

JOHCM UK DYNAMIC FUND



UNDER THE BONNET



Alex Savvides, Senior Fund Manager

FEBRUARY 2021 REVIEW

Tom Matthews, Analyst

INVESTMENT BACKGROUND

World equity markets moved higher in February with the MSCI World total return index hitting a new all-time high in both US dollar and sterling terms. Investor confidence grew as Covid-19 vaccination roll-outs accelerated globally and real-world studies confirmed the efficacy exhibited in trial data. The UK's roll-out continued to be leading amongst the top 20 global economies with 17.2m people receiving their first dose of the vaccination as at 28 February. Sterling strengthened further reaching a near three-year high versus the US dollar and a one-year high versus the euro. The MSCI UK index posted its best six month relative performance versus the World in US dollar terms in a decade, according to analysis from Morgan Stanley*.

Growing investor confidence in the global recovery pushed inflation expectations higher leading to a sharp rise in global bond yields (.YLD12) erasing nearly all their declines in 2020. Commodity prices also pushed higher led by oil where the move was exacerbated by multi-decade low temperatures in Texas which impacted the supply chain.

*UK Equity Strategy: Monthly Data Gallery – Morgan Stanley (5 March 2021)

STRATEGY UPDATE

The Fund outperformed the index in February, returning 5.70% versus a 2.06% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted). This was the Fund's best February since inception and, pleasingly, performance was driven almost entirely by stock selection with major announcements from some of the Fund's highest conviction positions.

Aggreko announced it was in discussions with a private equity consortium over an 880p all-cash offer (since confirmed) at a c.39% premium to the share price at the time. We have written many times that the market fundamentally undervalues Aggreko and, whilst the offer is a welcome confirmation of this thesis, we view it as opportunistic. The price significantly undervalues what is the global leader in temporary power solutions whose services are inextricably linked to achieving many of the targets within UN Sustainable Development Goal 7 (and more broadly the targets in Goal 13). It derives over 30% of its revenues from North America in predominantly cyclical sectors and has seen its net debt position fall by £204m in the last year (equivalent to c.15% of the market capitalised equity at the time of the bid) with net debt/EBITDA on track to reach the targeted 0.5x next year.

There was also further hidden value being outed at **DMGT**, the Fund's largest active position. Shares were up 26% at one point following the announced sale of the edtech business, Hobsons, at a price more than double analyst expectations plus the leaked news that Cazoo may IPO later this year, potentially via a US special purpose acquisition company, at a suggested value of £5-6bn. We have written before of how the share price undervalued DMGT's c.20% stake in Cazoo. Quite remarkably, if the £6bn valuation is achieved then this would mean the current share price implies a c.4x FY19 EV/EBIT for the remainder of DMGT which includes the world's leading insurance software company (RMS), two leading property data companies in the US and UK (Trepp and Landmark), the MailOnline, The Daily Mail, a number of leading events businesses and further stakes in venture and associate including 45% of Yopa, the PurpleBricks rival.

Although the effects of lockdowns led to further downgrades at **Moneysupermarket**, the market was impressed by the new CEO (ex-Just Eat CEO) who outlined a comprehensive growth strategy which built on the company's existing differentiated capabilities and, importantly, required no increased investment.

Full year results from **Jupiter** came in ahead of analyst expectations with upgrades driven by performance fees and, importantly, management fees. There was also a return to special dividends reflecting the highly cash generative nature of this business.

There were further upgrades at **Anglo American's** full year results which, although benefitting significantly from rises in raw material spot prices, demonstrated the benefits of management's continued focus on end markets with structural growth potential and disciplined capital allocation.

Full year results from **Barclays** surprised some with their cautious outlook on the consumer business but good capital generation continued and, with an accompanying commitment to buybacks whilst being a big beneficiary of rising bond yields, shares were strong over the period.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	5.70	10.66	2.60	36.43	103.95	8.65
Benchmark	2.06	4.51	4.41	34.50	72.39	5.57
Relative return ¹	3.56	5.89	-1.74	1.44	18.31	2.92

Discrete 12 month performance (%):

	28.02.21	29.02.20	28.02.19	28.02.18	28.02.17
Fund	2.60	-3.71	-1.59	8.81	28.97
Benchmark	4.41	-1.20	0.93	4.96	23.09
Relative return ¹	-1.74	-2.54	-2.49	3.67	4.78

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 28 February 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	Aggreko	0.73
2	DMGT	0.72
3	Barclays	0.58
4	Anglo American	0.47
5	Unilever	0.47

Bottom five

Rank	Stock	Relative Return Contribution %
1	Convatec	-0.30
2	Morrisons	-0.26
3	Prudential*	-0.26
4	Rio Tinto*	-0.25
5	BHP*	-0.21

Past performance is not necessarily a guide to future performance

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 January 2021 to 28 February 2021. *Stock was not held during this period.

Source: JOHCM/Bloomberg unless otherwise stated. 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. Issued and approved in the UK by J O Hambro Capital Management Limited ("JOHCML") which is authorised and regulated by the Financial Conduct Authority. Registered office: Level 3, 1 St James's Market, London SW1Y 4AH. Issued in the European Union by JOHCM Funds (Ireland) Limited ("JOHCMI") which is authorised by the Central Bank of Ireland. Registered office: Riverside One, Sir John Rogerson's Quay, Dublin 2, Ireland. JOHCM® is a registered trademark of J O Hambro Capital Management Ltd. J O Hambro® is a registered trademark of Barnham Broom Ltd. Registered in England and Wales under No: 2176004.