



## *Phil Oakley's Weekly Round-Up*

*Kicking off 2020, I'm reviewing the Fantasy Sipp and introducing a new portfolio of quality UK shares*

I thought I'd use the first round-up of 2020 to review the performance of my Fantasy Sipp portfolio and introduce a new UK quality shares portfolio. Company commentary and analysis will return next week.

The year 2019 was a good one to own shares, with stock markets in the UK and the US delivering strong returns to UK investors. The FTSE All-Share Total Return Index advanced 19.2 per cent whereas the Vanguard S&P 500 ETF increased by 24.5 per cent in sterling terms.

Low interest rates on bonds and savings accounts meant that shares continued to be seen as the only decent home for people's money. Yet, I have been quite taken aback by how strong stock markets were last year with share prices again rising faster than company profits – something that cannot and will not last.

Many of the top investment funds following a quality shares approach also had a very good year. Martin Currie Global Portfolio investment trust delivered returns of 31.6 per cent and the Smithson trust did well. From a UK perspective, the UK Buffettology Fund managed by Keith Ashworth-Lord performed extremely well and beat the All-Share by a handsome margin to continue his excellent track record.

Alpha Production Editor: Sameera Hai Baig

### Fantasy Sipp Portfolio performance 2019

Portfolio total returns (%)	2019
Martin Currie Global Portfolio Trust	31.6
<b>Phil Oakley Fantasy Sipp</b>	<b>31.0</b>
Mid Wynd International Inv Trust	30.7
Smithson Investment Trust	29.8
LF Blue Whale Growth Fund	27.6
Fundsmith Equity T Acc	25.6
Castlefield CFP SDL UK Buffettology	25.3
Scottish Mortgage Investment Trust	24.7
Vanguard S&P 500 ETF	24.5
Finsbury Growth & Income Trust	21.7
Lindsell Train Global Funds	19.6
FTSE All-Share – total return	19.2
Vanguard FTSE 100 ETF	17.2

Source: SharePad

Given that favourable backdrop, it was pleasing to see the Fantasy Sipp portfolio generate a total return of 31 per cent for the year, which beat the performance of a cheap UK and US stock market tracker. It's only one year though, and while the portfolio is based around what I see as very good companies, the returns achieved by some of them were very good.

I wouldn't try and claim for one second that the returns are down to any stock-picking skills and a large chunk of it is just down to luck. You need a bit of good luck in the stock market because you will encounter your share of bad luck as well.

### Individual shares total return

Name	TIDM	2019 Tot Return %
London Stock Exchange Group	LSE	92.4
Moody's Corp	MCO	70.9
Avon Rubber	AVON	68.6
Mastercard	MA	59
Halma	HLMA	56.3
WH Smith	SMWH	54.4
Spirax-Sarco Engineering	SPX	44.1
Visa	V	43.2
Paychex Inc	PAYX	34.3
Walt Disney Co (The)	DIS	33.4
James Halstead	JHD	30.4
Sage Group	SGE	27.3
Pepsico Inc	PEP	27.1
Smith & Nephew	SN.	27.1
Intertek Group	ITRK	24
InterContinental Hotels	IHG	23.4
Amazon.com Inc	AMZN	23
RELX	REL	20.6
Diageo	DGE	17
McDonalds Corp	MCD	13.9
Croda International	CRDA	10.9

Source: SharePad

All the shares in the portfolio delivered positive shareholder returns for the whole of the year, but purchases of Smith & Nephew and Amazon.com during the year actually lost money.

The star performer was London Stock Exchange (LSE), which was on the end of an aborted takeover bid from the Hong Kong exchange. I am very glad the bid did not go through, as high-quality businesses such as the LSE are scarce. I remain quite bullish about its long-term prospects, particularly from its FTSE-Russell business and the Refinitiv financial data business that should be part of the company from the middle of this year.

Credit rating agency Moody's and UK protection business Avon Rubber also delivered fabulous returns, as did Mastercard, Halma and WH Smith. Croda had a disappointing year as questions were rightly raised about its ability to grow its future profits. I think this is still a very good quality business in attractive areas such as skincare and crop protection and I'm going to stick with it.

The year 2019 highlighted the power of doing nothing. We should certainly keep an eye on the companies we own and analyse them – but not too much. If good businesses have been bought at a sensible price then growth in profits over the years should deliver reasonable results. Trusting our portfolios to do this seems very hard to do.

#### Fantasy Sipp weightings, as of 8 Jan 2020

Company	Weighting
Avon Rubber	6.6%
London Stock Exchange Group	6.4%
Visa Inc	5.4%
Moody's Corp	5.2%
Walt Disney Co (The)	5.2%
Mastercard Inc	5.0%
Pepsico Inc	4.8%
Halma	4.8%
InterContinental Hotels	4.6%
WH Smith	4.6%
Diageo	4.6%
RELX	4.5%
Spirax-Sarco Engineering	4.5%
Amazon.com Inc	4.5%
James Halstead	4.4%
McDonalds Corp	4.4%
Sage Group	4.3%
Croda International	4.3%
Intertek Group	3.7%
Smith & Nephew	3.4%
<b>Cash</b>	<b>0.2%</b>

Source: SharePad

As well as trying to do nothing, one of the strongest views I have formed this year is that you should only sell a share of a company if its underlying business has taken a turn for the worse and that its ability to grow its future sales and profits has weakened.

For a large part of my investing career, I have obsessed way too much about valuation and lost out as a result. Valuation and trying to avoid overpaying for a business are, of course, important parts of the investing process, but the power of compounding profit growth over many years is much more important than sweating and waiting for a bargain share price. With very good growing businesses, history tells us that we can pay more than we might initially think and still make great returns – providing you have the patience to wait.

Despite my view on the benefits of doing nothing, I sold five positions – BATS, AB Foods, 3m, Unilever and Hargreaves Lansdown, as I questioned their ability to deliver sustainable long-term growth. They were replaced with McDonald's, Mastercard, WH Smith and Avon Rubber. While AB Foods and BATS performed well, the stellar performances of Mastercard, WH Smith and Avon Rubber meant that the change went well.

My ambition for 2020 is not to trade the portfolio at all, as I am happy with the businesses in the portfolio. Cash received from dividends will be used to build up a war chest for fresh investments.

### Fantasy Sipp: Portfolio characteristics, as of 8 Jan 2020

Company	Market Cap. (m)	Price	ROCE	EBIT margin	FCF margin	TTM FCF yield	PE roll 1	fc Yield
Amazon.com Inc	945,415.90	190686	15.1	5.5	7.4	2.1	69.3	–
Avon Rubber	750.8	2420	11.2	13.4	4.4	1.1	24.5	1.1
Croda International	6,560.40	5090	21.5	23.8	11.5	2.8	25.6	1.8
Diageo	75,058.00	3208.5	18.3	35.6	19.2	3.3	22.4	2.3
Halma	7,877.60	2075	16.3	17.9	14	2.1	33.7	0.8
InterContinental Hotels Group	9,216.30	5063	30.5	15.6	13.6	2.8	20.5	1.9
Intertek Group	9,212.30	5708	24.3	16.1	11.8	4	25.6	1.8
James Halstead	1,201.60	536	32.7	19.3	18.2	3.8	27.6	2.7
London Stock Exchange Group	26,377.60	7542	11.8	36.9	22.9	2.3	33.3	0.9
Mastercard Inc	302,871.00	30043	56.2	55.9	38.3	1.9	33.2	0.4
McDonalds Corp	152,599.30	20259	29	41.5	20.1	3.4	23.9	2.3
Moody's Corp	45,500.80	24102	25.6	44.3	30.9	3.3	26.7	0.8
Paychex Inc	30,226.30	8434	43	36.7	30.4	4	25.9	2.9
Pepsico Inc	186,868.30	13401	17.2	16.6	9.5	3.3	22.5	2.8
RELX	36,818.40	1900	20.6	26.3	22	4.7	19.3	2.4
Sage Group (The)	8,006.60	733.8	16.6	21.8	22.5	5.4	24.2	2.4
Smith & Nephew	16,035.70	1832.5	12.7	20.1	0	0.9	22.1	1.5
Spirax-Sarco Engineering	6,593.20	8950	22.6	20.9	14.1	2.3	32.3	1.2
Visa Inc	419,338.00	18870	26.3	67	52.3	2.9	29.1	0.6
Walt Disney Co (The)	262,609.40	14571	11.9	17.3	2.7	0.7	25.9	1.3
WH Smith	3,012.20	2618	36.6	10.9	6.3	2.9	21.2	2.4
<b>Average(mean)</b>			<b>23.8</b>	<b>26.8</b>	<b>17.7</b>	<b>2.9</b>	<b>28.0</b>	<b>1.7</b>
<b>Average (median)</b>			<b>21.5</b>	<b>20.9</b>	<b>14.1</b>	<b>2.9</b>	<b>25.6</b>	<b>1.8</b>

Source: SharePad

The portfolio remains full of very high-quality businesses, in my view. They should all be capable of growing their profits over the long haul. That said, there can be no doubt that they are richly valued with a median one-year forecast rolling PE of 25.6 times. I therefore expect returns in 2020 to be very modest and will be satisfied if they track underlying profits growth, which is expected to be just over 7 per cent on a weighted average basis.

I remain committed to a quality shares approach as I believe they offer investors the best chance of earning inflation beating returns, while protecting them from significant downside risk. There can be no doubt that this is now something of a crowded trade, but I believe sacrificing business quality is a riskier path to follow.

### **New UK Quality shares portfolio**

It is with this mindset that I am starting a new portfolio for 2020 called UK Quality shares. It will be a concentrated portfolio based on outstanding businesses.

As much as £100,000 of fantasy money has been invested equally (£4,000 each before costs) in 25 different UK shares. The performance of this portfolio will be based on the closing prices on 31 December 2019 and will include a £10 broker fee and stamp duty costs for each share where appropriate.

This means that the portfolio will immediately take a hit from transaction costs, but it's supposed to reflect the experience of a real investor as much as possible and so has to be taken on the chin. Just over £300 of cash was left over after each share was given a gross allocation of £4,000 each.

Here is the portfolio with its performance to 8 January 2020. Please don't think of these as share tips. They are not. I see this portfolio as something of an experiment in high conviction quality investing at a reassuringly expensive price.

Holdings Cash Value on date Tax Current holdings Chart Sharing

Transactions for Portfolio: UK Quality Shares 2020

Portfolio current value		Performance (investment return)					
Holdings	£98,887.22	Today	▼£315.92	-0.32%	YTD	▼£101.23	-0.1%
Cash	£305.17	1 month					
<b>Total</b>	<b>£99,192.39</b>						

  

List of current holdings: valued at (Bid/Close)									
Date	Name	Shares	Price	Avg price	Cost	Value▼	Unrealised	profit	% Return
8/1/20	Avon Rubber PLC	190	£24.15	£21.0571	£4,000.85	£4,588.50	£587.65	£587.65	14.7
8/1/20	Greggs PLC	172	£24.30	£23.153	£3,982.32	£4,179.60	£197.28	£197.28	5.0
8/1/20	Games Workshop Group PLC	65	£62.75	£61.5091	£3,998.09	£4,078.75	£80.66	£80.66	2.0
8/1/20	Hollywood Bowl Group PLC	1,392	288p	287.143p	£3,997.03	£4,008.96	£11.93	£11.93	0.3
8/1/20	Bioventix PLC	120	£33.30	£33.1833	£3,982.00	£3,996.00	£14.00	£14.00	0.4
8/1/20	Diageo PLC	124	£32.065	£32.2456	£3,998.46	£3,976.06	£22.40	£22.40	-0.6
8/1/20	Rightmove PLC	626	634.6p	638.365p	£3,996.17	£3,972.60	£23.57	£23.57	-0.6
8/1/20	Ashtead Group PLC	164	£24.20	£24.3216	£3,988.75	£3,968.80	£19.95	£19.95	-0.5
8/1/20	WH Smith PLC	152	£26.08	£26.1958	£3,981.76	£3,964.16	£17.60	£17.60	-0.4
8/1/20	Smith & Nephew PLC	216	£18.31	£18.4629	£3,987.99	£3,954.96	£33.03	£33.03	-0.8
8/1/20	RELX PLC	208	£18.96	£19.1983	£3,993.25	£3,943.68	£49.57	£49.57	-1.2
8/1/20	Forterra PLC	1,145	344p	349.106p	£3,997.27	£3,938.80	£58.47	£58.47	-1.5
8/1/20	James Halstead PLC	734	536p	544.362p	£3,995.62	£3,934.24	£61.38	£61.38	-1.5
8/1/20	Spirax-Sarco Engineering PLC	44	£89.30	£89.5718	£3,941.16	£3,929.20	£11.96	£11.96	-0.3
8/1/20	Croda International PLC	77	£50.85	£51.5858	£3,972.11	£3,915.45	£56.66	£56.66	-1.4
8/1/20	Experian PLC	155	£25.26	£25.7121	£3,985.37	£3,915.30	£70.07	£70.07	-1.8
8/1/20	Diploma PLC	196	£19.97	£20.3922	£3,996.87	£3,914.12	£82.75	£82.75	-2.1
8/1/20	Howden Joinery Group PLC	590	659.4p	677.858p	£3,999.36	£3,890.46	£108.90	£108.90	-2.7
8/1/20	JD Sports Fashion PLC	474	820.2p	843.697p	£3,999.13	£3,887.75	£111.38	£111.38	-2.8
8/1/20	Halma PLC	187	£20.75	£21.3193	£3,986.70	£3,880.25	£106.45	£106.45	-2.7
8/1/20	InterContinental Hotels Group ...	76	£50.57	£52.472	£3,987.87	£3,843.32	£144.55	£144.55	-3.6
8/1/20	London Stock Exchange Group...	51	£75.28	£78.0855	£3,982.36	£3,839.28	£143.08	£143.08	-3.6
8/1/20	AJ Bell PLC	925	414.5p	432.226p	£3,998.09	£3,834.13	£163.97	£163.97	-4.1
8/1/20	Intertek Group PLC	67	£56.98	£58.9618	£3,950.44	£3,817.66	£132.78	£132.78	-3.4
8/1/20	Auto Trader Group PLC	667	557p	599.072p	£3,995.81	£3,715.19	£280.62	£280.62	-7.0
<b>Total</b>					<b>£99,694.83</b>	<b>£98,887.22</b>	<b>£807.62</b>	<b>£807.62</b>	

Source: SharePad

It's very early days, but in the interests of transparency, this is how the portfolio has performed so far. Excluding costs, the portfolio is down by 0.1 per cent, compared with FTSE All Share total return index which is up by 0.18 per cent in the first week of the year. Including costs – the true measure – the initial £100,000 has so far been turned into £99,192, a fall of 0.8 per cent.

I think the UK stock market is a very difficult place to pursue a quality investing strategy. This is simply because there isn't a lot of quality about, certainly nowhere near what is offered on the US market. But I am going to have a go, nonetheless.

What quality there is tends to be richly-priced, but as I have just mentioned, I would rather sleep well owning a share of a very sound business than take my chances with a cheaply-priced inferior one or an unproven speculation.

The approach I have taken here is that quality and growth will out in the long run. I have tried to select 25 outstanding UK-based businesses that I think are capable of growing their profits meaningfully over the next five to 10 years and hopefully beyond.

The businesses I have chosen have various attractive characteristics. They may have dominant positions that are difficult to compete against or offer outstanding value to their customers. Some of them are problem-solvers and some just have businesses that are difficult to copy. Some are not without risk and could suffer in an economic downturn but, such is the scarcity of alternatives on offer on the UK market, I believe they still offer good long-term prospects. I will write a lot about them over the coming weeks and months.

All the UK shares in the Fantasy Sipp portfolio have been included. I will not talk about these now, but instead give a very brief rationale for why the other shares have been included.

I have long admired **Greggs** as a business. It offers outstanding value for money compared with its competitors and makes a lot of the food it sells itself, which is a source of competitive advantage and a point of difference. Two key themes make this business attractive, in my view. First is the move away from the high street to places where more people are visiting such as transport hubs, hospitals and university campuses. The second is its focus on meat-free products, which has only just begun and could transform the business, in my view.

**Games Workshop** is covered extensively in my magazine column this week. It is a very well-run company and dominates the fantasy tabletop games business. There is still scope to grow and create significant royalty profits by licencing its Warhammer brand. The business has big operational gearing, which is a double-edge sword, but is a benefit at the moment.

**Hollywood Bowl** is a very well-managed business offering great value family entertainment. It has a clear strategy that is delivering strong underlying sales and profit growth and is very profitable and cash-generative. I expect decent rates of profit growth to be complemented by regular special dividends over the next few years.

**Bioventix** is one of the most profitable businesses out there as measured by return on capital. Its antibodies do face threats of maturity and competition, but its pipeline of new products – particularly troponin – have the potential to deliver a step change in profitability and free cash flow from its current impressive levels.

**Rightmove** and **Auto Trader** are dominant advertising portals in their respective sectors. They dominate their markets and benefit from significant network effects. They are both incredibly profitable and have managed to stave off competitors. As a result, they have great pricing power and continued steady growth potential.

**Ashtead** is a cyclical business, but it makes fantastic

returns on its equipment hire assets. It still has a great opportunity in the US to invest fresh money at high rates of return, which can deliver meaningful growth in profits and cash flow.

UK brick makers have great assets – namely their scarce reserves of clay that are needed to make bricks – which provide huge barriers to competition. The UK brick market is undersupplied domestically and should continue to benefit from new home-building over the next few years. This should enable them to make good profits and I expect **Forterra** to benefit.

**Experian** is one of the leading credit reference agencies in the world. It provides data to companies to make lending decisions and has significant scale in the industry. It is a play on the theme that data and the ability to use it effectively will become increasingly valuable.

I think **Diploma** is a great example of a high-quality business. It makes niche, problem-solving products for its customers in the areas of life sciences, seals and controls. The cost of these is a day-to-day operating expense for them, which gives Diploma a regular and consistent source of income, rather than a lumpy one if the products were bits of capital equipment bought or replaced from time to time. It is a rare example of a company that has used acquisitions to turbo charge solid growth from its underlying business.

**Howden Joinery** has a proven business model in providing kitchens to independent traders. It makes its own kitchen units and has its own brand of kitchen appliances. Its depots are extremely well-managed and give its customers what they want at a good price. They are also very profitable and have the potential to be located in more places across the UK, giving the business a good source of growth.

**JD Sports** is a superb retailer of trainers and sportswear. It has wiped the floor with Sports Direct in recent years in the UK and is now setting about establishing a big overseas business. Its US acquisition looks like a great deal and should deliver growing returns to investors.

Investment platforms are very profitable businesses once they have built up sufficient scale. Shares of **AJ Bell** are very richly-valued, but I very much like its business model, the way its communicates with its customers, its website and its prices. The business is well-placed to grow over the next few years and become even more profitable than it already is.



**UK Quality shares portfolio characteristics, as of 8 Jan 2020**

Company	Market cap. (m)	Price	ROCE	EBIT margin	FCF margin	TTM FCF yield	PE roll 1	fc Yield
Rightmove	5,573.70	635	912.9	74.2	61.9	3.1	29.4	1.1
Games Workshop Group	2,055.20	6290	82.3	31.7	19.5	2.4	26.9	2.5
Auto Trader Group	5,149.70	558.2	66.4	67.8	58.4	3.6	22.9	1.3
Bioventix	173.1	3365	63.6	75	62.7	3.4	25.7	2.6
AJ Bell	1,700.00	415.5	48.5	36	30	1.9	44.4	1.4
Howden Joinery Group	3,947.50	659.4	40.4	15.9	7.9	3.6	18.1	1.9
WH Smith	3,012.20	2618	36.6	10.9	6.3	2.9	21.2	2.4
James Halstead	1,201.60	536	32.7	19.3	18.2	3.8	27.6	2.7
Forterra	693.5	346	32.4	18.2	12.8	7.3	12.7	3.4
InterContinental Hotels Group	9,216.30	5063	30.5	15.6	13.6	2.8	20.5	1.9
JD Sports Fashion	7,970.80	819	29.6	7.5	4.1	5.8	22.2	0.2
Greggs	2,462.10	2434	25.2	8.7	6.8	4.4	26.3	1.8
Intertek Group	9,212.30	5708	24.3	16.1	11.8	4	25.6	1.8
Diploma	2,253.50	1990	23.8	15.5	10.9	2.6	27.8	1.6
Spirax-Sarco Engineering	6,593.20	8950	22.6	20.9	14.1	2.3	32.3	1.2
Croda International	6,560.40	5090	21.5	23.8	11.5	2.8	25.6	1.8
Hollywood Bowl Group	432	288	20.9	22	12.8	3.8	18.7	2.7
RELX	36,818.40	1900	20.6	26.3	22	4.7	19.3	2.4
Diageo	75,058.00	3208.5	18.3	35.6	19.2	3.3	22.4	2.3
Ashtead Group	11,018.90	2427	17.6	31.5	41.4	18.3	11.7	1.7
Experian	23,005.80	2533	17.5	27	17	2.1	29.4	1.5
Halma	7,877.60	2075	16.3	17.9	14	2.1	33.7	0.8
Smith & Nephew	16,035.70	1832.5	12.7	20.1	0	0.9	22.1	1.5
London Stock Exchange Group	26,377.60	7542	11.8	36.9	22.9	2.3	33.3	0.9
Avon Rubber	750.8	2420	11.2	13.4	4.4	1.1	24.5	1.1
Average (mean)			65.6	27.5	20.2	3.8	25.0	1.8
Average (median)			24.3	20.9	14	3.1	25.6	1.8

Source: SharePad

There are very few, if any, cheap shares here and this is unquestionably a source of risk if growth does not come through. I look forward to sharing my experience with this portfolio with you. I am sure it will throw up plenty of examples and valuable lessons for us all. Happy New Year!

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