April 2018

JOHCM Funds

Global Value and Income Dispatch

JOHCM Global Income Builder Fund – Q1 2018 Review

*It is our great pleasure to update you on **JOHCM Global Income Builder Fund's (JOBIX)** first full quarter of operation. Global Income Builder's goal is to generate meaningful monthly income distributions and long-term capital appreciation by applying a global value investment philosophy to income-generative assets. We invest across global equities and fixed income but also hold cash and hedging assets, such as gold, in order to render our portfolios more resilient. We are long-term, absolute return-oriented investors and believe our job is, first and foremost, to protect the capital we manage – both yours and our own – from permanent impairment.*

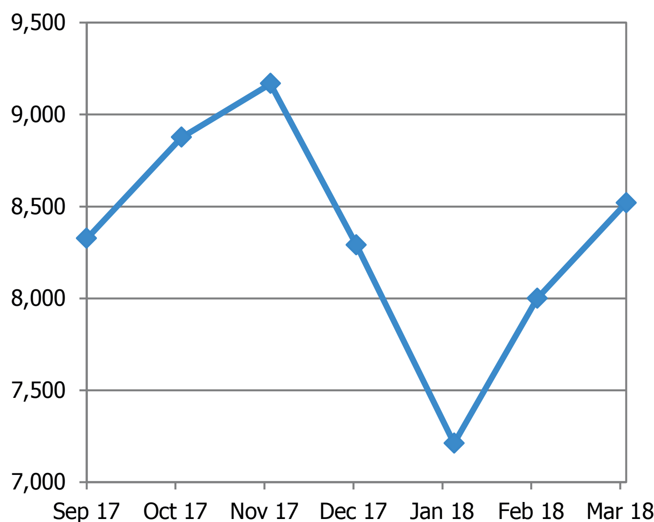
Market overview

During the first quarter of 2018 the MSCI World Index, the Bloomberg Barclays US Agg Total Return Index and the ICE BofAML BB-B Global High Yield Constrained Index all declined, returning -1.2%, -1.5%, and -0.3%, respectively.

The US dollar was weak with the euro, the yen and gold price appreciating 2.5%, 5.9% and 1.7%, in turn, while the price of Brent crude oil climbed 3.6%. Inflation fears drove US 10-year Treasury bond yields from 2.41% to 2.74%.

Looking across the global income landscape, it remains a difficult environment for yield-oriented investors. Interest rate policies across the world are still skewed to the confiscatory, with negative nominal interest rates affecting over $8 trillion of debt (see chart below). These policies are essentially a tax on the savers for the benefit of borrowers. With these dynamics in place income seekers should remain wary as many fixed and equity income investments, alike, appear overvalued.

Bloomberg Barclays Global Aggregate – negative yielding debt (US$ billions)

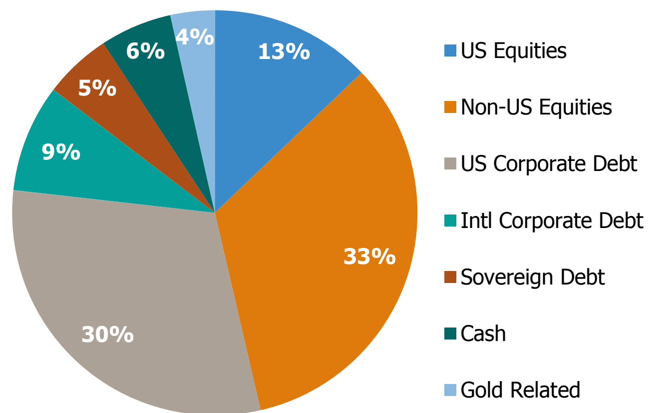


Source: Bloomberg.

Portfolio positioning as volatility returns

The recent market environment provided more volatility than has been seen in almost two years, dating back to mid-2016, and featured an almost 10% drawdown in the MSCI World Index from Jan. 26 to Feb. 8. Volatility is generally favorable for multi-asset value investors like ourselves, as we can reallocate capital among asset classes to take advantage of stress. For instance, during the above-mentioned market decline, we drew down on our cash reserves to take advantage of lower prices and increased both our equity and credit exposure by over 5% each, measured at cost.

JOBIX asset class exposure



Source: JOHCM.

Risk assets are still expensive, however, and we do not see an overabundance of equities that offer a margin of safety. In addition, with the recent increase in interest rates, the fixed income investments that meet our margin of safety criteria offer somewhat improved returns. As a result, the overall equity exposure of our portfolio, at below 50%, remained towards the lower end of our typical range from 40 to 65%.

The bottom-up search for value and income

One of the key benefits of bottom-up investing at the individual security level, is that global credit and equity income markets are quite heterogeneous and

opportunities for value and income can almost always be found.

Today, we are finding income with a margin of safety in certain industries where we believe the threat of disruption is overblown. This is not to suggest that these industries (which include advertising, automobiles and retail) will not face disruption, but rather that the magnitude – or the timing – of the threat may be overstated. In the meanwhile, investors can earn almost double-digit free cash flow yields. To further offset disruption risk, we look for industries where there are many different decision makers, rather than just a few concentrated buyers. When this is the case, shifts in buying patterns may unfold much more slowly than alarmist news headlines may lead us to believe.

Tiptoeing back into duration?

In managing portfolios for value and income in the low rate environment of the past few years, it has made sense to avoid longer duration fixed income as well as interest rate-sensitive equities (so called "bond proxies"), as these instruments have not offered a margin of safety. There was, however, a brief moment following the "Taper Tantrum" of late 2013 when such assets began to show some value. At the time, interest rates on 10-year US government bonds had almost reached 3%. The opportunity was short-lived, as subsequent European crises and emerging market and commodity collapses, drove US interest rates back down and interest rate sensitive assets back up.

Today, we are in a very similar situation. With 10-year yields having once again almost reached 3% (2.95% on Feb. 21, to be precise), we have begun to find value in assets that for years offered very little appeal to us.

For instance, for the first time in years, we have begun to find some attractive opportunities in the US REIT sector. We have initially focused on a pair of special situation investments that, we believe, offer their own, unique sources of value, and we do not yet believe that the sector as a whole is cheap. However, were it not for the backdrop of interest rate-driven weakness in REIT shares, these two investments might not have met our valuation criteria.

As we write this commentary, we take note of the recent tariff and regulatory-driven weakness in technology and industrial shares. These industries have been generally expensive, so we have found relatively little margin of safety. We do stand ready to add capital should valuations improve.

We would highlight that we have set capacity for this fund at a level that will not only preserve our ability to invest in smaller capitalization equities and debt issues, but also retain our flexibility and ability to change our minds.

Income generation

We seek to generate income of between 3% and 5% after expenses over the year. However, there is some variance in the amount of income distributed in any given month, due to the timing of when our investments distribute income. For instance, the Fund's highest income distributions usually occur during the second quarter when many European companies pay their annual dividends. During the first quarter, the Fund distributed income of 6.3 cents per share.

Sources for all data: JOHCM/Bloomberg. Duration is the weighted average time until an investor receives the cash flows of a bond including both interest and principal.

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.

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 April 2018, 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.