

# Remembering the ‘Forgotten Middle’



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## JOHCM Global Opportunities Fund

- The strategy aims to generate long-term capital and income growth through active management of a concentrated portfolio of global listed equities.
- A high conviction, benchmark-unconstrained stock picking fund.
- The fund managers look for opportunities where the market is underestimating the value created by well-managed companies that reinvest wisely to create sustainable compounding returns.
- Benchmark: MSCI AC World Index.
- The use of the index does not limit the investment decisions of the fund manager therefore the shareholdings of the Fund may differ significantly from those of the index.
- Please refer to the Prospectus/KIID for further information.

Having been ignored for years, the value in overlooked high-quality growing companies, often outside the technology sector, is starting to be recognised and rewarded.

One of the hardest things to do as a fund manager, particularly when volatility picks up, is to do nothing. But sometimes doing nothing – resisting the siren calls of news flow and market volatility, to which the job requires us to pay close attention – is exactly the right thing to do.

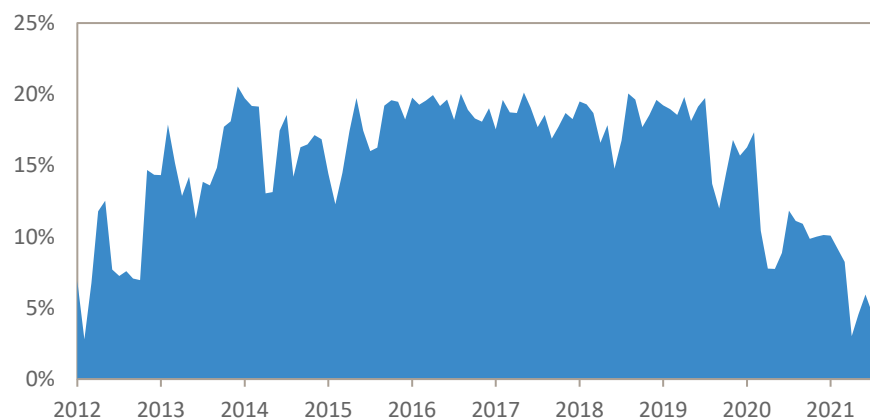
There were seemingly no adverse consequences in 2020 and 2021 for taking on either valuation risk or balance sheet risk. In the face of this, we sacrificed some upside in the last 18 months as a result of maintaining discipline in a market that was focused on the extremes and inclined to ignore risks. We maintained conviction in both our investment process and in the quality, growth and value of our portfolio. We perceived there to be an increasingly attractive ‘forgotten middle’ of overlooked high quality companies trading at compelling discounts to both their own intrinsic value and to the market as a whole. As a result, our confidence in the prospects for robust risk-adjusted returns from our portfolio is now stronger than it has been for a number of years, even in the context of a market which ended last year near all-time highs.

The fund’s performance year to date<sup>1</sup> is an encouraging indication that this potential is starting to be realised, just as the market is rolling over and investors start to reconsider their positioning and risk appetite. We are particularly encouraged that this outperformance<sup>1</sup> has been achieved both in very different drawdown environments pre- and post- the Russian invasion of Ukraine. It has further been achieved without the cushion of a large cash balance, as we have moved to a more fully invested position to reflect our rising conviction in the opportunity set.

<sup>1</sup>YTD performance for the JOHCM Global Opportunities Fund – A USD: +0.21% and MSCI ACWI NR Index (12pm adjusted): -7.66%.

### The fund is more fully invested

As opportunities have emerged, the fund's weighting in cash was reduced

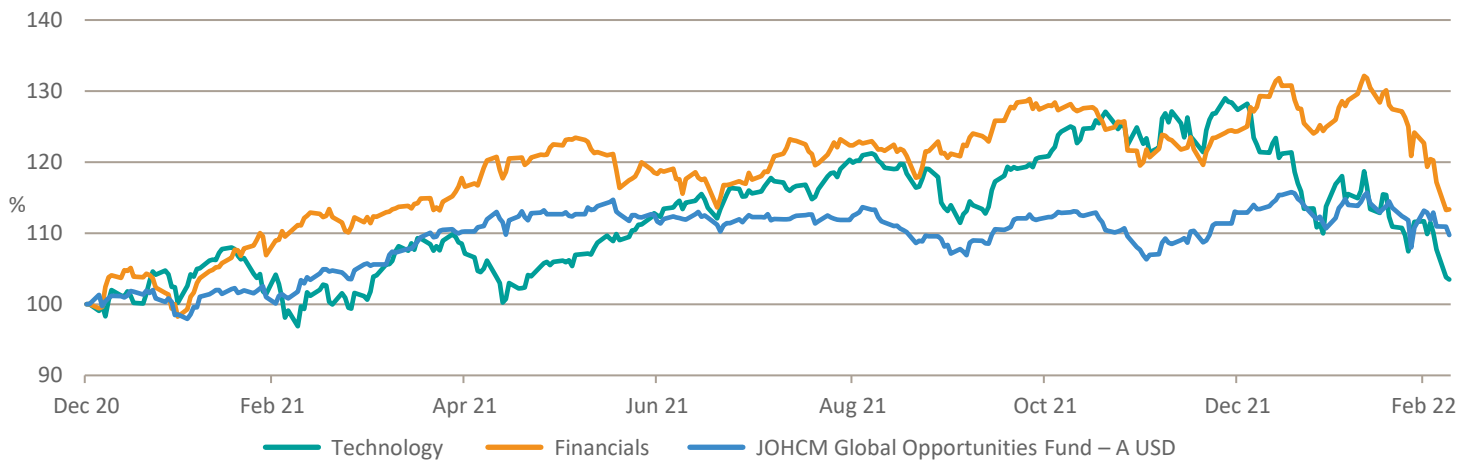


Source: JOHCM as at 7 March 2022.

The bar is now set very high for us to introduce new names into the fund. It may well be that current and future volatility presents us with new opportunities, and we are alert and prepared to act when it does. But it is equally if not more important

for us to let the latent value crystallise in our existing holdings, as they execute strongly. The most pleasing thing about our year-to-date outperformance is that it is the first drawdown we have gone into with around 5% cash, and we have still outperformed thanks to a number of companies using their full-year results to demonstrate their resilience, pricing power and growth. And, whisper it quietly, but perhaps also investors are starting to realise that their first attempt at ESG screening may have been a little simplistic: for example, utilities are both drivers and beneficiaries of decarbonisation, and defence spending is starting to look like a possible social good in the wake of events in Ukraine.

### The steady performance of the 'Forgotten Middle' starts to look more attractive as volatility increases at the extremes



**Past performance is not necessarily a guide to future performance. 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/Bloomberg. NAV of share class A in USD, net income reinvested, net of fees, from 31 December 2020 to 8 March 2022. Performance of other share classes may vary and is available upon request. Data representative of JOHCM Global Opportunities Fund (Dublin ICAV) offshore OEIC.

### No need to scramble in response to a possible re-run of the early 1970s

Clearly there is currently a wide range of possible outcomes in both a macroeconomic sense (inflation, interest rates, commodity prices, currencies) and geopolitics, in particular the outcome and long-term implications of the Russian invasion of Ukraine. For what it is worth, we believe that recent events significantly increase the likelihood of a stagflationary outcome in the West, and we see plenty of parallels with the early 1970s: rising core inflation, a market rally led by the Nifty Fifty, brought to an end by a recession and oil price spike caused by a foreign conflict. We think it is important to monitor both energy prices and China's behaviour very carefully, as well as the risk of a liquidity crisis emanating from commodities markets. But we also recognise that there are plenty of differences between now and then, and more importantly it is foolhardy to build a portfolio dependent for success on a single macro narrative. Not least, we do not want to have to scramble to turn the portfolio upside down when the narrative changes.

On this point it is worth emphasising that in our view, recent performance demonstrates that technology-biased growth investors had become just as macro-dependent (on negative real interest rates) as value investors focused more on cyclical sectors like energy and financials. This unhelpful distinction of the equity market into either value or growth and all investors falling into one camp or the other neglects the need to take a more nuanced approach. We believe that all investors need to hold an allocation to the 'forgotten middle' of high-quality growing companies. Our process aims to select the best of these businesses through rigorous stock selection and an understanding of both top-down macro factors and bottom-up analysis. After several years of growth leading the way and then a short-lived value rebound we see the 'forgotten middle' finally being rewarded as uncertainty picks up around macro outcomes. Investors need to consider the need for an allocation to this area of the global equity universe in order ensure they are positioned to take advantage of the performance of different parts of the market, as the cycle evolves.

For now, we regard direct or indirect Russian exposure as a risk to be avoided, and cyclicals, especially in Europe, as an area to tread very carefully. More broadly, we continue to believe that markets are inefficient and that volatility creates opportunity. Our investment process, whereby we create and monitor a watchlist of high quality franchises across a broad spectrum of sectors, allows us to act quickly when we see value emerging. But just as in 2020, it is important for us to distinguish genuine opportunities from companies which are being adversely affected by events. Sometimes a falling share price reflects a deterioration in the probability-weighted valuation envelope. In other words, it is a value trap. We remain open-minded about new opportunities but have a high conviction that our current names have plenty of potential to continue outperforming.

## JOHCM Global Opportunities Fund

### Discrete performance (%)

Discrete 12 month performance to:

	28.02.22	28.02.21	28.02.20	28.02.19	28.02.18	28.02.17	28.02.16	28.02.15	28.02.14	28.02.13 <sup>1</sup>
A USD Class	12.02	12.12	1.17	7.85	10.31	13.27	0.07	7.50	24.70	15.00
Benchmark	7.23	29.88	4.26	-1.31	19.52	21.97	-12.22	7.95	17.80	17.06
Relative*	4.46	-13.68	-2.96	9.28	-7.71	-7.13	14.00	-0.42	5.85	-1.76

**Past performance is not necessarily a guide to future performance. 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. NAV of share class A in USD, net income reinvested, net of fees, as at 28 February 2022. Inception date: 29 June 2012. Performance of other share classes may vary and is available upon request. Data representative of JOHCM Global Opportunities Fund (Dublin ICAV) offshore OEIC. <sup>1</sup>Part period return from (inception) 29 June 2012 to 28 February 2013. Benchmark: MSCI ACWI NR Index (12pm adjusted). \*Calculated on a geometric basis.

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