

JOHCM UK DYNAMIC FUND



UNDER THE BONNET



JULY 2021 REVIEW

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INVESTMENT BACKGROUND

Global equity markets edged higher in July, with the largest moves coming from those indices with the highest exposure to growth stocks. The NASDAQ 100 and S&P 500 both reached new all-time highs.

Growth stock valuations benefited from further declines in bond yields as global growth expectations were buffeted by concerns over the impact of PMIs rolling over, an uptick in Covid-19 cases globally and a constantly evolving inflation backdrop.

The yield on the US generic government 10-year bond declined 25bps to close at 1.22%. This decline came despite US inflation expectations, as denoted by the US dollar 5-year inflation swap rate reversing early declines to end slightly up over the month.

STRATEGY UPDATE

The Fund outperformed the index in July, returning 1.25% versus a 0.37% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted).

Outperformance was attributed to stock selection, with strong idiosyncratic performances from a number of the portfolio's larger positions. This more than offset valuation headwinds from those positions that the market perceived as more cyclical (**ITV**, **Aviva**, **WPP**).

Operating momentum continued to build across the portfolio, with a number of strong updates in a period which saw over 70% of the portfolio's capital reporting.

Of particular note: the significant increase in NAV at **3i** as Action demonstrated continued double-digit like-for-like revenue growth in Q1; the strong investment performance at **Man Group** delivering growth in AUM and fees; the further upgrades at **IMI** as the Hydronics division continued to benefit from new product launches and the drive for increased heating efficiency in Europe; operating profit upgrades at **Direct Line** along with news of a strategic partnership with Motability demonstrating the appeal of this market-leading, vertically-integrated business; and the launch of **Pearson's** direct-to-consumer courseware subscription service, Pearson+, marking a new era for the turnaround plus news there would be significant tie-ups with major multi-national companies and the Workforce Skills business.

Undervalued share prices continued to attract attention from both internal and external parties. In July new buybacks were announced or extended at **Anglo American**, **Barclays**, **Man Group** and **BP**, meaning 30% of the portfolio's capital is now undertaking a buyback in 2021. This is 37% of portfolio capital if we include those forecast to make capital returns within the next 12 months (**Aviva** and **Tesco**). In addition, over 10% of the portfolio's capital confirmed new or increased bids in July.

The on-going bidding war between private equity owners for **Morrisons** continued to confirm our belief in the underlying attractions of this asset. This remained a c. 400bp position in the portfolio at the end of July.

Cobham's £35 per share proposal for **Ultra Electronics** represented a 42% premium to the previous day's close, but an impressive 63% premium to the price the day before Cobham's first rejected proposal. This was a smaller position for the portfolio at just under 90bps at the beginning of July due to the complex turnaround strategy still being in its early stages.

More significant for the Fund was news that the independent **DMGT** directors are minded to accept a possible offer price of 251p from Rothermere Continuation Limited for the remaining DMGT businesses following the announced sale of RMS and distribution of the Cazoo holding to shareholders. RMS is DMGT's largest asset by enterprise value, so the disposal marks a major milestone in management's strategy of unlocking value with the valuation on sale since confirmed as being 2-3x higher than analyst expectations. The shares are yet to reflect this, with the market instead focusing on the valuation of the group implied by the 251p offer price. We have our own views on the valuation but await further information from DMGT before confirming this. DMGT remains the Fund's largest holding at c. 600bps.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	1.25	4.69	45.16	38.50	134.33	9.30
Benchmark	0.37	1.98	24.84	32.50	90.28	6.11
Relative return ¹	0.88	2.66	16.28	4.53	23.15	3.01

Discrete 12 month performance (%):

	31.07.21	31.07.20	31.07.19	31.07.18	31.07.17
Fund	45.16	-28.15	-2.81	10.31	23.86
Benchmark	24.84	-16.81	1.33	9.17	15.33
Relative return ¹	16.28	-13.64	-4.08	1.04	7.40

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 31 July 2021. 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. ¹Geometric relative.

ONE MONTH STOCK RELATIVE CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	DMGT	0.72
2	Anglo American	0.36
3	Ultra Electronics	0.35
4	3i Group	0.35
5	Morrisons	0.32

Bottom five

Rank	Stock	Relative Return Contribution %
1	ITV	-0.29
2	Aviva	-0.24
3	Centrica	-0.21
4	WPP	-0.18
5	BHP*	-0.16

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Source: JOHCM/FTSE International/Bloomberg. Figures are at end of day and calculated gross of fees on an arithmetic basis in GBP. All performance is shown against the FTSE All-Share TR Index (12pm adjusted). Data from 30 June 2021 to 31 July 2021. *Stock was not held during this period.

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The Fund’s investment includes shares in small-cap companies and these tend to be traded less frequently and in lower volumes than larger companies making them potentially less liquid and more volatile.

Note for return history: NAV of share class A in GBP, net income reinvested. Benchmark: FTSE All-Share TR Index. Performance of other share classes may vary and is available on request.

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