



# GLOBAL SELECT



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## Think like a scientist – but which one and when?

We hope all of you and your families keep safe and healthy and follow the Covid-19 protocols. In the last few weeks it has become clear that Asia mostly learned the lessons of SARS and how to deal with such outbreaks. Europe and the US did not and have not. This has made the global situation much worse.

It has also changed our evidence-based and probability-adjusted Bayesian scenario analysis to:

**Scenario 1:** 50% probability – an equity market bounce led by the same growth, quality, US, technology-type factor leadership.

**Scenario 2:** 10% probability – an equity market bounce led by deep value and cyclical-type factor leadership.

**Scenario 3:** 40% probability – equity markets keep falling, even from here, until the LTCM/Lehman-type bankruptcies emerge.

Thus far, as the Covid-19 crisis has worsened since our [last update](#) on 2 March 2020, our relative performance has been reasonable, and we have not made any significant changes to the portfolio. Therefore we do not have anything significant to add to that special report. Our points about Modern Portfolio Theory not really working any more, machines/algorithms accelerating indiscriminate market sell-offs and the bleak outlook for oil and European banks all remain valid structural concerns for which we are striving to find portfolio solutions.

Those of you that know our investment process well (e.g. some clients/consultants who have been with us for 10-20 years – thank you for your longstanding trust and confidence in us) might remember that at very difficult times like these we have a time-tested decision-making approach wrapped around our 4-Dimensional investment process. For those of you who know us less well, you may find the following a useful framework as you try to solve your near term investment-related problems:

- 1 How would a **chemist** see the current economic/market/human crisis?
  - They would say: “Chemically nothing much has really changed, so carry on as usual.”
- 2 How would a **physicist** see the current economic/market/human crisis?
  - They would say: “It is a classic phase transition (i.e. regime shift), like when water turns to ice.” They would adapt their behaviour patterns accordingly, while the chemist might perish still trying to swim, last heard saying “but it is still H<sub>2</sub>O.”
- 3 How would a **biologist** see this economic/market/human crisis?
  - They would say: “Look for the evolutionary changes that this shock to the system will inevitably bring.” Perhaps it will be fish that can walk, to extend the “water turning to ice” analogy.

Our 4-Dimensional investment process specifically recognises that different things work at different times and in different places: 1. Stocks, 2. Sectors, 3. Countries/Currencies and 4. Time/Change.

In normal times, Nudgem and I think and operate mostly like chemists – things don’t usually change that much.

During a crisis, we think and operate mostly like physicists – we don’t try and swim in ice, or ski in an avalanche, or pick stocks in freefall.

After the crisis, we think and operate mostly like biologists looking for the evolutionary changes from the shock of the crisis – e.g. the exciting new stocks and new themes that have learned or evolved to survive and thrive in the new environment.

This is how the two of us have been able to protect our clients’ capital in a relative sense during most major crises over the last 20 years, and then go on to find the really big winners for our clients over the next 5-10 years. It has led to a radically different and outperforming portfolio each decade for our long-term clients. (If you’re interested in more of our forward-looking thoughts, please download our presentation [“Thoughts on winning the next decade”](#).)

The Achilles heel in our investment process is always the initial stage of every market recovery from a crisis. This is the so-called “dash for trash”, when the most beaten up, near-bankrupt stocks bounce the hardest. Never expect us to own them because they do not fit our investment process and this is such a difficult short-term trade to time correctly.

Until this crisis passes, we will continue operating mostly like physicists, trying to survive the phase transition (regime shift) and protect our clients’ capital as best we can in a relative sense in these crazy times. Then, at some point, we will see the signals to operate like biologists and buy the very exciting growth stocks and themes that have evolved to be the next decade’s major winners – e.g. clean & green growth, post-virus healthcare and digital economy and, for the even longer term, the hydrogen and circular economy.

Until then, we hope you and your families stay safe and healthy. We wish you all the best in these troubled times.

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## JOHCM Global Select Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	29.02.20	28.02.19	28.02.18	28.02.17	29.02.16
A USD Class	3.17	-1.31	25.75	12.78	-17.53

### Past performance is no guarantee of future performance.

Source: JOHCM/MSCI Barra/Bloomberg, NAV of Share Class A in USD, net income reinvested, net of fees. The A USD Class was launched on 1 August 2012. Benchmark: MSCI AC World NR (12pm adjusted). Performance of other share classes may vary and is available on request.

**Past performance is no guarantee of future performance.** The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Investing in companies in emerging markets involves higher risk than investing in established economies or securities markets. Emerging Markets may have less stable legal and political systems, which could affect the safe-keeping or value of assets. The Fund's investment include shares in small-cap companies and these tend to be traded less frequently and in lower volumes than larger companies making them potentially less liquid and more volatile. The annual management charge is deducted from the capital of the Fund. This will increase the income from the Fund but may constrain or erode potential for capital growth. We recommend that you read the Prospectus and Key Investor Information Document available from the address overleaf or from our website. Information on how JOHCM handles personal data which it receives can be found in the JOHCM Privacy Statement on our website: [www.johcm.com](http://www.johcm.com). The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation. Issued and approved in the UK by J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority. JOHCM® is a registered trademark of J O Hambro Capital Management Ltd. J O Hambro® is a registered trademark of Barnham Broom Ltd. Registered in England and Wales under No:2176004. Registered office: Level 3, 1 St James's Market, London SW1Y 4AH.