



UNDER THE BONNET



Alex Savvides, Senior Fund Manager

AUGUST 2020 REVIEW

Tom Matthews, Analyst

INVESTMENT BACKGROUND

Global bond yields and markets moved higher, with the FTSE World, the S&P 500 and the NASDAQ 100 indices all reaching record levels as PMI data from China, the US, and the UK came in ahead of expectations. Fears of a second Covid-19 wave abated further as, despite a re-acceleration in case numbers in France, Spain and South Korea, the numbers of deaths there remained low while in the rest of the world cases plateaued or declined.

Despite the bounce back in economic activity job-shedding continued globally and initial jobless claims in the US picked up to 1.1m versus forecasts of 925k. Subsequently, the US Federal Reserve Chair Jay Powell communicated a dovish shift in monetary policy, with the focus now on fostering a strong labour market instead of a rigid near-term focus on its 2% inflation target. This led markets higher still and the US dollar lower, with JP Morgan's US dollar tradeable currency index (JPMQUSD) falling for a fifth consecutive month.

STRATEGY UPDATE

The Fund outperformed the index in August, returning 3.23% versus a 1.55% return by its benchmark, the FTSE All-Share Total Return index (12pm adjusted). There were a number of stock-specific positive pieces of news flow.

SDL, a position which has been held by the Fund for over seven years, announced that it would be acquired by RWS in an all-share deal valuing its shares at a 52% premium at the time. Although RWS has grown to be one of the world's largest global translation providers, SDL has always had the superior technology platform with globally-leading machine translation algorithms which we believed would always make it an attractive target.

Interim results from **Provident Financial** showed improving trends in trading and continued to demonstrate the strong capital generation credentials of the business model. The number of customers taking payment holidays reduced significantly, Moneybarn enjoyed a record month of trading in July and surplus capital increased to near 40% of the market capitalisation of the equity. There was also evidence the company can increasingly access new and cheaper ways of finance as hurdles are being reduced by the regulator in response to positive changes being made by new management to the business. This is in stark contrast to many peers and puts Provident Financial in a strong position to continue to take market share.

Aggreko's interim results showed that trading was not as bad as the market had feared. Continued strength in cash generation and its balance sheet allowed management to resume paying an interim dividend, thereby signalling their confidence in the outlook for the company. Even after management took the opportunity to write down the asset value of some of the slower-moving, higher-polluting power generation sets, shares still trade at a c. 20% discount to book value.

Direct Line also delivered an impressive update, with its interims paying both an interim dividend and the full catch-up of its suspended final dividend. Profits were much better than expected at 23% ahead of consensus and driven by stronger underwriting (the result of more than just the low claims environment of Covid-19). The shares were up 12% versus the benchmark at one point but inexplicably closed down 2% for the month.

WPP's interim results also showed good trading performance versus expectations, with a globally-leading number of new customer wins, the re-instatement of a dividend and cost reductions at the top end of the previous target range. Management also promised to announce a number of additional structural cost-cutting targets at their capital markets day later in the year.

Likewise, there were reassuring signs at **ITV**, with interims showing a sequential improvement in advertising trends and, despite studios unable to film any drama due to social distancing (20% of studio revenues), earnings were in-line with forecasts. Management have also said that UK Britbox numbers are running ahead of their own targets. They are now planning for a phased rollout across up to 25 countries.

Interim results at **Convatec** also demonstrated encouraging progress in the turnaround, with margins ahead of expectations as the phasing of transformation and operational costs proved to be less onerous than expected. Whilst it is unlikely margins will expand much further in the near term, our confidence over the sustainability of the turnaround and scope for revenue growth continues to build especially with regards to the quality of the Infusion business. Despite this, the shares fell 7.5% versus the benchmark, unwinding all the previous month's gains.

Shares in **The Restaurant Group** unwound all their previous month's losses versus the benchmark as restaurant industry data continued to show a marked positive impact of the government's 'eat out to help out' scheme.



FUND PERFORMANCE

JOHCM UK Dynamic Fund performance (%):

	1 month	3 months	1 year	5 years	10 years	SI annualised
Fund	3.23	-1.61	-23.33	5.00	99.28	7.00
Benchmark	1.55	-0.47	-12.55	19.25	80.99	4.79
Relative return ¹	1.65	-1.15	-12.33	-11.94	10.11	2.11

Discrete 12 month performance (%):

	31.08.20	31.08.19	31.08.18	31.08.17	31.08.16
Fund	-23.33	-3.92	7.51	20.48	10.06
Benchmark	-12.55	0.18	5.71	13.49	13.45
Relative return ¹	-12.33	-4.10	1.70	6.16	-2.99

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 August 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			Bottom five		
Rank	Stock	Relative Return Contribution %	Rank	Stock	Relative Return Contribution %
1	SDL	0.49	1	Convatec	-0.21
2	Provident Financial	0.42	2	QinetiQ	-0.19
3	Diageo*	0.39	3	Vodafone	-0.16
4	Restaurant Group	0.31	4	Compass*	-0.14
5	Aggreko	0.29	5	Anglo American	-0.14

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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 July 2020 to 31 August 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.

