

INVESTMENT IDEAS



Bargain shares: Targeting overseas funds

Our small-cap stock-picking expert continues to see upside from international funds to both enhance and diversify portfolio returns.

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When creating my **2021 Bargain Shares Portfolio** I adopted a dual approach to stock selection. My aim was to identify below the radar undervalued small and micro-cap companies priced below their intrinsic value, while also taking the macro-economic environment into account to play specific sector and country themes.

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y motley crew of 10 small-caps has produced a total return (TR) of 23.2 per cent to date (29.2 per cent against magazine prices) using the opening offer prices on 5 February 2021. By comparison, FTSE Aim All-Share and FTSE All-Share indices have produced TRs of 3.3 per cent and 15.8 per cent, respectively.

The outperformance partly reflects gains on investment companies which extended the portfolio's international exposure. The top-performer is **Vietnam Holding** (VNH: 336p), a closed-end fund that holds a concentrated portfolio of mid to small-cap companies to play secular growth trends in Vietnam. The fund has delivered 64 per cent net asset value (NAV) growth in 2021. Despite outperforming the Vietnam All-Share index by 15-percentage points, the shares currently trade 13.5 per cent below NAV

of 388.5p, an attractive discount given that investment manager Dynam Capital is targeting 20 per cent EPS growth next year on what is still a modestly rated portfolio.

2021 Bargain Shares Portfolio Performance					
Company name	TIDM	Opening offer price 05.02.21	Bid price 18.11.21	Dividends	Per
Vietnam Holding (see note one)	VNH	201.4p	334p	0.0p	
Duke Royalty	DUKE	29p	43.5p	1.65p	
San Leon Energy	SLE	27.5p	40.75p	0.0p	
Canadian General Investments	CGI	3,611c	4,324c	66c	
Wynnstay Group	WYN	424p	500p	15.0p	
Springfield Properties	SPR	135.6p	145p	5.75p	
Downing Strategic Micro-Cap	DSM	69p	74.5p	0.8p	
Ramsdens	RFX	142.8p	155p	0.0p	
Anexo	ANX	136.9p	136p	1.5p	
Arix Bioscience	ARIX	177p	138p	0.0p	

Note One: Simon recommended tendering 30 per cent of holdings in Vietnam Holdings at US\$4.4528 (322.3p) a share, and tendering 3.9 per cent in the excess application ('Exploiting a tender offer', 4 August 2021), with a view to buying back the tendered shares at the lower market price (284p offer price on 13 and 14 September 2021) when the cash distribution was made during the week of 13 September 2021. Total return reflects these transactions which have reduced the entry point to 188.3p a share

Canadian General highlights its credentials

- 24.44 per cent NAV return in 2021
- New holdings added in lumber sector, pharmacy and resources sectors.
- 28 per cent portfolio weighting to US Information Technology stocks

North America's second oldest closed-end fund **Canadian General Investments** (CGI: 2,530p and Can\$43.30) continues to outperform its benchmark, too, justifying the decision to include the shares in this year's portfolio. The dual-listed company has produced a year-to-date 24.44 per cent NAV total return, or one percentage point more than the S&P/Toronto Stock Exchange Composite Index.

Investment manager Morgan Meighen & Associates has managed the \$1.5bn fund since 1956 with a remit of generating above average returns from a diversified portfolio of North American equities. By adopting a bottom-up approach to stock selection, CGI has delivered compound annual growth rate (CAGR) of 14.65 per cent over the past decade which compares with the benchmark index's 8.8 per cent NAV total return.

An overweight position in US Information Technology stocks has been a key driver of the stellar investment performance. The sector's 28 per cent portfolio weighting includes holdings in high flying tech giants **Shopify** (CA:SHOP), **Nvidia** (US: NVDA), **Lightspeed Systems** (US:LSPD), **Apple** (US:AAPL) and **Amazon.com** (US: AMZN).

The investment manager has made a raft of other winning calls, too, including in the lumber sector with **West Fraser Timber** (CA:WFT) and recent addition **Interfor** (CA:IFP), a play on the US housing boom (US accounts for 80 per cent of its revenues). **Brookfield Asset Management** (CA:BAM.A), an alternative asset manager operating across the real estate, infrastructure, renewable power, and private equity markets, has performed well since being added to the portfolio, the holding is showing a 44 per cent gain in 2021.

CGI has also almost doubled its money on **Neighbourly Pharmacy** (CA:NBLY), having backed the May 2021 IPO of Canada's third largest pharmacy operator. The group is fast growing, acquiring independents in a fragmented market to create scale and procurement benefits in earnings accretive deals.

Admittedly, the outperformance would have been greater but for the fact that the fund is underweight

financials and energy – the third and best performing sectors in the Canadian market this year. CGI's combined holdings across the two sectors account for 16.7 per cent of the portfolio compared to 45.3 per cent for its benchmark index. In addition, the share price performance of CGI's four copper producers, which includes new addition **Copper Mountain Mining** (CA:CMMC), has been subdued since the copper price hit a record high in May. That said end-user demand is well supported globally by the scaling up of copper intensive green energy, transport and infrastructure programmes. Many economies have yet to fully re-open, too, another factor supportive of future demand.

Despite the strong investment performance, not to mention declaring a quarterly dividend per share of 22 cents, CGI's shares trade on a 31.5 per cent discount to NAV, close to the five and 10-year averages (30.8 and 29.5 per cent). Admittedly, the board is unable to repurchase shares to narrow the discount to NAV as it would contravene its Canadian investment corporation tax status. The insiders also have a 52.5 per cent shareholding, so the lower than average 47 per cent free float may raise investor concerns about liquidity. That said, CGI's shares are readily tradeable on a tight bid-offer spread in Toronto where half of the 20.86m shares are held, albeit they are less liquid in London.

The bottom line is that CGI's well selected portfolio of 57 stocks not only offers investors exposure to the North American economic recovery through overweight positions in industrials (20.9 per cent weighting), materials (16.1 per cent) and consumer discretionary (10.9 per cent), but CGI's ongoing outperformance should help reduce the share price discount to NAV to the bottom of the 12-month range (26.5 per cent to 37 per cent). **Buy.**

■ Simon Thompson's latest book **Successful Stock Picking Strategies** and his previous book **Stock Picking for Profit** can be purchased online at www.ypdbooks.com, or by telephoning YPDBooks on 01904 431 213 to place an order. The books are being sold through no other source and are priced at £16.95 each plus postage and packaging of £3.25 [UK].

Promotion: Subject to stock availability, the books can be purchased for the promotional price of £10 each plus £3.25 postage and packaging, or £20 for both books plus £3.95 postage and packaging

They include case studies of Simon Thompson's market beating Bargain Share Portfolio companies outlining the investment characteristics that made them successful investments. Simon also highlights many other investment approaches and stock screens he uses to identify small-cap companies with investment potential. Details of the content can be viewed on www.ypdbooks.com.