Professional Investors Only

JOHCM UK Equity Income Fund

Monthly Bulletin: August 2024

Fund Overview

- The Fund aims to generate long-term capital and income growth through active management of a portfolio of UK listed equities.
- Established income investors James Lowen and Clive Beagles abide by a strict dividend yield discipline, which leads to an emphasis on higher-yielding stocks and promotes a naturally contrarian style.
- The Fund will typically have significant exposure to small and mid-cap stocks, often giving the portfolio a different holdings profile to many other income funds.
- Benchmark: FTSE All-Share Total Return Index.

Active sector positions as at 31 July 2024:

Top five

Sector	% of Portfolio	% of FTSE All-Share	Active %
Construction and Materials	11.23	0.52	10.71
Life Insurance	9.37	2.13	7.24
Banks	16.21	10.27	5.94
Industrial Metals and Mining	9.10	5.78	3.32
Retailers	4.37	1.69	2.68

Bottom five

Sector	% of Portfolio	% of FTSE All-Share	Active %
Pharmaceuticals & Biotechnology	0.00	11.24	-11.24
Closed End Investments	0.00	6.22	-6.22
Personal Care, Drug and Grocery Stores	1.72	7.69	-5.97
Aerospace and Defence	0.00	3.75	-3.75
Tobacco	0.00	3.03	-3.03

Active stock bets as at 31 July 2024:

Top ten

Stock	% of Portfolio	% of FTSE All-Share	Active %
Aviva	3.55	0.55	3.00
NatWest	3.90	0.95	2.95
Phoenix	3.11	0.17	2.94
Standard Chartered	3.61	0.67	2.94
Barclays	4.37	1.44	2.93
ITV	2.95	0.13	2.82
BP	5.47	3.14	2.33
Legal & General	2.70	0.57	2.13
Paragon	2.19	0.07	2.12
Drax	2.17	0.10	2.07

Bottom five

Stock	% of Portfolio	% of FTSE All-Share	Active %
GSK	0.00	2.54	-2.54
Relx	0.00	2.83	-2.83
Unilever	0.00	4.80	-4.80
Shell	1.34	7.27	-5.93
AstraZeneca	0.00	7.51	-7.51

Performance to 31 July 2024 (%):

	1 month	Year-to-date	Since inception	Fund size (£m)	Strategy size (£m)
Fund – A Acc GBP	**5.81**	**18.75**	**435.70**	**1,682**	**1,975**
Lipper UK Equity Income mean*	3.89	11.26	259.74		
FTSE All-Share TR Index (12pm adjusted)	2.60	10.95	293.54		

Discrete 12-month performance (%) to:

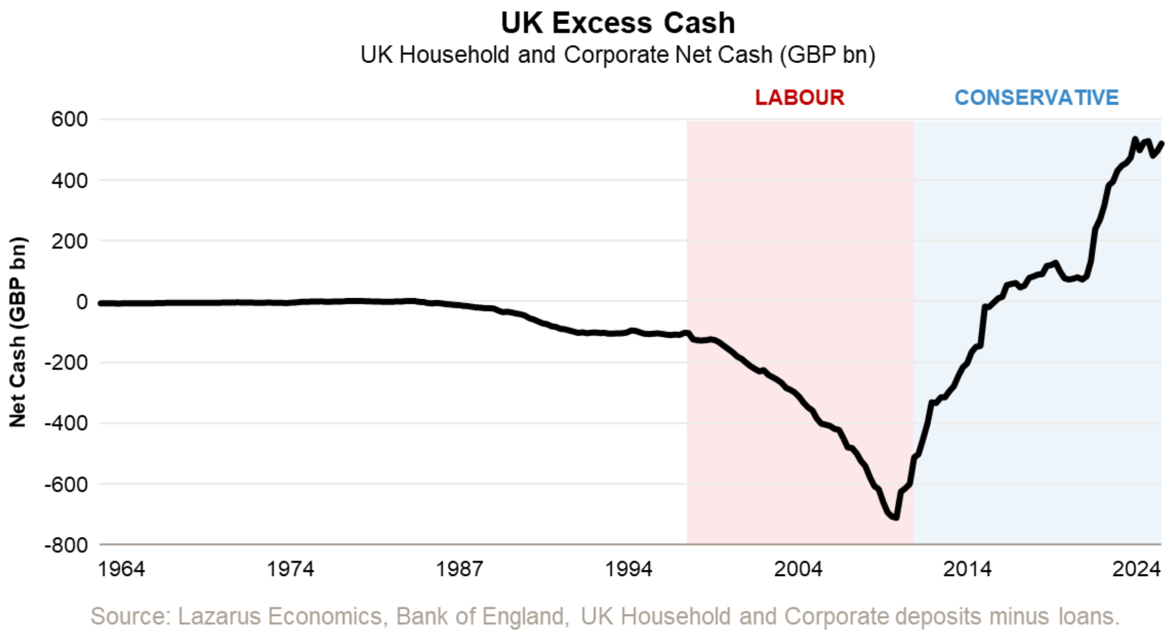
	31.07.24	31.07.23	31.07.22	31.07.21	31.07.20
JOHCM UK Equity Income Fund – A Acc GBP	22.90	5.11	1.92	49.98	-25.28
FTSE All-Share TR Index (12pm adjusted)	13.88	6.39	5.23	24.84	-16.81

Past performance is no guarantee of future returns. The value of an investment can go down as well as up and investors may not get back the amount invested. For further information on risks please refer to the Fund's KIID and/or the Prospectus. Source: JOHCM / Lipper Hindsight. NAV per share calculated net of fees, net income reinvested, ‘A’ accumulation share class in GBP. Performance of other share classes may vary and is available on request. Inception date: 30 November 2004. Index return is net income reinvested, adjusted for 12pm. * Initial estimate for the Investment Association's UK Equity Income sector.

Economic developments

UK GDP continues to surprise positively, with the latest monthly figure for May at 0.4%, being 2x consensus forecasts. Growth for the full year is likely to be pushing 1.5%, which is over twice what the OBR forecast in March. Other strong data points included UK consumer confidence reaching a cycle high, another inflation print of around 2% and the labour market remaining reasonably robust as wage pressures continue to moderate.

The chart below shows the average debt/cash of the household and corporate sector in the UK – one can clearly see the build-up of debt that was part of the cause of the GFC. What is not widely commented on is the dramatic difference now vs then, with these two important components of the economy 'cashed up', a situation that was present before COVID but, as the graph shows, was accelerated by COVID. This cash, when it moves off the sidelines as confidence returns, will drive further growth.



This strength is why it is correct that the Bank of England cut interest rates at the start of August – the window to cut rates will be small given the underlying strength of the economy. In our view, there will be fewer interest cuts than are currently priced into the market.

Despite the stronger overall economic momentum, some parts of the economy including RMI (repair, maintenance and improvement construction activity), new house construction and recruitment remain sluggish and will probably need an interest rate cut or two to drive a recovery.

Rachel Reeves has had an impressive start as the new Chancellor, in our view, with the new housing policy and the National Wealth Fund being highlighted. Her recent statement on the state of the public finances highlighting the economic mismanagement of the previous government was most probably partly correct. There was also a heavy political overlay as the bad news was highlighted, but she ignored the good news – which is material – growth being much higher than the OBR forecast, as noted above, which will mean tax receipts are materially higher. Since the last fiscal event, long term interest rates have fallen, which will also significantly help the government's budget.

UK 10-year bond yields fell a further 20bps during July. This was largely driven by global bond yields moving lower rather than any domestic factors. There was a more marked fall in shorter dated maturities which will feed into lower mortgage rates in coming months. This will also help stimulate the housing market along with the new government policy on housing.

In contrast to the UK, US economic data has been sluggish, and whilst inflation remains stickier than in the UK the market has started to price in rate cuts across the rest of the year again over recent weeks. China data also continues to be weak, which along with over exuberance earlier this year is why the copper price has fallen c20% from its high in May.

Performance

The upward trend of the UK stock market accelerated in July, with the FTSE All Share index up 2.60%. The Fund was up 5.81%, significantly outperforming the market by 3.12% (on a geometric basis). Year-to-date, the Fund is up 18.75% compared to the market, which is up 10.95%.

Looking at the peer group, the Fund is the best performing Fund within the IA UK Equity Income sector year-to-date. On a longer-term basis, the Fund is ranked 1st quartile over three years, five years and 10 years and is the best Fund in the sector since inception in 2004.[1]

There were three main drivers of the positive performance of the Fund in July – strength in domestic sectors, banks, and strong results.

Domestic exposure – which has been shunned since the Brexit vote - has gradually been recovering over the last 12 months. This recovery has been uneven, with some stocks (eg small caps) lagging others (eg housebuilders). The comprehensive election result, coupled with clarity on certain policy areas such as housing, led to strong performances in a number of names. **Galliford Try** (up 23% relative), **Kier** (up 15% relative), **Ibstock** (up 17% relative) and **Eurocell** (up 13% relative) stood out. Our two housebuilders made new 'cycle' highs – **Bellway** and **Vistry** were both up 10% relative.

Banks continued to have strong results – **Natwest** (up 17% relative) and **Standard Chartered** (up 6% relative) were notable. **Barclays** was also strong.

Continuing the theme of strong results, **Drax** (up 28% relative) upgraded guidance, increased its dividend by slightly more than expected and announced a (surprise) £300m share buyback. **Keller** which has had a number of upgrade statements year to date continued to perform well (up 15% relative). **International Personal Finance** also beat forecasts and started its first buyback.

There were a few negatives during the month offsetting these positive trends. The most material was a drag from the mining sector where **Glencore** and **Anglo**

[1] Source: Lipper

American were both weak (c10% relative). The oil sector was also sluggish, albeit **Diversified Energy**, which had been weak for much of the previous 12 months, continued to rebound. Our recruitment stocks (**SThree** / **Page**) fell slightly post trading updates/results that led to downgrades. These stocks are trading 'trough on trough' – trough valuation on trough earnings. **Centrica**, in contrast to Drax, fell c10% on its results after it extended its buyback, though the overall amount was deemed disappointing. Centrica needs to give greater clarity on its investment plans given its c£2bn of surplus capital. **Easyjet** was weak after a Ryanair profit warning. Its own results, subsequent to that, were in line.

Two of the stocks in the Fund that have been bid for this year continued to perform well. **Tyman**, saw 15p of additional value being added to the offer after feedback from some shareholders, including ourselves, that the initial bid was too low. **DS Smith** continued to re-rate as the market started to appreciate the benefits that would accrue to International Paper, which is acquiring DS Smith via a 100% paper offer.

Portfolio activity

The strong performance of the Fund led to a number of changes to active weights.

We noted above that DS Smith started to reflect the benefits of the proposed transaction with International Paper as International Paper shares re-rated. Upon completion, the stock will remain listed in London but will not be part of the FTSE indices. Partly due to the latter but also due to the rise in the share price, we moved our active position down from 300bps to 200bps. We also reduced strong performer Keller from 225bps to 200bps and capped our Galliford Try exposure at 150bps. These are sensible risk management adjustments rather than reflective of any negative assessment of residual upside to target prices, which remain material.

We continued to trend our housebuilding exposure lower (now c150bps across two positions), with additional weight applied to stocks elsewhere in the housebuilding ecosystem, eg we continued to increase a recent new addition, brickmaker **Forterra**.

The final notable reduction was Diversified Energy – we used its share price recovery to move our weight down, with the proceeds reinvested into **BP**, which now has a similar dividend yield. We also added to our two large miners – Glencore and Anglo American.

Several banks (Standard Chartered/Natwest) rose above our maximum 300bps active weight level – we cut back accordingly, with the proceeds largely moved to **HSBC**, where a dividend yield of 7%+ and the ongoing material buyback stand out.

In the property sector, we added to our holding in **Hammerson**. They announced the sale of the non-core Value Retail division (think Bicester Village), with the proceeds used to fund a share buyback and provide funds to invest in the core business. We also added a new name in the sector, which we will discuss in due course once we have built the position up.

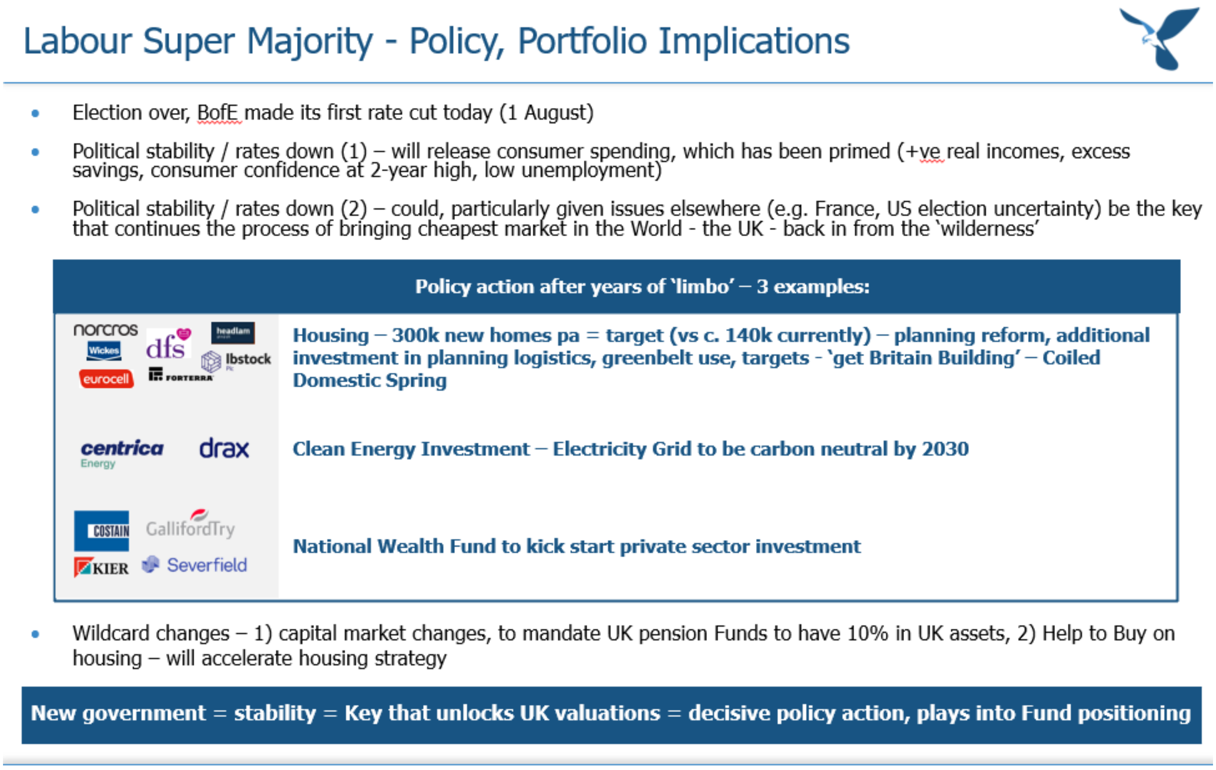
Finally, we also added to some of the weak stocks noted above – EasyJet, Page and SThree.

Outlook

The UK's economic outlook continues to improve, a trend likely to accelerate with the decisive election result. With inflation back to target, the Bank of England has started to ease policy at the start of August. With consumer confidence close to a 3-year high, savings ratios elevated, real wage growth of around 3% and a vast unspent stock of excess savings accumulated since COVID, the trajectory of improvement in consumer spending could surprise positively. The interest rate cut and a government seen to be doing sensible things will be the keys that unlock this. The strength of the economy means future rate cuts will be modest, with maybe only one or two further rate cuts over the next 12 months.

With political uncertainties high across Continental Europe and the US election outcome likely to be closer following Biden's exit, the UK post-election landscape looks comparatively stable, and this, combined with the improving domestic economy, should continue the nascent process of the UK stock market coming back in from the wilderness, particularly for international investors.

The extent of the election victory for Labour coupled with their initial policy agenda is very positive for the Fund. Below we reproduce a slide that highlights three policy areas that directly tie into Fund positioning – the policy to increase markedly the number of new houses built per annum, the target to have a zero-carbon electrical grid by 2030, with its associated investment in green energy, and lastly general infrastructure spending. Around 20% of the Fund is tied into these three policy areas.



Source: JOHCM as of 30 June 2024.

Valuations continue to look compelling in an international context, which is why there has been a material pick up in M&A activity. The new Labour administration is also likely to focus further on measures to increase allocations to domestic equities, potentially mandating pension funds to own more domestically. The table below shows the current woeful state of affairs.

Country	Domestic Equity Allocation	MSCI Weighting	Overweighting
Australia	37.7	1.3	2,800%
Italy	41.0	0.6	6,733%
Japan	49.4	4.4	1,023%
France	26.0	2.7	863%
USA	63.5	43.2	47%
UK	2.8	4.5	-38%

Source: Capital Markets Industry Taskforce. Data as at 31 December 2023.

Whilst the Fund has performed well, absolute valuations remain low. A number of our domestic UK stocks have >100% upside to target prices e.g. Eurocell, **DFS**, **Wickes** amongst others. In the banking sector Barclays and Standard Chartered continue to trade materially below book value. There are similar examples across the Fund. There are few stocks that are approaching fair value which means the challenge is still a difficulty finding sell ideas.

We are halfway through results season with the vast majority of results strong, with some pleasant surprises on dividend trajectories (e.g. BP, Drax) and more buybacks (Drax, International Personal Finance). The strength of reporting remains at odds with the low valuations.

We remain highly constructive about the prospects for the Fund.

Professional investors only.

Issued and approved in the UK by J O Hambro Capital Management Limited (“JOHCML”) which is authorised and regulated by the Financial Conduct Authority. Registered office: Level 3, 1 St James’s Market, London SW1Y 4AH. Perpetual Group is a trading name of JOHCML.

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

These documents are available in English at www.johcm. com, and available from JOHCML at the address set out above.

Information on the rights of investors can be found here.

The distribution of this document in jurisdictions other than those referred to above may be restricted by law (“Restricted Jurisdictions”). Therefore, this document is not intended for distribution in any Restricted Jurisdiction and should not be passed on or copied to any person in such a jurisdiction.

The registrations of the funds described in this document may be terminated by JOHCM at its discretion from time to time.

Notice to investors in Switzerland: The representative of the Company in Switzerland is 1741 Fund Solutions Ltd., Burggraben 16, 9000 St. Gallen, Switzerland (the “Representative”). The paying agent of the Company in Switzerland is Tellco Ltd, Bahnhofstrasse 4, 6430 Schwyz, Switzerland. The Prospectus, the KIDs, the Instrument of Incorporation / the Constitution, and the annual and semi-annual reports may be obtained free of charge from the Representative. The Company is defined as J O Hambro Capital Management UK Umbrella Fund (domiciled in the UK), Perpetual Investment Services Europe ICAV (domiciled in Ireland) or Regnan Umbrella Fund ICAV (domiciled in Ireland), as relevant."

This fund has not been authorised by the Hong Kong Securities and Futures Commission and no person may issue, or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation, or document relating to this fund, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong. This fund is only for offer and sale to persons in Hong Kong who are “professional investors” as defined in the Securities and Futures Ordinance (cap. 571) of Hong Kong and any rules made under that Ordinance. This document and the information contained herein may not be used other than by the person to whom it is addressed and may not be reproduced in any form or transferred to any person in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about the contents of this document, you should seek independent professional advice.

This document is only allowed to be distributed to certain relevant persons and not to the retail public in Singapore. The Fund, which is not authorised or recognised by the Monetary Authority of Singapore (the “Authority”), is registered under the Restricted Foreign Scheme with the Authority and the shares in the Fund (“Shares”) are not allowed to be offered to the retail public. Moreover, this document is not a prospectus as defined in the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. Investors should consider carefully whether the investment is suitable for them. This document and any document or material in connection with the offer or sale, or invitation for subscription or purchase, of Shares may not be circulated or distributed, nor may Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the retail public or any member of the retail public in Singapore other than (i) to an institutional investor, and in accordance with the conditions specified, in Section 304 of the SFA; (ii) to an investor falling within the definition of “relevant persons”, and in accordance with the conditions specified, in Section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where Shares are acquired under Section 305 of the SFA by a relevant person, investors should note that the first sales and transfers of the Shares are subject to the applicable provisions of the SFA, which include section 305A of the SFA.

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

Investments may 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 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.

The information in this document does not constitute, or form part of, any offer to sell or issue, or any solicitation of an offer to purchase or subscribe for any funds or strategies described in this document; nor shall this document, or any part of it, or the fact of its distribution form the basis of, or be relied on, in connection with any contract.

Telephone calls to and from JOHCML may be recorded. Information on how personal data is handled can be found in the JOHCM Privacy Statement on its website: www.johcm.com

Sources: JOHCM/MSCI Barra /Bloomberg (unless otherwise stated)