



UNDER THE BONNET



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JANUARY 2021 REVIEW

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INVESTMENT BACKGROUND

World equity markets were broadly unchanged in January as exuberance over COVID-19 vaccine roll-outs was tempered by emerging geographic differences and concerns for reduced efficacy in light of new mutant strains of the virus.

Inflation expectations climbed further as the Democrats won control of the US Senate, increasing chances incoming President Biden would fully implement his fiscal led stimulus agenda. US 5-year inflation expectations hit two-year highs and global bond yields reached their highest level since March 2020.

STRATEGY UPDATE

The Fund outperformed the index in January, returning 0.13% versus a -0.44% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted). Performance was predominantly driven by stock selection, with a number of positive updates from some of the Fund's higher conviction positions.

Pearson, quite remarkably, is the most shorted stock in the FTSE All-Share index, which meant much of its outperformance in the month came from the technical effect of short interest unwinding post the GameStop saga in the US. However, this masked the shares being up 8% versus the benchmark on the day of Q4 results following no further downgrades and +30% organic growth in Global Online Learning, ahead of expectations. An important first step in the new CEO's turnaround plan.

Centrica's Q4 update also showed resilience with earnings ahead of expectations, albeit largely driven by strong energy trading, leading net debt to be at the lower end of expectations. With natural gas prices remaining elevated and the turnaround showing signs of having stabilised operational performance, earnings look well positioned entering 2021.

Shares at **Ricardo** ended the month up 14% versus benchmark. Initially this was driven by the announcement of a strategic collaboration with AFC Energy on new fuel cell solutions but, latterly and of more importance, was a trading update which was in line with the board's expectations and showed strategic change is afoot, with the initiation of a succession plan for the CEO of 16 years. This is a landmark moment not just for the company but for this Fund, having actively pushed the board for a change in strategy over the last year.

Q1 results from **DMGT** demonstrated the attractions of its balanced portfolio with exhibition revenue declines offset by strength in property services. Of more note was the 16x EBITDA valuation achieved by Ascential on its disposal of its UK property business, Groundsure. Groundsure has been losing market share to the clear market leader, Landmark, owned by DMGT, which is currently valued by most analysts in their sum-of-the parts at closer to 10x EV/EBITDA. Evidence once more of the hidden value within DMGT.

Full-year results from **Crest Nicholson** showed further progress in the turnaround, with earnings at the top end of guidance and continued transformation of the balance sheet from £93m net debt at H1 to £142m net cash. Likewise, the turnaround at **PZ Cussons** showed signs it was accelerating, with strong revenue growth resulting in margin progression and excess cash generation despite significant investment in the period. There were also Q3 statements from **3i**, where NAV continued to grow despite lockdowns and foreign exchange headwinds, **Morrison Supermarkets**, where strong like-for-like sales offset additional COVID-19 related costs; and **QinetiQ**, where there was continued strong trading momentum across the business.

Offsetting all this was weak outlook commentary accompanying **Wood's** full year results as COVID-19 continued to make the timing of customer project spend uncertain. This led to some marked downgrades for the full year from analysts. The Fund has exited its position as it continues to focus the portfolio on higher conviction holdings. The capital was allocated to **Centrica, Ricardo and Aggreko**.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	0.13	26.89	-13.48	32.32	95.66	8.22
Benchmark	-0.44	17.13	-7.28	34.17	72.85	5.43
Relative return ¹	0.57	8.33	-6.68	-1.37	13.20	2.65

Discrete 12 month performance (%):

	31.01.21	31.01.20	31.01.19	31.01.18	31.01.17
Fund	-13.48	8.55	-4.31	13.87	29.30
Benchmark	-7.28	10.81	-4.03	11.12	22.46
Relative return ¹	-6.68	-2.04	-0.29	2.48	5.59

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 January 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 CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	Pearson	0.39
2	Centrica	0.24
3	Prudential*	0.20
4	DMGT	0.19
5	Aviva	0.15

Bottom five

Rank	Stock	Relative Return Contribution %
1	Barclays	-0.28
2	3i	-0.15
3	Provident Financial	-0.14
4	AstraZeneca*	-0.14
5	QinetiQ	-0.13

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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 2020 to 31 January 2021. *Stock was not held during this period.

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