J O Hambro Capital Management Group

JOHCM UK GROWTH FUND

U K G R O W T H

JUNE 2021

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Takeover talk and growth platforms

> *Takeover activity continues at elevated rates globally and within that the UK has been a disproportionate incoming beneficiary as we (and many others) have long advocated that it would be, especially if prevailing prices continue at these still anomalously cheap levels. Pleasingly, UK Growth has seen an approach (Vectura) and given the quality and often unique nature of some of the assets we own, we certainly would not be surprised to see more.*
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> **JOHCM UK Growth Fund – June 2021 factsheet**

In the event, our forecast of increased M&A interest in our portfolio companies has come true faster than we might have anticipated, with the announcement on 11 June of a takeover of Sigma Capital for a 36% premium to the prevailing share price.

Sigma is an urban regeneration specialist and a platform operator of high quality, affordable family homes for dedicated rental. It generates significant societal value, typically incorporating primary schools, recreational facilities/playing fields, recycling stations, electric vehicle charging points, and importantly ensuring its schemes foster strong community engagement. In short, it is a business that has been built the right way, with a definable ethos and talented and dedicated management team. It has been run in a low risk, capital-light manner. As such, it has been a 'get rich slowly' stock, whose share price has approximately trebled under our ownership period of more than five years, whilst also providing the contacts and cross-fertilisation that supported our more recent purchase of PRS REIT (total return c. +28% since December 2020) and Countryside Properties (sold for ~40% profit, albeit this was a modest position).

Importantly, this is our second portfolio company to be bid for from our post-Covid framework. Vectura, a respiratory and inhaled device expert, is a clear beneficiary of the shift in emphasis in drug delivery and development that has come in the pandemic's wake. Meanwhile, Sigma's (and indeed PRS's) prospects are significantly enhanced by the pandemic-induced population shift to the suburbs and rising institutional interest in what it can provide. We believe there are a host of very strong ideas from this framework that remain materially mispriced. If we are correct, these names will benefit in time from either market reappraisal or, as in these cases, from corporate interest.

A second important development to highlight is the pleasing proactivity of a number of our companies who are ramping up their investment plans for future growth. This is something we have always encouraged. Indeed, it is a key feature of our process and the type of assets we are naturally drawn to.

In just the last month, BT, First Derivatives, Tekmar, AO World, ULS Technology, Mind Gym and Naked Wines have all announced a step change in expansion, raising capex, R&D, recruitment and operational spend. They are making these moves because the opportunities ahead of them in a post-Brexit, post-Covid world have significantly increased.

In the majority of these cases, this has come at the cost of the near-term P&L and cashflow metrics. The stock market reaction to these announcements is inherently unpredictable, and can often focus on the short term rather than the potential very substantial value creation that can be delivered. After these types of actions, these forward-thinking companies can screen badly on quantitative approaches. Many investors do not like downgrades, or they lack the patience and holding horizon to see it through. As such, we have seen some near-term performance drag from this subset of stocks and would not be surprised if that were to continue.

We are very relaxed with this and trust our investors will be too. We believe it is absolutely the right thing for the respective managements to do. Ironically, it is the type of behaviour that would typically be handsomely rewarded were they listed in the US or resided on private markets. Indeed, this set of circumstances present exactly the fertile source of undiscovered, mispriced price growth assets that we look for. We believe these companies (and several more) represent material embedded value for the future, in much the same way as Dotdigital, YouGov, Oxford Metrics and Chemring (to give four very recent examples) did when they first announced their investment programmes. These four stocks all initially experienced a similar negative market reaction to their investment plans, but all went on to produce strong returns for the portfolio. In that context, BT has recently been the subject of stake-building from industry player Altice, highlighting the strategic value prevalent in the company and its potential.

JOHCM UK Growth Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	31.05.21	31.05.20	31.05.19	31.05.18	31.05.17
A GBP Class	52.08	-11.09	-9.85	8.89	23.65
Benchmark	22.07	-10.02	-3.52	6.41	24.51
Relative return	24.58	-1.19	-6.56	2.34	-0.69

Past performance is no guarantee of future performance.

Source: JOHCM/Bloomberg/FTSE International. NAV of share class A in GBP, net income reinvested, net of fees, as at 31 May 2021. Performance of other share classes may vary and is available on request. Inception date: 6 November 2001. Index return is net income reinvested, adjusted for 12pm.