April 2021

BARRATT & COOKE
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	5/4/19	1/7/19	5/10/19	1/1/20	5/4/20	1/7/20	5/10/20	1/1/21	5/4/21
FTSE 100	7447	7426	7155	7542	5416	6170	5943	6461	6737
FTSE All Share	4067	4057	3933	4196	2958	3411	3327	3674	3849
Dow Jones (US)	26425	26600	26574	28538	21053	25813	28149	30606	33527
S&P 500 (US)	2893	2942	2952	3231	2489	3100	3409	3756	4078
Nikkei 225 (Japan)	21808	21276	21410	23657	17820	22288	23312	27444	30089
PIMFA Balanced	1610	1632	1643	1679	1389	1574	1581	1677	1718

Growth Equities	Higher Yield Equities	Mid-Cap Equities	Overseas Equities	Collective Investments
Bunzl	Admiral	Beazley	Activision Blizzard	Cordiant Digital Infrastructure I/T
Diageo	BHP Group	Dechra	CME Group	Fidelity European Values I/T
Experian	Reckitt Benckiser	Fevertree	Ecolab	JP Morgan Emerging Markets I/T
Halma	Rio Tinto	Liontrust A M	Microsoft	JP Morgan Global EM Income I/T
LSE	Royal Dutch Shell	LondonMetric	Nike	Pantheon I/T
Rentokil	Severn Trent	RWS	Novo Nordisk	Smithson I/T
Rightmove	SSE	Spirent	Prosus	TR Property I/T
Smith & Nephew	Unilever	UDG Healthcare	Visa	3i Infrastructure I/T

Standing in Line

Foreign nationals (particularly Europeans) often joke that 'us Brits' have a favourite pastime – to queue. For the last three months we have done little more than 'stand in line'. Sometimes our queues are on the telephone with boring enquires regarding car insurance, changing an internet connection or waiting for an answer on the electricity supply, whilst at other times they are in person on a train station forecourt. Perhaps more excitingly you might find yourself waiting at Carrow Road in anticipation of a playoff final ticket or maybe you could be snaking around SW19 in the most iconic of queues to try and obtain a pass to Centre Court for the Wimbledon final.

However, the queue in which we now 'stand' is the most important of our lifetime. This is the line that promises to grant us equal joy to Charlie Bucket's 'golden ticket' as the prize is a route to freedom, or at least a bit of normality. I am slightly disappointed in myself that, rather boringly, I now crave 'normality'! And so, patiently, we wait for our turn to be pricked by a needle and our dose of 'freedom' to be injected.

We are well aware of the numbers with an extraordinary amount of our population having received the first jab. As I started to pen this newsletter my personal jab (I'm 41) was starting to look close, however with concerns over the Oxford/AstraZeneca potion causing complications (for a very small number) a delay in the rollout, particularly for the under 30's, looks likely. We will see how this develops. I am delighted our elders and those most at risk have received theirs and I just hope the rest of us receive ours soon so that we can all move out of restrictions together. For the record I am vehemently against vaccine passports but that's a debate for another day. I have, however, conducted a straw poll with my friends in their 50's who feel that if they are able to visit the pub, but their 20 year old sons and daughters are not allowed, household anarchy (which has been kept at bay thus far) would ensue!

The vaccine 'war of words' has started, where our European neighbours, soon after banning their populations from receiving the Oxford/AstraZeneca inoculations, then threatened to stop exports to the UK as they wanted to keep it for themselves; a considerable U-turn! Tensions remain high as our fellow Europeans listen to their leaders (who are not scientists) and are therefore now reluctant to take the Oxford/AstraZeneca injection. Sadly many countries on the continent have

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gone back into another lockdown. What this has demonstrated is that even for the most resolute of 'remainers' the Brexit deal has been a massive short term victory, where the UK Government has its own ability to decide its own destiny by creating its own contracts. Many of us who were in the 'stay' camp are happy to review our opinion, not least the great journalist, John Humphrys.

As the presenter of Mastermind I think it's worthwhile listening to Mr Humphrys, who recently gave an interview in which he was asked about his Brexit view. He reported that he has previously been accused of bias in favour of 'leave' when actually his personal view was to remain. He put this down to trying to give a balanced argument and therefore, at times, he possibly fought too hard for the opposing point of view. However, having witnessed recent events he is happy that the UK has divorced Europe. I am happy to change my mind (something we have to do as stockbrokers) and recent events abroad are causing my opinion to change. Therefore I'll say thank you to the Brexiteers.

Covid-19 is a global crisis and whilst the UK Government are keen to look after 'their own' (and we are grateful for this) our hopes and prayers are that all corners of the globe rise out of this awful mess soon.

Meanwhile:

5th January – It seems like an age since the mob, stirred up by their leader, stormed The Capitol as Trump's final salute to US Democracy!

2nd February – We heard Captain Sir Thomas Moore had sadly died, however his last year was one of the greatest triumphs in modern memory.

22nd February – Once again we all sat and watched the television as the Prime Minister showed us the roadmap out of lockdown.

3rd March – Rishi Sunak delivered a Budget where the status quo was retained. He seemed far more excited than the rest of us about the 'innovative' freeports he promised to create.

8th March – A landmark day for parents as children returned to school whilst that evening television sets were again tuned in to 'that' interview by Oprah Winfrey, on which we all have our own opinions.

16th March – A great day for sport with Rachael Blackmore winning the Cheltenham Champion Hurdle on the wonderful filly Honeysuckle. In my (and Ruby Walsh's) opinion Rachael is not the 'best female jockey' she is simply 'the best jockey' with plenty of other fantastic rides including an admirable second in the Gold Cup.

25th March – Alan Turing (whom I have written about previously) was printed on the new £50 note. What a shame we are in transition to a cashless society.

In addition, throughout the last few months we have seen further shenanigans north of the border with the interrogations of Nicola Sturgeon and Alex Salmond on 'Parliamentary process'. Whilst the cases against both were opaque, as large segments of evidence were missing (this certainly wouldn't amuse Hastings in the television series The Line of Duty), Sturgeon seemed to have won until Salmond came back by creating the Alba Party. Both of their agendas appear to go back on their word, where the 18th September 2014 Independence Referendum vote was, at the time, said to be a once in a lifetime (or certainly generation) opportunity for voters.

I'm a firm believer in the union (I look forward to the Lions Tour when we are on the same team) however I was appalled to hear the differential in funds the Scottish Parliament receive per capita compared to England (£1.30 for every £1). It is this discrepancy, derived from the Barnett formula (Barnett must have flown the Saltire rather than the St George's Cross), that enabled the incumbent Scottish First Minister to deliver a 4% pay rise to nurses when 'we' could only afford 1%. Of course we all believe the higher number is appropriate but the 'pot' seems rather fuller in Scotland.

I have asked three of our team to report on certain developments in recent months:

Ashley Baxter - Equity positioning

Expectations of a global economic recovery has seen a rotation take place across Stockmarkets in recent months, as after a long period of underperformance 'value' stocks (often categorised by their low price to earnings or price to book multiples) have outperformed 'growth' stocks (often categorised as those with a historical record of earnings growth and with the potential to outperform the overall market over time).

Indeed, the share price of companies operating in sectors that have been out of favour for some time, especially those that were directly impacted by the Covid-19 outbreak in the first half of 2020, have recovered strongly and in some cases are almost back to where they were pre-pandemic. This is not a huge surprise given that the price discrepancies between growth and value had reached extreme levels and the vaccine rollout, improved visibility of a return to some kind of normality and major fiscal stimulus announcements have driven expectations for a global economic recovery, and subsequently for earnings to recover.

Meanwhile, further causes for the recent outperformance of value include:

- The expectation for an economic recovery to engender higher inflation and a rise in interest rates. In this environment those companies with relatively cyclical earnings and which are trading on discount valuations tend to outperform.
- The sterling/dollar exchange rate recently hit $1.40 for the first time in almost three years. Growth stocks tend to generate a large proportion of their earnings overseas, meaning a strong pound has a negative impact on results. Those stocks categorised as 'value' tend to generate most of their earnings domestically and hence outperform when sterling appreciates.

It is unclear how far the rotation from growth into value has to run, but investors must still exercise caution when looking at these types of situation. Indeed, there are often good reasons for value stocks to be rated at a discount and it is vital to avoid investing in companies with characteristics that may result in a 'value trap'. These include losing market share, operating in a structurally declining market, being vulnerable to technological disruption and/or being poorly managed. It is also worth noting that whilst the share prices have recovered, many companies that have been directly impacted by the ramifications of Covid-19 have issued significant amounts of debt and/or equity over the past twelve months, in many cases solely to survive. This ultimately means earnings need to fully recover, or possibly reach a greater level than pre-pandemic, to justify the rise in enterprise values.

The rotation has resulted in a short term period of relative underperformance for portfolios (but longer term the numbers are still very favourable) and we acknowledge this could continue over the near term as we finally exit the pandemic, though further disappointing news could of course cause a sharp unwinding in these share prices. However, we remain confident in our investment philosophy and quality growth companies remain the core of portfolios. Indeed, those global companies that have been the mainstay in portfolios and stood the test of time will continue to reward shareholders with attractive long term returns due to their strong cash flows and balance sheets, quality management teams and pricing power which enables resilient performance throughout the economic cycle.

In fact in recent weeks there have been signs that the rotation may prove to be a temporary respite for value investing, with the likes of Unilever and Reckitt Benckiser recovering from their recent lows. Afterall it is quality growth companies such as these that generate high and sustainable returns on capital which, over a sensible time frame (i.e. more than six months), typically allows them to generate attractive compound returns for shareholders.

Sam Matthews – Fixed Interest

Our approach to fixed interest investment is focused on two overriding investment objectives:

1. Mitigation of equity risk
2. Capital preservation

Exposure to fixed income is our primary determinant of portfolio risk and it is therefore crucial that our fixed income exposure remains low risk. For this reason, whilst we aim to make tactical allocations within gilts and bonds, we place structural limitations on the amount of interest rate risk and credit risk we are willing to take. For this reason our fixed interest investments will remain focused on:

- Short & medium dated UK Gilts (both conventional & index-linked)
- Investment Grade corporate bonds (Sterling or Sterling hedged)

In recent years our Gilt positioning has remained short dated (as we viewed the risk/reward profile of longer dated bonds as particularly unattractive) and focused on index-linked stocks to offer some protection should inflation pressures build in the economy. This approach has proved beneficial in recent weeks as the first quarter of 2021 saw a significant rise in global government bond yields, driven by the rapidly improving outlook for global growth and concerns this will be accompanied by higher inflation. Medium and long dated government bonds took the brunt of selling pressure both sides of the Atlantic, with the 10 year Gilt yield rising from 0.17% in early January to 0.85% in late March.

Our short-dated stocks were much less affected, as UK base rates are expected to remain unchanged throughout 2021 & 2022. The 0-5 year FTSE Gilt index fell 0.8% over the first quarter of this year, comparing favourably to the FTSE All Gilt index, which fell 7.2%. In addition, index-linked gilts out performed conventional Gilts of the same maturity as inflation expectations rose sharply; the Gilt market is now pricing RPI inflation to average approximately 3.3% over the coming five years, having started the year at 2.7%. We continue to believe it is right to retain a proportion of our fixed interest exposure in inflation linked assets as the probability of higher inflation has increased due to unprecedented levels of global central bank stimulus.

Our exposure within portfolios to corporate bonds continues to increase as we look to add holdings that provide a pick up in yield without taking excessive risk. We maintain our policy of avoiding the 'high yield' or 'junk' bond market where valuations look extremely rich, much preferring equities where high levels of income are required.

Edward Sidgwick - TB Opie Street Funds

In the October 2020 newsletter we wrote of opportunities being presented by ongoing volatility, both in the UK and overseas. Many such opportunities have indeed delivered good returns in the subsequent months as we progress with tackling Covid-19 and as the UK emerges from the Brexit period, with UK assets once again in demand from overseas investors. Against this improving backdrop, the funds have continued to perform well, with the share prices of both the Growth Fund and the Balanced Fund close to/at their high since inception in August 2019.

The funds are themselves invested in a portfolio of investment and unit trusts, whereby we seek to identify 'best in class' managers for the various geographies and asset classes for which we are seeking exposure (e.g. UK mid-cap equities, global private equity etc). We continue to enjoy excellent access to the fund managers of these underlying investments, not least in light of new work practices through the pandemic (e.g. video conference calls). Indeed, since October 2020, we have had over 50 such meetings ensuring robust due diligence for the investments held, as well as helping to identify new opportunities.

The funds are proving an important and attractive investment solution for both existing and new clients, particularly relevant for those investing up to £250,000. Indeed, it is excellent to now be able to engage with a younger demographic who are at earlier stages of investment, helping to

ensure that we can continue to look after our clients, and their wider families, for many years (and hopefully generations) to come. At the time of writing, just over 900 of our clients are invested in the TB Opie Street Funds, whilst the funds now have combined investments on behalf of our clients of just shy of £70m.

We are looking into launching an income fund in the autumn to sit alongside the growth and balanced funds. Whilst we remain cautious on very high yields which clients became accustomed to when bank interest rates were 5% we believe there is scope for such a product, with a sensible level of income, and will be in touch where we deem this appropriate in due course.

Final comments

Dippy

As you may be aware, Dippy the Dinosaur's visit to Norwich Cathedral was postponed from last year to July-October this year. In the scheme of his/her 'life' I guess a one year delay is not a problem!

I am delighted to announce that Barratt and Cooke are the major regional sponsor and have made a significant donation. We have asked that every penny be put to a good cause and so we will be paying for the transport to enable children at Primary Schools across Norfolk to come and visit Dippy. We thought of having a party for clients with their children but decided that, on balance, with potential for social distancing rules etc. it was better that all the resources went to ensuring as many children as possible are able to see Dippy, particularly those who might not have otherwise been able to do so.

Returning to the office

You've read my views on how the team has adapted brilliantly to remote working so I won't harp on about this. However, I am delighted to report that as of 21st June, in conjunction with the Government Roadmap, all of our staff will be returning to the office. This is aided by considerable expansion in office space where we have purchased the neighbouring building - indeed a hole will go through the wall behind my office into the new space. This property has been purchased despite Covid-19 to provide scope for growth in numbers, but the timing is fortunate since it will enable us to spread out a little more as we return to office based work.

There has been much written about the benefits of remote working, but we are firmly in the camp of an office based environment. This is for a number of reasons:

1) Functionality and service – one of the strengths of our firm is that members of all departments (whether compliance, dividends, advisory, settlements etc) interact on a daily basis which ensures efficient responses to any client based queries and creates a team ethic which we believe is so important.

2) Corporate Governance – As you know we do not allow Advisors to conduct business from a mobile telephone as:

    a) This means every single call is recorded and stored on our office telephone system.
    b) When Advisors go on holiday they have a proper rest (which is in the interests of clients and staff alike).

   In addition, prior to Covid-19 we required everyone to conduct work from their desks which allowed challenges to be shared, questions easily asked of a colleague and natural osmosis of knowledge. All these difficulties have been overcome whilst at home but things work better when we all sit in the same office.

3) Location – our staff live in Norfolk and north Suffolk so getting to the office is not a challenge. I do appreciate that those who commute to London might benefit from working at home, but this is not a problem for us.

4) The heroes – our 'heavy lifters' (those that have stayed in the office throughout lockdowns) need the burden of paperwork administration (post, scanning, stationary, banking etc) to be spread across the team once again.

5) Most importantly synergies – When we consider equity investment opportunities we look for synergies, where the sum of the parts is often greater than each individual component. Barratt and Cooke thrives on synergy via the sharing of knowledge and crucially the training of younger or new recruits. My father often talks of stockbroking 'nous' and I do believe that this 'nous' can only truly be taught or understood in person, so I look forward to having our wonderful staff back together in Opie street.

Conclusion

Ashley wrote on equity rotation however in addition I add a little more context to conclude. With portfolios being genuinely bespoke dependent upon investment objectives, ethical preferences and, crucially, market timing of entry, it is difficult to talk about performance definitively. However, since there is considerable overlap of our favoured positions, I can provide some context as an average (though clearly individual situations might marginally lag or beat the norm in a specific 6 month period).

Investors with Barratt and Cooke have had a 'good' Covid-19 where over the three prior six month periods to this most recent period (5th April 2019 through to 5th October 2020) portfolios, on average, outperformed their reference benchmark indices. This has been shown not only through demonstrating robust characteristics in the difficult times (a Barratt and Cooke trademark as witnessed during the 1987 crash, the dot.com bust and the banking crisis) but also rallying more considerably than markets in the subsequent recovery.

We have been aware that, at some stage, our less favoured sectors such as high street retail, travel and leisure, banks etc. could recover. However our overall stance is that these sectors, which have witnessed huge structural changes, should be treated with caution. Therefore, following a six month period of consolidation in our portfolios, we have essentially given back a small proportion of relative performance versus the benchmarks, yet on a longer term view we remain 'well ahead' and importantly have generated these returns with lower volatility during what has been the most challenging time in my career. The regulator requires us to send out quarterly valuations, which can put a premium on very short term performance, but as custodians of your assets we adopt a responsible, longer term approach.

The important thing to note is, when looking at portfolios at this moment in time, I feel both relieved that we have navigated the last couple of years (without more than the odd disaster) and more importantly I am confident for the future given our diversified exposure to global equities (including emerging markets), an evolving fixed interest list, infrastructure funds and gold alongside some FTSE stalwarts. Of course we may periodically trade out of a position for a quick profit if a company share price gets ahead of itself, but the overall theme is that we remain investors rather than speculators. We know we are privileged to be entrusted with looking after your assets and therefore retain this responsible approach. To quote CWLB: "this enables us to sleep soundly in our beds at night".

Whilst mentioning my father I finish with this:

CWLB

CWLB has dedicated 54 years of service to Barratt and Cooke. As young boys my brother and I remember visiting him in his office on our way to the shoe shop or each year just before Christmas, when he used to take us to Casa Fina on Upper St Giles Street to find a Christmas present for our mother. He was always hidden behind a mountain of papers, trawling through

client valuations, and whilst he was happy to see us we'd often have to wait for him to "do just one more" before we were off!

He has created a culture at Barratt and Cooke where clients and staff are put at the forefront of every single decision. He has worked tirelessly with the old Stock Exchange Motto "My word is my bond" along with his own sayings of "quality, quality, quality" and "compassion" right at the forefront of his mind, every working minute.

Barratt and Cooke is often considered "his baby" and whilst he has been instrumental in its success he always says it is a team effort. But he built the team. As you will remember he significantly reduced his client book in 2010 when he became High Sheriff and subsequently, a few years ago, he stepped down as Chairman to become a Non-Executive Director. As of 31st March 2021, the end of an extraordinary year, he has stepped down completely.

He has said that he doesn't want parties, nor letters or telephone calls marking his retirement. Why? Because as far as he's concerned, nothing changes. Indeed, he doesn't see this as the end of an era, or the start of the new one. There is no 'legacy' to continue as we just 'carry on'. His planning over the last 20 years has meant that this has been possible and I'm lucky to have such an incredible team, so it really can be 'business as usual'.

CWLB has always said that stockbroking is a young man's profession and I now believe it is. The fire burns brightly in a number of bellies here, fuelled by a passion to carry on serving our amazing clients, though those mountains of paper are nowhere to be seen as we continue to move towards a more electronic way of doing things!

It would however be remiss of me not to say, on behalf of Sam, our fellow employees and me "Thank you CWLB, it has been a privilege".

As you'd expect he'll keep busy with a number of Charity trusteeships, High Steward of the Cathedral and of course being the greatest advocate not only of Barratt and Cooke but the great City of Norwich.

WJB

5/4/21

P.S. As this newsletter goes to print we have heard the sad news of The Duke of Edinburgh's death. I will write about the example he set future generations next time but, now, I will just say: "We salute you Sir".

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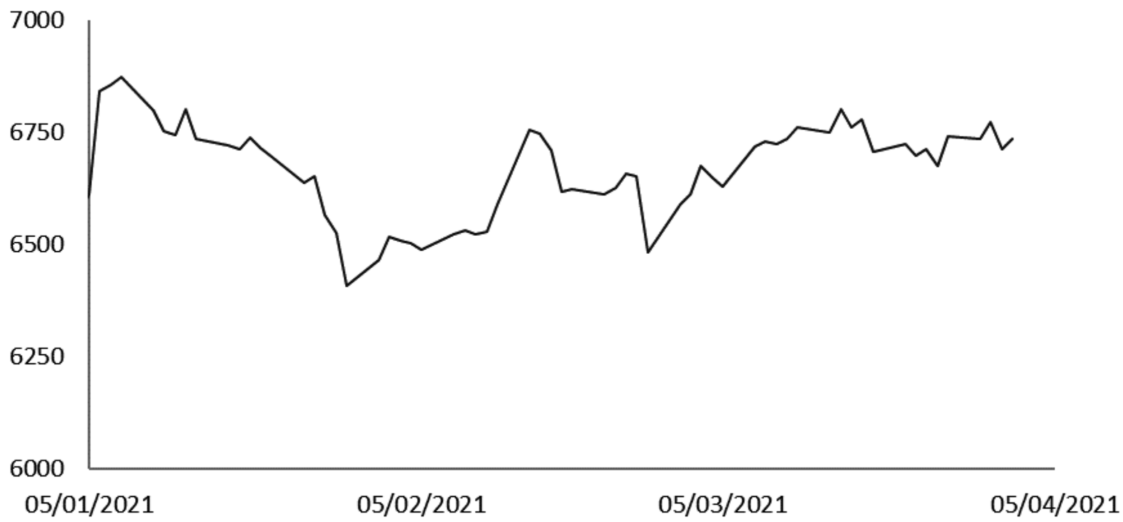
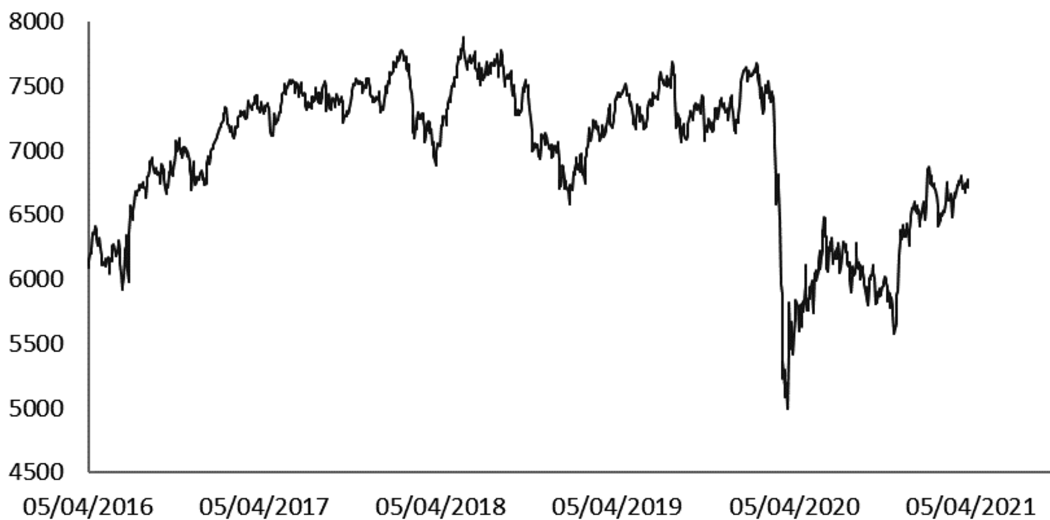
FTSE 100 – Previous Quarter



FTSE 100 – 1 Year

FTSE 100 - 5 Year



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