

JOHCM UK DYNAMIC FUND



UNDER THE BONNET



APRIL 2020 REVIEW

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INVESTMENT BACKGROUND

Global equity markets retraced much of their previous month's losses as news flow challenged investors' bearish positioning. The MSCI World index closed up 10.8%, down 13.0% year to date. Markets took comfort from signs that the daily global death toll from Covid-19 may have peaked, preliminary trial results from Gilead Sciences's remdesivir and further central bank stimulus. The US Federal Reserve's further pledge of up to US\$2.3 trillion to support businesses including the purchase of high yield bonds averted any growing fears of a credit crisis. The VIX index unwound the previous month's gains and bond yields fell globally, with the average bond yield of the 12 largest equity nations reaching an all-time month-end low of 1.00%.

These moves came despite the sharp decline in economic activity, leading oil prices to momentarily fall into negative territory. However, as analysis from Bank of America highlights, the scale of global policy stimulus year to date now stands at US\$14 trillion, more than offsetting the estimated global GDP loss of US\$9 trillion in 2020-21.¹ Despite this investor positioning remains bearish. Money market funds (MMFA index) reached an all-time high of US\$4.7 trillion, a 30% rise since February. In addition, investor positioning has become extremely crowded. Analysis from Bernstein shows that the crisis has, unsurprisingly, led to a record spike in developed world stock correlations.² What is unusual is that the dispersion between stocks has reached a record high, and so too the correlation between sectors.

¹The Flow Show – Bank of America (30 April 2020).

²Portfolio Strategy: Entrenching an odd market structure – what it means for market direction, factors and active managers – Bernstein (1 May 2020).

STRATEGY UPDATE

The Fund underperformed the index in April, returning 6.72% versus an 8.64% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted). Underperformance was attributable to the Fund not owning **AstraZeneca**, an unwind of the previous month's share price gains versus the benchmark at **QinetiQ** (-9%), and a trading statement from **Pearson** (-21%). Whilst the latter was in line with the company's update in March, it was not enough for a very bearish set of analysts. **Aviva** also had a tough month, albeit there was no significant news flow.

Although the Fund participated in the market rally to a degree, the bounce back was underwhelming with no particular standout positive performances. Stocks that did have a reasonably strong bounce included **Crest Nicholson**, **Electrocomponents**, **WPP**, **ITV**, **Elementis**, **Barclays** and **John Wood Group**.

The Fund continued to actively allocate capital in line with the priorities we set out at the end of Q1 ([listen to our quarterly webinar](#)). A cash buffer of 3.5-4.0% was maintained (an 18bp headwind over the month), whilst the Fund also allocated capital to support a placing of shares at **The Restaurant Group**. The £57m raised should provide the company with sufficient liquidity to survive the crisis, a crisis which will undoubtedly lead to substantial capacity withdrawal across the UK restaurant sector. The Fund continues to tactically allocate capital to those portfolio companies that need additional liquidity. With **Hyve Group's** rights issue now announced (7 May), all 'high likelihood' candidates have been addressed. Q1 results from **Elementis** provided welcome relief, with trading slightly ahead of some analysts' forecasts and a relaxation of the net debt/ebitda covenant until the June 2021 test date. We believe that this company may not need to raise equity, contrary to market expectations.

Barclays posted a better-than-expected Q1 performance where the diversity of the bank's earnings proved its worth. Of note was a record quarter from the markets division within the investment bank. Capital and tangible net asset value were both slightly better than expected.

The Fund continues to build conviction position sizes. The importance of this was confirmed by strong Q1 trading from **Convatec**, a position the Fund which has increased from 64bps to 154bps year to date. Sales came in ahead of consensus whilst resilient trading demonstrates the underlying quality of this business.

With over 50% of the Fund's capital in stocks trading below their book value (versus 18% at the beginning of the year), we believe there remains significant potential to create meaningful value for investors. We remain confident that performance should improve through the second half of Q2 and could be materially better in the second half of the year.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	6.72	-27.07	-25.85	-2.69	85.96	7.21
Benchmark	8.64	-17.18	-14.76	7.60	66.61	4.78
Relative return ¹	-1.76	-11.94	-13.02	-9.57	11.62	2.32

Discrete 12 month performance (%):

	30.04.20	30.04.19	30.04.18	30.04.17	30.04.16
Fund	-25.85	-0.27	11.48	25.54	-5.98
Benchmark	-14.76	2.34	8.40	19.78	-4.99
Relative return ¹	-13.02	-2.54	2.85	4.81	-1.04

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 April 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	HSBC	0.48
2	Crest Nicholson	0.34
3	Royal Dutch Shell	0.28
4	Elementis	0.26
5	Barclays	0.24

Bottom five

Rank	Stock	Relative Return Contribution %
1	AstraZeneca*	-0.58
2	Aviva	-0.41
3	QinetiQ	-0.30
4	3i	-0.25
5	British American Tobacco*	-0.24

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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 March 2020 to 30 April 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.

