JULY 2022

J O Hambro Capital Management Group

IT'S THE SUPPLY-SIDE, STUPID!

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Fund overview

- The strategy aims to preserve and grow client capital through active management of a concentrated portfolio of listed UK equities.
- The team invests in high quality companies that generate predictable cash flows and have robust balance sheets when they are attractively valued.
- The Fund is run with an absolute mind-set both in terms of valuation and in making investments irrespective of benchmark weightings.
- Environmental and social characteristics are promoted throughout the investment decision making process, please click here for further details.
- Benchmark: FTSE All-Share Total Return Index.
- The use of the Index does not limit the investment decisions of the fund manager, therefore the composition of the portfolio may differ significantly from those of the Index.
- Please refer to the Prospectus/KIID for further information.

JOHCM UK Opportunities Fund

Q2 2022 fund performance and positioning

JOHCM UK Opportunities Fund
Periodic performance (%) to 30.06.22

	3 m	6 m	1 y	3 y	5 y	10 y	SI p.a.[1]
JOHCM UK Opportunities Fund	-7.17	-11.13	-10.48	-2.46	4.63	76.08	6.71
FTSE All-Share TR Index	-5.50	-4.41	1.64	7.57	17.05	94.99	5.87
UK All Companies Sector	-8.34	-12.88	-8.59	3.57	10.69	96.10	5.85
Quartile*	2	2	3	3	3	1	1

Past performance is no guarantee of future performance. The value of an investment can go down as well as up and investors may not get back the amount invested. For further information on risks please refer to the Fund's KIID and/or the Prospectus.

Source: JOHCM/Bloomberg/FTSE International. NAV of share class A in GBP, net income reinvested, net of fees, as at 30 June 2022. Benchmark: FTSE All-Share TR Index (12pm adjusted). Performance of other share classes may vary and is available upon request. Inception date: 30 November 2005. *Lipper Hindsight, IA UK All Companies Sector Rankings to 30 June 2022. Note: The current managers took over the fund on 1 October 2017. [1]Annualised.

Across global equity markets, higher inflation, leading to higher interest rates has brought a much-needed dose of reality to the valuations of loss-making, cash-burning technology stocks. Excess liquidity, which flooded its way into markets and in particular into cryptocurrencies, SPACs, private equity and unproven business models, is now finding its way back out.

From a period of compressing the price component of the 'P/E' equation, the market has since turned its attention to marking down the earnings of companies with any form of cyclicality. So far, the companies within the fund have unanimously reported positive surprises, generally driven by the thematic drivers of growth we're backing, and by increased levels of investment in new technologies and products which management teams have undertaken in recent years.

For a fund which avoids over-valuation and has a core of well-invested companies with a high degree of recurring revenues, it is disappointing to report a quarterly decline of 7.17%. This performance compares to the FTSE All Share which has fallen 5.50%. The long-term prospects of all the companies within our concentrated 29-stock fund remain strong, and hence we have made no big changes to the portfolio. This year we have used market weakness to add three new stocks to the fund and you can expect us to continue to use our firepower as valuation opportunities arise.

Taking a closer look at the detractors:

The portfolio holdings that have suffered the greatest share price declines during the period are also businesses that we expect to deliver strong growth for many years from here. What differentiates the companies with good long term growth prospects in our portfolio is their track record of cash generative and profitable growth, and valuation starting points that offered upside in the context of the growing cash flows they're delivering.

Future Plc

Future is an online media content business that makes its money through selling advertising and referrals from its many websites, such as Tom's Guide and Tech Radar. It has built a digital content platform that delivers proprietary articles to millions of consumers across the UK and US. Our extensive interviews with ex-employees and media buyers reveal that the investment made by the company has resulted in a well-run business with a market leading platform that competitors struggle to compete with. This is evidenced by an average annual organic growth rate of 12% over the last five years, margins above 30% and profits that have converted into cashflow. Whilst earnings and cashflow continue to grow, the market valuation of the shares has dramatically fallen, with the shares currently offering a 9.2% free cash flow yield on a 1-year forward basis. Shares offering the level of growth that we foresee in Future tend not to stay this cheap for prolonged periods.

Ashtead

Ashtead rents equipment such as fork-lift trucks, generators, and lighting to a diverse set of customers, primarily in the US. It delivered profits and cash flow through both the financial crisis and Covid, and has continually reinvested to strengthen and grow its business. As we look forward, the company is likely to be a major beneficiary of rising infrastructure spend in the US, thanks to President Biden's $1.5trn Infrastructure bill passed last year.

Over the past decade, Ashtead has generated $13 billion of cash flow, investing the majority into growth capex and returning $5bn to shareholders. In June it confidently reported record profits and a good start to the new financial year. So far this year, as earnings forecasts have increased, Ashtead's shares have fallen 42%, leaving it trading on a 10.2% forward looking free cash flow yield.

Hargreaves Lansdown

Hargreaves Lansdown had been on our watchlist for several years, however, our valuation control prevented us from buying the shares. Over the last decade it has grown earnings and cash flows, almost entirely organically, by 12% and 14% per year respectively and has retained a net cash position. In February this year, the company announced a material step-up in systems investment to both enable future growth and see off rising competitive threats from new platforms. Our due diligence involving meetings with the CEO, the Chair, recently appointed senior employees and the new Head of IT, (who was recruited from Relx), has demonstrated the potential for significant future growth through its industry-leading platform, brand strength and a tailwind from the ongoing savings gap. In the 12 months prior to our initial purchase, the shares declined by over a third, leaving considerable valuation upside. In May, the company reported an additional 90,000 new clients so far this year and net flows of £4.8bn with a 92% client retention rate. Despite the short-term impact of higher systems investment, the shares now trade on an 8.1% forward looking free cash flow yield. As the new systems come online and dual running costs are eliminated, we expect the free cash flow yield to rise to over 9% for a business in a still stronger position to capitalise on its growth opportunity.

Companies willing and able to invest

Whilst inflation and interest rates suggest some challenging times ahead, our investment philosophy and process are designed to meet exactly these scenarios. Our insistence that our companies continually reinvest in product, service and brand whilst also retaining strong balance sheets will have added significance in an environment where customers are increasingly vigilant on where they spend their cash and competitors with weaker balance sheets are unable to maintain levels of investment.

This was evident when Whitbread reported sales up 31% on pre-COVID levels during the quarter. The company's well-invested hotel estate led it to outperform its peers by 27% over the period and is reflected in a YouGov customer quality perception score that is nine times greater than its nearest competitor, Travelodge. Whitbread's management intends to widen the gap further and in their recent trading update announced an additional £30m refurbishment and another IT investment programme.

Following a disposal last year, Tate & Lyle's business is dominated by high margin specialty food ingredients that enable the manufacture of healthier and more convenient foods. Tate's growth and margins are driven by investment in products launched in the last seven years. In May the company reported that this group of 'new products' grew revenues by 35% over the last 12 months. A key factor has been the near doubling of spend on R&D since 2016 and the establishment of regional R&D centres located close to customers. During the quarter Tate announced further increases in its R&D budget and two new innovation centres in South America and Asia.

Focus on supply-side analysis

We have long maintained that supply-side analysis is an underrated activity in identifying long-term investment opportunities. In a world where the range of potential outcomes for consumer and business demand remains so uncertain, our focus on investing in companies where supply has been limited will play an important role in protecting profitability.

Owning companies which are the dominant players in their sector and where high barriers to entry and management's focus on investing or bolting-on the best new entrants is a running theme throughout the portfolio. To name a few examples; Experian is one of only two data providers that can supply a comparable breadth of consumer credit information in the US. Relx is one of only a handful of large-scale academic journal publishers and is the sole supplier to many scientific based sectors. Serco's investment in systems and process has left it unmatched in its ability to quickly scale large public service contracts, an area which has seen the failure of many weaker competitors in recent years.

We continue to see attractive supply-side dynamics in the mining and oil and gas sectors as geology and politics have strengthened the competitive positions of those companies that already have resources in place.

Supply of copper, a metal that is essential for energy transition, remains challenged with declining grades, deeper (and more

costly) ore bodies, water and power constraints and tougher environmental restrictions. This is good news for companies such as Anglo American and Glencore, that possess high quality copper assets. In contrast to much of the industry, Anglo is on track to increase its copper production by 30% in 2023 as a result of years investment in a new Peruvian mine which unloaded its first ore in June.

Supply issues in oil markets continue to be a major issue where shareholder pressure and environmental restrictions have led the Non-OPEC oil companies to dramatically reduce investment in exploration and new field development. While OPEC has plentiful reserves, political and technical challenges continue to prevent the cartel from meeting its own quotas.

BP have built out an increasingly plausible transition strategy with clearly defined investment into renewable generation, EV charging points and the expansion of their global convenience stores. Even at a materially lower oil price, the company will generate substantial cash flow, enough to fund its own transition and to pay an attractive dividend. We used the pull-back in BP's share price to start a position at the end of the quarter.

Portfolio Sales

Two stocks were sold outright early in the quarter. We completed the sale of Bodycote where we had concerns on the long-term volume outlook and the group's exposure to manufacturing in Eastern Europe. We also exited our position in Johnson Matthey where a rise in the share price following takeover speculation caused it to breach our valuation control.

Engagement with Unilever

Over the last year, we have become increasingly frustrated that the actions of Unilever management were diverging from their strategic objective to deliver organic growth. Our main concern has been that the growth potential in the business is not being fully realised due to reduced investment in innovation and branding, combined with capital allocation focused on dividends and share buybacks.

We chose to engage with Unilever through a collective engagement organisation, which saw c20% of Unilever's shareholders backing a letter to the company's Chairman demanding a focus on operational investment, improved transparency in capital allocation and a more engaged board.

The engagement culminated in a call with the CEO and Chair with over 30 investors. To signal the depth of our concern on this issue, we voted against the re-election of most of the executive and non-executive board members at the recent AGM, including voting against the re-election of the Chairman and the CEO. Fewer than 10% of all shareholders joined us in voting against management.

There have been a number of early encouraging signs at the company including a commitment to increase capex spend, and the appointment of an activist investor (with a track record of favouring investment over cost cutting) to the board.

Engagement with Future

Since our initial purchase of Future Plc, we have engaged with the board to press for a remuneration structure that was focused more on operational metrics within the control of management and less on share price performance, which as recent events have demonstrated, can often bear no relation to underlying business performance. Having met on separate occasions with both the Chair of the Board and Chair of the Remuneration Committee, we voted against the latest remuneration policy at the AGM. At the AGM the company failed to obtain a simple majority for its 2021 Remuneration Report meaning it has to bring a new policy to shareholders this year. We are continuing to work with the Board to seek further improvements.

Outlook

The pull-back in the share prices in companies with strong growth potential has resulted in exceptional value at both the stock and portfolio level. At present the free cash flow yield on the fund is over 8% with an expected growth in cashflow of 14% per annum over the next three years. The quality of our stocks is reflected in an average margin of 19% and return on capital of 25%. The portfolio is yielding over 3% whilst balance sheets remain strong with an average leverage of 1.2x Net Debt to EBITDA.

These metrics are a very robust starting point as we enter into an increasingly uncertain economic environment and they put the portfolio in good stead to achieve our dual objectives both to grow and to protect our client's capital over the long term.

JOHCM UK Opportunities Fund

5 year discrete performance (%)

	30.06.22	30.06.21	30.06.20	30.06.19	30.06.18
A GBP Class	-10.48	15.45	-5.61	4.48	2.67
FTSE All-Share TR Index	1.64	21.04	-12.56	0.14	8.66
Relative return[1]	-11.93	-4.62	7.95	4.33	-5.51

Past performance is no guarantee of future performance. The value of an investment can go down as well as up and investors may not get back the amount invested. For further information on risks please refer to the Fund's KIID and/or the Prospectus.

Source: JOHCM/FTSE International/Bloomberg, NAV of Share Class A in GBP, net income reinvested, net of fees as at 30 June 2022. The A Acc GBP class was launched on 30 November 2005. Benchmark: FTSE All-Share TR (12pm adjusted). Performance of other share classes may vary and is available on request. [1]Calculated on a geometric basis.

Top 20 holdings

	Stock	Weight (%)
1	AstraZeneca	4.18
2	Relx	4.06
3	Serco	3.92
4	National Grid	3.77
5	Unilever	3.77
6	SSE	3.66
7	Smith & Nephew	3.48
8	Experian	3.46
9	Tate & Lyle	3.37
10	Ashtead	3.35

	Stock	Weight (%)
11	Future	3.35
12	CRH	3.33
13	SSP	3.31
14	Mondi	3.26
15	Redrow	3.25
16	Glencore	3.25
17	Hays	3.18
18	Barrick Gold	3.17
19	IMI	3.17
20	Next	3.14

Source: JOHCM/Bloomberg as at 30 June 2022. Cash position: 3.64%.

Share class details

	ISIN	SEDOL	Bloomberg	WKN	Initial charge	Annual charge	Ongoing charge	Minimum investment*
A Acc GBP	GB00B0LLB641	B0LLB64	JOHUOIA LN	A0H1DL	Up to 5%	0.75%	0.90%	£1,000
A Dis GBP	GB00B3K76Q93	B3K76Q9	JOHUOII LN	A0RGE1	Up to 5%	0.75%	0.90%	£1,000
B Acc GBP	GB00B0LLB757	B0LLB75	JOHUORA LN	A0JLVD	Up to 5%	1.25%	1.40%	£1,000
B Dis GBP	GB00B3K76P86	B3K76P8	JOHUORI LN	A0RGE2	Up to 5%	1.25%	1.40%	£1,000
Y Acc GBP	GB00B95HP811	B95HP81	JOHUOYA LN	A1XCAZ	Nil	0.625%	0.77%	£50,000,000
Y Dis GBP	GB00B95J5C19	B95J5C1	JOHUOYI LN	A1XCAY	Nil	0.625%	0.77%	£50,000,000

Performance fee: 15% on excess if Fund outperforms benchmark, calculated daily. A Acc and A Dis share classes are not subject to a performance fee. Any underperformance carried forward. Ongoing Charge is as at 30 June 2022. *Other currency equivalents apply.

Professional investors only.

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This is a marketing communication. Please refer to the fund prospectus and to the KIID before making any final investment decisions.

These documents are available in English at www.johcm. com, and available from JOHCML at the address set out above.

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The investment promoted concerns the acquisition of shares in a fund and not the underlying assets.

The annual management charge is deducted from the capital of the Fund. This will increase the income from the Fund but may constrain or erode potential for capital growth.

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