

JOHCM UK DYNAMIC FUND



UNDER THE BONNET



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MARCH 2020 REVIEW

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INVESTMENT BACKGROUND

Global equity markets fell sharply in February in response to the growing economic impact of coronavirus. Whilst reported cases of the virus in China showed signs of having peaked and early evidence suggests the mortality rate remains low at c.2-3%, the marked up-tick in cases globally and related disruption led to heightened investor uncertainty. The MSCI World Index unwound near five months of gains, whilst the FTSE All-Share unwound all its gains since the beginning of 2019.

There were widespread signs of investor panic. The CBOE Volatility index (VIX) reached a four-and-a-half year high and the S&P 500 index had its third-worst weekly fall in 25 years. Investors crowded further into defensive positions driving global bond yields lower. The yield on the US 10-year Treasury closed at an all-time low of 1.15% - the gap versus the yield of global equities has only ever been larger in March 2009.

Global developments overshadowed a UK domestic picture which continued to show building consumer confidence, with the Household Finance Index reaching an 11-year survey high. Despite this, the recent Bank of America Global Fund Manager Survey showed the UK remains the number one region underweight.

STRATEGY UPDATE

The Fund underperformed the index in February, returning -10.87% versus a -9.37% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted). This is disappointing in what was a very busy earnings period for the Fund. It was attributable to a handful of stocks experiencing bearish share price reactions to issues that were in most cases already known. The Fund has been selective in adding to positions in these volatile market conditions.

Shares in **WPP** fell 16% after FY19 results showed that a tougher Q4 meant revenue growth and underlying profit were a mere c.0.1% and c.2.0% below analysts' expectations, respectively. Despite forward guidance being broadly in line, the market began to question the recovery. This ignores the recent balance sheet de-gearing of 1.5 turns and the ongoing buyback equivalent to over 10% of market capitalisation. The market also seemed to overlook that the stock and sector currently trade near all-time low multiples.

Shares in **The Restaurant Group** fell to new lows as growing market fears over the impact of the coronavirus on leisure spending coincided with management choosing to suspend the dividend to accelerate debt reduction (a decision we support), as well as the shares being relegated from the FTSE 250 index. The shares are currently priced at <5x EV/EBITDA despite full-year results showing good traction in the turnaround and the Wagamama, Pubs and Concessions businesses all outperforming their markets.

Centrica had a minor profit warning due to lower global gas prices which detracted from continued signs of strategic progress and dampened expectations for the disposal of its oil & gas asset. The shares fell c15% and now trade significantly below break-up value. At **SIG**, the board removed the CEO and CFO as they believed the turnaround strategy had lost the support of suppliers, customer and staff despite reshaping the balance sheet to net cash. The commercial underperformance had up to now been difficult to decipher from the wider marked slowdown in UK construction. The Fund had not rebuilt its position after last month's warning.

More positively, **St Modwen Properties'** full-year results delivered increasing dividend growth and forward expectations whilst also laying out market leading carbon and biodiversity targets. Full-year results from **Hunting** were in line, but importantly they showed an even stronger net cash balance sheet and the announcement of the first ever stock buyback in the company's near 150-year history. The shares are currently priced below the company's asset liquidation value.

At **Electrocomponents**, there was the welcome news that the CEO had returned after a three-month leave of absence. Despite the unexpected news that the CEO of **Moneysupermarket** intends to move on, full-year results were an encouraging update, with progress on a number of fronts strategically – autoswitch, mortgage comparison, personalisation services – coupled with solid year-ahead guidance and a strong balance sheet.

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. ¹Geometric relative.

STOCK CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	Crest Nicholson	0.25
2	Royal Dutch Shell	0.24
3	Urban & Civic	0.17
4	3i	0.16
5	Chemring	0.12

Bottom five

Rank	Stock	Relative Return Contribution %
1	Restaurant Group	-0.46
2	Elementis	-0.31
3	SIG	-0.25
4	Hunting	-0.24
5	Hammerson	-0.22

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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 31 December 2019 to 31 January 2020.



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.

