JOHCM UK DYNAMIC FUND

U K D Y N A M I C

MARCH 2020

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Thoughts on recent fund performance and the coronavirus-driven market sell-off

- **It has been a tough start to the year for the Fund: select stock-specific pressures, coronavirus portfolio exposure and a magnification effect have combined to form a considerable performance headwind.**
- **We will do our best to protect client capital during this period of market turbulence within the context of what we do best.**
- **Despite the current gloom, we are encouraged by the number of our holdings that have issued positive strategic or financial updates in recent weeks.**

This paper aims to give a detailed account of what's been going on at both a stock and portfolio level within the JOHCM UK Dynamic Fund in the recent market unrest. This is in the context of a tough start to the year – as of 6 March 2020, the Fund has returned -18.48% YTD vs. -13.21% return for its benchmark, the FTSE All-Share TR Index (12pm adjusted) – that is being rapidly and rather alarmingly compounded by the rush to safety and momentum driven by the coronavirus epidemic and response. This is a fast moving market, so please note that all data and comments are as of Monday 9 March 2020.

A tentative start to 2020

We started the year in a cautious frame of mind. To recap, in our Q4 review pack, which we produced in January for the year ahead, we wrote the following:

General market: Very tough conditions. Expect volatility and minimal growth – code for "we think the market will go down this year"

Fund performance: 2-3% outperformance target typically, but we are cautious this year – a pretty clear statement that we may underperform

Turnover: 20% typically but may be higher – recognition that a combination of stock-specific issues, volatile markets and a very challenging ESG overlay may force more portfolio change than usual

Cash holdings: 1-3% typically but may be higher – our intention was to get to c.5% but the combination of a large client redemption and the sell-off meant that we missed this target

Dividend growth: Expect slower Fund dividend growth in 2020 – because of some stock-specific risks plus expectations of a stronger pound

More detailed context to our thoughts:

1. The UK stock market was up 20% last year and the bull market was over 10 years old. It felt difficult to sustain the momentum given all the macro and political uncertainties.

2. Growth, quality and momentum are far too expensive for any rational investor to buy on any normal investment timeframe and were going up for the wrong reasons. We refuse to play the interest rate game with our clients' capital. In fact, over the last nine months we have started to sell some of the higher valuations within the portfolio to either hold cash or invest in value. This started in mid-2019 with the purchase of Hammerson at 30% of its book value – a near historic low. We also bought Aggreko, Wood Group and Centrica, all at historically low price-to-book values. The restructuring and recovery stories in these stocks are highly attractive to us but not currently to others. Critically, the depth of cash-focused self-help and purposeful restructuring at these companies means that the balance sheets are improving in all cases.

3. For other investors, many of whom are quite literally not human, the conditions to sell higher priced stocks and buy value instead are not in place. Indeed, we felt at the start of the year that conditions for value stocks were likely to get worse (ongoing trade negotiations, Iranian tensions early in the year and global growth output issues were all feeding into lower bond yields). Despite the record lows for value versus growth or, more importantly, negative versus positive momentum, the market was suddenly hit by the coronavirus. This means that we are still too early, possibly by some months. We felt that H2 2020 was far more likely to be better than H1 for value stocks. We are even firmer in this conviction now.

4. Following from this there was hard evidence in the market (given the price action we were seeing) that valuation in any form meant absolutely nothing. The old conventions of trying to predict trough earnings for cyclicals were conspicuously absent and rather worryingly so. Earnings downgrades are now met with lower P/Es and upgrades with higher ones. This is the opposite of both convention and, more importantly, what any basic financial maths would tell you is right. But it works because of low interest rates and, frankly, just because it works. We felt this was highly dangerous.

5. ESG – we are short-term bears on the disruption to traditional capital allocation that ESG is causing. We take ESG very seriously. But our message is that we will stick with our traditional business transformation strategy and believe that it naturally lends itself to ESG integration via deep corporate engagement.

   Our approach is to engage to effect change in the first instance rather than divest. Our engagement levels with companies are higher than they have ever been at the moment, on both financial and these new non-financial measures. This approach is being well received by companies and puts us in a strong place for the future.

   However, the market is not playing the same ESG transformation game. It is actually playing a different game of sell first and ask questions later, particularly in the context of carbon-emitting companies and the energy transition. What does this mean? At the moment, it means that we have a couple of assets that are being sold regardless of any newsflow and where there are very few buyers. Again, this is a very worrying sign for now.

   Oilfield services firm Hunting is the best example we can give. This stock has cost us in the last 24 months for cyclical reasons, but most importantly because there are no buyers today. This is despite its share price being down c.75% over the period and with the stock now trading materially below the company's liquidation value on a net cash balance sheet, with relatively stable earnings guidance for the year ahead and whilst the company is executing a share buyback for the first time in its long listed history.

Recent Fund performance

There is no getting away from it – things have been tough and undoubtedly it has been worse than our fears. The portfolio has suffered from three converging pressures:

1. Select bottom-up idiosyncratic stock pressures
2. Coronavirus exposures
3. A magnification effect, comprising:
   - Not enough earnings momentum, defensive stocks or ESG leaders (dealt with in points 3, 4 and 5 above);
   - Too much mid-cap, deeper value and leverage in a growth and defensively-focused market;
   - Owning banks and financials as US 10-year Treasury yields hit historic lows

Let's deal with these issues one by one to try and make sense of it all.

1. Select bottom-up idiosyncratic stock pressures

These essentially relate to only a handful of stocks where the issues were mostly already known but where the market has suddenly adopted an extremely bearish set of assumptions.

SIG – a UK insulation distributor with c.15% market share that has been in deep restructuring for the last three years. Having twice made money historically in this stock, it has proved third time very unlucky.

Whilst executing a radical and ultimately successful balance sheet restructuring, a seemingly overaggressive new operational and pricing plan has lost the support of suppliers, internal staff and customers. This has led to heavy like-for-like sales declines, four profit warnings in nine months and, ultimately, the recent removals of both the CEO and CFO.

The heavy UK construction exposure of this company made it difficult to decipher exactly what was happening given the pre-UK election slowdown, so to some degree we blamed environment rather than management despite harbouring growing concerns. Whilst we never materially increased the Fund's position after the warnings, we had kept it at c.100bps active and had missed how much was internal. Whilst the management change is probably good news, it does leave us in a tricky position: the thesis has changed a lot and the new management are as yet unknown to us. We are likely to exit this position if liquidity is sufficient. The stock has cost us c.50 bps year-to-date.

Elementis – this has been challenging since the late 2018 acquisition of Mondo Minerals, which levered the balance sheet. We backed that deal reluctantly and after the price was negotiated down under shareholder pressure.

A combination of trade wars, falling global PMIs, an onshore shale energy slowdown and poor execution, coupled with stubbornly high leverage, has meant a difficult last nine months for the stock.

The shares now trade on a price-to-book value of 0.7x. Given the leverage is still high (although last week's results beat on cash generation), the price-to-book multiple low at the time of the financial crisis of closer to 0.5x may be a relevant benchmark.

Coronavirus just makes the situation worse, although the company – which does have fairly significant sales in China – did not specifically call it out as an issue with its results and forward guidance earlier this week.

This year alone the shares have fallen by c.50% on earnings that have fallen by c.17%. The P/E is c.8x, although the historic lows are somewhat lower at c.5x. This could get a little worse before it gets better, but there is too much value to ignore in this one. There are some good assets in there that will interest competitors, but the debt may need sorting first.

We have an 85bps position, falling from c.130 bps and having only bought c.10bps on the way down this year. We will vote against the chair and the non-execs at this year's AGM – mostly for the poor acquisition of Summit Reheis three years ago rather than the Mondo acquisition that broadly looks okay so far.

The Restaurant Group – it is disappointing to report again that the shares, having recovered in 2019, have fallen to new lows this year due to the ongoing issues in the leisure estate, now compounded by coronavirus fears over people congregating in public.

Under new CEO Andy Hornby, whom we rate highly, the group seems better placed than ever to navigate the headwinds and restructure to focus on its growth businesses. These are Wagamama, Pubs and Concessions, the latter two being potential candidates for sale, and all of which are outperforming their respective markets, materially so in the case of the pubs and the Wagamama businesses. However, a few issues have again come together to cause a fairly brutal share price reaction.

Firstly, despite excellent traction in the core businesses, a decision was taken to suspend the dividend last week to help accelerate the debt reduction and thereby deal with the stock market's biggest issue. We feel this was absolutely the right decision. Technically, however, there are some shareholders that need / want the dividend and are therefore an overhang.

Secondly, at the same time last week there was a quarterly index review. The Restaurant Group was relegated into the FTSE Small Cap index – another technical overhang.

Thirdly, and most ominously, the coronavirus issues in the UK have led people to question whether they should congregate in public places e.g. restaurants and cinemas. There are therefore no real buyers of the stock at the moment.

Last week the shares closed at c.85p – a P/E of c.7x, but more importantly an enterprise value of c.£650m, representing <5x ebitda. The FCF yield is c.11%, despite £35m of expansion capex. Before that, therefore, the yield is c.18%. But whilst coronavirus fears rage there will probably be no buyers of this stock.

The Fund did good work last year managing down what was its highest risk position. From an (artificially high) position of 4.08% at the end of 2018, the position was trimmed to 2.69% at the end of 2019. By mid-January we had reduced the position further to c.2.5% before the precipitous decline that saw the shares fall 44%, from a January high of 166p to 85p at the time of writing. This is an all-time low price-to-book valuation of c.1.0x.

We have not added much on the way down and the position is now c.180bps, costing the Fund c.65bps year-to-date. Just to be clear, whilst we understand it, we think this share price reaction is brutal. Earnings forecasts are only down c.3% for the year ahead so far this year.

WPP – This is perhaps the harshest of all the stock moves this year. The shares are down c.30% so far this year (costing the Fund c.40bps) and 16% since the FY19 results, where a slightly tougher Q4 trading performance meant that revenue growth for the full year was just c.0.1% below expectations and underlying profit c.2%! Forward guidance was broadly in line but saw some 3-4% underlying eps cuts. Despite steady upward progression in revenue growth in the first three quarters of 2019, the miss in Q4 means the market is now questioning the nascent recovery. The trouble with this bearish analysis is that the stock and sector are trading near all-time lows anyway.

Prior to results the P/E was c.10x whilst now it is <8x, but with a balance sheet that has been de-geared by c.1.5 turns in 18 months (Kantar and other asset sales) and which has also resulted in a near £1bn share buyback (currently live). Our contention is that the agency markets are structurally changing, not structurally challenged, and we remain committed to backing the recovery – even more so at these levels.

Centrica – it has had a fairly minor profit warning based on lower global gas prices for 2020 and adding to the fears of a global excess of supply. The affected oil & gas division is currently up for sale and therefore led analysts to question whether the right price could be achieved for the assets. If not, whether the balance sheet deleverage and strategic progress towards focusing on the consumer can be achieved.

The sudden fall in gas prices at year end (c.40p/therm in November to c.20p/therm currently) was exacerbated by coronavirus demand fears emanating from China, but perhaps highlight the need to remove this exposure. Elsewhere, strategic progress was actually rather good, with a strong recovery in the US business, continued decent growth in the very interesting distributed power business, ongoing stability in the UK services business and stabilisation in the energy supply business. The shares fell c.15%, costing the Fund c.25bps. The break-up value here is substantially higher.

GlaxoSmithKline – the full-year results were fine but accelerated investment in the years ahead in the pharma business and one-time costs for the consumer business in preparation for its future separation caught the market by surprise somewhat. Having traded well into results, the shares fell c.10% in the week after the results, representing a c.10-15bps performance headwind for the Fund (we had reduced the position to a smaller c.125bps active overweight in January after a very strong 2019).

The defensive attractions of the stock remain and the issues are minor, in our opinion. Indeed, the shares have started to recover in the last few days and have given us back some of the relative underperformance.

Summary

These year-to-date idiosyncratic stock issues have collectively cost the Fund c.250bps in relative performance. This is in the context of a year to date relative underperformance of a rather surprising c.600bps (geometric).

Given, in some cases, the relatively muted earnings downgrades and the low starting valuations, the share price falls and combined loss of value has been more than a little harsh, in our view. In virtually all cases listed above, a share price fall of at most half of what we have seen would have been a fairer reflection.

What you can see, therefore, is that leverage, negative earnings momentum and coronavirus fears have had a part to play in all of these situations (except maybe at SIG, which looks truly idiosyncratic). The rest of the year-to date underperformance – the c.350bps on top all came last week and can all be attributed to coronavirus fears.

But more than this, coronavirus fears have got in the way of companies being re-rated based on fundamental improvements in their underlying businesses, balance sheets and future outlooks. There is therefore an opportunity cost associated with recent events that is difficult to put a number on (and in part has fed the continued outperformance of momentum thus far). More on this at the end in the section covering some of the more positive recent corporate developments.

2. Coronavirus – our thoughts and affected portfolio holdings

This is a complex issue that is having a major effect on everything, both what we own and what we don't own. We will try and keep it simple.

On balance, this is an unprecedented, global issue but, we think, is most likely being blown out of proportion. It seems fairly extraordinary to us – the reporting, the political response, the panic and the behaviour it is eliciting from otherwise rational people.

However, the problem (according to a UBS specialist call we listened to) is that if you are in the cohort that becomes seriously ill with coronavirus (because of an underlying medical conditions), then the illness accelerates very quickly with apparently little chance of survival. To some extent, therefore, a certain part of the general population is justified in feeling panicked. There is also a hospital bed capacity and drug availability issue that maybe makes this more serious. Disinformation and a lack of understanding don't help either.

Whilst we are in the escalation and understanding phase, the alarming headlines and erratic and panicky political response will endure. This does not bode well for markets at all, but we have to let it play its course.

The market and individual stock effects

This is a challenging market situation that gives many opportunities for shorter-term investors to make money out of some of our current holdings by betting against us. We will do our best to protect client capital whilst focusing on the things that matter, but it will remain tough.

The direct effects on our companies are currently mostly limited to the industrials (supply chain and Chinese demand) and consumer services space (media, B2B events, global travel, leisure, restaurants). But ultimately there will be many more companies affected as this situation unfolds.

On a stock level, the Fund's most directly affected company currently is **Hyve**, which runs events globally. At the beginning of the year the Fund's position was 132bps, but we took the decision to sell a portion (c.15-20bps) given the very strong performance in Q4 last year and particularly in December. The shares had fallen c.50% year-to-date as the market has attempted to price in the effects of any delays, cancellations and travel restrictions. This left the position at c.85bps before a material current year profit warning on Friday 3 March as a result of the coronavirus. The warning followed the delay of a number of Chinese events, the delay of one US event and a general warning around visitor levels due to travel restrictions – mostly from Chinese nationals not travelling externally. As a result of these issues, this year's results will be materially lower (c.30% on profit), whilst next year's numbers are currently unchanged. The shares are now down 60% YTD.

The company has some debt and is currently within its banking covenants. Nevertheless, there is a real possibility that it will have to refinance if things get materially worse. The shares are currently on 8x underlying EBIT for 2021. So far we have lost c.50bps relative on this stock – all to do with coronavirus. As an aside, banks will be forced to relax covenants on all companies, in our opinion, given this unprecedented but likely short-term set of events. Note that we trimmed the position in Hyve by a further 10bps immediately after the warning to manage the position size (60bps).

Other events-exposed companies within the portfolio are **Euromoney** and, to a lesser degree, **DMGT**. We would expect to see some weakness in the share prices of both companies as a result of what Hyve has reported, but both have net cash balance sheets and, in the case of DMGT, events are only c.17% of profit (Euromoney slightly more). Offsetting this, we do not own Informa, Relx or Ascential, collectively more than 200bps of the index, nor we do own any airlines (c.75bps of the index), or Rolls-Royce (50bps of the index).

One other related exposure is **Aggreko**. It has a division that supplies temporary power to events globally, including major sporting events like the Olympics. Results last week were very good, with excellent cash generation that has taken the balance sheet to less than 1x leverage pre IFRS16 and 1x post. This debt will reduce further in the year ahead, although there is risk to forecasts if the Tokyo Olympics are cancelled (but not if they are delayed by a couple months). Let's see what happens but this is c.1% of the Fund's capital currently and operationally doing well.

One further point of note in the consumer services space arose from **ITV's** results. Recent advertising trends from the travel & leisure companies have been weak, so whilst results for last year were ahead of expectations for ITV, April's advertising looks to be down c.10% year-on-year; Q1 was up 2%. The shares have reacted badly (as per WPP), but we think there will likely be catch-up spend in Q2 and probably limited impact to the full year. This is one to watch and it may also affect DMGT's newspaper and online advertising.

Within our industrial companies, where the supply chain may see some strain or where there might be a Chinese client base, results from the companies that would be most exposed have been surprisingly resilient. In the last week we have had results from **Melrose**, **TT Electronics**, **Essentra** and **Elementis**. In all cases their latest full-year results have been ahead of expectations, on both a cash and earnings basis, although in the case of Elementis these expectations were recently downgraded.

In terms of forward guidance, TT suggested a worst case £3m hit in the year ahead, which would be c.10%. The shares were up 10% with the results. Forward guidance from Elementis, Melrose and Essentra did not specifically spell out coronavirus impacts or lead to much reduction in forecasts, although this could be a timing issue.

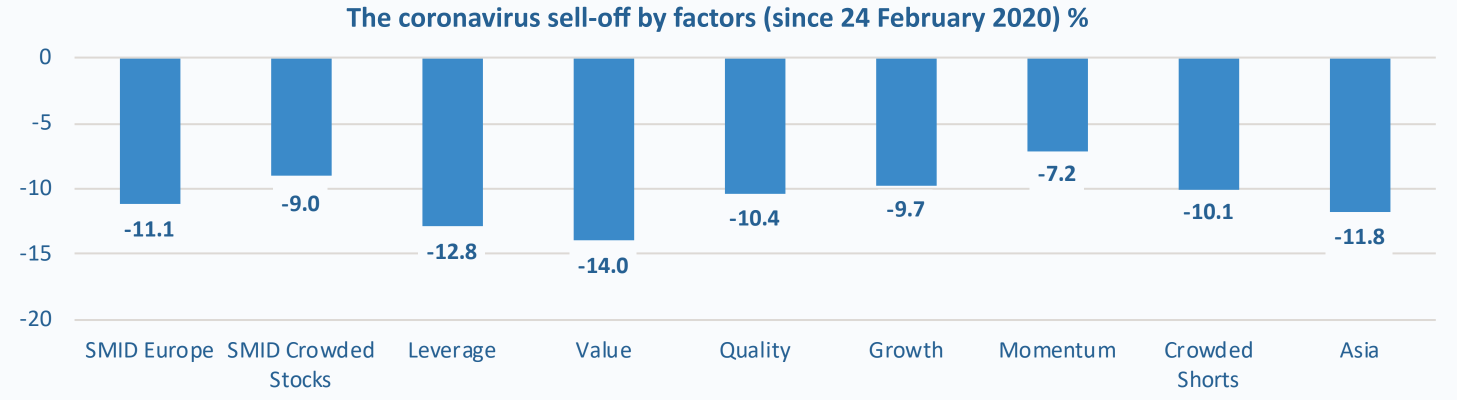
Where to from here? China, which is now relaxing its travel restrictions, is seemingly getting back to work, welcome news that is confirmed by feedback from our companies that have operations in the country. It seems somewhat lucky that the worst of the Chinese coronavirus outbreak happened around Chinese New Year, otherwise it could have been an even deeper issue. The risk is the virus re-appears with travel restrictions lifted.

Outside China, we need to wait for the peak in cases and see what the proper government response will be. The market, taking its cue from China and Italy, seems to have made its mind up that there will be some form of travel and social gathering restrictions in each country. The news in recent days that first northern Italy and now the whole country is quarantined is unhelpful in this regard.

3. The magnification effect

The Fund's current factor exposures are also unhelpful in this coronavirus crash. The below chart, reproduced from Citi and covering the period from 24 February to 8 March, summarises the situation nicely, and we would concur with the findings through our actual experience of share price moves.

To summarise, European small and mid-cap stocks are down 11.1% since 24 February, with leveraged stocks down 12.8% and value stocks down 14%. Momentum, quality and growth have done better, as have crowded stocks. This is interesting and will likely soon change.



Source: Citi as at 8 March 2020.

The stocks that have been hit hardest in the last few weeks are those with some leverage or some short-term challenges, namely value stocks. The value versus growth debate has been done to death. If you need more on this, please ask, but we think it is nearly over and is totally ridiculous.

The leverage factor – the portfolio analysed

Looking at leverage, the current leverage make-up of the portfolio, using Bloomberg data but adjusting for where we have more recent information, is as follows (note some are pre and some are post IFRS16):

- Net cash: 22% (including 3i Group)
- 0-1x leverage: 15%
- 1-2x leverage: 18% (including Hyve, 0.7%, which has had a short-term warning which takes short-term leverage higher)
- 2-3x leverage: 23%.
- Excluded: 22%- banks, insurance companies and commercial property. These have varying degrees of leverage risk (e.g. St Modwen Properties- low, Hammerson- high)

Let's review the companies in the 2-3x leverage cohort:

- **Essentra** – results last week. 2.0x leverage, but which should be stable year-on-year. two business units – filters and healthcare packaging – are non-cyclical
- **The Restaurant Group** – results two weeks ago. Decision to cut the dividend to allow faster debt pay down. Target 1.5x within two years from year-end.
- **Melrose** – results this week. Cash generation ahead of expectations, net debt therefore better at 2.25x. Highly credible history of cash and balance sheet management and a number of assets currently for sale.
- **Morrisons** – IFRS16 leverage 2x, 1x excluding IFRS16. This company is likely to execute a share buyback with full-year results in the next two months. The supermarket asset base is 90% freehold. No particular leverage issue here.
- **Convatec** – results last week – revenue and cash generation ahead of expectations. 2.5x leverage but highly resilient cash flows (the company sells colostomy bags, catheters and infusion devices).
- **GlaxoSmithKline** – cash generation is a key focus of the company, albeit there is a need to invest over the next two years. Score draw.
- **Tesco** – as per Morrisons, the underlying and pre IFRS16 leverage is low. Moreover the sale of its Asian assets this week for c.£8bn, ahead of expectations, should lead to a major change in balance sheet metrics.
- **Elementis** – results last week. Cash generation was ahead of expectations and debt at year-end lower than expected, albeit still 2.7x. Cash generative next year and Chromium business now for sale?
- **Vodafone** – 3x leverage (ex financials and IFRS16, this utility is our highest leverage). However, its tower assets are essentially for sale and will very likely achieve a very high price given that they are highly predictable infrastructure assets in a low interest rate world. This could transform leverage metrics.

Summarising the above, whilst we recognise the market's fear of leverage, when we look at the 2-3x levered companies in the portfolio, we do not believe we have material issues. Furthermore, many will be out of that cohort very soon. The asset we worry about most is actually Hyve rather than Elementis or The Restaurant Group, due to the risk of a protracted events slowdown.

When we look at refinancing risk across the portfolio in full, it is very small indeed. Hyve and Elementis are perhaps in the highest risk camp, then in extreme circumstances Hammerson and, then, in even more extreme circumstances, The Restaurant Group. Collectively these stocks amount to c.400bps of the portfolio.

Bear in mind what yields are currently doing, too. What this means is that with refinancing risk low, the current attitude to leverage when it unwinds will have an equal and opposite positive effect on the rating of companies that have suffered most. This is a store of value for the Fund.

The mid-cap factor

Regarding the Fund's mid-cap exposures, this has always been a source of strong alpha generation for UK Dynamic, and we believe it will be again. Mid-caps tend to take the early brunt of any market melt-down. The same has been true in this sell-off. But, to a high degree, our mid-caps have always had deeply idiosyncratic characteristics and have always lagged their peers on valuation and performance – certainly at the point of the Fund establishing a position.

More importantly, though, the outcomes of the Fund's stock selection process will always be based on whether we have sufficiently carefully selected a company that is rated as one thing but then transitions to being something else, something financially, socially and behaviourally 'better'. If so, the company eventually outperforms its peers as it goes through its business transformation, regardless of market capitalisation or which index it resides in.

We have no reason to believe that this will not happen again. And if mid-caps arbitrarily sell off or become out of vogue for now, our view is that this will be transitory and also of secondary importance to what really should drive the returns.

Banks

The final current 'magnification factor' worthy of mention is the banking sector, especially after the Federal Reserve's highly contentious emergency interest rate cut of 50bps last week sent global bond yields into freefall. In the short-run this makes it more likely that there will be net interest margin pressures and eps downgrades. When coronavirus is over no doubt those rates will be put back up again, but sadly that is for another day. Today it means this sub-sector unlikely to go up in the short run. The Fund's banks exposure is currently c.9.4%, c.1% higher than the index weight. This is achieved via a **Barclays** and **Lloyds Banking Group** overweight and a substantial underweight position in **HSBC**. The Fund does not own Standard Chartered, RBS or any challenger banks.

Oil exposure – brief overview

Given the dramatic fall in the oil price on Monday 9 March, it is worth making quick comment on the portfolio's exposure, even if this has not been a performance detractor. We are materially underweight Royal Dutch Shell and c. 50bps overweight BP. Their combined index weight is currently c. 9% while the Fund's aggregate weight in the two stocks is currently c.7% i.e. the Fund is c.200bps underweight combined. Elsewhere, the Fund owns shares in Wood Group, as well as Hunting, Centrica, Hyve and Aggreko, which all have related exposures. It is worth stressing that the oil price fall is beneficial to other parts of the portfolio e.g. consumer names and cyclicals.

Reasons to be cheerful

It is firstly probably worth emphasising that during this downturn we have tried to do far less trading than we have historically done. In many cases we have sold as shares have fallen rather than buy and refill the position sizes. We have been burnt historically by supporting falling share prices too early, with Anglo American being a case in point a few years ago.

Whilst this evolved approach may not be massively visible in the numbers right now, it is a subtly different strategy that will help at the margin until such time that we find the risk/reward too attractive and make much larger capital reallocations.

It is also worth saying that during previous market panics and capital reallocation programmes we have focused the portfolio on fewer, higher conviction names with the clearest upside and most attractive all-round investment characteristics. These have previously been highly supportive to subsequent absolute and relative performance. We have started this process again and will continue as opportunities to make good decisions present themselves. We are hopeful of a similar positive outcome as and when things settle down.

As a reminder, the most important thing for us when allocating long-term client capital is the underlying strategic and operational performance of the investments we make. It is this, related to the valuation and associated market scepticism, which drives the capital allocation decisions within the portfolio. With this in mind, we wanted to give an update on some of the vast amount of news flow we have recently had across the portfolio, much of which is highly encouraging. It is important at times like these to emphasise that we have not stopped making positive decisions.

The following companies have had good strategic and/or financial updates in the last few weeks. These have led us to have increased confidence in these long-term investment opportunities:

Aggreko – material working capital, balance sheet and operating efficiency progress and substantial steps forward in the move toward providing a more carbon-neutral future.

Convatec – new management have started to get to grips with historic issues and are making very clear investment decisions to drive future value. Very encouraging progress indeed in an uncorrelated asset.

Moneysupermarket – despite the unexpected decision by the acting CEO to move on at some point later this year, full-year results were an encouraging update and evidence of progress on a number of fronts strategically – autoswitch, mortgage comparison, personalisation services – coupled with solid year-ahead guidance and a very strong balance sheet.

TT Electronics – another very strong performance from this management team and asset that we regard highly.

The Restaurant Group – despite all the noise and the sensible decision to suspend the dividend, the business is in better shape than it has been for a number of years. Delivery is taking off across the whole estate, Wagamama continues its stellar performance, as does the pubs business, and the leisure restructuring has reached an interesting point which gives very clear optionality. Like-for-like sales growth for the first six weeks of 2020 was in excess of 5%.

DMGT – resilient Q1 trading statement, particularly in mailonline and RMS, two of the bigger stores of value within the wider group.

McCarthy & Stone – the new strategy is starting to bite – operating efficiency, new ownership models, affordability improvements, services growth. If the UK housing recovery post-election continues and if the strategy around rental continues to gain traction, there will be substantial earnings growth and excess capital which is underappreciated.

Crest Nicholson – rapid improvements under a new, now bedded down, management team and a clearer strategy. Huge scope to increase margins, operate more efficiently and a very long and valuable land bank.

3i Group – continued strong performance from Action and more broadly across the portfolio. One caveat here (again proving how coronavirus risks are everywhere): Action has a small part of its supply chain in China. If coronavirus accelerates materially in Northern Europe, there may be some footfall issues. Second caveat: 3i owns two travel businesses, which combined are worth c.44p of a group NAV of c.900p.

St Modwen Properties – Very strong full-year results, dividend growth and forward expectations.

John Wood Group – better than expected full-year cash generation and the confirmation of two asset sales that have removed any balance sheet risk.

Melrose – results and cash generation ahead of expectations. As usual, the self-help improvements at GKN are making excellent progress. A number of other assets are for sale this year.

Hunting – Full-year results in line and resilient guidance but most importantly very strong balance sheet and buying back stock for the first time in history and below liquidation value.

Electrocomponents – CEO returned after a three-month leave of absence. Very good news indeed strategically.

Man Group – results for 2019 were ahead of expectations with management strategy performing well. That the shares are down materially post results on an analyst downgrade despite the highly encouraging results tells you all you need to know about analysts and this market. A clearly differentiated asset manager.

Aviva – results last week were ahead of expectations yet the shares yield nearly 10%.

Direct Line – new idea c.90bps of Fund capital. Results ahead and share buyback.

Travis Perkins – newer idea (from late 2019) c.100bps. Results ahead and green shoots in UK economy. Hidden value in high growth Tool station asset in particular.

Provident Financial – newer idea (from late 2019) c.80bps. Results good. Balance sheet excess capital, strong dividend growth, low valuation, regulatory review complete.

Pearson – new idea (2020) c.90bps. Having watched for three years, we believe there is value emerging and an interesting investment post the recent warnings, devaluation, and resignations of the CEO and CFO. It is early days but the shares also act very counter-cyclically and have thus far performed relatively well during the coronavirus panic. We will update more on our thoughts as the year progresses.

Summary

We have not performed well thus far this year. This is a source of considerable frustration, for both us and, no doubt, for you as a client.

We also recognise that with Elementis, The Restaurant Group and Hyve back on top of the loser board two years after their big respective deals, this reflects poorly on our decision-making at the time of those deals, when we reluctantly agreed and voted in favour in all cases. Damage has been done to these companies' share prices, yet with Hyve and The Restaurant Group, in particular, there are many positive developments under way. We remain highly engaged with these investments, as we are with all of our portfolio holdings, and we are working hard to reclaim any lost performance where we can.

Some of the current valution metrics of the Fund are currently eye-watering and unprecedented in its near 12-year history. One metric we find particularly interesting is that c.60% of the Fund currently trades below book value. Another is that, on a prospective basis, 17% of the Fund's capital is in stocks yielding >10%, 41% yields >7% and 62% yields >5%. And another is that c.25% of the portfolio is on a P/E of <7 and c.48% is on a P/E of <10. These valuation metrics will be of use again one day. (Source: Bloomberg as at 12 March 2020).

Thank you for your patience during this period of underperformance and for your support of the Fund.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	**-10.87**	**-11.85**	**-3.71**	**22.03**	**143.84**	**9.18**
Benchmark	-9.37	-9.63	-1.20	19.12	94.08	5.66
Relative return[1]	-1.65	-2.46	-2.54	2.44	25.64	3.32

Discrete 12 month performance (%):

	29.02.20	28.02.19	28.02.18	28.02.17	29.02.16
Fund	**-3.71**	**-1.59**	**8.81**	**28.97**	**-8.23**
Benchmark	-1.20	0.93	4.96	23.09	-7.53
Relative return[1]	-2.54	-2.49	3.67	4.78	-0.76

Past performance is not necessarily a guide to future performance

Source: JOHCM/Bloomberg/FTSE International. NAV of share class A in GBP, net income reinvested, net of fees, as at 29 February 2020. Inception date: 16 June 2008. Note: Performance data for the period 16 June 2008 to 22 October 2009 is for Ryder Court UK Dynamic Fund. From 23 October 2009 onwards, the Fund converted to JOHCM UK Dynamic Fund. All fund performance is shown against the FTSE All-Share TR Index (12pm adjusted). Performance of other share classes may vary and is available upon request. Inception date: 16 June 2008. [1]Geometric relative.