JOHCM UK DYNAMIC FUND

UNDER THE BONNET

Q4 2023 REVIEW

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Note: Mark Costar, Vishal Bhatia and Tom Matthews will replace Alex Savvides as portfolio managers on the strategy. See Press Release

Strategy Update

2023 will be remembered as another year of extreme and volatile macroeconomic conditions which ensured rational debates on valuation and the idiosyncrasies of corporate strategy would be consigned to the dustbin in favour of a never-ending game of 'guess the interest rate'. That guessing game was nowhere played more intently than in the UK where the outlook for inflation and interest rates kept observers on tenterhooks right to the finish. And what a finish it was, with the final quarter upending all that had gone before. (See charts below).

And yet the year was one which was much kinder to investor returns than the one that preceded it, albeit providing you were exposed in some way to the smaller number of big winners that seemed to dominate returns, and as long as you didn't bet the farm on the macro. Indeed, having recovered from 2022 lows, some equity markets posted record returns in 2023. This saw despite generally cautious sentiment and with returns heavily concentrated in a few market leaders, as exemplified by the 'Magnificent Seven' in the US.

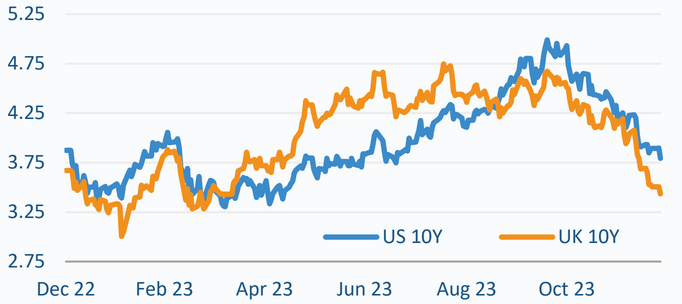
As a flavour of what needed to be contended with over the year and which, if you were not careful, could lead to an overabundance of caution or contrarianism in capital allocation, we remind investors of the following narratives:

1. Recessions that largely failed to materialise
2. The China recovery – that didn't happen
3. The SVB banking crisis – which was not ultimately a precursor to a wider banking meltdown
4. Generative AI and its threat to the world as we know it – that has not yet changed anything very much
5. War in the Middle East and continuing geopolitical tension – that did not cause a material or prolonged spike in the oil price
6. GLP-1 obesity drugs – that apparently will have profound implications on everything
7. The central bank pivot – which is still to come

Focusing on this last point for a moment, in the end, domestic disinflation happened faster than a sceptical and bearish consensus in the UK, and faster even than the Bank of England's own forecasts. When combined with a change in tone (and dot plot) from the Federal Reserve, it was enough for markets to declare not just an end to the hiking cycle but to price in an imminent loosening cycle.

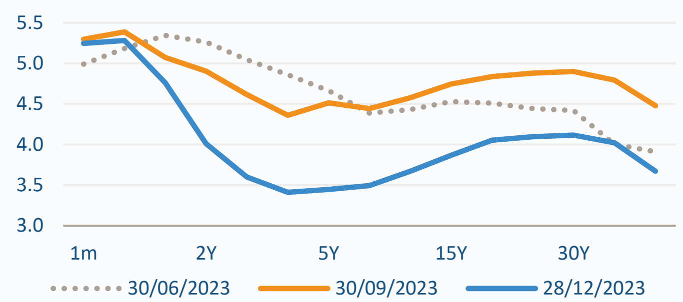
The move lower in UK 2-year rates – a key benchmark for mortgages - was particularly stark, declining c150bps from its summer peak. Whilst UK inflation looks on course to reach its 2% target ahead of Bank of England's forecasts, we think the market has been too aggressive in forecasting the goldilocks scenario of resilient growth and 100bps+ of rate cuts for 2024, which to us seems to price the macro narrative to absolute perfection.

US vs UK 10-year Bond Yields (%)



Source: Bloomberg as at 31 December 2023.

UK Yield Curve (%)

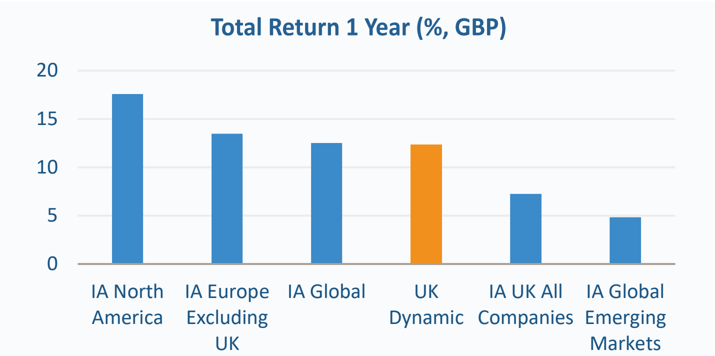


Source: Bloomberg as at 31 December 2023.

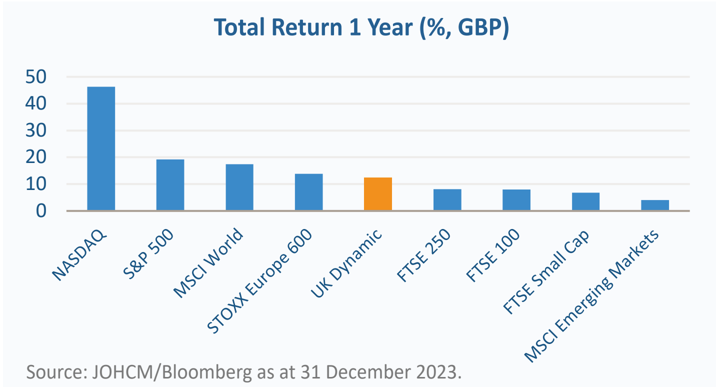
Sadly 2023 was another year where UK market returns lagged. A lack of big technology or GLP-1 winners, combined with commodity weakness and a muted year for defensives, saw the FTSE All Share deliver returns of just 8%, lagging European indices, as measured by the Stoxx Europe 600, which rose 16.6% in GBP. The FTSE 250 spent much of the year underperforming on a relative basis, held back by a widely held view that the UK was an outlier compared to other economies with a combination of lower growth and higher inflation (both since normalised). All of the FTSE 250's performance for the year came in the fourth quarter interestingly, closing the year up 7.9% as markets moved to quickly price in an improved interest rate outlook. Long term followers of the fund will know that it has been our intention to navigate this uncertain landscape over the last two years by taking a balanced approach to portfolio construction, whilst focusing capital on the highest conviction ideas and recycling capital opportunistically but cautiously, paying special regard to reinvestment risk.

One part of the balance has been to ensure that the fund is not heavily skewed to the performance of one particular region over another. Obviously, there is a home bias in the fund and we, like others, could see the clear valuation credentials of pure UK stocks particularly in some of the consumer sectors, and the likely timing issue around the UK inflation debate. Whilst we do not try to excessively predict shorter-term macro-outcomes and let that shape portfolio construction, we can and do tilt things where necessary. In the final quarter, when market conditions changed materially the fund outperformed by 135bps relative to the FTSE All Share TR Index, delivering a return of 4% compared to the FTSE All Share at 2.6%. In December the fund was marginally positive despite a lack of idiosyncratic positives and despite the lower FTSE 250 weighting. Given the balance we seek, we are pleased with this outcome.

Looking at it over the longer term, the balanced approach has worked very well through the extraordinary macro volatility of the last two years. The fund was up in absolute and relative terms in 2022, an extremely tough year and in 2023 the fund ended the year having delivered a very respectable return of 12.3%, a relative outperformance of 430bps when compared to the FTSE All Share TR Index. The outcome is a top decile one vs peers and importantly, returns the Fund to the top quartile over 5-years. We were also pleased to see relative returns recover and surpass their pre-Covid highs.

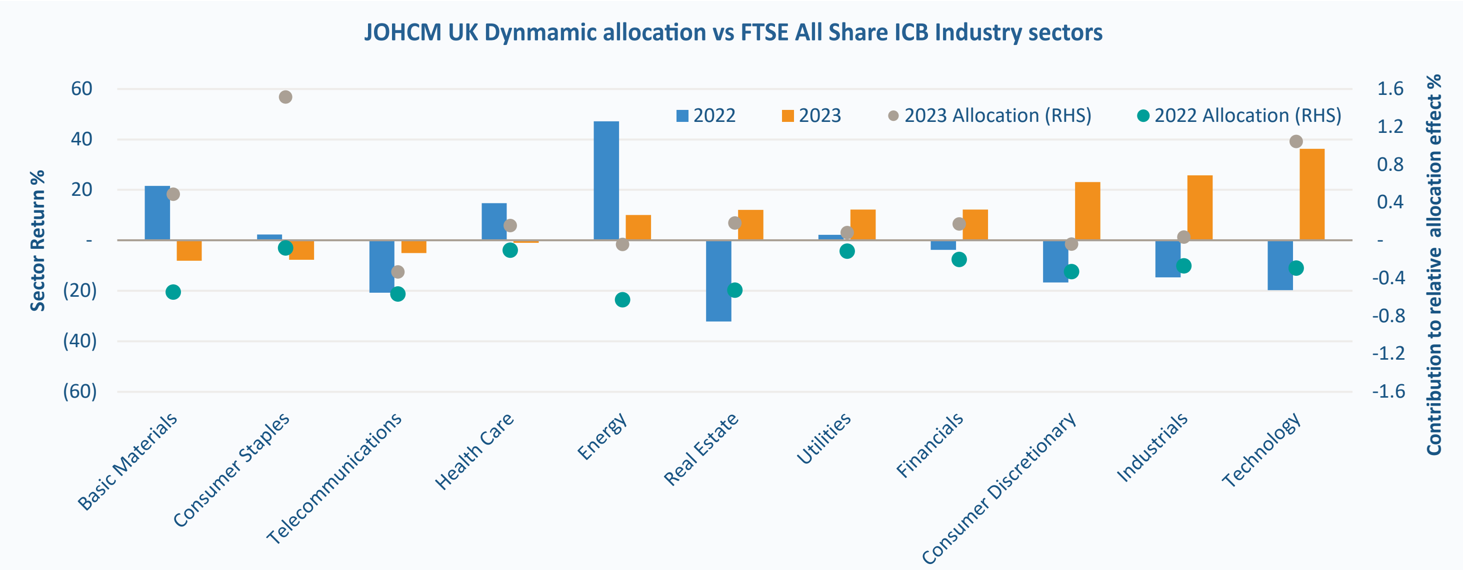


Source: JOHCM/Bloomberg as at 31 December 2023.



Source: JOHCM/Bloomberg as at 31 December 2023.

Performance for the fund in 2023 was driven by a 50:50 combination of positive stock selection and sector allocation effects. Those who have been invested for some time may recall that last year, the fund faced an unprecedented headwind from sector allocation across the board. With 8/11 sectors reversing course in 2023, some of that headwind unwound, most notably through the technology overweight (a very small part of the index at c.1% weight), where we are exposed through **Moneysupermarket** and **NCC**, and underweights to both basic materials and consumer staples both of which had tough years. Worth noting also, that being underweight **British American Tobacco**, **Diageo** and **AstraZeneca** added a further 290bps to our performance. Whilst benefitting from underweights is not how we set the fund up to deliver our clients value, it is a welcome tailwind in the context of the allocation drag we suffered in 2022.



Source: JOHCM/Bloomberg as at 31 December 2023.

Key Contributors in 2023, Idiosyncratic Positives

Taking a balanced approach to cyclical and defensive allocations has meant that the fund was not too volatile this year. The worst monthly periods for performance, in order of severity, came in March, May and October, during the SVB banking crisis, period of AI euphoria and rising tensions in the Middle East following terrorist attacks in Israel. These periods all had three things in common – 1) the events were hard to predict, 2) the growth style factor outperformed relative to value and 3) the VIX index recorded short term spikes in volatility.

Outside of these events, the theme of disinflation and declining yields towards year end has broadly been supportive to the fund. Since October, interest rate sensitives, cyclicals, and UK domestic segments of the market, which have been moving in the opposite direction to CPI, have re-rated. This has been helpful to the Fund's property and real estate basket which we have written about previously. The Fund's holdings in **Landsec** and **Shaftesbury** were beneficiaries and collectively added c.+100bps in the final quarter, but also deservedly outperformed the broader real estate sector following respective trading updates.

Landsec, a top 10 contributor for 2023, added 61bps for the year after delivering a solid set of results in November and confirming full year guidance. Strong operational improvements under CEO Mark Allen delivered good leasing momentum ahead of ERV across the portfolio with strong occupancy levels particularly in the West End. The stock now trades at a deserved premium to its UK listed peers some of which have since adopted elements of Landsec's absolute return strategy. The strategy to optimise the London office portfolio, focus on grade A spaces and dispose of assets at attractive yields, leaves the balance sheet in strong place, giving the company optionality to act decisively should distressed attractive opportunities become available. With interest rate expectations materially coming down in 2024 and given the extreme valuation discount coupled with an outstanding management team and strategy our conviction for 2024 remains high.

Shaftesbury hosted a capital markets event at its West End estate, confirming strong trading momentum at the start of the festive period and their 2023 full-year guidance. Encouragingly, cost savings have been delivered ahead of targets, with new saving opportunities identified. The group also introduced a new set of medium-term targets, putting capital allocation at the heart of strategy - a step in the right direction post the Shaftesbury Capco merger. Some of the refinancing risk we have flagged previously has also been abated, with a new medium term bank loan facility and recent declining market interest rates reducing any remaining refinancing risk management have also outlined plans to increase the credit rating through improved commercial performance and cost ratios. This is an encouraging development if executed.

Positioning at a stock level has been vitally important during 2023. The fund's hit rate by name was c40%, making it critical to the fund's performance outcomes that we minimised capital at risk in underperforming names and ensured outperforming and high conviction names were backed with enough capital and, moreover, were not sold too quickly. Helpfully, the Fund had overweight positions in each of the top three 2023 returners for the FTSE 100 index, through **Rolls Royce**, **Melrose** (sold in June) and **3i Group**. **Centrica** was also a top 10 performer for the UK top tier index, despite some pullback in the final quarter. Collectively, these positions represented an aggregate 14% of fund capital and delivered 726bps of relative performance for the year.

3i Group had another strong quarter in Q4, making all-time highs and capping off a stellar year, which ended in it being the fund's top contributor, adding a significant 339bps. We took a decision early in the year to run the active position in 3i at the top end of risk guidelines, due to a low valuation, ongoing conviction in the compounding operational momentum at Action, and a lack of alternative direct retail exposure in the fund a. Having beaten the consensus at every trading update this year, 3i Group has started to gather the attention of a wider audience, with new analyst initiations and a more diversified and international shareholder roster becoming apparent. 3i remains the largest position in the fund, but we have taken the opportunity to trim the position into recent strength.

2023 was also the year that progress in the business transformation at **Centrica**, executed under CEO Chris O'Shea, finally gained market attention. We wrote in our Q3 update following a strong set of H1 results, that we felt there was still significant value in the shares, despite the shares hitting 5-year highs. Whilst we did tactically reduce the Fund's position back from 6% on the expectation the shares may suffer some profit-taking, in the final quarter, (which duly occurred), Centrica remains a high conviction investment within the Fund. We still feel that the valuation has materially under-reacted to the enormous balance sheet transformation that has seen the business move from material net debt to material net cash in a short space of time. Inevitably market focus has shifted to the newly outlined growth capital plans which of course introduce a level of uncertainty in the rate of return to be earned. But our view is simple, this board has fought hard to re-establish the credentials of Centrica as an investment and they as capital allocators and we find it hard to believe that they will easily give-up that hard fought position by being cavalier in their expenditure.

The 220% returns delivered by **Rolls-Royce** this year have earned it a place alongside the Magnificent Seven in global equities. The shares rose 36% in the final quarter, as the company hosted a capital markets event confirming full year guidance - a material increase in profitability and cash flow vs the prior year - and introduced a set of medium-term targets for free cashflow, margins and return on capital. The company also laid out plans to raise £1-1.5bn from non-core disposals and achieve an investment grade credit rating. The steps taken by the new management team, led by CEO Tufan Erginbilgic, have the signs of being a truly transformational change for the group with capital discipline, a high-performance mindset and culture of accountability at the heart of the change - attributes we consistently look for in the best business transformations. We trimmed the position modestly into strong price rises, but believe markets need to rethink how the new Rolls Royce, that is being actively shaped by a deep business transformation, should be valued. The coming 12 months should be about delivery, and we back current management to build momentum and create value for shareholders.

Following two prior years of extraordinary M&A activity within the Fund, the Fund benefitted from just one bid during 2023 with the Deutsche Bank acquisition of **Numis** in April. A slowdown in deal-making was not unexpected, given the rising cost of capital more broadly – indeed it was lucky to get a bid at all given that many deals did not complete during the year. The Numis deal attracted a premium of 72%, which we supported, and added +53bps to performance, a considerable return in the context of a c.75bps position size.

Of the fund's FTSE 250 exposure, it was **Moneysupermarket** that stood out, adding 131bps to performance for the year. As a reminder, we spoke extensively about the six attractions of Moneysupermarket in the Q1 Brighttalk presentation. The investment offers exactly what we look for, being: management change, strategic change, recovery, growth, quality, and undervaluation. Whilst being managed materially better, the platform has also been a beneficiary of the cost-of-living crisis, as consumers have sought out better deals on their finances and recovery momentum in the travel segment post-Covid which has continued and the motor insurance segment which is not a discretionary purchase for most people. The group had another positive quarterly update in Q4 to cap off the strong year, delivering revenue beats from an acceleration in the insurance segment, where the market had been expecting a slowdown. Guidance was left unchanged, but it's our view that if this trading momentum continues into the fourth quarter, we should see upgrades. The first energy switching deals have begun to appear on the platform, although this segment will likely not return in any significant guise until the next energy price cap is reset in April.

Idiosyncratic Negatives

On the negative side, the Fund suffered its fair share of profit warnings this year, namely through **Travis Perkins**, **Direct Line**, **NCC**, C**rest Nicholson** and most notably in Q4, **Anglo American**. Fortunately position sizes in these names were in the main small, limiting the downside. Collectively this cohort detracted -224bps in 2023.

Travis Perkins had an unscheduled profit warning as deflation within certain products such as Timber impacted margins and rates continue to impact volumes. The competitive landscape is currently looking tough with the industry battling the twin perils of cost inflation on high fixed costs and volume declines leading to pricing weakness. While the valuation is still attractive, we deliberately did not add to the position here in the year, on concerns over the trajectory of recovery and impact of competition on profitability preferring to concentrate capital where we have more conviction.

DirectLine staged a recovery in the latter parts of the year, following the sale of its commercial business. With the balance sheet now in better shape, we turn our focus to whether auto margins can recover enough sufficiently to provide a support for a dividend restart. The low valuation, the new CEO, declining used car inflation and the improved balance sheet should all be helpful, however we are maintaining caution in the position sizing of this investment given some ongoing issues and the wider environment for financials in light of the FCA's aggressive consumer duty stance.

Anglo American has had a difficult 2023, detracting -120bps from performance. News-flow has been **broadly negative for much of the year**, as the miner has been plagued by a combination of macro and idiosyncratic headwinds. Weakness in the Chinese economy has weighed on demand for commodities and diamonds, but impairments at Woodsmith, power and logistics issues in South Africa and lower ore grades in Chile have all contributed to the woes. The year was capped off with a severe downgrade to forward production guidance particularly in the Copper division, removing near-term growth from the portfolio and forcing CEO Duncan Wanblad to announce cuts to CAPEX and prioritise cost savings to shore up cashflow. In a quarter where miners were modestly positive, Anglo shares were down -13%, significantly impacting the Fund's stock selection to the negative.

Barclays also had a disappointing final quarter. Q3 profits came in ahead of consensus, but the beat was driven entirely by better-than-expected provisions. The FICC trading division recorded declines, whilst NIM guidance for the bank was revised lower, as higher deposit betas shifted the mix and crimped margins. We do not expect the trend in deposit beta to continue, but with declining bond yields, the market anticipates we have now passed 'peak NIM'. A surprise £510m placing by Qatar's sovereign wealth fund in December compounded pressure on the shares. Material restructuring costs for Q4 were pre-warned during this update, fuelling rumours of a £1bn cost cutting drive underway. A big strategic update is pegged for February, where we will no doubt get further clarification. This CEO has had a lot to contend within his tenure – from illness, legacy issues surrounding Jes Staley and listing errors. His language hints at a cultural shift. We await the update with intrigue and wonder if this is the catalyst moment that's needed for the shares to finally re-rate from the ultra-low multiples of 0.4x book value.

Vodafone capped off the year with a mixed set of H1 results albeit with signs of stabilisation in the important German market. ,On the restructuring side the sale of the Spanish assets to **Zegona Communications** for €5bn left investors feeling underwhelmed. Zegona are an experienced team that operate a similar 'buy fix sell' model to Melrose for the Telecoms space, who we feel will do a good job restructuring the assets without some regulatory hurdles encountered by larger players. We took a small 50bps position in **Zegona Communications** following the sale. We feel more optimistic of a better outcome on the sale of Vodafone's Italian assets, where there are a number of interested parties.

ITV has been a disappointment in 2023, detracting 38bps for the year. The broadcaster issued a Q3 update which included a slight miss for total advertising revenues, but it was the downgrade to the Studios business that caught the attention of investors. We were harbouring concerns about the company's ability to hit short and medium-term guidance for the studios business and have been disappointed by the quality of management reporting more broadly. Whilst ITVX is performing reasonably well and the valuation is cheap we have also been left rather confused by the board's capital allocation priorities and ongoing desire to execute material M&A. We therefore reduced the fund's position.

As the above cases all highlight, we don't get it right all of the time. We are always acutely aware of what we don't know and the more we learn about ourselves, from our mistakes, from our successes then the more we think we can identify problems before they arise. In doing so it gives us a chance to manage expected disappointments by taking an active approach to capital allocation. We wrote in our Q1 update of the decision to reduce the Fund's position in **Anglo American**, removing it from the top 10 positions. Whilst offering little comfort to the idiosyncratic performance of the shares this year, it is none the less a consolation that things were less bad than otherwise. Whilst the move in **Barclays** is not as severe, we were none the less proactive during the SVB crisis to take the position size down into the volatility and did not materially add back on weakness, which has helped more recently. Throughout the year we have taken similar approaches in all of **NCC**, **Vodafone**, **ITV**, **Crest Nicholson**, **Travis Perkins**. If an idea is not working or the timing is not right, we will not take a contrarian stance purely for the sake of it, but rather will manage the risk and engage to effect change where we can, whilst focusing the capital in the names where we have more certainty of outcome.

Outlook

Equity markets ran hard at the end of 2023 spurred on by the somewhat excessive downward shift in yields, whilst the VIX remained at post-Covid lows. It was our view coming into this year that the macro volatility would continue, at least for a short time, and markets might suffer some pull back if the data releases did not run to perfection near term. The road to 2% inflation looks achievable, but the journey is still fraught with risks. Shipping freight costs are on the rise as tensions in the Middle East continue. 80% of the world by market cap goes to the polls at some point this year, so geopolitics are very much still in focus and have the potential to make their own impacts. Do aggressive rate cuts come in the absence of recession? We're not so sure. With consumer and business confidence both on the rise from their lows, and the inflection in real wages into positive territory and improving, we think recession either unlikely or very mild. Some strategists will point to monetary policy operating with a lag of 18 months – and that 2024 sits bang in the middle of where recession onset usually occurs. We might argue however that the tightening in this particular cycle has occurred at a record pace compared to history, and therefore if recession were coming, it should have arrived by now

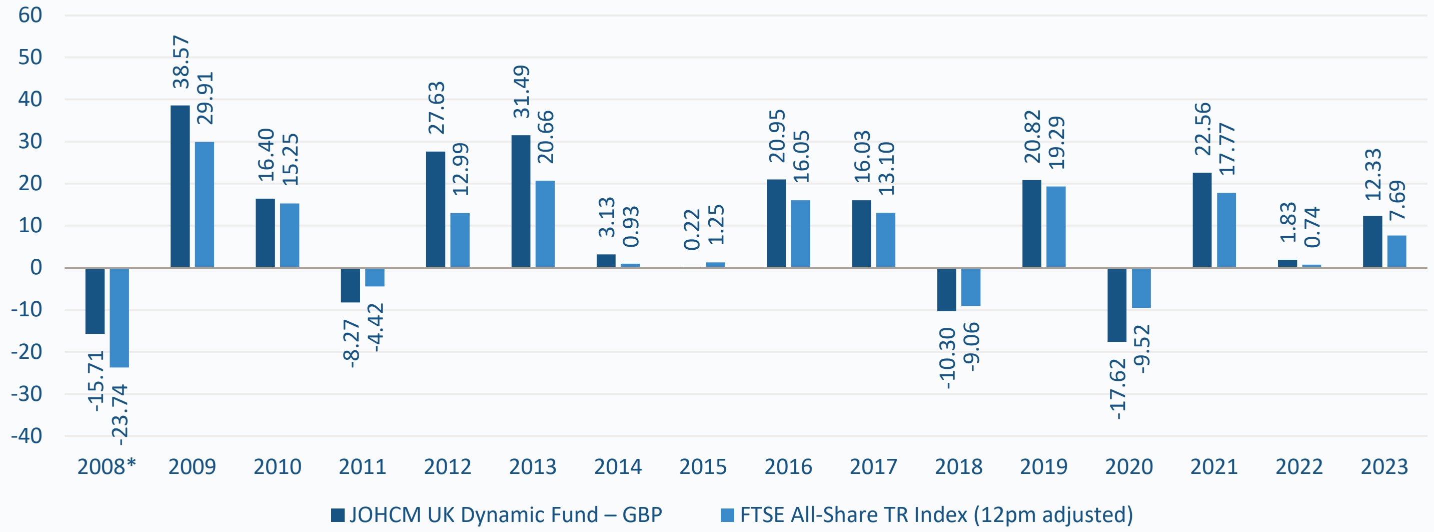
As our clients would expect, our focus remains on the best transformation opportunities in the fund. We are optimistic on a number of stocks in the portfolio as we head into 2024. For example, as reported in Q3 we completed a deep dive on both GSK and Johnson Matthey over the year and have taken reasonably high active positions in both and look forward to better share price performances in 2024. As we've written above, we maintain conviction in 3i, in Convatec and in **Centrica** despite good performances last year and the same might also apply to Rolls-Royce. Stocks that didn't really feature in 2023 but where we are high conviction on or actively engaged with include Ricardo which is undertaking a multiyear restructuring and refocus and QinetiQ where we have been pushing hard for there to be a change in capital allocation discipline in favour of higher shareholder returns. As we write this outlook statement we can report that QinetiQ have agreed to some changes and announced a share buyback. Our engagement works.

Talking about engagement, we also believe **Elementis**, a chemicals business that has defied the gloom this year and not warned on profits and where we continue to be actively engaged with the Board to work for better stakeholder outcomes, also looks interesting on a combination of activist interest, strategic change and the potential benefits from a cyclical recovery and an end to the destocking cycle.

But we don't know what we don't know. A portfolio will never fail to surprise and disappoint, and outperformance and underperformance can come from anywhere within it. That is what makes investing so exciting. It is often the most feared and mistrusted situations that surprise the most. That is why we do what we do. That is why we invest how we do: with a value contrarian slant, with a focus on change, without undue fear of the here and now and with a firm eye on the future.

FUND PERFORMANCE

JOHCM UK Dynamic Fund calender performance (%):



Periodic performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	**4.51**	**4.01**	**12.33**	**39.53**	**81.53**	**8.97**
Benchmark	4.37	2.62	7.69	37.90	68.20	6.08
Relative return[1]	0.13	2.62	4.31	1.18	7.93	2.72

Discrete 12 month performance (%):

	31.12.23	31.12.22	31.12.21	31.12.20	31.12.19
Fund	**12.33**	**1.83**	**22.56**	**-17.62**	**20.82**
Benchmark	7.69	0.74	17.77	-9.52	19.29
Relative return[1]	4.31	1.08	4.07	-8.95	1.28

Past performance is not necessarily a guide to future performance. The value of an investment can go down as well as up and investors may not get back the amount invested. For further information on risks please refer to the Fund's KIID and/or the Prospectus.

Source: JOHCM/Bloomberg/FTSE International. NAV of share class A in GBP, net income reinvested, net of fees, as at 31 December 2023. Inception date: 16 June 2008. Note: Performance data for the period 16 June 2008 to 22 October 2009 is for Ryder Court UK Dynamic Fund. From 23 October 2009 onwards, the Fund converted to JOHCM UK Dynamic Fund. All fund performance is shown against the FTSE All-Share TR Index (12pm adjusted). Performance of other share classes may vary and is available upon request. Data representative of UK Dynamic Fund, a sub fund of J O Hambro Capital Management UK Umbrella Fund domiciled in the UK. *Part period return from since inception 16 June 2008 to 30 September 2008.

ONE MONTH STOCK RELATIVE CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	Land Securities	0.38
2	British American Tobacco*	0.27
3	3i	0.24
4	Convatec	0.21
5	Shell	0.21

Bottom five

Rank	Stock	Relative Return Contribution %
1	Centrica	-0.49
2	Anglo American	-0.27
3	Vodafone	-0.18
4	Beazley	-0.13
5	Direct Line	-0.10

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Source: JOHCM/FTSE International/Bloomberg. Figures are at end of day and calculated gross of fees on an arithmetic basis in GBP. All performance is shown against the FTSE All-Share TR Index. Data from 30 November 2023 to 31 December 2023. Data representative of UK Dynamic Fund, a sub fund of J O Hambro Capital Management UK Umbrella Fund domiciled in the UK. *Stock was not held during this period.

Q4 2023 STOCK CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	3i	0.87
2	Land Securities	0.73
3	AstraZeneca*	0.56
4	Rolls Royce	0.46
5	Convatec	0.44

Bottom five

Rank	Stock	Relative Return Contribution %
1	Centrica	-0.56
2	Anglo American	-0.36
3	Rio Tinto*	-0.24
4	Barclays	-0.22
5	ITV	-0.22

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QUARTERLY FUND UPDATE

WEBINAR
CREATING VALUE THROUGH TRANSFORMATION

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The investment promoted concerns the acquisition of shares in a fund and not the underlying assets.

Past performance is no guarantee of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

Investments may include shares in small-cap companies and these tend to be traded less frequently and in lower volumes than larger companies making them potentially less liquid and more volatile.

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