

JOHCM UK DYNAMIC FUND



UNDER THE BONNET



Alex Savvides, Senior Fund Manager

JANUARY 2020 REVIEW

Tom Matthews, Analyst

INVESTMENT BACKGROUND

Despite US-Iran tensions global equity markets initially moved higher in January on signs of a continued pick-up in global growth, reflected in JP Morgan's Global PMI composite output index reaching an 8-month high. The coronavirus outbreak then reversed market gains as fears of a global slowdown returned and investor sentiment turned defensive. The FTSE World Total Return index closed down 0.6% and global bond yields fell. The yield on the US generic 10-year Treasury ended just 15bps off its all-time low. This provided a further boost to global growth stocks, with the NASDAQ 100 making new all-time highs. Commodity prices also fell. Oil was particularly affected as the US-Iran tensions later abated.

In the UK, backward-looking data (Q4 GDP and UK retail sales figures) pre-dating December's general election showed a weakening economy, but forward-looking data (the Nationwide House price index and UK mortgage approvals) increasingly revealed an uptick in confidence. Indeed, the IHS Markit/CIPS flash UK composite PMI index reached a 16-month high. Despite this, market sentiment was dominated by commentary from the Bank of England about the potential need for a rate cut and headlines associated with the initial stages of the UK's trade negotiations with both the US and EU. The FTSE All-Share and FTSE 250 total return indices closed down 3.2% and 3.3% respectively. Sterling was broadly unchanged.

STRATEGY UPDATE

The Fund underperformed the index in January, returning -4.66% versus a -2.84% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted). This underperformance was caused by a mix of stock selection and allocation.

Housebuilding was one of the few UK domestic sectors to see share prices react positively to the strengthening in macro data. **Crest Nicholson** rose 16% after full-year results showed no cut to the dividend (7.5% yield at the time) and new management presented a clear and credible strategic approach to rebuilding margins and dividend cover. **Urban & Civic's** shares also responded positively. However, both gains were more than offset by a 21% collapse in **The Restaurant Group's** share price. Despite being a UK domestic stock, it suffered an unwind of its previous month's gains, with the share price reacting badly to some recommendation and earnings downgrades from analysts returning after the Christmas break. **Morrisons**, another of the Fund's UK domestic holdings, saw its share price fall 9% in spite of Christmas trading coming ahead of analysts' expectations and reconfirming the current consensus earnings forecast range. Analysts were more concerned about management commentary regarding continued price deflation.

3i, the Fund's largest active position, performed well against the benchmark following a Q3 update that showed continued strong performance from Action, asset realisations and investments ahead of analyst expectations and a 7.6% increase in NAV over nine months.

Disappointingly, there was another profit warning from UK domestic construction supplier **SIG**. Trading continued to be impacted by the marked slowdown in the sector plus some self-inflicted issues associated with its organisational restructuring. SIG is currently only a 75bp active position for the Fund. **Elementis**, one of the Fund's most cyclical holdings, also saw further earnings downgrades in line with many chemicals sector peers, exacerbated by a balance sheet that remains geared at 2.8x net-debt/EBITDA following the acquisition of Mondo just over a year ago. The Fund had already been reducing its holding to c. 100bps active.

Shares in **Hunting** fell 27% in reaction to the falling oil price despite trading at 0.55x price/book and having a net cash balance sheet. Shares in **Hammerson** fell 24% on no news other than an already bearish analyst downgrading their price target despite the shares trading at 0.35x price/book. It would appear there is currently no value in Value in this market.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	-4.66	1.17	8.55	42.30	174.28	10.33
Benchmark	-2.84	2.52	10.81	35.55	120.33	6.60
Relative return ¹	-1.88	-1.32	-2.04	4.98	24.48	3.49

Discrete 12 month performance (%):

	31.01.20	31.01.19	31.01.18	31.01.17	31.01.16
Fund	8.55	-4.31	13.87	29.30	-6.96
Benchmark	10.81	-4.03	11.12	22.46	-6.33
Relative return ¹	-2.04	-0.29	2.48	5.59	-0.68

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 2020. 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. Inception date: 16 June 2008. ¹Geometric relative.

STOCK CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	Crest Nicholson	0.25
2	Royal Dutch Shell	0.24
3	Urban & Civic	0.17
4	3i	0.16
5	Chemring	0.12

Bottom five

Rank	Stock	Relative Return Contribution %
1	Restaurant Group	-0.46
2	Elementis	-0.31
3	SIG	-0.25
4	Hunting	-0.24
5	Hammerson	-0.22

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 December 2019 to 31 January 2020.



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 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. 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.

