JOHCM Funds

Global Value and Income Dispatch

The coronavirus - falling knives, iron gloves and The Shawshank Redemption

Markets find themselves plagued by a hitherto unknown virus with an unknown worldwide trajectory. The shocks from Covid-19 have rippled across a broad swathe of industries and could ultimately materially dent global economic growth. However, the uncertainty around the path the virus takes in the coming weeks and months means the range of outcomes is wide. This unexpected shock has led to sharp and swift decline in equity markets, a widening of credit spreads and a flight to safety in Treasuries, which are all very typical of a market panic.

We are bottom-up, cross-asset investors. We manage a generally conservative portfolio but look to take on more risk when risk is mispriced. That means we'll try to take advantage of market air pockets, illiquidity and forced selling across our global multi-asset universe when these conditions manifest themselves.

This means that we will try to catch knives, when we feel we are getting paid for it. So, in a financial sense, it is important for us to wear iron gloves. We do this by creating a portfolio that has significant deferred purchasing power and holds various defensive and anti-fragile assets such as cash, sovereign debt and gold. We believe these are assets that retain value and, in some cases, could even appreciate when markets sell off. In times of market stress, correlations trend to either +1 or -1, and you can't rely on traditional diversification to protect you.

Why market structure matters

"The world went and got itself in a big damn hurry" – (Brooks, 'The Shawshank Redemption')

In today's computer-driven stock markets – estimates suggest just 10% of daily trading volumes is initiated by human hand – market panics can take hold much faster than they did a decade or two ago. There is usually a shock that triggers a market reaction. The difference now is that the reactions are significantly amplified by today's market structure. When prices decline and volatility spikes, momentum stops are hit, hedge funds cut risk and liquidity dries up. And it happens all at once. Prices have to fall quickly to balance supply and demand. Buying opportunities, however, can evaporate quickly, as well, and so it is critical for modern active investment approaches to be able to move swiftly to profit from these dynamics.

What we've been doing

In terms of portfolio action, we have added a few hundred basis points to our equity exposure in recent days, using the sell-off to deploy capital into a variety of businesses, including – surprisingly – some more defensive telecoms and real estate-related businesses that declined sharply when factor funds cut exposure to low-volatility shares. Ironically, such businesses should fare comparatively well in an economic slowdown, but the need to liquidate exposure to a crowded trade can easily trump economic logic in times of market crisis.

We haven't just been buyers. There was a brief window, the week ahead of the sell-off, when markets were not yet pricing in potential risks. This allowed us to do some pruning in a few key areas of the portfolio where the risk/reward profile had changed.

The travel industry has been hard hit. While caution is certainly warranted, we have found some high quality platform businesses in and around that industry's supply chain that are starting to look attractive. There is some asymmetry, too, where if the virus spreads broadly travel may begin to normalize more quickly than people expect.

In the credit space, we have for some time felt that spreads were not paying us sufficiently for the risk borne. To that end, we had recently shifted about 10% of the Fund out of high yield and into investment grade corporate debt. With the more recent volatility, spreads are beginning to return to more normalized levels. If high yield continues to weaken, we could start to reverse some of this shift.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund can be found in the Fund's prospectus or summary prospectus, which can be obtained at www.johcm.com or by calling 866-260-9549 or 312-557-5913. Please read the prospectus or summary prospectus carefully before investing. The JOHCM Funds are advised by J O Hambro Capital Management Limited and distributed through FINRA member Foreside Financial Services, LLC. The JOHCM Funds are not FDIC-insured, may lose value, and have no bank guarantee.

Past performance is no guarantee of future results.

RISK CONSIDERATIONS:

Investors should note that investments in foreign securities involve additional risks due to currency fluctuations, economic and political conditions, and differences in financial reporting standards. Smaller company stocks are more volatile and less liquid than larger, more established company securities. The small and mid-cap companies the Fund may invest in may be more vulnerable to adverse business or economic events than larger companies and may be more volatile; the price movements of the Fund's shares may reflect that volatility. Fixed income securities will increase or decrease in value based on changes in interest rates. If rates increase, the value of the Fund's fixed income securities generally declines. Other risks may include and not limited to hedging strategies, derivatives and commodities.

The views expressed are those of the portfolio manager as of March 2020, are subject to change, and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice.