



NARRATIVE SHIFT

Turning Points

Cape 'Hvrath', the most north-westerly point of the Scottish mainland, was a Norse Viking 'turning point', so it's appropriate that our *edge* is based on turning points. Specifically, we try to understand shifts in investor's emotional journeys and analytical narratives.

Understanding emotional journeys leads us to Capitulation Events

Auction-based price setting is efficient where there is diversity of opinion. But at the extremes of fear and greed, diversity collapses. In a **Capitulation Event**, market efficiency disappears and investors seek an exit at almost any price. This can provide an excellent entry point. Our challenge is a behavioural one – betting against the crowd at the point when the pull to conform is greatest.

For *Premier Foods* (PFD) the **Capitulation Event** was an indiscriminate flight to 'quality' as the Pandemic gripped the world. But PFD continued to enjoy earnings upgrades even as the share price fell by 43% from Jan 2020 to our purchase at 21.9p on 23 March (around 1.5x the UK equity market decline over this period).

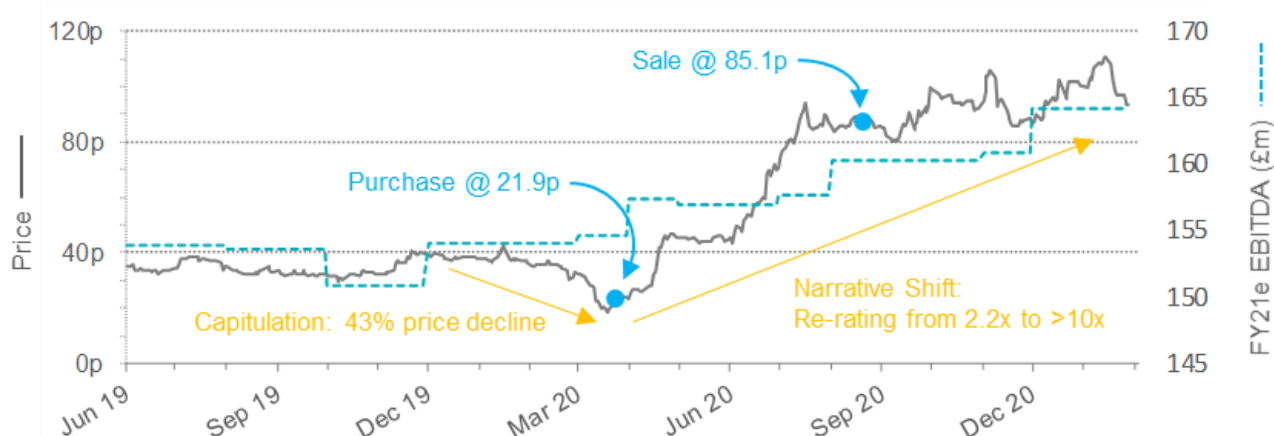
Understanding analytical narratives leads us to the Narrative Shift

The market for a company's shares is a function of the narratives created by different types of investor, short-sellers, sell-side analysts and company management. Of the many narratives, one dominates at any moment in time. We look for situations where this dominant narrative could change. We call this a **Narrative Shift**.

Our thesis for PFD was that consumers, with limited opportunities for eating out, would trade up their shopping baskets to more expensive branded products. This would shift the dominant narrative from one of an over-indebted business with uninspiring brands, to one of a business paying down debt through consistent earnings growth and free-cash-flow from a portfolio of brands bought by 96% of UK households.

Thanks to the **Capitulation Event** we were able to buy the first narrative for just over 2x earnings. The **Narrative Shift** meant that five months later we were able to sell the same stock for around 8x earnings when it hit our Approximate Value.

PREMIER FOODS PLC



Adam Rackley

Cape Wrath Capital

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