

JOHCM UK DYNAMIC FUND



UNDER THE BONNET



MAY 2021 REVIEW

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INVESTMENT BACKGROUND

Global equity markets were initially sent lower in May triggered by investor concerns of rising inflation following April's US Consumer Price Index (CPI) reaching a post Global Financial Crisis high. Whilst global central banks communicated price rises were only transitory, investor opinion remained divided. Markets took solace in further record-breaking economic data that demonstrated inflation was not yet impacting growth. Flash composite PMI data from the US and UK showed output growth hitting series and two-decade highs, respectively, and demand growth reached a 15-year high in the eurozone. Most major equity indices, in domestic currency and total return terms, ended May higher with the only notable exception being the NASDAQ 100, as valuations of growth companies continued to de-rate.

STRATEGY UPDATE

The Fund outperformed the index in May, returning 3.59% versus a 1.74% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted). Outperformance was solely attributed to stock selection, with increasing signs the market is beginning to recognise the undervaluation of some of the Fund's holdings aided, in part, by another period of strong earnings updates.

An example was news of a possible offer from Blackstone for **St Modwen Properties** (since confirmed) at a 21% premium to the previous day's share price. This is the third property asset of the Fund to be bid for in seven months. We believe the current offer price of 542p per share does not fairly reflect the long-term optionality within the group's businesses and land bank, built up over many years. Current average analyst forecasts of net tangible assets, adjusted for the recent trading statement and projected one-year forward, suggest there is little to no premium being offered for these assets.

QinetiQ shares regained their recent relative highs against the Fund's benchmark following full-year results that demonstrated strong momentum across a number of metrics, including orders (the highest in a decade), revenues (+10% organic), profitability and cashflow. Despite being the fifth year of consecutive revenue growth, management guiding to mid-single-digit organic growth, upgrading the addressable market by £5bn to £20bn and increasing balance sheet optionality, the shares remain at an undemanding valuation of just c. 13x (ex cash) FY22 PE.

Convatec's share price demonstrated how quickly things can change with a further 7% rise relative to the benchmark reflecting last month's strong Q1 trading and continued industry commentary on the bounce back in elective surgeries globally. Likewise, **Crest Nicholson's** share price continued to climb back towards pre-Covid levels buoyed by further strong housing price data and news that management had released £45m of capital to accelerate existing growth plans following the disposal of land at Long Cross Garden Village.

Interims from **DMGT** demonstrated strong recovery in trading momentum within the Property and Consumer divisions setting earnings up to significantly beat analyst forecasts for the full year. Whilst management provided only conservative outlook guidance, three analysts subsequently upgraded FY21 earnings by 12-22%. Quite remarkably the shares remained near unchanged over the month and continue to suggest a valuation of zero is being attributed to DMGT's stake in Cazoo if a sum-of-the-parts methodology is used to value the whole Group.

Euromoney's interims also delivered upgrades to analyst numbers through continued underlying growth in subscriptions and good cost control. The momentum in the business suggests earnings could continue to beat analyst expectations with the quality and margin of those earnings also set to grow.

ITV's Q1 statement did not disappoint already high expectations. Guidance for Q2 total advertising revenue was raised to +80%, meaning no growth is needed in H2 to reach analyst expectations despite being a period that will include the European Football Championships and a slate of new shows.

Electrocomponents' full-year results saw analysts already making upgrades to FY22 and FY23 earnings on evidence of strong trading momentum and, importantly, significant market share gains. The shares ended down 8% versus the benchmark as growth stocks continued to de-rate globally. Full-year results at **3i Group** saw the NAV increase 18% year-on-year driven predominantly by improving operating performance across the whole portfolio. If markets remain buoyant, there could be scope for significant cash returns to shareholders if asset disposals increase.

Offsetting this, **Vodafone's** shares unwound all their relative gains for the year as the market was sceptical of announced plans to raise capex spend in order to accelerate growth.

Finally, the Fund exited its position in **The Restaurant Group** after five years as the shares continued to bounce back strongly in anticipation of the UK economy fully re-opening, resulting in a now greatly diminished risk reward for investors. Whilst the impact of Covid-19 meant the investment case never played out as we hoped, backing both the share placings last year proved to be the right decision as they led to significant value being recovered. Additionally, although the Wagamama acquisition was a contentious acquisition at the time, it proved to be one of the few winning brands in the UK restaurant industry throughout the pandemic.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	3.59	10.90	36.90	43.55	122.40	9.34
Benchmark	1.74	9.15	22.07	40.41	84.79	6.17
Relative return ¹	1.82	1.60	12.14	2.24	20.36	2.98

Discrete 12 month performance (%):

	31.05.21	31.05.20	31.05.19	31.05.18	31.05.17
Fund	36.90	-22.23	-5.94	9.66	30.71
Benchmark	22.07	-10.02	-3.52	6.41	24.51
Relative return ¹	12.14	-13.57	-2.51	3.06	4.98

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 31 May 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. ¹Geometric relative.

ONE MONTH STOCK RELATIVE CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	St. Modwen Properties	0.94
2	Convatec	0.34
3	Crest Nicholson	0.22
4	QinetiQ	0.18
5	ITV	0.13

Bottom five

Rank	Stock	Relative Return Contribution %
1	Electrocomponents	-0.24
2	Vodafone	-0.21
3	3i	-0.19
4	AstraZeneca*	-0.14
5	Lloyds*	-0.12

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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 30 April 2021 to 31 May 2021. *Stock was not held during this period.



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