JOHCM UK DYNAMIC FUND

UNDER THE BONNET

Q1 2022 REVIEW

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INVESTMENT BACKGROUND

Q1 2022 was a sad start to the year and nobody was ready for it after the turmoil the world had seen in 2020 and 2021. The conflict in Ukraine marks a before and after moment in our lives much as Covid did and we are deeply saddened by the suffering experienced by the people in Ukraine. We hope and pray for a quick and peaceful resolution.

From a financial markets perspective, the sentiment coming into 2022 was already dominated by commodity prices, supply bottle necks and interest rates. This narrative shifted into overdrive as the conflict unfolded, with energy, materials and bond yields experiencing a steep increase during the quarter. Rising commodity prices converged with supply bottlenecks and robust demand to push up consumer prices, triggering successive 25bps rate hikes by the Bank of England, bringing the base rate to 0.75%.

At a sector level, investors' defensive stance also led to strong performance in healthcare, defence and utilities, while consumer discretionary and industrials performed poorly. The market's risk-off mode was further reflected in the FTSE 100's performance vs FTSE 250 (+2.9% vs -9.5%). The cumulative effect of these events meant that market narratives shifted towards stagflation scenarios, with parallels being drawn to the 1970s.

We believe that it is prudent to acknowledge the increased risk of stagflation due to recent events but equally recognise that it is far from being a certain and linear outcome. The added complexities of the Ukraine situation make it extremely difficult to predict future inflation and growth outcomes at this point in time. In such a complex and often unpredictable world, what do we think is the best way to generate sustainable investment returns?

As ever, we believe strategic idiosyncratic change where hidden value can be unlocked through management actions offer greater visibility and predictability over the long term than predicting the next macro event. We will therefore continue to focus on the core investment process of backing business transformations whilst leaving market timing and macro prediction to other participants.

STRATEGY UPDATE

The Fund's performance in the context of all that transpired in Q1 2022 was pleasing. Despite being underweight materials, energy, healthcare and utilities (the four best performing sectors), the Fund finished the quarter with an absolute return of 113bps and a relative underperformance of only 3bps.

Fleshing this out further, the Fund faced a cumulative headwind of -202bps from three factors that served to work against performance in the quarter.

1. Underweight Tobacco (-48 bps) – Effectively excluded from Fund's investment process;
2. Underweight AstraZeneca (-100 bps) – Not currently core to the investment process;
3. Inability to trade Cazoo (-54 bps) – Shares were received as part of the DMGT takeover and are still within a trade lock-in.

The Fund faced a further performance headwind (-57 bps) from its overweight position in BP and underweight in Shell. BP's stake in Rosneft was promptly written down by the market following the invasion. Coming into the year our position sizes reflected our view of their respective ambition and progress in the energy transition.

We have written and talked about our recent actions to high-grade the portfolio. This led to a switch from a relative to absolute focus leading to a shrinking of the portfolio with capital concentrated in our highest conviction names. While we continue to sharpen this focus, the portfolio's relative performance during what was an extremely volatile quarter was a reassuring demonstration of the value of this exercise in increasing the quality of the portfolio. During the quarter, only 15 out of 40 stocks (37%) held in the fund delivered a positive relative return but those 15 names accounted for 55% of the Fund's capital.

Some of the Fund's most idiosyncratic names came through with a strong performance in Q1, particularly Pearson, QinetiQ and ConvaTec, which delivered a combined 179bps of outperformance. As discussed previously, these 3 names were the Fund's biggest detractors in H2 2021. Following very positive meetings with the respective management teams, we came away with increased conviction and increased our position size.

Pearson rallied on news that they had received three offers from Apollo capital for 800p, 854p and 870p, representing roughly 23%, 31% and 34% premium to the 650p base price on 10 March, prior to the announcement. All three offers were unanimously rejected by the board. All too often, boards have been happy to take companies private at the expense of shareholders and it was pleasing to see the board back the strategy to transform Pearson into a DTC EdTech platform and bat away undervalued bids. We view these bids as opportunistic and applaud the Pearson board for doing the right thing.

The company also posted very positive full-year results where they beat analyst expectations despite a historic decline in enrolments following the Delta variant outbreak in the US in 2021. We recently conducted deep dive sessions with all the divisional heads of Pearson and came away with a firmer conviction that the market fails to understand the underlying quality and value of the various divisions in Pearson.

ConvaTec had underperformed in the last two quarters over fears of a margin reset due to inflationary pressures. These fears were allayed by the management team during their full-year results call where yet again the company beat expectations on organic growth. The company has undergone an impressive turnaround and while there is more to do, we are pleased with the progress seen thus far from ConvaTec. Despite having no new product launches, they have gone from underperforming their sector by 200bps to outperforming it by 50-100bps. Given eight new and innovative product releases due in the next 30 months, there is much to look forward to here.

QinetiQ shares rallied materially after the markets took a more favourable view of the defence sector following Russia's invasion of Ukraine. We believe there is a good chance the sector is set to benefit from increased defence budgets in the years to come and it is worth noting that we have already seen Germany and Estonia commit to a 50 bps increase in budgets to 2% and 2.5% of GDP. We believe recent events may even prompt ESG funds to re-evaluate their view of the sector favourably.

Anglo American had a strong quarter delivering 115 bps of outperformance following material moves in underlying commodity prices, in particular platinum group metals where Russia accounts for 30% of global supply. A very satisfactory performance outcome when we consider that Anglo American's performance helped the Fund outperform the basic materials sector despite being 242bps underweight. We will take these wins when we get them without losing focus on the core process.

Aviva, another high conviction position also delivered a strong Q1 with +61 bps outperformance. This was helped by the swift execution of the first leg of the strategy to dispose of non-core assets, return excess capital and improve the core business. The share price was also helped by an increase in bond yields which are very value accretive to insurers over the long term.

The notable detractors this quarter were Barclays (-69bps), Crest Nicholson (-52bps) and ITV (-71bps).

Barclays shares fell sharply over news of an operational misstep in which it faces a £450mn cost, a delay to its share buyback plan and scrutiny from regulators after the bank mistakenly issued $15bn-worth of financial products over and above its permissions. We believe the share price weakness also reflects the market's dampening expectations for its investment banking division. While we await an evaluation of the new CEO C. S. Venkatakrishnan and his strategy for the company, the shares trade at 5.5x 2022 earnings in a rising interest rate environment.

Crest Nicholson shares fell along with the rest of the housing sector despite a robust trading performance as the market continued to focus on the materiality of the cladding issue. The company announced last week that it expects a charge in the region of £80m – £120m of further liability, hopefully marking a line in the sand moment for the company.

ITV shares fell after announcing plans to increase investment to achieve an ambitious goal at least doubling its digital revenues to £750m by 2026 via creation of a new streaming platform ITVx. This led to diminished earnings outlook for 2022 and 2023 leading to a sharp decline in the share price. Going into the results, the shares were trading at a mere 7x 2022 earnings with a very healthy balance sheet which gives them the strategic option either to acquire Channel 4 or to buy back equity. The shares now trade at 6x 2022 earnings which suggests the market has little to no expectation of a return from the investments being made to accelerate digital advertising growth. We find this reaction to be reflective of excessive pessimism and have bought into the share-price weakness.

Finally, the Fund's only meaningful revenue exposure to Russia came through Hyve Group. We had been scaling the position down following the AGM where we thought management should focus on organic growth before pursuing M&A having not recovered from the pandemic. As a result, the position coming into the latter half of February was small. Despite a sharp derating in the share price following the invasion, performance impact was limited to -5bps for the quarter. Subsequently the position was sold in its entirety.

OUTLOOK

As we have stated previously, a macro focused market isn't the most favourable environment to this Fund's process. It typically only serves to distract the market from the good underlying strategic actions of the Fund's portfolio companies. Given recent events and uncertainty, we expect this speculative macro focus to persist in the near term.

A clearer picture may emerge as corporate trading statements start rolling in to help shift the narrative away from uncertain speculation.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	**2.32**	**1.13**	**11.42**	**21.58**	**135.47**	**9.18**
Benchmark	2.73	1.16	13.03	26.49	100.31	6.33
Relative return[1]	-0.40	-0.03	-1.42	-3.89	17.55	2.67

Discrete 12 month performance (%):

	31.03.22	31.03.21	31.03.20	31.03.19	31.03.18
Fund	**11.42**	**40.66**	**-27.03**	**1.99**	**4.24**
Benchmark	13.03	28.76	-19.06	5.93	1.36
Relative return[1]	-1.42	9.24	-9.85	-3.72	2.84

Past performance is not necessarily a guide to future performance. The value of an investment can go down as well as up and investors may not get back the amount invested. For further information on risks please refer to the Fund's KIID and/or the Prospectus.

Source: JOHCM/Bloomberg/FTSE International. NAV of share class A in GBP, net income reinvested, net of fees, as at 31 March 2022. 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. [1]Geometric relative.

ONE MONTH STOCK RELATIVE CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	Convatec	0.83
2	Pearson	0.58
3	Man Group	0.36
4	Aviva	0.30
5	Anglo American	0.24

Bottom five

Rank	Stock	Relative Return Contribution %
1	ITV	-0.73
2	Barclays	-0.64
3	AstraZeneca*	-0.61
4	Glencore*	-0.28
5	Rio Tinto*	-0.27

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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 28 February 2022 to 31 March 2022. *Stock was not held during this period.

Q1 2022 STOCK CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	Anglo American	1.15
2	Pearson	0.79
3	Convatec	0.57
4	Aviva	0.45
5	QinetiQ	0.44

Bottom five

Rank	Stock	Relative Return Contribution %
1	AstraZeneca*	-1.00
2	Shell	-0.86
3	ITV	-0.71
4	Rio Tinto*	-0.69
5	Barclays	-0.69

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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 2021 to 31 March 2022.

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