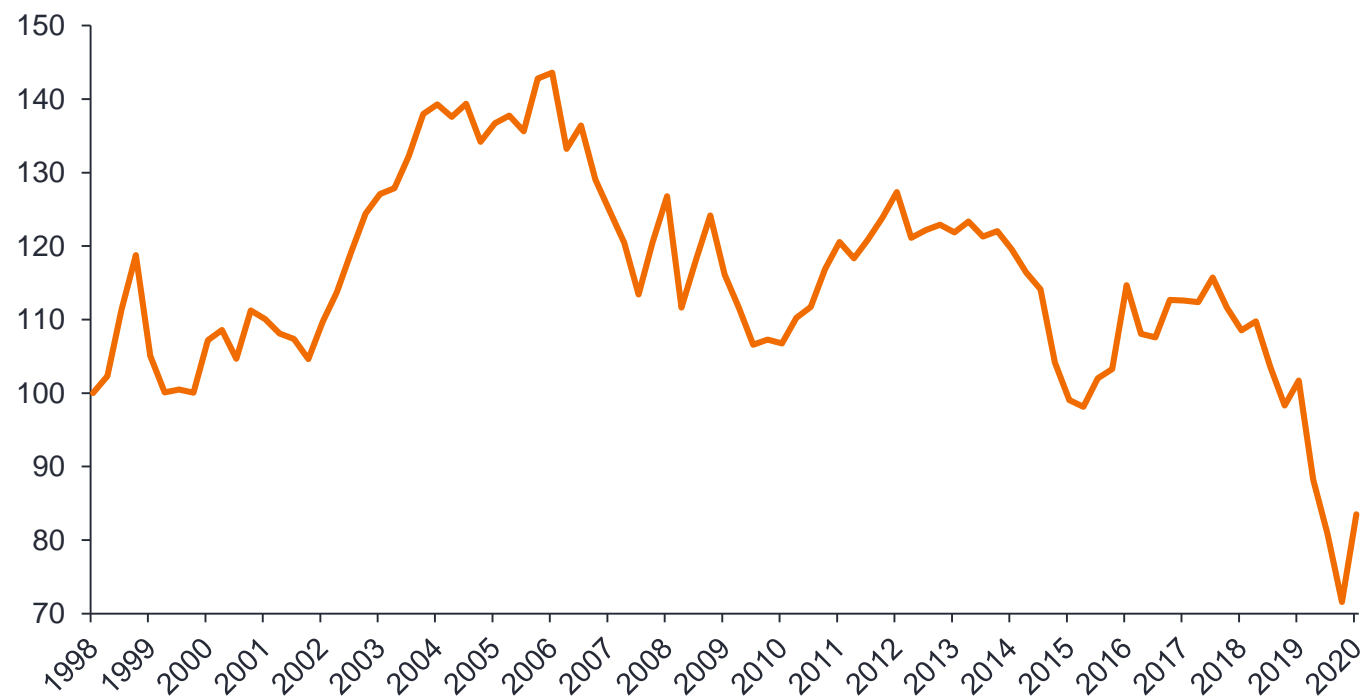


Source: Bloomberg, as at 4 December 2020

# THE VALUE ROTATION HAS BEGUN

Still a lot more to go

## UK Value vs. Growth



Source: Bloomberg, as at 4 December 2020; MSCI UK Daily TR Net Value Index vs. MSCI UK Daily TR Net Growth Index

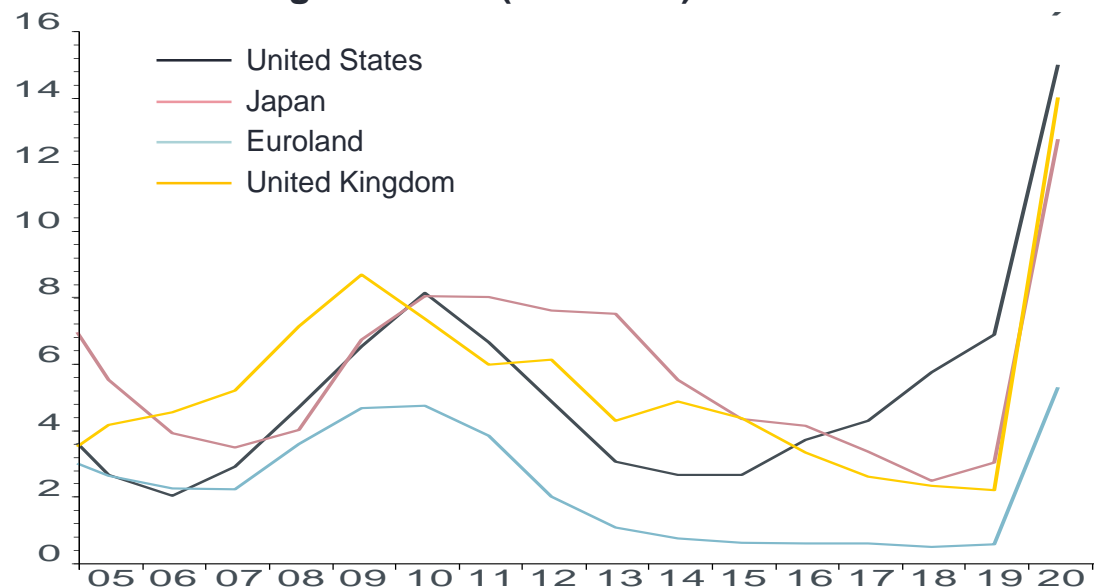
# REGIME CHANGE

## Policy back drop supportive of rotation

“Following periods when inflation has been running below 2 per cent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 per cent for some time,” Mr Powell said.

- Central Banks happy to accommodate a rise in inflation
- Fiscal policy is now expansionary too, austerity is over
- Reflation is a good back drop for value investing

**Structural Budget Deficits (% of GDP)**

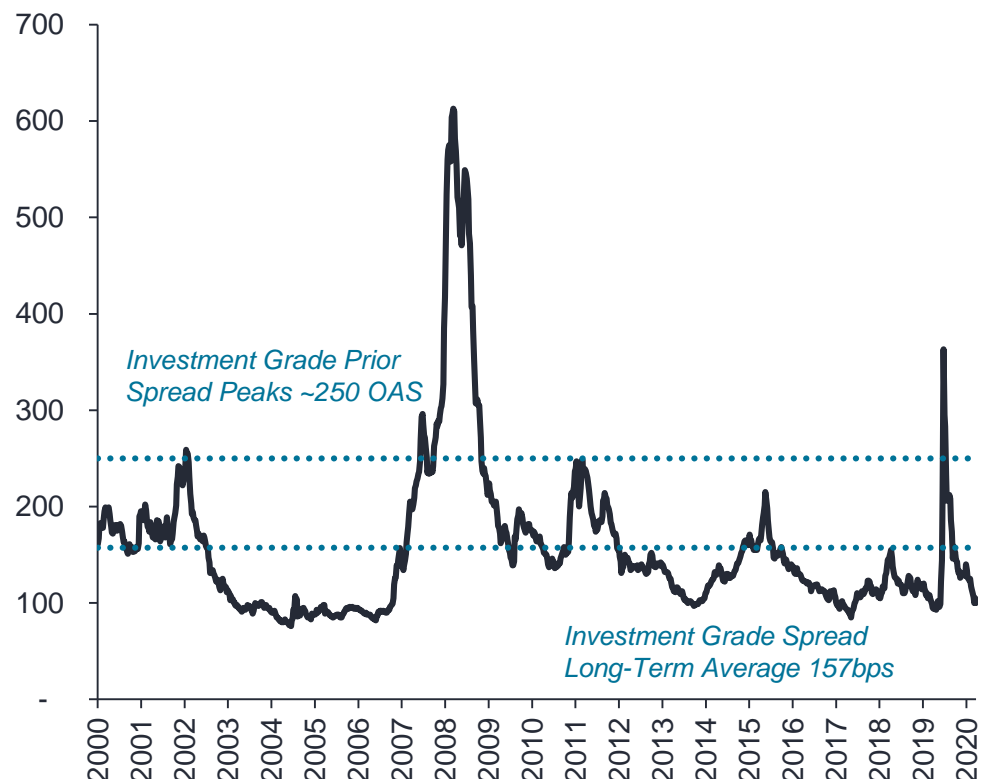


Source: Thompson Reuters Datastream

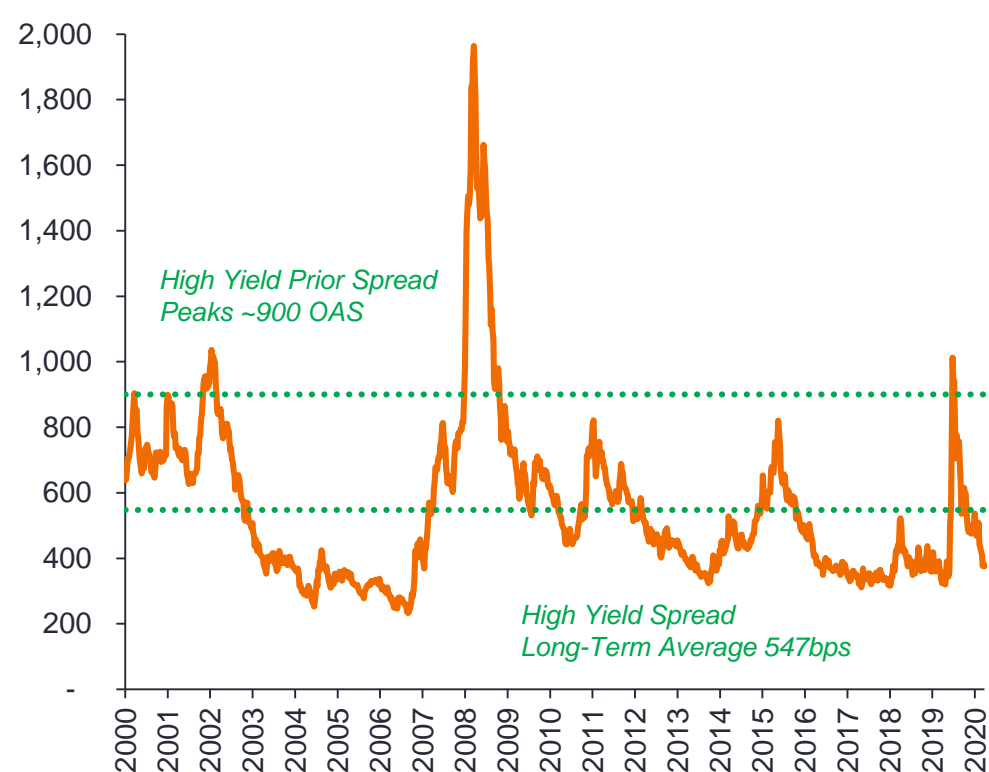
# CREDIT MARKETS EXPECTING A RECOVERY

Back to long-term average levels

Investment Grade Spread (bps)



High Yield Spread (bps)



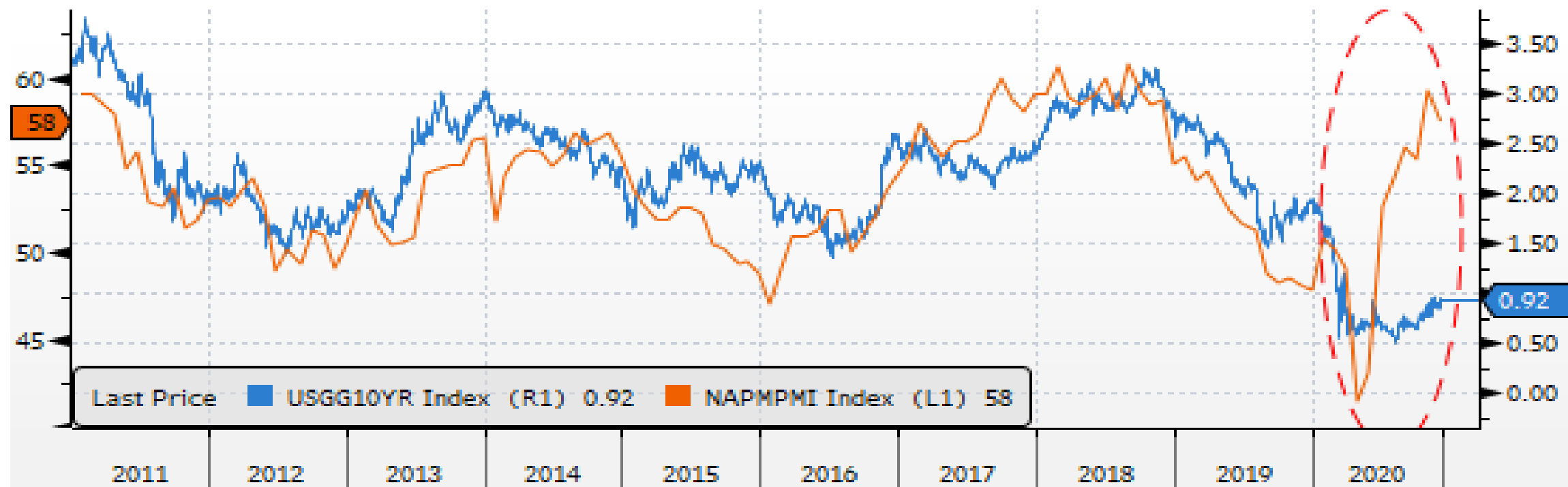
Source: Credit Spreads: Bloomberg, as at 18 December 2020

Note: Yields may vary and are not guaranteed

# GOVERNMENT BOND MARKETS YET TO REACT

Fundamentals point to higher bond yields

## Bond Yields

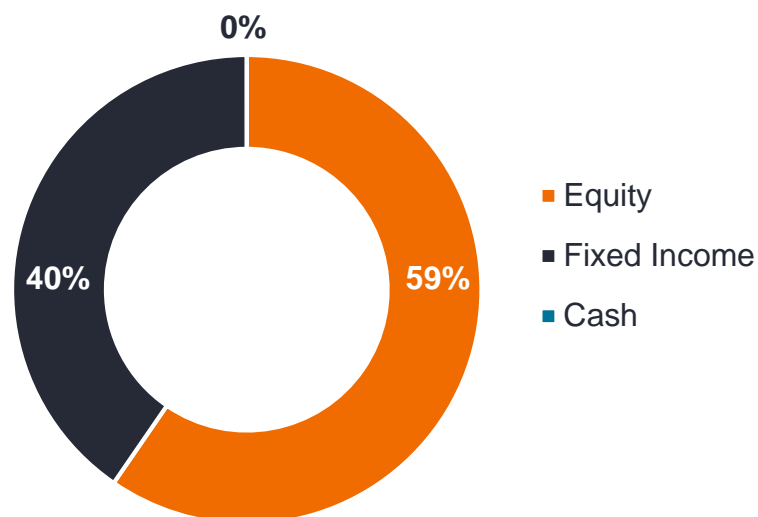


Source: Bloomberg, as at 4 December 2020

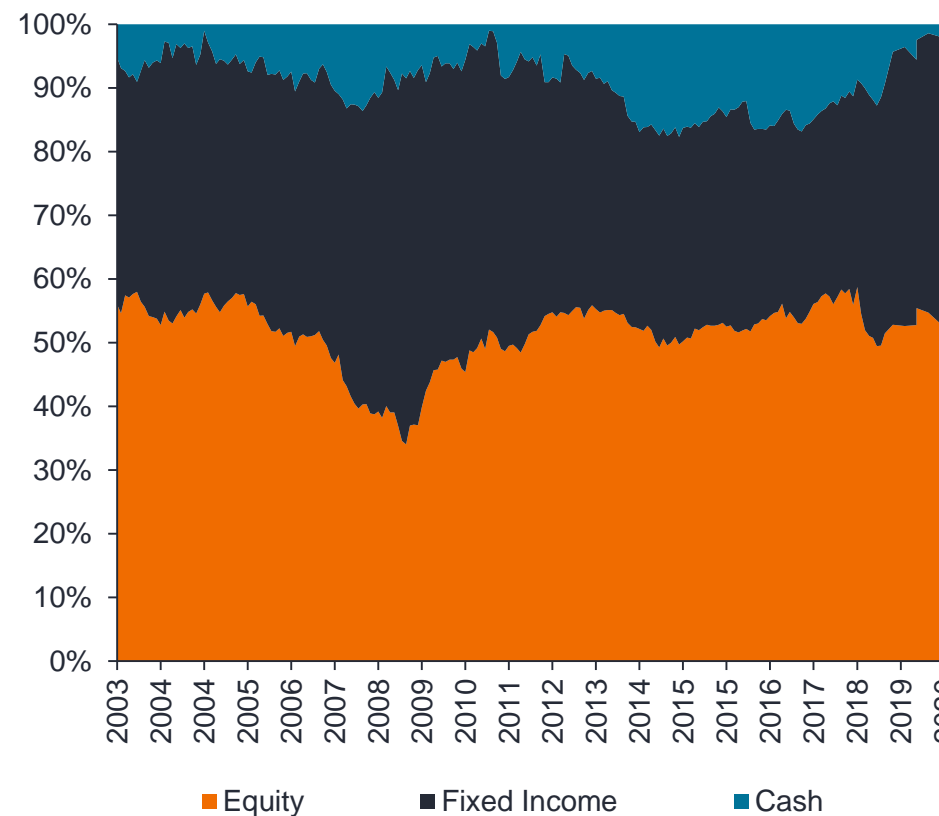
# ASSET ALLOCATION

Positive on UK equity returns going forward

	Ranges	Current Weight
Equities	30% – 60%	59%
Bonds	20% – 60%	40%
Cash	0 – 20%	0%



## Portfolio Asset Allocation



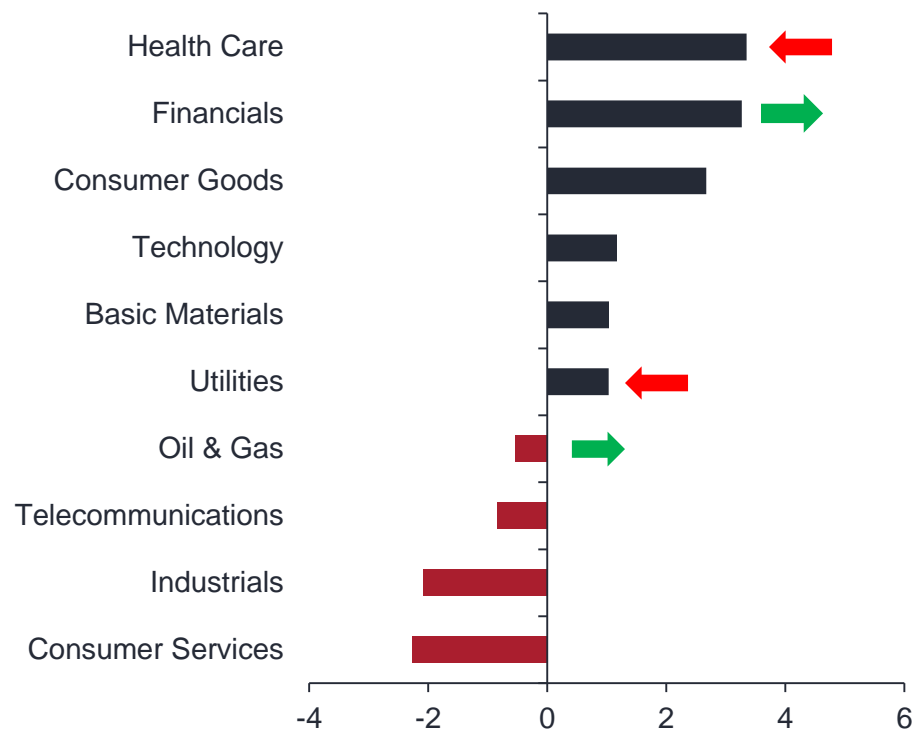
Source: Janus Henderson Investors, as at 30 November 2020

Note: Totals may not add up to 100 due to rounding

# EQUITY PORTFOLIO MORE VALUE ORIENTATED

Positive on UK equity returns going forward

## Portfolio Sectors



## Portfolio Transactions

### Added



### Reduced



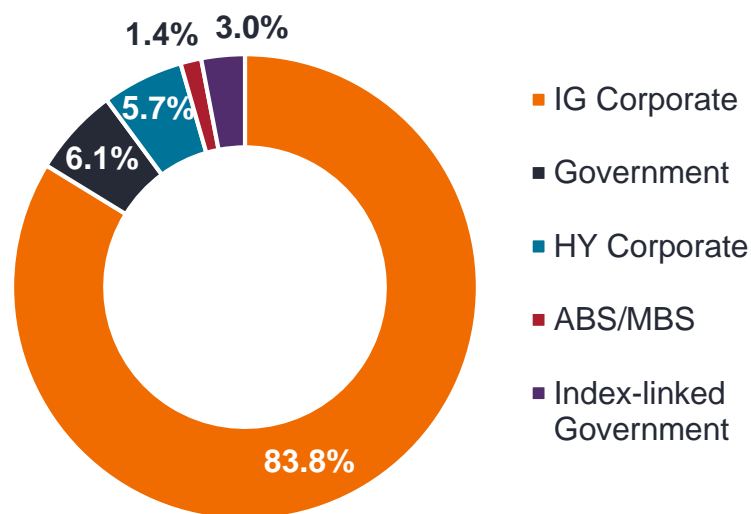
Source: Janus Henderson Investors, as at 30 November 2020

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# CURRENT BOND POSITIONING

Fixed income portfolio – bonds should be boring

## Bond Portfolio Weightings



- Increased credit exposure
- Reduced government bond exposure
- Selective value in the corporate bond market, added to some cyclical sectors and issuers

Source: Janus Henderson Investors, as at 30 November 2020

Note: Totals may not add up to 100 due to rounding



# CONCLUSION

The value rotation is for real

- It has been a tough few years for UK equities and value investors
- Covid is the denouement
- This value rotation has legs
- The UK equity market is set to outperform
- Cautious Managed is positioned to potentially benefit from these developments

# APPENDIX

# BIOGRAPHY



**Stephen Payne, ASIP**

**Portfolio Manager**

Stephen Payne is a Portfolio Manager on the Global Equity Income Team at Janus Henderson Investors, a position he has held since joining Henderson in 2016. He is responsible for co-managing the Cautious Managed strategy. Prior to Henderson, Stephen was with Santander Asset Management, where he managed the firm's enhanced, dividend, and equity income funds from 2007. Before that, he worked for Blue Oar Securities as a sell-side analyst specialising in UK high-yield equities. Earlier, he was with Teachers Investment Management, where he managed the UK mid- and small-cap equity funds and the Sovereign Income Unit Trust. He also worked at Framlington Investments and Hill Samuel Asset Management managing their UK Equity Income fund ranges. He started his career at Abbey Life.

Stephen has a BSc degree (Hons) in economics from the University of Southampton. He is an associate of the CFA Society of the UK, having completed the associate examination and subsequently having been granted the ASIP designation. He has 26 years of financial industry experience.

Source: Janus Henderson, as at 31 December 2020

# CAUTIOUS MANAGED FUND

Annualised Performance (%)	5 Year	10 Year	Since Inception (03/02/03)
Fund – I Acc GBP (Net)	3.13	5.05	6.04
50% FTSE All Share 50% ICE BofAML Non-Gilt GBP	5.03	6.38	6.96
IA Mixed Investment 20-60% Shares	4.92	4.91	5.49

Discrete Performance (%)	I Acc GBP (Net)	Index	Peer Group
30 Sep 2019 – 30 Sep 2020	-7.33	-6.84	-1.23
30 Sep 2018 – 30 Sep 2019	2.87	6.64	4.13
30 Sep 2017 – 30 Sep 2018	1.78	3.22	2.64
30 Sep 2016 – 30 Sep 2017	5.50	6.09	6.16
30 Sep 2015 – 30 Sep 2016	8.44	15.27	12.28

## Index Description

The 50% FTSE All Share + 50% ICE Bank of America ML Sterling Non Gilt Index is a composite index reflecting 50% exposure to shares listed on the London Stock Exchange and 50% exposure to corporate bonds. It forms the basis of the Fund's performance target and provides a useful comparison against which the Fund's performance can be assessed over time.

## Peer Group Description

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Source: Janus Henderson Investors, as at 30 November 2020. Discrete performance as at 30 September 2020.

Note: Performance target: To outperform the 50% FTSE All Share + 50% ICE Bank of America ML Sterling Non Gilt Index by 1.5% per annum, before the deduction of charges, over any 5 year period. Please note the performance target is to be achieved over a specific annualised time period.

Performance fees may be charged before the Fund's outperformance target is reached.

Index: 50% FTSE All Share + 50% ICE Bank of America ML Sterling Non Gilt Index, usage: comparator. Peer group benchmark: The Investment Association (IA) usage: comparator

From 1 July 2020, the Fund's benchmark changed. Past performance shown before 1 July 2020 was achieved under circumstances that no longer apply.

**Past performance is not a guide to future performance.**

## Contact us

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