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MANAGER NEWS

Fund managers buy battered builders as their shares crash

Fund managers are snapping up UK house builders as plummeting stock markets push their shares to historic lows.

House builders have suffered among the heaviest share price falls as stock markets have tumbled over the past month after the coronavirus pandemic took hold.

Most UK-listed house builders have halved in value as quarantining measures curtail building operations in the short term and investors factor in their prospects in a recession.

Jefferies analysts cut their earnings per share estimates for UK housebuilders by 15% to 25% for the year, amid an expected 15% reduction in home sales.

Persimmon, Taylor Wimpey, and Barratt Developments have all halved in value while shares in Redrow are down by 60%.

Citywire A-rated Ed Legget, manager of the £802m Artemis UK Select fund, said he was using market volatility to add 'modestly to housebuilders'.

Legget has topped up his positions in Redrow and Persimmon, pointing to their 'strong balance sheets' and 'reasonably strong order books' that can carry them through the 'next six-to-nine months'. The shares are currently at eight-year lows, which he said was attractive.

He did not mention Countryside Properties, a housebuilding and urban regeneration company that sat in the top 10 of his UK equity fund at the end of January, making up 4% of the portfolio. Shares in Countryside are down 47% to 269p over the past month.

UK equity income manager Colin Morton, who runs the £812m Franklin UK Equity Income and £48m Franklin UK Opportunities funds, is also backing housebuilders.

He said if the coronavirus outbreak was 'short-lived' then housebuilders should 'be able to survive and thrive'.

'Management at one company in the sector we recently spoke to said it is retaining cash on its balance sheet, rather than returning it to shareholders, to get through any negative demand shock related to coronavirus,' he said.

'Many stocks in the sector look very cheap to us right now.'

Legett said traditionally defensive sectors such as book makers and public transport companies have been just as badly hit due to people staying indoors and the forced closure of betting shops.

ARTEMIS UK SELECT

Fund managers	Ed Legget, Ambrose Faulks
Sector	IA UK All Companies

Sector allocations (%): UK Equities 84.42, Money Market 11.90, Luxembourg Equities 3.19, Irish Equities 0.49

Asset allocations (%): British American Tobacco 5.57, 3i Group 5.33, Barclays 4.68, BP 4.29, Prudential 4.06, Oxford Instruments 4.06, Tesco 4.02, Countryside Properties 3.97, DS Smith 3.76, International Airlines Group 3.46

Returns (%)
Three-year total returns: -28.4
Three-year sector return: -22.7

With vast swathes of the global economy shutting down as governments bid to limit the spread of the coronavirus, Legget said 'few companies will prove defensive' but he has been using the volatility to invest, reducing his cash position from 9% to around 3%.

Legett has also reduced his 'short' positions, which turn him a profit when the shares he is betting against fall, to below 5% of the fund.

This has included closing short positions on mining companies, with the manager reversing his bearish stance on the sector and buying shares in Rio Tinto, arguing miners would benefit from economic recovery in China, the world's top metals consumer.

'As we move through this crisis it is clear that China will be first in and first out of the crisis so [miners are] a safe haven and will look to participate in the recovery first,' he said.

Morton said the coronavirus crash was 'different' to the financial crisis when 'people were still travelling and going out'. Self-isolation measures could see businesses involved in leisure activities take 'very little to no income' for three to six months but continue to pay fixed costs such as rent.

'Certain companies or sectors such as healthcare, personal household goods and utilities look to fare better during this time of market turmoil, but indiscriminate selling sprees start to unlock value,' he said.

Morton added that UK stocks were 'so lowly priced now that it won't take much for share prices to go back up, should we see glimmers of positive news'.

Argonaut CEO highlights the stocks he's shorting in the crash

While most investors suffered losses in the global stock market rout driven by the Covid-19 pandemic, Argonaut Capital chief executive Barry Norris believes the plunge into a bear market was a blessing.

'At the start of the year if you'd have said you're going to make 60% on average from your short positions year-to-date, I probably wouldn't have believed you,' Norris, who also manages the house's £22m Argonaut European Alpha fund, said.

'Shorting in a bull market has often been quite frustrating because weak business models and business models which are ponzi schemes or deceits – they can get away with it.'

Norris' strategy has returned more than 12% this month alone, as the FTSE 100 fell by more than 20%. It currently tops the Investment Association's Targeted Absolute Return sector over one year, as – similar to their outperformance following the 2008 financial crisis – such funds find their time to shine during periods of volatility.

This windfall has principally come from long-running short positions paying off, while others have been made recently in view of the likely impact of the coronavirus on specific sectors.

Regardless, the turmoil has helped expose companies' underlying problems.

One call that has paid off is Norwegian Air Shuttle, which the fund has held a short in for three years, which has seen its share price collapse by more than 70% as the pandemic has delivered a catastrophic blow to airlines.

'It has always had too much debt on its balance sheet for what it does, which is a low-cost airline, where long-haul, low-cost is at least unproven as a business model,' he explained.

'Norwegian Air Shuttle shareholders are now paying the price for the fact that it was managed so ag-gressively with debt rather than equity funding that it only took one thing to go wrong for the company to be in very serious problems.'

Stressing the 'most lucrative ones aren't necessarily the most obvious ones' when it comes to picking shorts, he has also taken bets against aircraft leasing businesses such as US-based Air Lease and Ire-land's AerCap.

He said: 'To us, these basically are being financed only for success. The level of equity in these compa-nies is so small relative to the overall balance sheet, that if you get any problems then shareholders get wiped out.'

Elsewhere, the owner of gambling businesses Betfair and Paddy Power, Flutter Entertainment, is expected to suffer as sporting events are cancelled.

The fund held a long position in the stock until recently.

'Surely people are going to be less likely to bet on virtual greyhounds or virtual horses, than football matches or rugby matches or cricket matches.

'We closed our position, and then a few days later, I thought, well, actually, should we not be short this stock because the risk/reward had fundamentally changed.

'It is a high-multiple stock, based on growth from sports betting in the US, which isn't going to happen – at least for the foreseeable future. And has it got any cashflow to pay its people in the rest of the world?'

Norris thinks the virus will also prove to be the 'nail in the coffin of the shopping mall', as it accelerates the shift away from bricks and mortar to online.

He already held a negative view on the sector prior to the outbreak, which led him to bet against Hammerson in the UK and Deutsche EuroShop in Germany.

European regulators have an increasingly hostile attitude towards shorting amid the crisis, however, with ESMA recently forcing investors to declare short bets and Italy, France and Belgium having put in place emergency bans on all short selling.

'Some of the regulation is somewhat ridiculous. And I think when, for example, the Italian ban happened, Italian stocks all went up for a day, and then next day they dropped,' Norris said.

'Bear in mind, when the market falls out of bed, normally a good short seller is not adding to their position; they're holding it or looking to take a bit of profit. So, actually short sellers add liquidity to the market and probably reduced volatility rather than the other way around.'

He added: 'Making a living out of shorting stocks is actually incredibly difficult when you've been in a bull market, and so people like me get very irritated when we've been short stocks, because we've done our homework on them and then you are banned from expressing that in terms of putting a position on.'

ARGONAUT EUROPEAN ALPHA

Fund managers	Barry Norris and Greg Bennett
Sector	IA Europe Excluding UK

Sector allocations (%): Software & Computer Services 18.41, Pharmaceuticals & Biotechnology 9.62, Banks 8.70, Non-Renewable Energy 8.20, Finance & Credit Services 6.35, Household Goods & Home Construction 6.32, Electricity 6.16, Media 4.93, Industrial Metals & Mining 3.89, Precious Metals & Mining 3.65

Asset allocations (%): EDP Renováveis 6.16, Grubhub 5.96, Takeaway.com 5.01, Novo Nordisk 4.91, Grifols 4.71, OTP Bank 4.38, Sberbank of Russia 4.32, GoCo Group 4.23, Nornickel 3.89, Edenred 3.25

Returns (%)
Three-year total returns: -13.6
Three-year sector return: -11.0

Jupiter's Clunie: There's an academic case for allowing shorts

The ability to short stocks provides necessary market liquidity and more efficient functionality, according to Jupiter's head of strategy for absolute return, James Clunie.

Clunie spoke to Citywire in the wake of bans on short selling being temporarily imposed in Italy and Spain earlier in the month, with France and Belgium – and most recently Greece – also moving to stop the practice for a limited period.

When asked if it would affect positioning or present a challenge, Clunie, who also manages Jupiter's Absolute Return fund said there is an academic case for allowing shorting to proceed unimpeded. 'Most studies show that short-selling improves market liquidity and price discovery, helping markets to function better on average,' he said.

'As a result, regulators generally favour its practice. However, during market crashes, or at times when large-scale new issuance of shares is needed, regulators sometimes prohibit new short-sales.

'This is to help maintain confidence in markets, by removing any suspicion that short-sellers are driving down share prices.'

The bans in multiple jurisdictions largely cover new positions, as opposed to opening new shorts, which Clunie said could be viewed as a slightly unnecessary move.

'Studies of previous episodes when regulators have prohibited new short-sales show an unusual result – the shares that are 'protected' from new short-sales go on to underperform, on average.

'This is counterintuitive and suggests that buying shares after new short sales are prohibited might be a poor investment approach.

'However, this finding is based on a limited number of previous 'natural experiments' and we know that every crash can be different.'

The previous ban on shorting, which was instituted in many countries in 2012, was criticised by fund managers who viewed it as having only minor benefit and major complications for investors.

JUPITER ABSOLUTE RETURN

Fund manager	James Clunie
Sector	IA Targeted Absolute Return

Region allocations (%): UK 43.47, Russia 6.21, Japan 4.73, Australia 1.38, Norway 1.28, Canada 1.24, Denmark 1.03, France 0.40

Asset allocations (%): WisdomTree Physical Gold 9.27, Serco Group 5.30, BP 4.64, Gazprom 2.61, Newcrest Mining 2.21, GVC 2.17, IG Group 2.17, Rio Tinto 2.15, BHP 2.12, Centrica 1.96

Returns (%)
Three-year total returns: -19.5
Three-year sector return: -3.2

FUND NEWS

Rosemary Banyard joins Downing to launch 'unique' UK opportunities fund

Downing Fund Managers has launched a new UK equity strategy for Schroders veteran manager Rosemary Banyard.

The Downing Unique Opportunities fund will hold a portfolio of 25 to 40 positions in UK companies across the market spectrum, focusing on mid and small cap stocks.

It will carry an annual management charge of 0.75% a year, while ongoing charges – including trading costs – are capped at 1% per annum.

Banyard said: 'I'm delighted to be joining Downing Fund Managers – I firmly believe that our strategies and processes are an excellent fit and the team will provide a very supportive framework. The opportunity to launch the Downing Unique Opportunities Fund is an exciting one and I believe this fund will appeal to investors.'

Banyard, who spent the bulk of her career at Shcroders, last year stepped down as investment director at Sanford DeLand Asset Management for 'personal reasons' two years after joining the business.

She added: 'I shall adopt a tried and tested investment strategy, refined over many years, which focuses on businesses which have few if any peers listed in the UK.

'These businesses are likely to earn above average returns on equity without employing excessive leverage, by virtue of possessing certain attributes that protect them against competition.'

Banyard spent nearly 20 years at Schroders, managing its UK Smaller Companies fund alongside Andy Brough.

She also headed the Schroder Mid Cap Fund PLC and several other segregated UK equity mandates, in total managing assets of around £1bn.

She then joined Sanford DeLand Asset Management, best known its founder Keith Ashworth-Lord's £970m CFP SDL UK Buffettology fund.

Before leaving the firm last April, she had managed its CFP SDL Free Spirit fund, which was launched following her arrival and placed just outside the top 10 of the UK All Companies sector with a return of 26% while she was there.

Downing partner Judith MacKenzie said: 'It is a real coup for Downing to attract a manager of such calibre and experience.

'We are delighted to welcome Rosemary as we develop our new boutique strategy, working alongside highly experienced fund managers with proven track records.

'She has a long-standing and enviable reputation of hunting down the best companies in the UK, unconstrained by benchmark or market cap, and delivering benchmark and inflation-beating returns to investors over the long term.

'The new fund will be complimentary to our existing strategies and Rosemary will provide valuable experience to the rest of the Downing Fund Managers team.'

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