J O Hambro Capital Management Group

CORE THOUGHTS


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Q4 update

- In the 3 months to 31 December 2020, the Fund returned +6.11%, which compares to a +12.90% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted).
- The portfolio's strongest performers included a number of positions initiated during the year such as Whitbread, WPP, SSE and Wood Group.
- Valuation concerns weighed on our consumer goods stocks whilst Sage's share price fell after it announced higher levels of product investment. Our holding in Barrick Gold fell in line with the gold price.
- In the last quarter we have further positioned the Fund to benefit from: 1) structural growth tailwinds coming from increased fiscal spending by governments; and 2) reduced valuation risk.
- The Fund has an MSCI ESG rating of AA as a result of our extensive ESG work, placing the fund in the top 4% globally.

JOHCM UK Opportunities Fund

Q4 fund performance and positioning

JOHCM UK Opportunities Fund
Periodic performance (%) to 31.12.20

	3 m	6 m	1 y	3 y	5 y	SI p.a.[1]
JOHCM UK Opportunities Fund	**6.11**	**5.67**	**-3.93**	**6.60**	**25.13**	**7.56**
FTSE All-Share TR Index	12.90	9.28	-9.52	-1.85	28.83	5.64
UK All Companies Sector	15.32	14.17	-6.22	2.04	29.43	6.31
Quartile*	4	4	2	2	2	1

Past performance is no guarantee of future performance.

Source: JOHCM/Bloomberg/FTSE International. NAV of share class A in GBP, net income reinvested, net of fees, as at 31 December 2020. Benchmark: FTSE All-Share TR Index (12pm adjusted). Performance of other share classes may vary and is available upon request. Inception date: 30 November 2005. *Lipper Hindsight, IA UK All Companies Sector Rankings to 30 September 2020. Note: The current managers took over the fund on 1 October 2017. [1]Annualised.

Q4 Fund positioning and company updates

This update will focus on three topics that have been dominating our thoughts and actions over the last quarter. The first change is the prospect of a recovery led by fiscal stimulus which has now won broad political acceptance. The second is the gap in valuation between stocks with well-understood growth prospects and a position of perceived safety around their earnings and lower valued sectors where structural growth opportunities and well-managed businesses have been overlooked. The third topic is ESG engagement with companies, where we have seen the benefits of wider collaboration on initiatives with a focus in the quarter on what companies in the Fund are doing about healthy eating.

1. Structural tailwinds

In building a portfolio we consider the structural tailwinds that will enable a company to achieve long-term growth. Structural tailwinds are by nature longstanding themes that evolve slowly and withstand short term set-backs. They are the essential ingredient without which even the best business strategy and the most capable management will make little progress. Over the course of the year, fiscal stimulus, targeted infrastructure spending and the potential for the re-emergence of inflation in certain pockets of the economy have formed an accelerating structural trend.

The need to rebuild economies with something more than just interest rate cuts coupled with the political capital to be won from investing (rather than another period of austerity) make greater fiscal spending a likely tailwind for a number of years. The success of the Democratic Party in the US presidential and congressional elections adds more fuel to this fire.

During the quarter we initiated a position in **Wood Group**. The company's history has been in the fossil fuel industry, where it designs, operates and maintains key assets such as offshore oil rigs and refineries. In recent years the company has become a leading designer and project manager of offshore wind and solar farms. Having digested a difficult acquisition in 2017, the business has started to repair its balance sheet and focus on organic growth opportunities.

We also started a new position in **IMI**. The business is a global leader in hydraulic, pneumatic and mechanical valves. Its technology is used across industries such as energy, automotive and factory automation. The business has spent the last five years focusing on operational best practice but has been in need of a more commercial sales focus to reignite growth. It has a new CEO and a new strategy with a greater focus on investment in innovation and client interactions.

In December we started a position in **Redrow**, a UK housebuilder that will benefit from proposals to simplify planning laws and ongoing government support for first-time buyers. The company is exiting its London operations to focus on its core strength in regional family houses. The company's strong balance sheet will enable it to grow volumes and a disciplined track record of land purchases should maintain an attractive return on capital.

We have good exposure to the thematic of targeted infrastructure spending throughout the portfolio. In **SSE** we own the UK's largest investor and operator of offshore wind farms. **National Grid's** role will be to provide the infrastructure to connect renewable energy sources to the end users. **Johnson Matthey** has strong positions in both battery and hydrogen technology.

In additional to their prospects for growth, these companies, together with our holdings in **Barrick Gold** and **Rio Tinto**, provide some protection should fiscal policy lead to a more inflationary environment.

2. Valuation and sell discipline

The strong market recovery in the second half of 2020 has once again led to pockets of over-valuation. Whilst our preference is always for companies that can see meaningful growth in the medium and long term, we remain disciplined on what we are prepared to pay for them. Two stocks, Experian and Ferguson, were sold on valuation grounds.

We were able to reinvest the proceeds into both Wood Group and IMI (mentioned previously) at attractive valuations, on free cashflow yields more than double that of the stocks sold. How much we are prepared to pay for near term cashflows depends on our assessment of how much those cashflows are likely to grow and for how long that growth will last. We are not in the camp of investors who believe that there is no price too high for great businesses. Equally, we avoid companies where cashflow is likely to decline, regardless of how cheap that cashflow might appear in the short term.

There are times when looking at the book value of a company is particularly relevant. In December we participated in the **Conduit Reinsurance** IPO. We normally avoid IPOs due to the information advantage enjoyed by the sellers and our reluctance to own anything being sold by private equity. The Conduit IPO is entirely new money (and therefore has no back book issues) and does not involve private equity. We see this as an opportunity to invest at book value in a hardening reinsurance market with an experienced and well incentivised management team.

We bought Redrow at close to its book value, which is effectively the price it has paid for yet to be developed land that it owns. We expect both Conduit and Redrow to earn a through cycle mid-teens return on equity, which makes buying at book value both attractive and rare at a time of widespread market overvaluation.

3. ESG

Our ESG discussions revolve around our proprietary ESG scorecard which forms a crucial component of our quality control process. The combination of having a concentrated fund (34 holdings at the end of December) and our ESG scorecard enables a joined up approach to analysing companies and engaging to drive positive outcomes for wider stakeholders and the environment. During 2020 the team had 114 engagements with companies in the form of 1-1 meetings, emails and wider collaborations. As a result of our work, the Fund has an MSCI ESG rating of AA, placing it in the top 4% of funds rated by MSCI globally.

During the quarter we worked alongside the J O Hambro UK Dynamic team on the Shareaction's Healthy Markets Initiative. Shareaction is a UK charity that facilitates collaborative engagement between investors and companies. The Healthy Markets Initiative aims to encourage companies in the food sector to take action to combat obesity though the provision of healthy alternatives, improved meal recipes and better disclosure.

During the quarter we met with one of the UK's largest supermarkets to express our support for the initiative and to press for more meaningful action from the company. We also discussed the initiative with Tate & Lyle, which manufactures many products that are a solution to reducing fat and sugar in diets. Improving nutrition forms a central part of the company's strategy, targets for management remuneration and the firm's engagement with the scientific community via the Shanghai Nutrition Society and the British Nutrition Society.

Collaborative engagements can have a significant impact if enough investors support them. Earlier in the year we supported the UK Investor Forum in pushing Rio Tinto for a meaningful response to its destruction of indigenous sites in Australia. We expect to be collaborating in more initiatives over the course of this year.

J O Hambro
Capital Management Group

JOHCM UK Opportunities Fund

5 year discrete performance (%)

	30.12.20	30.12.19	30.12.18	30.12.17	30.12.16
A GBP Class	-3.93	13.06	-1.85	3.19	13.75
FTSE All-Share TR Index	-9.52	19.29	-9.06	13.10	16.05
Relative return	6.17	-5.22	7.94	-8.77	-1.98

Past performance is no guarantee of future performance.

Source: JOHCM/FTSE International/Bloomberg, NAV of Share Class A in GBP, net income reinvested, net of fees as at 31 December 2020. The A Acc GBP class was launched on 30 November 2005. Benchmark: FTSE All-Share TR (12pm adjusted). Performance of other share classes may vary and is available on request.

Top 20 holdings

	Stock	Weight (%)
1	SSE	3.40
2	WPP	3.26
3	Rio Tinto	3.16
4	Tate & Lyle	3.10
5	Next	3.07
6	Hays	3.02
7	GlaxoSmithKline	3.00

	Stock	Weight (%)
8	Smith & Nephew	2.99
9	Whitbread	2.96
10	Relx	2.95
11	Smiths Group	2.94
12	Serco Group	2.92
13	Johnson Matthey	2.92
14	QinetiQ	2.92

	Stock	Weight (%)
15	Reckitt Benckiser Group	2.85
16	UDG Healthcare	2.84
17	Unilever	2.83
18	Ashtead Group	2.81
19	Compass Group	2.80
20	Wm Morrisons	2.80

Source: JOHCM/Bloomberg as at 31 December 2020. Cash position 7.54%.

Share class details

	ISIN	SEDOL	Bloomberg	WKN	Initial charge	Annual charge	Ongoing charge	Minimum investment*
A Acc GBP	GB00B0LLB641	B0LLB64	JOHUOIA LN	A0H1DL	Up to 5%	0.75%	0.88%	£1,000
A Dis GBP	GB00B3K76Q93	B3K76Q9	JOHUOII LN	A0RGE1	Up to 5%	0.75%	0.88%	£1,000
Y Acc GBP	GB00B95HP811	B95HP81	JOHUOYA LN	A1XCAZ	Up to 5%	0.63%	0.75%	£50,000,000
Y Dis GBP	GB00B95J5C19	B95J5C1	JOHUOYI LN	A1XCAY	Up to 5%	0.63%	0.75%	£50,000,000

Performance fee: 15% on excess if Fund outperforms benchmark, calculated daily. Any underperformance carried forward. Ongoing Charge is as at 30 September 2020. *Other currency equivalents apply. Further details on additional share classes are available on request.