

JOHCM UK DYNAMIC FUND



UNDER THE BONNET



Q2 2021 REVIEW

Alex Savvides, Senior Fund Manager

Tom Matthews, Analyst

INVESTMENT BACKGROUND

Global equity markets paused for breath in June having pushed higher over the second quarter, as investors computed PMIs rolling-over from record highs and new projections from the US Federal Reserve that showed the next rate rise would be a year earlier than expected. Previously heightened expectations of inflation began to unwind, leading bond yields lower. Growth stock valuations were beneficiaries of these conditions, causing the S&P 500 and NASDAQ 100 to be the only major global indices to reach new all-time highs in June.

In the UK, equity valuations dispersions remain marked. Analysis from Morgan Stanley shows that outside of the COVID-affected last 14 months, valuation dispersions for the last 20 years have only reached their current level in the days immediately after the EU referendum.

STRATEGY UPDATE

In June, the Fund returned -0.18% versus a -0.13% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted), delivering a slight outperformance for Q2 as a whole with a return of 5.32% versus a 5.09% by the benchmark. In light of the technical macro headwinds in June, it is pleasing to deliver a third consecutive quarter of outperformance, with the Fund continuing to demonstrate idiosyncratic value generation.

In our Q3 2020 investor presentation, we spoke of the likelihood of increased M&A in the UK given the arbitrage between corporate bond yields and earnings yields. Since then, the Fund has received confirmed approaches for seven of its companies out of a portfolio that now stands at just 40 holdings. This is a level of corporate activity that is unprecedented in the history of the Fund and demonstrates quite how marked valuation discounts have become in some UK equities.

Four of the bid approaches occurred in Q2. Whilst two, **Ultra Electronics** and **Elementis**, amounted to no offers being recommended by their respective boards, an offer for **St Modwen Properties** was accepted, with the offer price subsequently raised by 3.3% (equating to a 25% premium on the closing share price prior to the day of the bid), arguably due to successful shareholder engagement led by the Fund.

**Wm Morrison Supermarkets** is currently the subject of a bidding war between private equity firms, with the board most recently accepting an offer of 254p (a 43% premium to the undisturbed share price). This Fund has publicly stated it believes a price approaching 270p should be considered given the appeal of this vertically integrated and differentiated business. Since backing management's transformation strategy in 2015, the Fund has long preached the virtues of Morrisons' robust and resilient business model. This model has enabled it to build a growing reputation in attractive, high growth areas such as convenience, wholesale, non-food retailing and forecourt retailing. As such, this Fund believes Morrisons could prove to be an attractive asset to a number of suitors and, despite recent press commentary, has allowed the position size to increase from c. 350bps to over 400bps, broadly in-line with the share price rise, with the exception being some very modest selling for normal portfolio construction and risk reasons.

It is worth noting that St Modwen and Morrison were both top 20 holdings of the Fund that had underperformed the benchmark in Q1. As at the end Q2, one third of the Fund's holdings are still yet to deliver a positive return versus the benchmark year-to-date, including seven of the Fund's top 20 positions, representing what we believe is latent potential for positive returns for this Fund.

M&A was not the only driver of differentiated returns for the Fund in Q2, with a number of portfolio holdings seeing their share prices increase following strong operational updates. **Convatec**, another of the Fund's top 20 holdings that underperformed in Q1, saw its shares rise from near 12-month relative lows to 10-month relative highs. This followed a Q1 update that showed another strong period of operational performance, particularly in Wound Care, with revenue growth exceeding underlying market growth, demonstrating the turnaround continues to build at pace.

Likewise, **IMI**, a newer position in the Fund, saw its share price increase 23% relative to the benchmark over the quarter following its unscheduled Q1 update. Full-year guidance was upgraded by 7% and a £200m buy-back announced as growth in both margins and revenues accelerated ahead of expectations as management's transformation plan began to deliver.

Shares at **Man Group** continued to outperform following a Q1 update accompanied by a strong outlook statement. A number of upgrades from analysts followed as they subsequently marked-to-market increases in outperformance and AUM of underlying funds throughout June. Evidence of the appeal of this differentiated set of systematic and quantitative products.

There was also continued collective outperformance through Q2 for the Fund's consumer discretionary holdings, the Fund's largest sector overweight. This demonstrates the diversity of business models and operating momentum within this holding, especially in the face of June, a month where more cyclical businesses saw their share prices underperform (**Crest Nicholson**, **ITV**, **Aston Martin**). Outperformance in June came from a bounce back in the shares of **DMGT**, as they began to reflect the magnitude of analyst earnings upgrades at interims the previous month. There was also continued share price strength at **Pearson** and even **WPP** and **Travis Perkins**, holdings typically perceived as cyclical. Travis Perkins had an unscheduled Q2 trading update that came in significantly ahead of already high analyst expectations. With proceeds soon to be received from the sale of Plumbing and Heating, there is now visibility of a buyback programme - a marked change in the market's perception of this company from just 12 months ago.

## FUND PERFORMANCE

### JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
<b>Fund</b>	<b>-0.18</b>	<b>5.32</b>	<b>36.30</b>	<b>46.62</b>	<b>126.46</b>	<b>9.26</b>
Benchmark	-0.13	5.09	21.04	39.77	87.39	6.12
Relative return <sup>1</sup>	-0.05	0.22	12.60	4.90	20.85	2.96

### Discrete 12 month performance (%):

	30.06.21	30.06.20	30.06.19	30.06.18	30.06.17
<b>Fund</b>	<b>36.30</b>	<b>-24.00</b>	<b>-3.40</b>	<b>11.39</b>	<b>31.53</b>
Benchmark	21.04	-12.56	0.14	8.66	21.37
Relative return <sup>1</sup>	12.60	-13.07	-3.53	2.51	8.37

#### 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 30 June 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. <sup>1</sup>Geometric relative.

## ONE MONTH STOCK RELATIVE CONTRIBUTORS

Top five			Bottom five		
Rank	Stock	Relative Return Contribution %	Rank	Stock	Relative Return Contribution %
1	Morrisons	1.25	1	AstraZeneca*	-0.34
2	DMGT	0.43	2	Anglo American	-0.29
3	HSBC	0.17	3	Barclays	-0.24
4	Prudential*	0.14	4	Melrose	-0.23
5	Electrocomponents	0.13	5	Crest Nicholson	-0.18

#### 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 May 2021 to 30 June 2021. \*Stock was not held during this period.

## Q2 STOCK CONTRIBUTORS

Top five			Bottom five		
Rank	Stock	Relative Return Contribution %	Rank	Stock	Relative Return Contribution %
1	Morrisons	1.13	1	AstraZeneca*	-0.60
2	St Modwen Properties	1.12	2	Barclays	-0.53
3	Convatec	0.73	3	Diageo*	-0.31
4	Prudential*	0.29	4	Vodafone	-0.31
5	Flutter Entertainment*	0.23	5	Melrose	-0.28

#### 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 March 2021 to 30 June 2021.

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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.

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