January 2020

JOHCM Funds

Global Value and Income Dispatch

Q4 Review: What are you paying for today?

Highlights

While many equities are relatively fully valued we continue to find areas of opportunity.

The biggest transformation in the portfolio was the shift of over 1000 basis points out of high yield and into investment grade.

The volatility of Q4 2018 was a key driver of performance in our first two years.

Factor flows often dominate markets in today's paradigm. Pessimism reigned over the summer pushing bond yields down and defensive and interest rate sensitive assets up. This created an opportunity in more volatile cyclicals.

The air-pocket was brief and reversed sharply in early September. Since then, macro risk drivers (such as the trade war and Brexit) have ebbed, driving risk premia down and risk asset prices up. Early 2020 has seen momentum and growth factors reassert themselves.

Q4 2019 returns & indicators

MSCI World Index	8.56%
Bloomberg Barclays US Agg	0.18%
ICE BofAML BB-B Global High Yield Constrained	3.30%
EUR vs. USD	2.88%
JPY vs. USD	(0.52%)
Gold	3.04%
US 10-Year Yield (09/30/19)	1.66%
US 10-Year Yield (12/31/19)	1.92%

Source: Bloomberg, as of December 31, 2019.

Portfolio Executive Summary – be a bit cautious

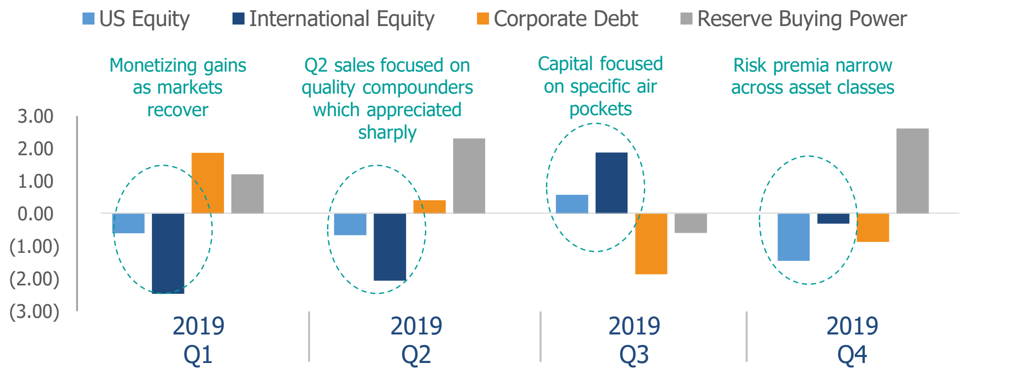
With the equity markets reaching new heights and credit spreads tightening, Q4 found us **net sellers of risk assets**, both equity and credit alike. As a result, reserves built during the period.

In general we continue to find **more attractive risk reward opportunities in equity** markets, largely because we feel upside in high yield is limited at current bond prices and yields. While many equities are also relatively fully valued we continue to find areas of opportunity, such as higher quality cyclical companies, where the risk reward remains attractive across different economic scenarios and where there is strong upside potential should the economy strengthen.

Markets moved from pronounced pessimism in August to optimism in late 2019 and early 2020. Investment outlook after outlook extolled the improving economic and geopolitical environment. Investors sidelined with fear in early 2019 felt new confidence to take risk. To us this means it is time to be a bit cautious in risk taking, as you are no longer getting compensated paid to do so.

We stand firm in our core belief that **risk is always present**. What changes is whether or not risk is priced into asset values. As we write, markets have been hit by what some call the "Wu-Flu Wobble" and the ebbing of January effect buying. It bears mention that none of the aforementioned outlooks predicted the Wu-Flu.

Capital Deployment – Trailing 4 Quarters



Source: JOHCM, Bloomberg, as of December 31, 2019. Represents estimated capital shifts net of asset class performance.

Portfolio positioning

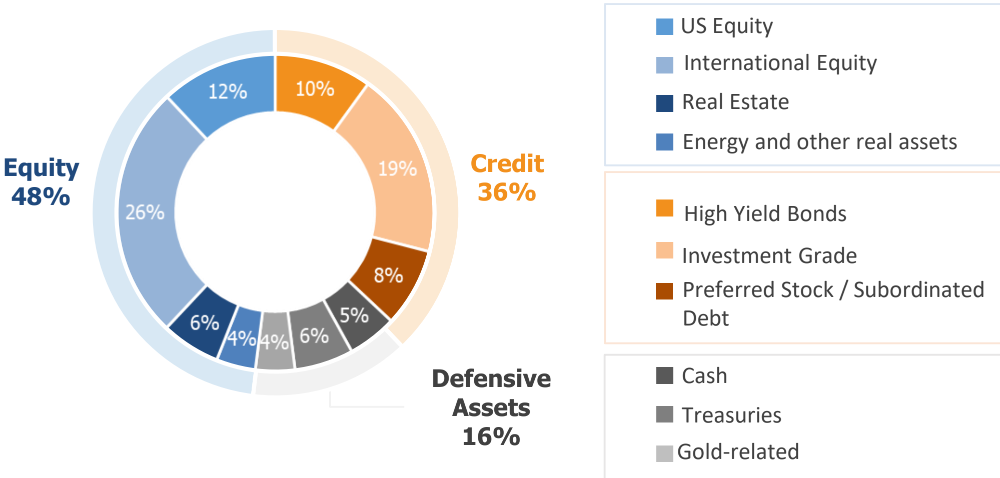
Equity exposure was constant at roughly 48%, with market appreciation offsetting the modest reductions highlighted above. Sales were largely driven by securities reaching their price targets amidst the strong overall market performance. In a few cases we reduced holdings where we downgraded our assessments of business persistence and management quality.

Defensives, even though they lagged recently, reached such heights in Q3, that forward looking returns are middling.

While overall credit holdings declined modestly too, the biggest transformation in the portfolio was **a shift of roughly 1,000 basis points out of high yield and into investment grade** debt during Q4. This reflected continuing narrowing of credit spreads, particularly in December, along with worsening quality of issuance. Our fixed income holdings (including US Treasuries) are now almost two-thirds investment grade. Duration lengthened to 4.4 years. With interest rates nearing 2%, we felt we were getting slightly better compensated for time value of money.

GIB strategy by asset class and region (as of 12/31/2019)

Subject to change without notice.



Source: JOHCM, as of December 31, 2019.

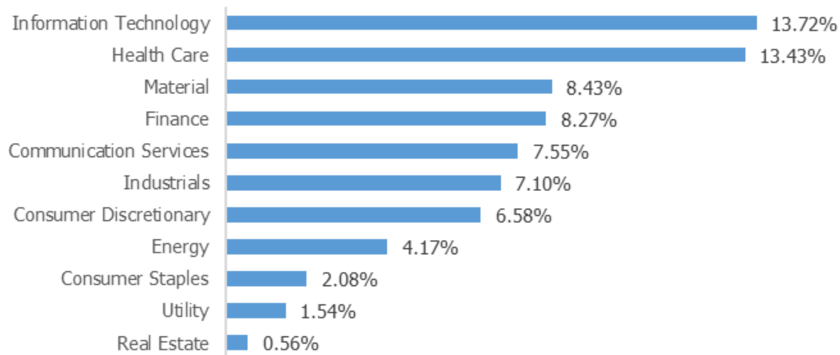
What are you paying for today?

While the Q4 rally was led by tech and a recovery in Healthcare from some politically-induced uncertainty in the US, **appreciation was relatively broad-based** and pushed valuations into the realm of the expensive.

This leaves investors with a difficult quandary. Do you pile in and hope momentum will continue, or do you let valuation be your guide?

Increasingly, as we look over our watchlists, we find that securities at today's levels offer limited upside, both among equities and credits. Defensives, even though they lagged recently, reached such heights in Q3, that forward looking returns are middling.

A "no fear" rally…



Source: Bloomberg, represents Q4 2019 performance for MSCI World Sectors.

As less and less capital is fundamentally managed, it is becoming more and more important to have a firm sense of risk and return

The one notable exception to this can be found in the area of cyclical shares, which still offer some value and – importantly – offer upside leverage in the event that the economy continues to improve.

While we have exited some cyclicals, we have added exposure to others, mostly in what we feel are higher quality businesses, and so our equity holdings continue to lean slightly in this direction. We pair this lean, with relatively low overall equity exposure and credit, which has been significantly derisked due to the shift to investment grade

In contrast, when it comes to defensives, we often find we are paying relatively full prices for limited long term upside.

Markets are self-reinforcing…

As one is faced with the drumbeat of ever higher market prices and seemingly daily new record prices, it can be helpful to remember that markets move and act differently that they did even just five years ago.

Momentum has been prominent in markets the past few years. With every rise in share prices and decline in volatility, the current market structure seems to push more money into risk assets. Trend following, momentum, and volatility targeting strategies are all essentially programmed to buy on the way up.

We know this is how it works and are grateful for the work of several sell-side firms such as JP Morgan, Nomura and Bank of America who go so far as to forecast how much these strategies have to buy every time the market moves up.

…until they are not

The dynamics on the way down are similar in some ways, but different in others. The key difference is that de-risking tends to happen in a much more compressed timeframe. Stop-loss orders get triggered on pullbacks, hedge funds cut risk and vol-targeters sell, all in a market where liquidity has evaporated.

As a result **volatility increasingly seems to occur in short, sharp bursts**.

Market participants, are caught on a positioning see-saw between trends and air-pockets. Ironically, as less and less capital is fundamentally managed, it is becoming more and more important to have a firm sense for the risk and return potential of the underlying asset. Otherwise, you just get shaken out.

A look back at 2019 – our second year!

The end of calendar 2019 marked our second complete year since our launch with J O Hambro. It has been an eventful stretch with up-markets and down.

We are excited to place in the top decile of our Morningstar peer group during calendar years 2018 and 2019 and to have been able to perform well in both the down markets of 2018 and the recovery in 2019. It is a good start, but there is much still to accomplish.

Most gratifying is the progress we have made as a team in blending both people who had worked together previously with fresh faces and new blood. In terms of our process, we have put old assumptions under the microscope and made improvements, but still see many areas in which we can continue to progress.

One can never stand still – changes and future outlook

As we look ahead, one key area of focus will be the integration of additional ESG information into our assessments. Those familiar with our persistence framework know we have an ESG/Disruption pillar which we continually seek to improve.

Risk management is also an area where we have made improvements over time. Our strategy is premised on being resilient in drawdowns and being able to take advantage of stress. The latter is greatly aided by the former.

While the volatility of Q4 2018 was a key driver of outperformance in our first two years both on the way down and up, there were a variety of areas where we can improve further. Risk management is a key component of this, as are frameworks

ESG position can be a source of alpha … An energy company, for instance, that offers optional carbon offset pricing, can take share from less forward thinking competitors

and what we call "guiderails" that help us ensure that we deploy capital efficiently and focus on the best risk reward opportunities, even as the fog of market uncertainty and volatility renders this difficult.

We want to be the team you can rely on to ferret out those airpockets where risk is mispriced and move quickly to take advantage of them.

We often get asked about alternative data. We believe that the jury is still out. We are still very much in the "guided search" camp of the data science industry, but over time this may evolve even for bottom-up investors as ourselves.

A sustainable income builder?

As a team that is active globally, we have been having discussions about sustainability for some time. Increasingly, those conversations are happening even in the United States, where the focus is a bit earlier stage.

Sustainability is particularly acute (or challenging) in the income arena. Many high dividend equities and high yield bond issuers operate in older economy industries (tobacco, energy, pharma) where sustainability can be a challenge.

Our sister company Regnan, which investigates ESG related-risks, differentiates between value investing and "values" investing when it comes to ESG integration. Today, we are firmly in the former camp. Assessing ESG relating risks is an important part of our process, however, we don't have a moral filter or social imperative. We will invest in companies with less favorable ESG properties, but we require higher compensation for those risks.

In some cases an advantaged ESG position can be a source of alpha. An energy company, for instance, that offers optional carbon offset pricing at the pump, can take share from less forward thinking competitors. We can also advocate for such policies where we think it can unlock value.

A final word

We are grateful for the support that we have received in these first two years. As we sit here today, we are anticipating a challenging year for market participants, as return expectations across a number of asset classes seem muted.

It will be our goal to remain patient, protect capital and continue our hunt for what we believe are the best risk reward opportunities available. We remain prepared to move quickly when we find them, as they can come and go quickly.