



November 2019

FOR PROFESSIONAL INVESTORS ONLY

Under the Bonnet

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INVESTMENT BACKGROUND

Sterling rallied through October in response to growing expectations of a renegotiated UK withdrawal agreement with the European Commission.

Whilst a deal was announced it failed to be agreed by parliament under the government's preferred timetable resulting in a further change to the Brexit deadline (31st January 2020) and a general election being called (12th December). This capped sterling's move at 5% against the dollar and just 3% against the euro.

UK bond yields staged a material recovery following the break in the Brexit deadlock, with yields rising by 14bps over the month to close at 0.63% for the UK 10-year gilt. Twelve months ago that same yield was 1.44%.

UK economic data in October signalled continuing weak conditions although perhaps resilient given the uncertain backdrop. There were minor contractions in manufacturing and services PMIs but construction data was poor (see SIG warning). Real wage data growth remained encouraging, nudging up to 1.96% in October. The Fund currently has a c. 40% exposure to UK revenues.

Trade talks re-started between China and the US leading to some optimism over the global growth outlook. Japanese and German yields rose by 8bps and 16bps respectively, although both still closed the month in negative territory. The JP Morgan global manufacturing PMI remained in slight contraction territory at 49.7.

STRATEGY UPDATE

It was an in line performance for the Fund with the NAV falling by 1.27% against the benchmark index fall of 1.28% (FTSE All-Share Total Return, 12pm adjusted). A somewhat disappointing performance given the performance of the FTSE 250 index (+0.6%, 16:30) where the Fund is overweight, which outperformed the FTSE 100 index (-1.9%, 16:30).

October was an extremely busy month for portfolio news flow with a more mixed set of financial performances after what has generally been a strong year to date.

On the negative side – or perhaps more pertinently on the *perceived* negative side – were releases from a subset of stocks accounting for c.10% of the Fund's capital. All experienced surprisingly large share price declines averaging c.11% and costing the Fund c. 110bps of relative performance.

Man Group marginally missed expectations on AUM causing a slight panic in what is often a volatile stock leading to a c. 15% fall in the shares – a slight overreaction in our view particularly given the company also announced a £100m cash return and reasonably strong performance fee generation for the year thus far.

Essentra shares fell on a slight revenue miss in the filters division albeit this should just be a timing issue, with a reversal expected in Q4, whilst there was good progress on strategic initiatives with a new multi-year outsourcing contract within the division.

Moneysupermarket announced an in line statement although the mix was more negative. Stock Spirits' numbers were reasonably good but the shares fell on previously well-flagged excise duty increases. Hunting had a predictably tough quarter (the shares had been predicting this for a while) in a challenged US onshore environment

SIG warned on FY profits due to the extremely tough UK construction environment although concluded two asset sales, leaving the balance sheet in a net cash position.

Crest Nicholson also warned although this had as much to do with a change of strategy from the new CEO, which we support, as it did to any material degradation in external conditions.

On balance we feel most of these statements were fine or explicable and that the share price reactions were overly negative and will recover in time. Only Moneysupermarket and Essentra warrant a little more consideration as we approach year-end. Both positions have been slightly reduced (both prior to their trading statements and not yet rebuilt we might add).

On the positive side, QinetiQ was the best performer after announcing the US\$135m acquisition of a US defence services business involved in sensor solutions called MTEQ. The move is consistent with strategy and offers further growth opportunities in the US and in military robotics.

Barclays delivered a reasonably strong Q3 with a strong return on tangible equity (RoTE) performance and the much discussed investment bank performing well along with a good UK margin performance. Messaging around capital generation was encouragingly consistent with a 9p dividend.

Electrocomponents shares performed well after a very resilient Q2 update. Organic revenue growth picked up materially in the Americas, a key focus for the company, from 0% in Q1 to 7% in Q2. The company seems to be taking market share in all regions, which is testament to the strong management and strategy. The shares have seen no EPS downgrades in the last year despite the weak external environment and shares are almost back to where they were pre the Q4 2018 industrials sell-off, which is impressive.

'Under the Bonnet' is currently undergoing some format changes which are currently in transition. We hope to be issuing a new monthly format next month.

JOHCM UK Dynamic Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	31.10.19	31.10.18	31.10.17	31.10.16	31.10.15
A GBP Class	5.92	-2.00	20.00	14.62	2.09
Benchmark	6.78	-1.34	13.29	12.19	3.09
Relative return	-0.80	-0.67	5.92	2.16	-0.97

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 October 2019. 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). Relative return calculated on a geometric basis. 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 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 ICB. 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.