

PERFORMANCE FEE

Q&A

FOR PROFESSIONAL INVESTORS ONLY

December 2021

Q: Why are you making these changes?

We are making these changes as a result of new guidelines for performance fee calculations which have been issued by the European Securities and Markets Authority (ESMA) and adopted by the Central Bank of Ireland (CBI). Whilst the current methodology used by our Irish UCITS (Undertakings for the Collective Investment in Transferable Securities) complies with the vast majority of this guidance, there are certain elements which do not and therefore we are obliged to move to a new calculation method.

Q: What changes are occurring?

Conceptually, the new methodology works in a similar way to the existing performance fee calculation whereby a performance fee would be payable in the event that the performance of any Fund exceeds the performance of its benchmark. Our previous methodology applied any performance fee accrued to the weighted average assets of the Fund on a share class level. However, this is no longer permitted under the new guidelines.

Our new methodology uses a different approach which does not include this feature. Instead, the new calculation compares the net asset value of the Fund with a nominal net asset value of the benchmark to calculate the performance fee. This figure is adjusted on a daily basis for that day's subscriptions and redemptions in order to prevent the monetary value of any performance fee accruing being impacted by flows.

One important new feature of this new methodology is that it crystallises performance fees on redemptions while the performance of the Fund is in excess of the benchmark. This ensures that redeeming investors contribute proportionately to any performance fee.

Q: Do you have an example to illustrate this?

The new methodology is calculated as follows:

Performance Period	NAV ¹ Per share	IANAV ² Per share	Performance Fee Payable	NAV Per share (after Performance Fee)	IANAV Per share at Start of New Performance Period
Performance Period 1					
Start	10.00	10.00	0.00	10.00	10.00
End	11.00	10.50	Yes. The NAV exceeds the IANAV therefore a Performance Fee of 15% * IANAV * (NAV/IANAV-1) = 0.075 is payable	10.925	10.925
Performance Period 2					
Start	10.925	10.925	0.00	10.925	10.925
End	11.00	12.00	No. The NAV does not exceed the IANAV therefore no Performance Fee is payable	11.00	Because there was no Performance Fee payable at the end of Performance Period # 2 the IANAV continues at 12 at the start of Performance Period # 3
Performance Period 3					
Start	11.00	12.00	0.00	11.00	12.00
End	9.50	8.50	Yes. The NAV has fallen in value since the beginning of the Performance Period, however, the NAV still exceeds the IANAV at the end of the Performance Period and therefore a Performance Fee of 15% * IANAV * (NAV/IANAV-1) = 0.15 is payable	9.35	9.35

¹Net Asset Value. ²Index Adjusted Net Asset Value

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Q: Which funds are impacted by these changes?

Our Irish UCITS vehicles, specifically:

- J O Hambro Capital Management Asia ex-Japan Fund
- J O Hambro Capital Management Asia ex-Japan Small and Mid Cap Fund
- J O Hambro Capital Management Continental European Fund
- J O Hambro Capital Management European Concentrated Value Fund
- J O Hambro Capital Management European Select Values Fund
- J O Hambro Capital Management Global Emerging Markets Opportunities Fund
- J O Hambro Capital Management Global Opportunities Fund
- J O Hambro Capital Management Global Select Fund
- J O Hambro Capital Management UK Dynamic Fund
- J O Hambro Capital Management UK Growth Fund

Please note, this only affects the Irish UK Dynamic vehicle, the onshore UK Dynamic vehicle will continue to use the current methodology.

Q: Why aren't you applying these changes to the onshore UCITS vehicles?

As mentioned above, these changes have been introduced by guidance from ESMA. As the UK is no longer part of the European Union following Brexit, it is no longer subject to these European-wide rules and the Financial Conduct Authority (FCA) requirements around performance fees have not changed to date.

However, as a firm we will consider how this new methodology operates in respect of our Irish UCITS vehicles over the course of 2022 and may apply the new methodology to our onshore funds at some point in the future for consistency across the firm

Q: When are these changes occurring?

These changes will go live on 1st January 2022.

Q: What do I need to do?

No action is required. We will work with the other service providers to the Funds to swap over to this new methodology on the go-live date. The changes will not affect the risk profile or the way the Funds are managed in any way.

Q: Where can I go with questions?

Please direct any queries to clientservices@johcm.co.uk