



UNDER THE BONNET



NOVEMBER 2020 REVIEW

Alex Savvides, Senior Fund Manager

Tom Matthews, Analyst

INVESTMENT BACKGROUND

News of successful Covid-19 vaccine trials at Pfizer/BioNTech and, latterly, Moderna, led to record-breaking rallies in equity markets in November. The S&P 500 had its best November since 1928 and the FTSE All-Share Total Return index (the Fund's benchmark) had its best month since the index's foundation in 1984.

The high efficacy and potential speed to market of the vaccines drove the significant change in market sentiment, with investors starting to price-in a recovery and even reflation. This built on a narrative that was already beginning to change, with Biden defeating Trump in the US presidential election just days before albeit the market's expectations of change had reduced following the Democrats' failure to seize control of the US Senate.

Although global bond yields closed just 3bps higher in November (1.08%), they touched a seven-month high during the month and USD 5-year inflation expectations (USD 5y5y) hit a 16-month high of 2.1%. Despite these historic moves in equity markets and marked changes in sector leadership, valuation dispersions in UK equity markets remain near 20-year highs on price-to-book-value and price-to-earnings.

STRATEGY UPDATE

The Fund outperformed the index in November, returning 21.19% versus a 14.39% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted). Performance was almost entirely attributable to stock selection, with some significant stock specific announcements during the period.

November saw further share price recoveries for the Fund's real estate holdings. **Urban & Civic** received a recommended cash offer from the Wellcome Trust at a 64% premium to the closing share price and a 10% premium to FY20E triple net asset value (NNNAV). This was a 180bp active position for the Fund and, market cap adjusted, probably one of the highest conviction positions. Additionally, a full-year trading update from **Crest Nicholson** was significantly ahead of consensus forecasts on all metrics but most notably cash (>£135m net cash versus net debt of £93m in April), leading to the re-instatement of the dividend. Its shares outperformed the benchmark by 19% over the month.

There was a similar change in fortunes for the Fund's media holdings. **ITV's** Q3 trading update showed a continued recovery in advertising revenues ahead of consensus estimates with guidance for a return to growth in Q4, albeit studio revenues remained disrupted by social distancing measures. Its shares ended the month up 16% versus the benchmark. Likewise, **DMGT** reported full-year earnings 31% ahead of consensus forecasts, with the MailOnline seeing increased revenue and profit margins, continued growth in Property Information's US business, Trepp, and trends supportive of a bounce-back in earnings in the UK focused Landmark business. In addition, RMS launched its cloud-based Risk Intelligence platform, a major strategic milestone for the group as a whole. Unbelievably, the share price closed the month broadly unchanged and up only 5% over the last two months despite the revaluation of Cazoo in October. This significantly undervalued stock is now the Fund's second largest active position.

Elementis received two bids from Minerals Technologies (107p and 117p), which were rejected by the board. At the time of writing, a third bid at 130p has been received and rejected, with this Fund publicly stating that any offers over 140p should be presented to shareholders. The Fund owns c.6% of Elementis, which is now over 180bps of active capital and has been highly engaged with the board for the last year in pushing for a significant change in strategy and personnel in order to unlock value.

Value continues to be unlocked at **Aviva**, with the disposal of the Italian JV shareholding for £357m at an earnings multiple double that of the group. A subsequent Q3 trading update suggested there would be further disposals and management laid out the framework for capital returns with a rebased dividend (in line with consensus) and a positive update on new business sales.

Interim results from **3i** (the Fund's largest active position) showed further NAV progression ahead of the top end of consensus estimates. 85% of the top 20 private equity assets by value grew earnings and Action continued to outperform management's expectations. Despite this, the shares were slightly down against the benchmark.

Elsewhere **QinetiQ** reported interim results which showed EBIT 25% ahead of consensus driven by better-than-expected revenue growth within the EMEA services division. This resulted in increased guidance and analyst upgrades. The shares only recovered some of their previous month's relative losses. **Electrocomponent's** interim results showed a continued pick-up in trading, earnings upgrades, the re-instatement of the dividend plus the repayment of its previously deferred dividend. There was an increasingly healthy picture at **Provident Financial**, with the Q3 update reporting home credit collections back to pre-Covid levels, lending volumes continuing to increase at both Vanquis Bank and Moneybarn whilst the proportion of customers on payment holidays halved over six months.

Finally, **Aggreko's** strategic update showed its role in the green energy transition. The Fund has been leading on engagement here, so it was pleasing to see a commitment to align with the Paris Agreement to limit global warming to 1.5°C. Importantly, disciplined capital allocation will ensure this is delivered with mid-teens ROCE targets intact and no stranded assets. This is in stark contrast to many analysts' expectations.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	21.19	13.37	-18.28	18.09	102.75	7.94
Benchmark	14.39	7.51	-9.72	23.52	78.72	5.30
Relative return ¹	5.95	5.45	-9.48	-4.39	13.45	2.50

Discrete 12 month performance (%):

	30.11.20	30.11.19	30.11.18	30.11.17	30.11.16
Fund	-18.28	11.03	-3.52	19.02	13.34
Benchmark	-9.72	11.67	-2.33	13.70	10.32
Relative return ¹	-9.48	-0.57	-1.22	4.68	2.74

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 30 November 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. ¹Geometric relative.

ONE MONTH STOCK CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	Urban & Civic	0.98
2	AstraZeneca*	0.73
3	Elementis	0.58
4	Restaurant Group	0.48
5	ITV	0.43

Bottom five

Rank	Stock	Relative Return Contribution %
1	DMGT	-0.50
2	Royal Dutch Shell	-0.38
3	Glencore*	-0.22
4	Lloyds*	-0.17
5	Moneysupermarket.com	-0.15

Past performance is not necessarily a guide to future performance

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 31 October 2020 to 30 November 2020. *Stock was not held during this period.

Source: JOHCM/Bloomberg unless otherwise stated. Issued by J O Hambro Capital Management Limited authorised and regulated by the Financial Conduct Authority. Past performance is no guarantee of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation and anyone who acts on it, or changes their opinion thereon, does so entirely at their own risk. The opinions expressed are based on information which we believe to be accurate and reliable, however, these opinions may change without notice. The Fund's investment include 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. Source: JOHCM/Bloomberg/FTSE International. 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. FTSE International Limited ("FTSE") © FTSE 2017. The Industry Classification Benchmark ("ICB") and all rights in it are owned by and vest in FTSE and/or its licensors. "FTSE" ® is a trademark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. Neither FTSE or its licensors accept any liability for errors or omissions in the ICV. No further distribution of ICB is permitted without FTSE's express written consent. JOHCM® is a registered trademark of J O Hambro Capital Management Ltd. J O Hambro® is a registered trademark of Barnham Broom Holdings Ltd. Registered in England and Wales under No: 2176004. Registered address: Level 3, 1 St James's Market, London SW1Y 4AH, United Kingdom.