JOHCM UK Equity Income Fund
Monthly Bulletin: June 2019

Active sector bets for the month ending 31 May 2019:

Top five

Sector	% of Portfolio	% of FTSE All-Share	Active %
Financial Services	9.92	3.33	+6.59
Construction & Materials	5.16	0.72	+4.44
Banks	14.55	10.36	+4.19
Oil & Gas Producers	17.39	14.05	+3.34
Life Insurance	6.50	3.71	+2.79

Bottom five

Sector	% of Portfolio	% of FTSE All-Share	Active %
Pharmaceuticals & Biotechnology	0.00	7.27	-7.27
Equity Investment Instruments	0.29	6.08	-5.78
Beverages	0.00	3.95	-3.95
Tobacco	0.00	3.70	-3.70
Personal Goods	0.00	2.74	-2.74

Active stock bets for the month ending 31 May 2019:

Top ten

Stock	% of Portfolio	% of FTSE All-Share	Active %
Standard Life Aberdeen	3.31	0.30	+3.01
Aviva	3.70	0.71	+2.99
BP	7.74	4.78	+2.96
Barclays	4.04	1.14	+2.90
DS Smith	2.97	0.18	+2.79
Lloyds Banking Group	4.52	1.82	+2.70
ITV	2.82	0.18	+2.64
Phoenix Group	2.79	0.16	+2.63
Glencore	3.91	1.31	+2.60
Vodafone	3.57	1.54	+2.03

Bottom five

Stock	% of Portfolio	% of FTSE All-Share	Active %
Diageo	0.00	3.54	-3.54
AstraZeneca	0.00	3.42	-3.42
GlaxoSmithKline	0.00	3.33	-3.33
British American Tobacco	0.00	2.87	-2.87
Unilever	0.00	2.38	-2.38

Performance to 31 May 2019 (%):

	1 month	Year to date	Since inception	Fund size
JOHCM UK Equity Income Fund – A Acc GBP	**-6.05**	**5.44**	**258.70**	**£3,288mn**
Lipper UK Equity Income mean*	-3.81	7.71	165.79	
FTSE All-Share TR Index (12pm adjusted)	-3.21	8.98	180.34	

Discrete 12-month performance (%) to:

	31.05.19	31.05.18	31.05.17	31.05.16	29.05.15
JOHCM UK Equity Income Fund – A Acc GBP	**-12.21**	**12.66**	**27.84**	**-11.12**	**11.14**
FTSE All-Share TR Index (12pm adjusted)	-3.52	6.40	24.51	-6.80	8.23

Past performance is no guarantee of future returns. 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

Escalating trade tensions between the US and China dominated markets during the month, with the move to restrict Huawei's involvement in the US telecom equipment network being the trigger. The rhetoric on both sides grew more antagonistic as the month closed and was the main reason that bond yields fell heavily across all durations, with the US 10-year Treasury closing at 2.25% and the German equivalent moving back into negative yield territory. The concerns also affected a number of commodities, with the bellwether copper price falling by 10%.

In China, a number of the business confidence indicators that we closely track fell back during May but remain well above their lows of Q4 2018; for example, the CKGSB Business Conditions Index fell from 62.8 to 56.1, having bottomed at 41.4 in October 2018, with the loose fiscal and monetary conditions offsetting some of the trade fears.

In the US, shorter-term economic indicators remain mixed. Those parts of the economy that are more directly impacted by last year's Fed rate increases, such as new and existing home sales, continued to fall, and many of the forward-looking business confidence surveys weakened further. On the other hand, the Conference Board's consumer confidence survey rose five points in May to the highest level this year. This rise probably reflects the continued tightness in the labour market and reasonable wage growth across the country.

In the UK, Mrs May finally declared that she was to step aside, but, as yet, this has not really made the future political path much clearer. Markets have begun to worry that a new, potentially hard line prime minister makes a 'no deal' Brexit outcome in October more likely. The strong showing by Mr Farage's Brexit Party in the European elections reinforced this concern. At the very least, it seems probable that a government led by the likes of Boris Johnson will adopt a more aggressive negotiating stance, with 'no deal' being at least a possibility. However, whether the UK Parliament will allow such a tactic remains to be seen, whilst the chances of another general election have risen too. These uncertainties manifested themselves in a weak month for sterling, which fell around 3% versus the dollar.

Political uncertainties are not exclusively to be found in the UK. The inconclusive European elections on the Continent, combined with growing uncertainty around policy in Italy, have also undermined business and investor confidence in the region. At the same time, the uncertainties around the Chinese economy have led to much slower growth in the industrial sectors in Europe, with German unemployment rising this month for the first time for two years.

Performance

After a period of strong performance year to date equity markets fell in May, with the Fund's benchmark, the FTSE All-Share Total Return Index (12pm adjusted), returning -3.21%. The Fund underperformed the market in returning -6.05%. Year to date the Fund has returned 5.44%, which compares to a benchmark return of 8.98%.

Looking at the peer group, the Fund is ranked fourth quartile / ninth decile within the IA UK Equity Income sector year to date. On a longer-term basis, the Fund is ranked first decile over three years, 10 years and since launch (November 2004) and second quartile over five years.

The main driver of the Fund's relative underperformance was the continued strength in 'growth' / defensive stocks at the expense of 'value' names. In the outlook section, we highlight the extreme distortion that this has created in markets. Stocks such as Diageo (up 20% YTD on a P/E of 26x), Spirax Sarco (up 35% YTD on a P/E of 32x) and Rightmove (up 34% YTD on a P/E of 29x) have led the market higher whilst the 'value' side of the market has remained friendless. The majority of the stocks in the Fund reside on a P/E of less than 10x. This elastic will break at some point, as it did following the TMT bubble.

On a stock-specific basis, the majority of our domestic names fit into the 'value' side of the market with **ITV**, **Northgate**, our housebuilders and construction stocks performing poorly (down 5-20% relative* over the month). There were, however, pockets of strength amongst domestic stocks. **Headlam** (up 13% relative) delivered a strong trading update, with sales rising 3.5% against the market's expectations of a fall. Elsewhere, **Galliford Try** was weak for most of the month but bounced following an offer from **Bovis** for parts of its business. We cover this in more detail below.

The commodity sectors were broadly strong as continued strength in iron ore and oil prices underpinned the upward move. **Glencore** was the exception to this as the market's focus remains on some of the perceived negatives, such as the US Department of Justice inquiry into historic activities and the weak copper price mentioned above.

Hammerson suffered as it fell out of a number of indices. Elsewhere, recently acquired **Easyjet** was also weak despite reporting results that were in line and therefore much better than the market feared.

Portfolio activity

The performance trends highlighted above and in the outlook section below drove a number of the changes we made to the Fund in May. We continued to reduce a number of our positions that have benefited from sterling weakness and / or are in the growth / defensive bucket, which are at the more expensive side of the market and the Fund.

In this vein, we continued to shrink our position in **HSBC** for the reasons laid out in last month's commentary. It is within 40-50p of our assessment of fair value and whilst it still has 10% upside potential, the rest of the sector and the Fund offer substantially more upside.

We added to property stock **Hammerson**. As mentioned above, it fell out of the MSCI indices and spent much of the month under pressure. The current share price of c. 265p compares to the Klepierre bid approach of 635p last year and our trough NAV of c. 600p. It also fails to reflect, at the latter valuation, that c. 65% of the asset base would be in what most commentators would describe as strong assets e.g. value retail, which includes Bicester Village.

Outside financials, we gently trimmed **National Express**, **Ibstock** and **Bloomsbury**. All look expensive on a relative basis, although not on an absolute basis (c. 12x P/E in all three cases). We moved the proceeds into recently added stocks **WPP** and **Easyjet**, which we have discussed in previous monthly commentaries.

In the commodity sectors, we continued to reduce our position in **Royal Dutch Shell** and added to **Petrofac**. **BP** remains our key active position in the oil sector. In the mining sector, we added to

* Relative to the Fund's benchmark, the FTSE All-Share TR index (12pm adjusted).

Glencore. **Diversified Gas & Oil** went into the MSCI indices and performed strongly. We reduced our position into this share price strength.

Galliford Try was a volatile performer during the month, and we added to the stock across the period. Towards the end of the month, its board put out a trading statement which was in line (after a warning during April). A few days later, **Bovis** (another Fund holding) made an offer for two of the three divisions (Housing and Partnership Housing but not Construction).

Galliford Try currently resides on a P/E of 4.5x (the cheapest stock in the Fund), with the value embedded in the suggested transaction, including accretion on the Bovis shares that would be issued to Galliford Try shareholders, suggesting 70-80% upside. We see this as a very reasonable price and have suggested both sides look for a solution to the issues with the Construction division to allow this compelling transaction to be resurrected.

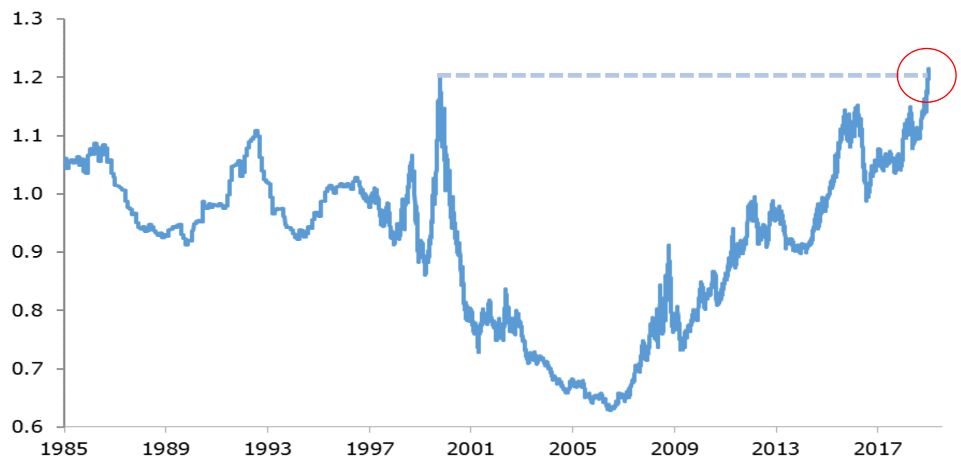
Outlook

The valuation gap between quality / growth and value stocks is stark, with performance trends over the last month accentuating this. The chart below, which is an updated version of the chart in last month's bulletin, shows that growth vs. value is more extreme than it was at the time of the TMT bubble. It also shows the extent of the shift in the market mix over the last month.

This has created significant valuation risk around large parts of the market (growth stocks, defensives, bond proxies, consumer staples, healthcare – all of which the Fund is largely unexposed to), which we believe many market participants are complacent about. Owing to the Fund's process and our 'value' instincts as fund managers, the portfolio is heavily and increasingly skewed to the 'value' side of the market. This was the main reason for the poor relative performance during the month.

Back to the time of the TMT bubble: the stark valuation gap between 'growth' and 'value' stocks

MSCI Europe – 'growth' price performance relative to 'value'



Source: JP Morgan

The main stock-specific risk to the Fund dividend trajectory coming into this year was a change in policy at **Vodafone**. This has been a ''known known' for 6-8 months, and we had factored this into our Fund dividend forecast. Consequently, our guidance for growth of low to mid single-digit percentage growth for 2019 remains intact, with the current trend being slightly above that. We will provide a more detailed comment on the dividend next month at the end of the quarter. Based on current guidance, the Fund would yield 5.7% for 2019.

As ever, we remain focused upon valuations. In this regard, we remain very optimistic about our portfolio. There are a few examples where valuations are getting fuller and where we are reducing exposure e.g. HSBC, National Express, etc. However, these examples are limited to much less than 10% of the Fund. The vast majority of the Fund therefore remains very cheap, in our opinion. This value trajectory and continuing Fund dividend growth should underpin good relative performance over time.

Further information

If you would like further information about the Fund, please call our Investor Relations team on +44 (0) 20 7747 8969, email us at info@johcm.co.uk or visit our website at www.johcm.com

This document is for professional investors only.

Source: JOHCM/Bloomberg unless otherwise stated. Issued and approved in the UK by J O Hambro Capital Management Limited (the "Investment Manager"), which is authorised and regulated by the Financial Conduct Authority. JOHCM® is a registered trademark of J O Hambro Capital Management Limited. J O Hambro® is a registered trademark of Barnham Broom Holdings Limited. Registered address: 1 St James's Market, St. James's, London SW1Y 4AH. Registered in England and Wales under No: 2176004. Telephone calls may be recorded.

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 Funds 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.

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. Allocations and holdings are subject to change.

Recipients of this document who intend to subscribe to any of the Funds are reminded that any such purchase may only be made solely on the basis of the information contained in the prospectus in its final form, which may be different from the information contained in this document. No reliance may be placed for any purpose whatsoever on the information contained in this document or on the completeness, accuracy or fairness thereof.

No representation or warranty, express or implied, is made or given by or on behalf of the Firm or its partners or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this document, and no responsibility or liability is accepted for any such information or opinions (but so that nothing in this paragraph shall exclude liability for any representation or warranty made fraudulently).

The distribution of this document in certain jurisdictions may be restricted by law; therefore, persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any such distribution could result in a violation of the law of such jurisdictions.

The information contained in this presentation has been verified by the firm. It is possible that, from time to time, the Fund manager may choose to vary self imposed guidelines contained in this presentation in which case some statements may no longer remain valid. We recommend that prospective investors request confirmation of such changes prior to investment. Notwithstanding, all investment restrictions contained in specific Fund documentation such as prospectuses, supplements or placement memoranda or addenda thereto may be relied upon.

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.

Investments fluctuate in value and may fall as well as rise. Investors may not get back the value of their original investment.

Past performance is not necessarily a guide to future performance. Dividend yield quoted is prospective and is not guaranteed.

Investors should note that there may be no recognised market for investments selected by the Investment Manager and it may, therefore, be difficult to deal in the investments or to obtain reliable information about their value or the extent of the risks to which they are exposed.
The Investment Manager may undertake investments on behalf of the Fund in countries other than the investors' own domicile. Investors should also note that changes in rates of exchange may cause the value of investments to go up or down.