

JOHCM UK DYNAMIC FUND



UNDER THE BONNET



APRIL 2021 REVIEW

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INVESTMENT BACKGROUND

Equity markets continued to move higher in April buoyed by economic data showing an extraordinarily strong and synchronised global recovery. The flash US PMI composite output index reached its highest level since the series began in October 2009. In Europe, the flash PMI manufacturing output index hit its highest level since the series began in June 1997 and in the UK the flash composite PMI signalled the strongest increase in UK private sector output since November 2013.

Strong economic data and continued global supply chain disruptions put further upward pressure on inflation expectations, pushing commodity prices higher, but failing to lead bond yields any higher after sharp year-to-date gains. The yield on the US generic 10-year government bond closed down 11bps in April at 1.63%, providing a factor tailwind for growth stocks. The NASDAQ 100 total return index was the best performing major equity index in April, rising 5.9% in local currency terms.

STRATEGY UPDATE

The Fund underperformed the index in April, returning 1.86% versus a 3.43% return by its benchmark, the FTSE All-Share total return index (12pm adjusted). Underperformance came mainly from the share prices of some of the Fund's more idiosyncratic and larger positions which did not track the wider market gains. Nevertheless actual stock specific news flow for the Fund's holdings remained strong.

Shares in **DMGT** were broadly flat on the month but down relative to the Fund's benchmark. This came even as data continued to show very strong levels of housing transactions in the UK suggesting Landmark, DMGT's UK property business, could deliver meaningful earning upgrades for the Group.

**Barclays'** shares unwound two months of relative gains as management provided new cost guidance, reflecting higher staffing costs on expected strong revenue growth and one-off real estate restructuring costs. Consensus earnings estimates subsequently increased and, in early May, the shares retraced much of their decline.

The share price reaction to **ConvaTec's** update was more representative of the facts. Q1 2021 showed another strong period of operational performance, particularly in Wound Care, with revenue growth exceeding underlying market growth, demonstrating that the turnaround continues to build at pace. Its shares reached a new high for the period under new management, but closed flat year-to-date on a relative basis.

**IMI**, a newer position in the Fund, had an unscheduled update upgrading full year guidance by 7% and announcing a £200m buy-back as growth in both margins and revenues accelerated ahead of expectations as management's transformation plan began to deliver.

The transformation strategy at **BP** is also ahead of target with the \$35bn net debt target reached in the first quarter, a year earlier than expected, following disposal proceeds being at the top end of guidance range and strong business performance during the quarter. There was evidence **Pearson's** turnaround is off to a good start with a Q1 update re-iterating full year guidance and showing North American Courseware back in growth.

**Electrocomponents** reported it was trading at the top end of expectations following a continued strengthening in end markets and market share gain throughout Q4, leading to further consensus upgrades. **Travis Perkins** reported Q1 trading ahead of expectations with strength across the board including at Wickes, which was demerged during the period, leading to modest consensus upgrades.

**QinetiQ** full year results also came at the top end of consensus expectations on revenue, margins and cash flow. Despite this, the share price was reluctant to hold the 9% gains made on the day, closing flat relative to the benchmark on the month, and yet to reflect what has now been six months of strong trading and a good investor day.

A solid Q1 from **Man Group** was accompanied by a strong outlook statement for the full year. Whilst there were minimal upgrades, the margin of safety continues to build. In addition to a strong FY20, there is increasing evidence the strategy of positioning its systematic and quantitative products to provide long-term institutional solutions is directionally the right decision. A situation currently not reflected by its 10x P/E valuation.

Full year results from **Tesco** were slightly ahead of expectations, especially with regard to the dividend, but a subdued outlook statement left the new management some headroom for price investment as UK consumers returned to more normalised shopping habits. It may have been the threat of further UK food price deflation which weighed on **Morrisons** share price in April. Despite no stock specific news its shares declined to a 21-year relative low versus the FTSE All-share index. We wonder how much longer UK food prices can ignore some of the wider inflationary trends. A change here could lead to a significant change in valuation perceptions for the sector as a whole.

Finally, there were signs the valuation has fallen too low at **GlaxoSmithKline** with the news that Elliot Management have taken a significant multi-billion pound stake. We have long believed this company, particular the vaccines business within it, is undervalued by the market so this news does not surprise us.

## FUND PERFORMANCE

### JOHCM UK Dynamic Fund performance (%):

|                              | 1 month     | 3 months     | 1 year       | 5 years      | 10 years      | SI annualised |
|------------------------------|-------------|--------------|--------------|--------------|---------------|---------------|
| <b>Fund</b>                  | <b>1.86</b> | <b>13.16</b> | <b>34.25</b> | <b>38.95</b> | <b>115.25</b> | <b>9.10</b>   |
| Benchmark                    | 3.43        | 9.50         | 22.59        | 38.85        | 80.79         | 6.07          |
| Relative return <sup>1</sup> | -1.52       | 3.34         | 9.51         | 0.07         | 19.06         | 2.86          |

### Discrete 12 month performance (%):

|                              | 30.04.21     | 30.04.20      | 30.04.19     | 30.04.18     | 30.04.17     |
|------------------------------|--------------|---------------|--------------|--------------|--------------|
| <b>Fund</b>                  | <b>34.25</b> | <b>-25.85</b> | <b>-0.27</b> | <b>11.48</b> | <b>25.54</b> |
| Benchmark                    | 22.59        | -14.76        | 2.34         | 8.40         | 19.78        |
| Relative return <sup>1</sup> | 9.51         | -13.02        | -2.54        | 2.85         | 4.81         |

#### 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 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. <sup>1</sup>Geometric relative.

## ONE MONTH STOCK RELATIVE CONTRIBUTORS

### Top five

| Rank | Stock                     | Relative Return Contribution % |
|------|---------------------------|--------------------------------|
| 1    | Convatec                  | 0.32                           |
| 2    | 3i                        | 0.29                           |
| 3    | British American Tobacco* | 0.21                           |
| 4    | Royal Dutch Shell         | 0.19                           |
| 5    | Elementis                 | 0.19                           |

### Bottom five

| Rank | Stock      | Relative Return Contribution % |
|------|------------|--------------------------------|
| 1    | Barclays   | -0.38                          |
| 2    | Morrisons  | -0.31                          |
| 3    | DMGT       | -0.28                          |
| 4    | Melrose    | -0.14                          |
| 5    | Rio Tinto* | -0.14                          |

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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 2021 to 30 April 2021. \*Stock was not held during this period.



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