

JOHCM UK DYNAMIC FUND



UNDER THE BONNET



MAY 2020 REVIEW

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INVESTMENT BACKGROUND

Global equity markets continued to rebound in May as investors' bearish positioning was challenged by positive vaccine trial data (this time from Moderna), further global policy stimulus and high frequency data that suggested the decline in economic growth may have bottomed. The MSCI World index closed up 4.6% in US dollar terms and is now flat on a three-month basis.

Year-to-date total global policy stimulus reached US\$18tn in May (versus US\$14tn last month), with the US Federal Reserve restating its commitment to further measures if needed while the European Commission announced its own plans for a €750bn recovery fund.¹ Optimism grew as economies re-opened. Driving volumes have already normalised in the US and those European countries first to ease their lockdowns. There were also signs of recovery in restaurant and Airbnb bookings. These positive data points more than offset concerns of a further deterioration in US-China relations and led commodity prices to rally.

In the UK concerns over Brexit negotiations returned ahead of the EU-UK summit in June. Sterling weakened against all major currencies and the yield on 10-year gilts fell by 5bps despite bond yields edging higher globally.

¹Source: The Flow Show – Bank of America Securities (28 May 2020).

STRATEGY UPDATE

The Fund underperformed the index in May, returning 1.59% versus a 2.17% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted). This performance masked clear signs of an inflection in the Fund's performance over the month. Weekly net performance figures for the four-week period were -109bps, -43bps, -1bp and +96bps in chronological order. These reflect the first signs of an unwind in excessively bearish analyst and investor sentiment led by a number of strong trading updates from several portfolio holdings (**Vodafone**, **Stock Spirits**, **3i**, **Aviva** and **Provident Financial**) and a shift in market sentiment towards the potential for a global recovery (benefiting cyclical stocks like **Anglo American** and **Melrose**). These look to be the first steps towards investors questioning the (current all-time high) disparities in stock valuations (see last month's 'Under the Bonnet').

Looking at our holdings, shares in **Stock Spirits** were up 25% relative to the benchmark over the month (a two-year relative high) as interim results showed management successfully navigating the impact of Covid-19 and excise increases in their two main markets of Poland and Czech Republic. Despite management not providing further guidance, the interim dividend was increased 5.3% and analysts upgraded forecasts to reflect a marked improvement in the competitive landscape in Poland for the first time in six years.

The Q4 update from **Vodafone** reassured on many fronts. Service revenues were ahead of consensus estimates as headwinds in Italy and Spain abated and cost saving targets increased. The monetisation of the European Tower assets are still on track and, importantly for such a major part of the benchmark, the dividend remains intact.

Although the relative move in **3i**'s share price over the month was muted, the shares were up 10% relative on the day of its full-year results as NAV came in ahead of consensus expectations with the valuation of Action unaffected by the crisis. Action's Dutch stores (one third of the group) had remained open, with like-for-like sales (LfLs) growth maintaining their 7% pre-crisis level whilst LfLs growth at the recently opened German and Polish stores was 10% and 20%, respectively. We believe this could be the most undervalued growth asset in the FTSE 100.

The Q1 trading update from **Aviva** was also reassuring, with no worsening in expectations of the impact of Covid-19 on claims, a stark contrast to its valuation which suggests 3.9x normalised FY21 earnings and a potential 14% dividend yield. Likewise, capital at **Provident Financial** remained robust. Whilst scope for new lending remains limited as the company purposefully tightens underwriting and Home Credit collections remain below normal levels due to the lockdown (albeit still at 80%), surplus capital is now equivalent to 40% of the entire market capitalisation of the company.

Elsewhere, shares at **St Modwen** underperformed for no obvious reason other than Brexit concerns affecting UK domestic stocks.

FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	1.59	-16.88	-22.23	-4.43	107.23	7.30
Benchmark	2.17	-6.64	-10.02	7.20	81.02	4.94
Relative return ¹	-0.57	-10.97	-13.57	-10.85	14.48	2.25

Discrete 12 month performance (%):

	31.05.20	31.05.19	31.05.18	31.05.17	31.05.16
Fund	-22.23	-5.94	9.66	30.71	-8.86
Benchmark	-10.02	-3.52	6.41	24.51	-6.80
Relative return ¹	-13.57	-2.51	3.06	4.98	-2.22

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 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. ¹Geometric relative.

ONE MONTH STOCK CONTRIBUTORS

Top five

Rank	Stock	Relative Return Contribution %
1	Anglo American	0.54
2	Stock Spirits Group	0.40
3	Vodafone	0.38
4	Electrocomponents	0.21
5	HSBC	0.20

Bottom five

Rank	Stock	Relative Return Contribution %
1	St. Modwen Properties	-0.33
2	BHP*	-0.22
3	Experian*	-0.17
4	Euromoney	-0.17
5	Convatec	-0.17

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



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.

