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Senior Fund Manager

January review; shift to value

JOHCM Global Select Fund

FOR PROFESSIONAL INVESTORS ONLY | FEBRUARY 2022

Fund overview

- The Fund aims to generate long-term total returns through active management of a concentrated portfolio of listed global equities securities.
- Fund managers Christopher Lees and Nudgem Richyal have a growth at a reasonable price (GARP) philosophy and aim for consistency of returns by exploiting multiple market anomalies/ inefficiencies.
- They believe that they increase the probability of finding attractive stocks by looking where traditional growth investors do not look: stocks early in the growth life-cycle, off the beaten track, or in out of favour areas of the stock market that are recovering.
- The Fund promotes environmental and social characteristics throughout the investment decision making process, please see the following link for further details: https://www.johcm.com/uk/our-funds/fund-details-JOH-GLS/johcm-global-select-fund-#sustainability
- Benchmark: MSCI AC World Index.
- The Fund is managed on an 'unconstrained basis' with no restrictions in terms of regional or sector allocation versus its benchmark.
- Please refer to the Prospectus/KIID for further information.

After a stellar 2021 (24.83 versus 19.03% MSCI All Countries World Index)[1], the JOHCM Global Select Fund has endured a difficult start to the New Year. In January, the fund fell 14.62% versus a fall of 6.82% for the MSCI All Countries World benchmark index[2]. This performance was driven by a market rotation out of last years winning growth stocks that the fund owns and into many value stocks that the fund does not own. Whilst January's underperformance has been stark, it is important to emphasise the fund has always struggled during significant rotations out of growth stocks and into value stocks, as happened in January.

The JOHCM Global Select fund has always been a "Core fund with a Growth tilt," and has always struggled during similar market inflection points – but has previously bounced back every time and compounded well ahead of the benchmark index since it's inception in 2008 (254.32% versus 223.99% from September 30th 2008 inception to January 31st 2022). We therefore remain confident in our approach and process and its ability to continue to delivery long term outperformance.

In January we struggled with both negative contributions from asset allocation and stock selection. Our Overweight in Technology and underweight Financials delivered a negative contribution from an asset allocation perspective. At a stock selection level, negative contributions were driven particularly in Financials (especially our data driven stocks such as Morningstar, Nasdaq, Intercontinental Exchanges, SBI Holders and Hong Kong Exchanges), Technology (especially our semiconductor holdings Keyence, Keysight, Lam Research, Nvidia, ASML, Wolfspeed), Healthcare (especially our biotech related holdings BioNTech, Catalent, Thermo Fischer, Agilent, Avantor). We have a high conviction in all of these stocks which we believe still have positive fundamentals, therefore we will be buying the dips and topping up our positions once the market volatility subsides.

At a macro level the interest rate expectation reset drove the significant rotation from growth to value and this sentiment shift explains much of our underperformance. It was not that long ago that Mr Powell of the US federal reserve said "we are not even thinking about thinking about raising interest rates." Fast forward to today, and the market now expects more than 5 interest rate rises. So, for the rate of change of interest rate expectations to remain constant, the market would soon need to be expecting 10+ interest rate rises – something that we think is a very low probability outcome given that economic growth rates and inflation rates will probably fall later this year.

[1]Source: Bloomberg as at 31 December 2021 in USD. [2]Source: Bloomberg as at 31 January 2022 in USD.

Therefore, most of the interest rate resetting of expectations has probably happened, which means most of the de-rating of the profitable long term growth stocks that we own has probably happened (higher interest rates means lower Net Present Value for long duration growth stocks). So we are buyers of the dips in our holdings where fundamentals remain strong, but we will remain active and weed out any losers where fundamentals are deteriorating and look to replace them with any potential "early birthday presents" we can find in the current period of market rotation and volatility.

Outlook and Positioning; mid-cycle correction or bear market?

A crucial question to consider is whether this a "mid-cycle correction" or the beginning of a "major bear market?" The honest answer is that nobody knows. We have an evidence based, probability adjusted process, which says the most likely outcome is a mid-cycle correction. Markets are beginning to worry about a policy mistake by the US Federal Reserve, as they are about to raise interest rates just as growth and inflation start to slow (potentially very similar to the European Central Bank policy mistake of 2008). A moderation in global growth and inflation rates in 2022 (from recovery boom to steady growth) will probably allow supply chains to catch up and inflation to fall. So, if policy makers recognise and react to slowing growth, this will probably turn out to be a "mid-cycle correction - buy the dip." If not, and policy makers keep raising rates while yield curves flatten then invert and credit spreads widen, then we will get more bearish and change the portfolio accordingly. In this scenario, many low quality value stocks with stretched balance sheets will start to fall, and we would move the portfolio up the quality curve and focus on those companies with rock solid balance sheets that can weather the difficult combination of rising interest rates and slowing economic growth.

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This is a marketing communication. Please refer to the fund prospectus and to the KIID before making any final investment decisions.

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The investment promoted concerns the acquisition of shares in a fund and not the underlying 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.

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