January 2019
FOR PROFESSIONAL INVESTORS ONLY

J O Hambro
Capital Management Group

Under the Bonnet

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Investment background

An extraordinary December befitting another extraordinary year. If 2017 was about synchronised global growth, 2018 was about synchronised volatility. Trade wars, monetary tightening and eurozone weakness. What a difference a year makes. December perhaps typified the year as a whole, with a dizzying number of political and economic developments, some of which could have a major effect on the future direction of markets, but which were either ignored or overshadowed.

The 'B' word

In a world of change the UK narrative remained fairly familiar. Developments around the country's future relationship with the EU took a major step forward, but perhaps not in the way we had been expecting. Attempts by Theresa May to garner support for her EU withdrawal agreement fell flat. Indeed, after two key defeats in the House of Commons, one forcing the Government to release all legal advice around the negotiations and the other, more importantly, giving MPs more control in the future exit plan should her deal fail, the prime minister cancelled the 'meaningful' Brexit vote on the 11th December. Shortly afterwards, Mrs May faced a vote of no confidence from her own party after the required 48 letters went in to the 1922 Committee. She duly won the vote by 200 votes to 117, but the level of votes against proved how difficult it might be to get her Brexit deal through Parliament. Trumping all of this, however, was the surprising news from the ECJ that the UK could cancel Brexit unilaterally by withdrawing its Article 50 notification. This could prove to be a major development in the whole Brexit process.

Unsurprisingly given all the political debate, the economic backdrop in the UK remained subdued. Whilst the manufacturing and construction PMIs were reasonably firm, bouncing back from some earlier weakness, the crucial services sector was weak, with the Markit /CIPS Services PMI falling to 50.4 in November, barely registering any growth and representing the lowest figure since July 2016. Consumer confidence (as measured by GfK) fell again in December, ending the year at -14, the lowest level for five years. Similarly, the IHS Markit Household Finance Index fell to a six-month low in December, as consumers took a pessimistic view of future living costs and inflation expectations. This runs counter to current actual experiences in the UK where inflation is currently falling (CPI fell to 2.3% in November) and employment data remains robust, feeding through to wages: average weekly earnings data for the three months to end October 2018 showed a 3.3% rise in both basic and total pay while the year-on-year October rise was 3.5%. Set against declining inflation, real wages grew by 1% on average in the three-month period and by 1.3% in October, the highest since November 2016.

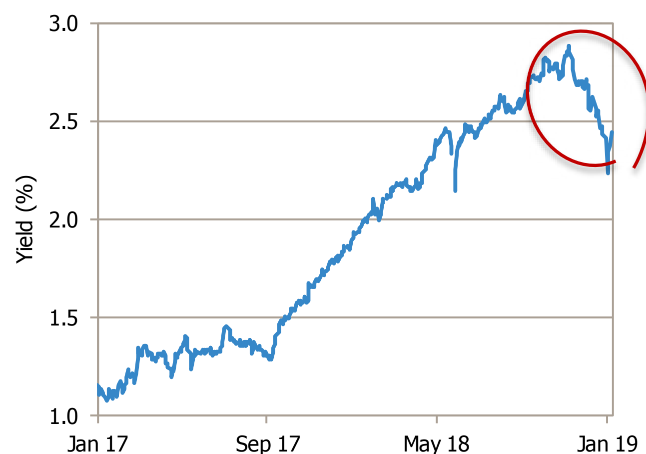
Trump and China

Relations between the US and China continued to be strained over the month. Initial optimism on trade negotiations emanating from a constructive G20 meeting between President Trump and President Xi Jinping was then immediately overshadowed by the arrest in Canada of Meng Wanzhou, CFO and daughter of the founder of Huawei, a company closely tied to the Chinese Government. Importantly, despite the uncertainty caused by the arrest, the further trade negotiations agreed at the G20 summit are going ahead early in the New Year as planned. The conclusion of the ongoing dispute remains critical to global economic outcomes in 2019.

On the US domestic front, whilst economic activity remains relatively strong (manufacturing and services PMIs for November both remained elevated) there were signs of a slowdown in momentum towards the end of the year as a number of factors coincided. The trade dispute has undoubtedly had an effect on business activity, but perhaps more important has been the upward shift in US interest rates and simultaneous quantitative tightening as the Federal Reserve reduces the size of its balance sheet.

After one rise in 2015, one in 2016 and three in 2017, the fed funds rate was increased four times in 2018, the fourth time being in December, despite substantial and very public criticism of the Fed and Chairman Jerome Powell from President Trump. Warranted criticism or not, there seems little doubt that the speed of the liquidity withdrawal has started to have an effect in the market. When combined with seemingly subdued inflation (+2.2% in November, down from 2.5%) and growing international concerns (trade, Europe, Brexit), the arguments for a pause seem to be strengthening. Critically for markets, whilst continuing to assert the Fed's independence, commentary over the month did suggest a softening of Powell's more hawkish stance, with firstly the suggestion that rates were now not far beneath neutral, and, secondly, that the market should expect fewer rises in 2019. The market is now predicting no further rises.

US: Interest rate rise expectations stall



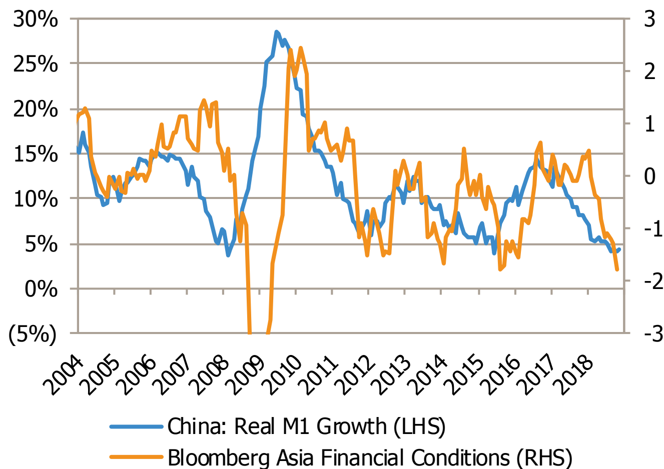
Source: Bloomberg as at January 2019.

As if the rate rises weren't enough with which to contend, stock markets then had to deal with a federal government shutdown at the end of the year in response to a disagreement over border security, specifically $5bn funding for President Trump's proposed wall on the southern border. Both sides seem entrenched in their position, and there is a risk that the saga

drags on into the early part of 2019. No wonder, then, that economic momentum in the US started to tail off at the end of the year. Starting the year at 2.41%, US 10-year Treasury yields peaked at 3.24% on 8th November before falling sharply to close at 2.68%, +25bps over the year but -65bps in the last eight weeks. The S&P 500 TR index closed the year on a poor note, falling by 9.0% in December to leave it down 4.4% for the year.

Conditions in China were challenging all year as the Chinese Government has also been tightening monetary policy, in this case in an attempt to dampen speculation in the property market, stamp out egregious lending and rein in the shadow banking system. This has had a region-wide negative effect on financial conditions, as can be seen in the chart below.

China: Monetary policy tightens



Source: Exane/Bloomberg as at December 2018.

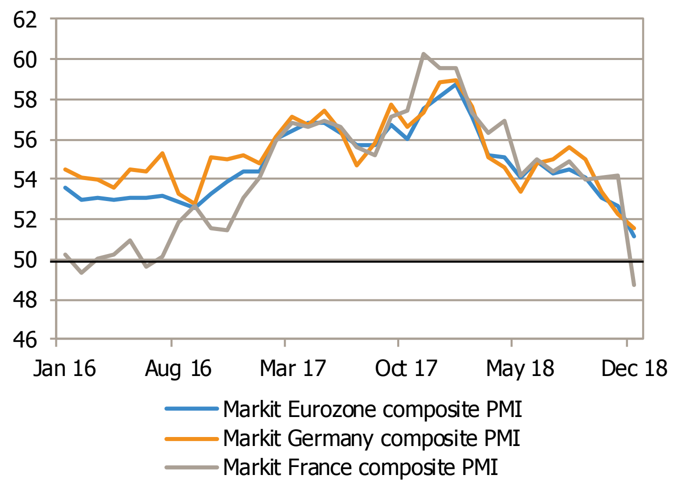
Data in early January for December continued to show weakness in the CAIXIN China manufacturing PMI, with the index falling to 49.7 (therefore entering contraction territory) from 50.2 in November. This all came together to leave the Shanghai Composite index down 3.4% in December and down a substantial 24.6% for the year. Commodity prices followed suit, with copper down 17.5%, aluminium down 18.6% and platinum down 14.3%, in dollar terms. The Brent oil price fell 19.5% but by a remarkable 35% in Q4. Gold was resilient, as was iron ore, rather surprisingly.

A slowing eurozone

Turning to the eurozone, again December provided some critical news flow that was maybe overshadowed by market events. Perhaps most importantly, December saw the end of the Italian budget impasse, with a compromise agreement reached with the EU and subsequently ratified by the Italian Parliament over the 2019 government spending plans. This impasse has been a major issue for the eurozone in the last six months, so its conclusion is good news. Sadly this news has been overshadowed by the short-term events in France, where aggressive and violent demonstrations by the 'Gilets Jaunes' activists in response (initially) to proposed fuel price increases brought parts of the economy to a standstill over the month. Shorter-term measures of French economic activity have shown how damaging the protests have been, with the French services PMI dropping sharply from 55.1 in November to 49 (i.e. contraction) in December. Similarly, France's manufacturing PMI was negative at 49.7 in December.

These were unwelcome developments at a time the eurozone needed them least, coming as they did after a sustained period of slowdown for economic activity in 2018. Starting the year nearer 60, the eurozone composite PMI fell to 51.1 by the end of the year, a fairly marked decline. The slowdown has not just been to do with France and Italy either, with the composite PMI for Germany also following a similar trend.

EU: Growth contracts



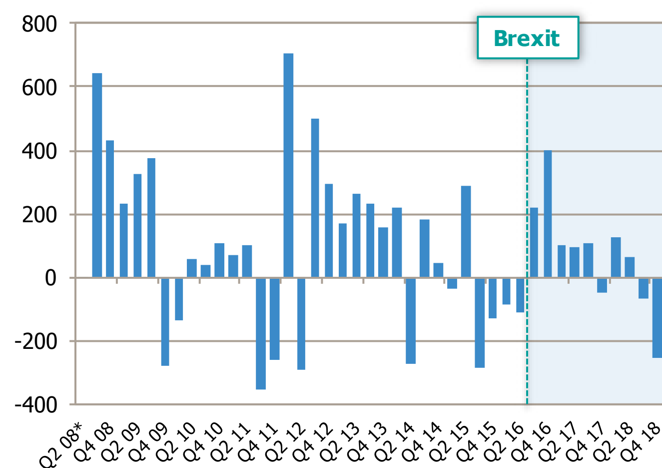
Source: Bloomberg as at December 2018.

This narrative could not be more different to that at the beginning of the year when eurozone PMIs, manufacturing and composite, were at highs not seen since April 2000. Again trade wars and political developments are partly to blame. However, again these have been made worse by the progressive withdrawal of liquidity by the ECB during 2018 as it prepared for an end to its QE programme, which was confirmed, as expected, in December. The DAX index fell by 6.2% in December, capping a tough year that saw the index finish down 18.3%. The Italian FTSE MIB index fell by 4.5% in December and by 14% over the year, whilst the France CAC 40 index fell by 5.2% in December and 8.0% for the full year.

Strategy update

The Fund underperformed in December, returning -4.67% against a -3.93% showing by its benchmark, the FTSE All-Share TR index (12pm adjusted). This represented 78bps underperformance for the month and capped a tough quarter for the Fund – the toughest since Q3 2015 – during which the Fund fell by 12.56% against a benchmark decline of 10.30%, representing (geometric) underperformance of 252bps. In 42 full quarters since the Fund launched in June 2008, there have only been seven occasions when the Fund has underperformed by more than 200bps in any one quarter.

JOHCM UK Dynamic Fund – quarterly relative performance (bps)



Source: JOHCM/Bloomberg/FTSE International. NAV of share class A in GBP, net income reinvested, net of fees, as at 31 December 2018. *Inception date: 16 June 2008.

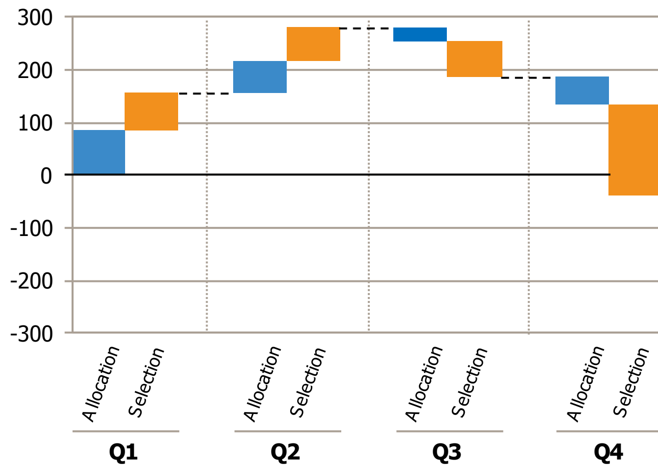
A year of two halves (again)

Looking at 2018 as a whole, it was another year of two halves. The Fund outperformed the benchmark in H1 by c. 190bps but then underperformed in H2 by c. 310bps, much of which

happened in the last quarter. This left the Fund down in absolute terms by 10.30% over the year, compared to a 9.06% fall in the benchmark, representing full-year (geometric) underperformance of 136bps.

Unusually for this Fund, 2018 stood out as being a year where performance was more reliant on portfolio construction and sector allocation than it was on pure stock selection. The Fund's 10.5 year record suggests that c. 75% of gross return is generated from stock selection and c. 25% from asset allocation decisions. This year the numbers were markedly different (as shown in the waterfall chart below), with positive attribution from asset allocation and negative attribution from stock selection.

JOHCM UK Dynamic Fund – quarterly attribution 2018 (bps)



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.

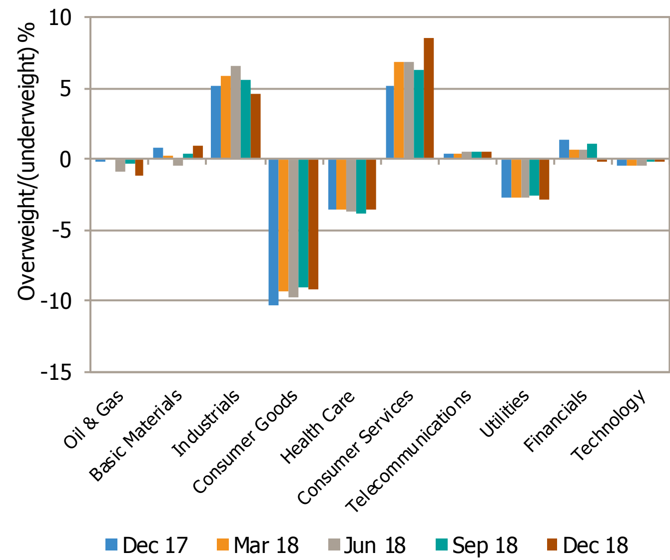
A reminder of what we said this time last year

Before looking at individual performance drivers, it is worth reflecting on our outlook comments from last year. We said that absolute value was harder to find and that whilst economic momentum was strong we were "…cognisant of how quickly things can change and thus what assumptions we are being asked to make at these higher prices." We said we would focus on margin of safety, not just through valuation but through seeking out, as usual, idiosyncratic drivers of shareholder return in the form of management and strategic change. We mentioned some newer ideas in that context, the performance of which we will update on shortly. Finally, we said that given the extreme undervaluation of UK domestic stocks (yes, even then), we were building the Fund's position in a subset of cash-generative, lowly valued and strong balance sheet UK names. Again, we will update on some of these names shortly.

This thought process left us with a portfolio that was broadly neutral in some of the more cyclically-driven sectors like financials, oil & gas and basic materials, still overweight in industrials (although acutely aware of nascent cycle risks), and with a growing overweight in consumer services, but with a bias towards what we saw as deep value, cash-generative names with deep self-help (i.e. at least attempting to deal with their headwinds) and, critically, with the balance sheets to help them do so. This led to a growing exposure to what we saw as a deeply discounted UK domestic sector with broadly achievable (pessimistic) sets of analyst forecasts. Elsewhere, the Fund was underweight consumer goods, healthcare and utilities.

Key sector changes – rolling quarterly

UK Dynamic over/underweights relative to benchmark weight



Source: JOHCM as at 31 December 2018. Benchmark: FTSE All-Share TR Index.

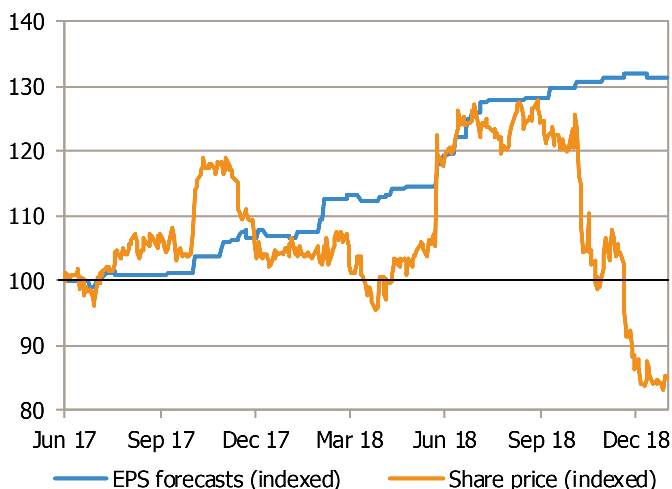
On to the stocks

When looking at the two overweight sectors, whilst we had some cyclical exposure, we felt it was accompanied with either good or sometimes extraordinary (Electrocomponents) momentum, deep self-help with focused strategies to gain share or become exposed to more structural growth, and with strong valuation support. Moreover, we were focused on ensuring we were not taking undue balance sheet risk anywhere in the portfolio, particularly in the consumer services names given the likely volatility around the forthcoming Brexit negotiations. At the beginning of the year the portfolio as a whole had one of the lowest levels of balance sheet risk (as measured by UKdfa, data available on request) we had observed over the ten years of running the Fund.

We consistently assess all valuations in the portfolio: in isolation; relative to history; relative to their sector peers; relative to balance sheet risk and cyclicality; and relative to expected growth, a very important component of the valuation. But valuation work is always nuanced. We try to look forward beyond just the next year. Some stocks look expensive in the short run, but we want to own them over a long period. Do we sell all today and hope to buy back perfectly in future, do nothing, or trim the position and accept some underperformance? In these cases, it is always the latter.

That does leave us exposed to the market's shorter-term view, however. **Electrocomponents** is a good example of this. The shares started the year on an April 2019 P/E of 23x. The market EPS forecast at that point was 29.4p. By the end of the year that forecast had become 36p, 22% higher and representing annual EPS growth of c.27% for the company. Whilst observing the high P/E, we decided that EPS could continue to grow into the P/E and support the rating. They did - until October. The April 2019 P/E closed the year at 14x. If April 20 forecasts are remotely right, it is on a P/E of 12.6x for that year (<0.5x net debt/EBITDA). We did not foresee *that* scale of de-rating. Neither do we agree with it for what it's worth. It cost the Fund 70bps of relative performance in the final quarter, part of which we will get back if there isn't a global recession, arguably already partly predicted by the share price.

Electrocomponents: a remarkable de-rating



Source: Bloomberg as at December 2018.

The same could be said for **TT Electronics**, a smaller but similar position. Valuation movements are trickier to disentangle here given some corporate activity. Essentially, though, in the middle of 2017, before the company made a major disposal and two (smaller) acquisitions, EPS for 2019 was expected to be c. 16p and leverage was c. 1.0x. The P/E was roughly 12x. Having sold the low margin and cyclical Transportation Sensors business for £118m in a dilutive (but value accretive) transaction in 2017 and subsequently reinvested c. £57m in Stadium Group in 2018, EPS forecasts for 2019 are c. 18p. Importantly, these earnings are from a higher margin, less cyclical and now completely ungeared entity, where underlying trading this past year has been consistently ahead of expectations. The P/E for this is now 10x. Again, whilst maybe not the market for it today, we believe the shares, having fallen c. 30% from their highs, will recover.

In the context of skittish valuations, it is interesting to report that **Anglo American** was the Fund's second best-performing holding in 2018 (after QinetiQ – discussed later). Exactly three years ago, we wrote of the lessons learned in experiencing Anglo American's shares fall 77% to a 0.25x price-to-book, closing 2015 at a price of 299p. With the shares closing 2018 at 1.23x price-to-book and a price of 1754p (+487% in three years), the lessons seem clear: valuations can always be driven lower than one expects in the short term but the rewards can be rich for the patient investor. Yet there is also one more subtle lesson in the Anglo American story, for the share price recovery is more than just one of valuation reversion: the shares not only outperformed the FTSE All-Share Total Return index in 2018 but also the narrower FTSE 350 Mining index, by an impressive 20%. Much of this outperformance can be attributed to the significantly improved returns profile of the business, resulting from the drastic strategic changes undertaken by management since the end of 2015. The company's commodity end market profile has been streamlined, operational improvements have increased cash generation and non-core assets have been sold, with proceeds used to reduce net debt. Anglo American's average margin curve position has fallen, from 49% and fifth in a peer group of five in 2013 to 37% and second in the same peer group in 2018. At the same time, net debt has fallen from $12.9bn in 2015 to $3.9bn in 2018 (2.9x to 0.5x net debt/EBITDA). Whilst the rewards are often rich for the patient investor, they can be richer still if invested in management teams who are successful in actively managing their own capital base.

We did more than question some valuations in 2018, however, and where we saw pure cycle and valuation risk without much self-help, or where it was too reliant on acquisition-led growth, we tried to do something about it. Position sizes in **DS Smith** and **Numis** were reduced somewhat, near share price highs, with DS Smith ultimately sold and the money recycled into **Essentra**, which has lower leverage, more self-help upside and less cyclical earnings (as discussed in 'Under the Bonnet', October 2018).

Ascential was also sold, at a P/E of c. 25x, to build a larger position in **DMGT**, a newer idea which came into the portfolio in 2017. After a volatile year this is now a higher conviction and larger position (as laid out in last month's update). The year saw the shares start at 591p, peak in May at 774p (after the company sold Zoopla for a good price), and close at 575p after disappointing marginally on 2019 forecasts for the media business. This scale of valuation change is ludicrous for an ungeared and intensively-managed business. DMGT is not without risks but is definitely one of the most interesting emerging positions in the portfolio at the moment and now a near 2% position.

Euromoney, which is 49% owned by DMGT and another new 2017 idea, had a respectable year, outperforming the market and delivering well against its own strategic objectives. Like DMGT, it is slimming its portfolio, focusing on areas of highest structural growth and value-add. This was therefore another year of portfolio change at Euromoney, with the sales of its Global Markets Intelligence Division (CEIC and EMIS) and Mining Indaba coming hot on the heels of the sale of its Dealogic stake in late 2017. In combination, the sales were at favourable prices and generated proceeds of c. $350m. Around $100m of this has been reinvested in 2018 but the business still has substantial firepower, with around $100m net cash on the balance sheet. Management is ambitious to do deals, but we expect will only spend the money for precisely the right businesses. In the meantime, the remaining core divisions are trading in-line (price reporting agencies ahead, asset management slightly below). We feel a combination of growth in the price reporting division, recovery in asset management earnings over time and intensive asset management, including flexing the balance sheet, will lead to an earnings base substantially higher than current forecasts.

We also mentioned **St Modwen Properties** as a newer idea last year. In a tough environment for UK real estate, St Modwen's shares performed well in response to strong strategic delivery from the management team. Part of that strategy is to both de-lever the business and focus capital allocation on the highest growth parts of the business, industrial/logistics (in undersupplied regions) and regional housebuilding. The capital for this build programme is coming from selling the legacy retail and industrial portfolio, something that management have executed well at values broadly in line with NAV. Importantly, this business is endowed with a very large and well sited property portfolio, built up over many years, which means the company does not need to access the land market to grow. This is a competitive advantage and a key part of the story, allowing the business to generate more value from existing assets and increase return on capital. Last year the business sold £529m of assets, and since the new strategy was announced has sold £814m of assets (c. 40% of the starting portfolio) at values in line with NAV. The assets sold represent the most challenged assets. As a result, there is ample capital to grow the business whilst leverage is now half what it was 18 months ago and has also been re-profiled positively. The shares performed well in Q3, outperforming a tough market and delivering 27bps of relative performance (18bps over the full year). At a 0.8x November 2019 NAV and with accelerating momentum, we feel the shares will steadily continue their progression given industrial/logistics peers such as Segro currently trade on 1x NAV and shares in housebuilders trade on 1-2x NAV. St Modwen now represents 2.5% of the Fund's assets.

Source: Bloomberg as at January 2019.

Another newer idea from 2017, **ITE Group**, did less well and perhaps leads neatly to the next section of this report. Backing business transformation stories has been a key driver of this Fund's outperformance over the last 10 years. At times this strategy is open to M&A transactional risk if the management teams in charge of execution deem it necessary to undertake a deeper transformation through large-scale M&A. This has not actually been a particularly large feature of this Fund historically, but this year it most certainly was, keeping us extremely busy in H2!

ITE, **Vodafone**, **Elementis** and, in the last quarter, **The Restaurant Group** all undertook material transactions this year to help accelerate change within their organisations. These transactions and associated rights issues were not met with universal support. We have written about and discussed these deals extensively during the course of the last year, so will not go into further detail. However, we pride ourselves on being long-term investors who back management teams to execute change. We are not just prosaic deep value investors, and we do understand financial mathematics. We did not whole-heartedly agree with all the transactions but, after extensive engagement, analysis and thought, we decided to vote in favour of all the completed transactions (the Vodafone Liberty deal is still a work in progress). In doing so, we hope that we are not (in the words of the FT) just 'turkeys voting for Christmas'.[1] Only time will tell.

[1] "Have Restaurant Group's turkeys just voted for Christmas?", Matthew Vincent (Lombard – Financial Times, 28 November 2018)

All of the assets that were bought are good, well-established businesses that add value to the acquirer. Some of the public commentary around these transactions has been ridiculous, but everyone is entitled to their opinion. In each case, the market has decided that the deals will not succeed and have de-rated the shares accordingly. The average P/E of these companies is 37% lower at the end of the year than at the start. The businesses in all cases are better balanced. In combination these four assets account for 11% of the Fund's assets, broadly what they were beforehand, although the mix has changed. Over the year these assets cost the Fund c. 150 bps of relative performance, but the opportunity cost was much higher. There is much value to recover.

Turning to some other UK names, it is pleasing to report that both **QinetiQ** and **Morrisons** fared well in 2018, bouncing back from poor share price performances in 2017, as the strategic turnarounds gathered pace and continued to deliver financially. Morrisons surprised positively with its continued capital discipline and special dividend programme. Despite a tough final quarter (-25bps) as the Brexit debate raged and UK consumers grew ever more cautious, it still delivered 44bps of positive relative performance over the year and remains a high conviction position.

QinetiQ was the best performing (owned) share for the Fund in 2018 (not owning BAT delivered 178bps of relative contribution), and rightly so. Management are performing admirably, investing in the business to create new growth, whilst managing the cost base and selectively allocating capital to bolt-on acquisitions. This has finally captured the attention of the stock market and the shares rose 25% in absolute terms last year (for comparison, rival Babcock saw its shares fall 40%) and delivered 105bps of relative contribution.

Although not material in the context of Fund performance, **Marks & Spencer** and **Majestic Wine**, two other UK domestic names, performed less well, particularly in the last quarter as the Brexit debate intensified and consumer conditions toughened. Marks & Spencer shares fell c. 16%, adjusted for dividends, on March 2019 EPS that have fallen by 11% through, in the main, investment in the Food business. Trading in Clothing & Home was creditable, particularly given the tough external conditions. Free cash flow forecasts have been a little more stable given capital discipline. In the meantime, the 'digital first' strategy continues to develop at pace and the board and management team continues to evolve, with Humphrey Singer joining as Finance Director, Stuart Machin as MD of Food and, more recently, Justin King as a non-executive director. In a torrid year for UK retail, a year in which the Debenhams share price fell 85%, that M&S has survived to tell the tale speaks volumes. Challenging as it is, the recovery story here is not done. 2019 will be the year that defines whether it will work or not. We remain holders.

With **Majestic Wine**, the story has been as ever, complex. On the one hand, Naked Wines revenue growth continues to power forward but as a division is sucking up substantial investment to capture the opportunity, particularly in the US. On the other hand, the Majestic retail estate and Lay & Wheeler are performing less well in competitive conditions. The shares started the year positively, responding well to the announcement of further material investment into Naked Wines. As the year progressed, it became clear to us that Majestic retail was struggling in the face of both intense competition but also perhaps, if Glassdoor reviews are to be believed, a series of well-meaning but often ineffective centrally-directed initiatives. In light of this we reviewed the Fund's position and reduced it to c. 70bps, with a view to selling completely. However, half-year results in November warned that retail profits would be reduced and the shares fell substantially (by 38% over the next six weeks). Whilst one could argue that on a sum-of-the-parts the retail estate is now 'in for free', we are concerned that if current trends persist, the remaining profits could continue to erode to a degree that the business becomes loss-making. This would leave the valuation heavily reliant on the Naked Wines business, which, whilst clearly growing, is still an early-stage business in its investment phase, and thus yet to fully prove the sustainability of its profits. We will update further in due course.

Another small cap which underperformed this year was **McBride**. The company warned on profits in early January and never fully recovered as it struggled in the face of a tough pricing and gross margin environment and from a worsening performance by the group's non-core personal care division. Furthermore, European-wide issues with distribution costs – a headwind faced by a large number of companies, not just McBride – eroded profits. June 2019 EPS forecasts fell 17%, from 18p to 15p. The shares declined by a more brutal 45% (post dividends) over the calendar year.

McBride's organic revenue performance has been good. With a number of competitors struggling in the tough conditions, it has been able to win business, albeit this has not yet fed through to profits. Losses from the personal care division will no longer be an issue as the business was sold to Royal Sanders

(backed by 3i Group). Likewise, the gross margin squeeze will partially unwind given recent falls in the oil price should lead to lower raw material costs, while the distribution issues should self-correct, although maybe at structurally higher cost. The tough pricing environment from a competitive European supermarket space is much more difficult to read, especially in light of the attempted merger between Sainsbury and Asda and the Tesco/Carrefour strategic alliance, which focuses on procurement (McBride supplies all four companies). It is therefore no coincidence that the shares have yet to recover. We find it difficult to conclude on the investment at this point and are currently running with a smaller position.

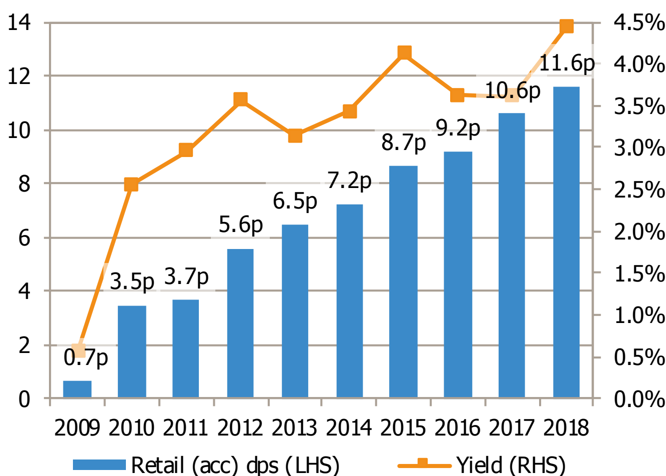
Stocks that were sold over the year include **Devro**, a position started in 2017 but where we couldn't get conviction over new management's strategy; **DS Smith**, which had come to the end of its natural life-cycle with this Fund; **De La Rue**, which just wasn't working; and **Ascential**, which had done well for us but where we struggled to understand the evolving valuation. Ascential has, through major M&A, essentially become a new business in the last three years with a limited stock market financial track record. Not bad necessarily but hard to value in our minds. Finally, we exited **Sky** successfully as the bid completed.

New ideas include **Melrose**, after the purchase of GKN, **Moneysupermarket**, **ITV** (Sky capital reallocation), **McCarthy & Stone**, **Empiric Student Property**, **Crest Nicholson** and **WPP**. The purchased assets, as we hope we have consistently communicated, continue to have a business transformation flavour to them and also a UK bias given low expectations and valuations. No doubt you will hear more about these assets in the months and years to come.

Fund dividend progress

The NAV of the Fund ('A' Accumulation share class) closed the year at its low of 261.2. On that day, unit owners became eligible for the Fund's annually paid dividend. Having grown the dividend by 15.1% in 2017, we were pleased to grow it by a further 9.6% in 2018, ensuring the continued track record of healthy growth. The historic yield at year-end was 4.43%.

JOHCM UK Dynamic Fund: Dividend history



Source: Bloomberg as at January 2019.

We continue to feel that this aspect of UK Dynamic sets the Fund apart from some of its UK All Companies peers, and we hope to continue to be able to grow the dividend whilst maintaining a primary focus on balanced, patient capital growth (as opposed to pure capital preservation) through equity investment.

Outlook: tremendous value in UK equities and the Fund – but patience needed

There is clearly value in the UK market. Over the last 12 months, both in 'Under the Bonnet' and within our quarterly presentations, we have shown a number of examples of how cheap the UK market is relative to its history and relative to other markets and asset classes. When that value will be realised is anyone's guess, but it is, of course, tied in to Brexit outcomes and consumer and corporate confidence. Mostly, though, it is tied to patience, and your patience and understanding is what we value most. The outlook for value creation from this portfolio is good. The timing is hazy.

Tom and I thank you for your continued support over the past 10 years. We hope and expect, given the deep value and intensive management strategies we see in the portfolio, to do better for you this year and beyond.

Alex Savvides　　Tom Matthews

JOHCM UK Dynamic Fund
5 year discrete performance (%)

Discrete 12-month performance to:

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
JOHCM UK Dynamic Fund	-10.30	16.03	20.95	0.22	3.13
Benchmark	-9.06	13.10	16.05	1.25	0.93
Relative return	-1.36	2.59	4.22	-1.02	2.18

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 December 2018. 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.

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. 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.