July 2018

JOHCM Funds

Global Value and Income Dispatch

JOHCM Global Income Builder Fund – Q2 2018 Review

JOHCM Global Income Builder Fund's (JOBIX) goal is to deliver meaningful monthly income distributions and long-term capital appreciation by applying a global value investment philosophy to income-generative assets.

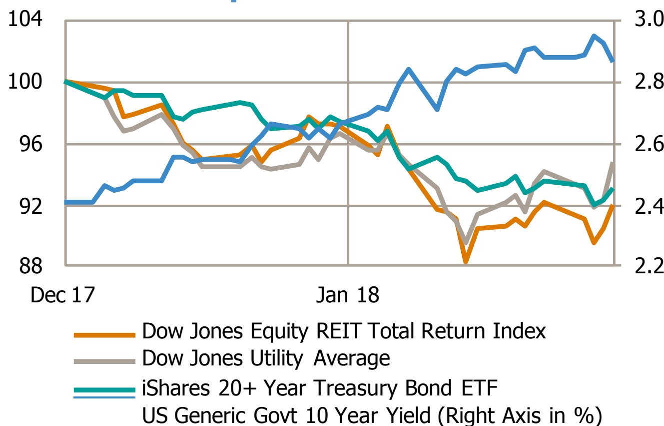
Market overview – Q2 2018

The MSCI World Index increased by 2.0% during Q2 2018, while the Bloomberg Barclays US Agg Total Return Index and the ICE BofAML BB-B Global High Yield Constrained Index both fell, returning -0.2% and -1.5%, respectively.

The US dollar strengthened significantly, with the euro, yen and gold price returning -5.0%, -3.8% and -5.5%, in turn. The price of Brent crude oil continued to climb, rising 3.6%. US 10-year Treasury yields increased from 2.74% to 2.86%, after peaking at 3.10% on May 17th.

While fears of trade wars and slowing global growth have driven some volatility, it bears noting that the investment landscape has improved modestly for yield-oriented investors. Increases in long-term US interest rates earlier this year led to declines in US REITs and utilities (see chart below), making valuations more reasonable. Volatility in international equities has also provided the opportunity to earn higher yields. Investment grade debt has also been hurt by rate increases, though credit spreads have remained relatively remain tight.

Taper tantrum two?



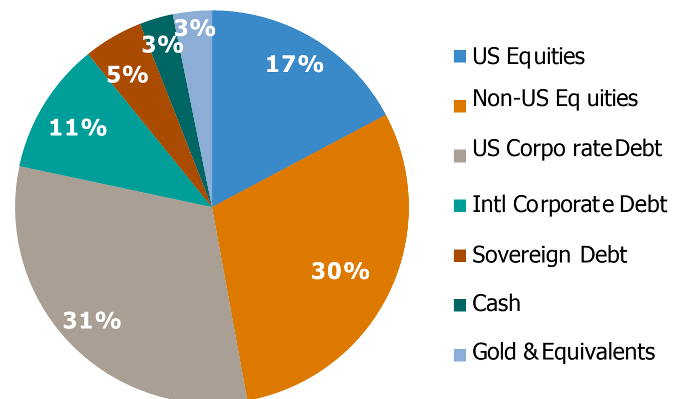
As of February 2018

Portfolio positioning – improving durability

As discussed in our previous quarterly review, with the increase in US yields, we have begun to find some value in interest rate-sensitive assets here. This has led to a moderate increase in exposure to US equities (which tend to be rate sensitive), from roughly 13% to 17%, and a moderate lengthening of the duration of our fixed income holdings, from 4.6 years to 4.8 years, as we added to longer-dated issues.

Interest rate-sensitive assets generally exhibit an inverse correlation with traditional risk assets and thus can improve the durability of portfolios in certain risk-off environments. We will elaborate on these dynamics and developments further below.

JOBIX asset class exposure



As of June 30, 2018

Broadly speaking, we still do not see an abundance of equities that offer a margin of safety. As a result, the overall equity exposure of our portfolio remained below 50%, which is towards the lower end of our typical range of 40 to 65%. The average rating of our fixed income holdings remained at BB, where we believe we can generate attractive risk-adjusted income by taking some moderate credit and duration risk.

Duration and why it can be helpful

The technical definition of duration is the sensitivity of the price of a security to the change in the level of interest rates. Duration can be calculated in a number of different ways (Macaulay, modified, DV01) and can be measured in dollars or years. However, the basic idea is the same: **the greater the duration, the more sensitive the investment is to a change in interest rates.** We tend

to use the terms duration-sensitive and interest rate-sensitive somewhat interchangeably.

Duration can be a helpful diversifier in a variety of different environments, as interest rate-sensitive investments are frequently inversely correlated with equity markets. When equity markets sell off, investors often engage in a 'flight to safety', whereby they bid up the price of long-term US government bonds. **However, this is not always the case:** sometimes the rising level of interest rates can itself be the driver of stock market declines, prompting bonds to fall along with shares.

It isn't just bonds that display duration. Certain equities –such as REITs, utilities, and telecommunications shares –can display strong interest rate sensitivity. These types of stocks are therefore often labeled 'bond proxies'. They tend to make up a large proportion of high dividend payers in the US and are broadly held by US-oriented income funds.

Duration across the portfolio

For many years, the low level of interest rates meant that bond proxies and traditional fixed income were potentially overvalued. Thus in managing income portfolios from a value perspective, it has generally made sense to avoid interest rate-sensitive assets. **Bond proxies essentially represented insurance policies that were too expensive.**

While it is probably not yet time to declare bond proxies cheap in aggregate, the declines suffered by such assets earlier in the year have allowed us to begin to find value among interest rate-sensitive equities and contributed to the shift in equity exposure and the fixed income duration extension described above.

Duration, fixed income and credit

It is perhaps a misconception that all fixed income is rate sensitive. It is true, of course, that longer-dated government securities are particularly vulnerable during periods of rate increases: prices of US 10-year Treasuries, for instance, declined by about 10% in the taper tantrum of May to September 2013 and also fell sharply earlier this year. Nonetheless, credit investments can sometimes perform reasonably well even when rates increase, especially if the rate increase reflects strong economic fundamentals that are viewed as positive for the businesses that issued the debt.

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.

During the second quarter, the Fund distributed income of $0.10 per share. Since many European companies pay their annual dividends in the second quarter, it typically represents the Fund's most income-generative period. As a result, it is important not to annualize this quarter's income for purposes of planning.

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 July 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.

Sources for all data: JOHCM/Bloomberg (unless otherwise stated)