J O Hambro
Capital Management Group

THE GROWTH PLAN

JOHCM UK OPPORTUNITIES FUND

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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.

Q3 2022 fund performance and positioning

JOHCM UK Opportunities Fund
Periodic performance (%) to 30 September 2022

	3 m	6 m	1 y	3 y	5 y	10 y	SI p.a.[1]
JOHCM UK Opportunities Fund	-1.53	-8.60	-12.07	-5.21	3.06	66.02	6.51
FTSE All-Share TR Index	-3.42	-8.73	-4.33	2.49	11.42	78.81	5.56
UK All Companies Sector	-5.06	-12.95	-15.49	-2.71	2.87	74.69	5.44
Quartile*	1	1	2	3	2	3	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 September 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 September 2022. Note: The current managers took over the fund on 1 October 2017. [1]Annualised.

The cocktail of recent unsettling events – war, inflation, energy crisis, and political upheaval – has predictably led to a raft of prophetic investment forecasts, normally ones that support the strategy of the author. We concluded long ago that short-term macro soothsaying is not something on which we are willing to build our investment strategy. What is self-evident, is that these four 'unsettling events' are likely to have increased risks for equity investors. Our prudent approach to long-term growth AND capital preservation is designed for such environments. Our preference remains for established businesses with balance sheets to withstand a storm and tailwinds to generate capital growth over the long-term.

Whilst the fund outperformed the market in the second quarter, the important number for investors is the absolute fall in value seen so far this year. We are confident that the strong operational progress and prospects that our portfolio companies reported over the quarter is not currently reflected in valuations. Even on our conservative estimates, we believe the portfolio is at least 30% cheap at an aggregate valuation of 8% free cashflow yield (FCFY), our expected annual growth in cashflows of over 12% in each of the next three years and average portfolio leverage of 1.3x net debt to EBITDA.

Performance

Several stocks that saw share price falls in the first half saw some recovery in the third quarter. Hargreaves Lansdown, discussed during the last quarterly review, saw some recovery in its share price. Despite the headwind of market movements, the company continues to add new clients (up 5% this year) and are beneficiaries from a higher interest rate environment. We met with the company after their interim results in August and are encouraged with the progress made on systems investment, new product development and marketing.

Ashtead's shares also saw positive performance following another strong set of results. BP, purchased at the end of the first quarter, rose as it benefited from higher energy prices, whilst Conduit, a Bermuda based specialist insurance business, benefited from an improving reinsurance market.

The share price of Future Plc was again weak, despite guiding to the top end of market expectations in September. The CEO has announced an intention to step down by the end of 2023, by which time she will have served ten years at the company and transformed it into one of the fastest growing media companies in the UK. The CEO, her husband and the CFO have all taken advantage of the remarkably attractive share price to add to their holdings. The UK Opportunities Fund has done the same.

Aside from market volatility, the portfolio companies continue to perform well operationally with strong long-term outlooks that are not reflected in their valuations. No new stocks were added, and no positions exited during the period.

The Growth Plan

'The Growth Plan' was the title of the speech given by the now former Chancellor Kwasi Kwarteng in announcing his mini-budget in late September. Short on detail and high on leverage, it's not the sort of plan that would pass our quality thresholds. Fortunately, the current UK Opportunities portfolio is stuffed full of growth plans that have a high chance of success and come with healthy balance sheets and capable leaders.

An immense global presence in clean energy

September's mini-budget highlighted the importance of building on the UK's 'immense global presence in clean energy' to drive economic growth. Currently, new onshore wind farm development has all but ceased due to planning restrictions introduced in 2015. The UK Government now intends to 'reduce the burden of environmental assessments, reduce bureaucracy, reform habitats and increase flexibility'. This is good news for SSE, the UK's largest wind farm developer which also benefits through the inclusion of their developments on the Chancellor's list of projects to 'be accelerated as fast as possible, aiming to get the vast majority starting construction by the end of 2023'.

The scale of the growth at SSE is often underestimated. At present, the company's grid is connected to around 11 Gigawatts of power generation. By 2030 this will have grown to 29GW and by 2040 to 48GW, almost all of which will be from renewable sources.

The government is currently looking to introduce a fixed price mechanism to reduce the volatility in pricing, a factor that introduces near term risk, but which will provide the long-term visibility that we favour.

SSE and National Grid (which will connect much of the new generation) make up around 8% of the current portfolio and are clear beneficiaries from the need for more renewable energy generation, transmission, and distribution.

The Foundation of Growth

In his speech, the Chancellor proclaimed that 'an essential foundation of growth is infrastructure'. His sentiment is echoed by politicians across the globe, all determined to use fiscal policy to drive growth where monetary stimulus has largely failed. Nowhere is this more true than in the US.

During the quarter, the US Department of Transport issued the first list of projects funded by the $500bn infrastructure programme, including $73 billion for the electricity grid, $66 billion for construction of new high-speed railways and $65 billion for broadband. This is one of the first pieces of tangible evidence of what we see as a significant multi-year growth thematic.

As well as benefiting from the connection of new renewable energy in the UK, National Grid, where over 43% of assets are in the US, will also benefit from projects that include New York State's ambition for 85% zero carbon electricity by 2030, which the company expects will drive $10bn of investment in their network over the next four years.

Even greater impact will be felt by Ashtead, which drives 90% of profits from equipment rentals in the US non-residential construction and infrastructure markets. CRH, where North America comprises 75% of profits, is particularly exposed to the 50% increase in federal highway funding where it maintains a 25% share of all US road construction. Both companies reported earnings up over 30% during the last quarter.

We estimate that around one third of portfolio holdings benefit from increased fiscal spend across multiple geographies.

Big fish in big ponds

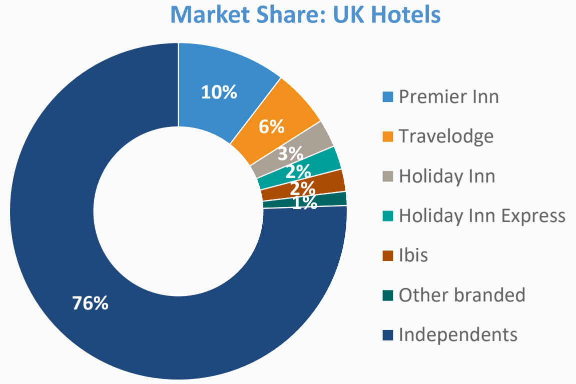
Away from the opportunities derived from the global fiscal splurge, we continue to seek out companies that combine a significant growth runway, with the scale, resources, and balance sheet to exploit it.

Around a third of our portfolio can be described as big fish in big ponds. Being big in this sense means being significantly larger than most competitors and having the resources to invest behind a product or service in a way that competitors cannot.

Pond size is also important. The investment advantage that comes with scale, is compounded when the market is both large and fragmented providing long runways for growth. This best illustrated by example.

Whitbread

Whitbread's Premier Inn business is the largest budget hotel chain in the UK, with a 10% share. It is almost double the size of the next competitor, Travelodge, and more than three times the size of Holiday Inn. However, its greatest scale advantage is over the small independents that still make up around three quarters of the market.

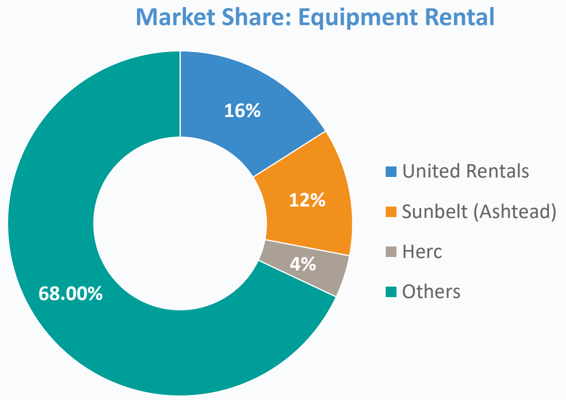


Source: Morgan Stanley Research, September 2022.

Independent players have consistently lost share, and the rate of exit from these players has trebled post the pandemic. At the same time, Whitbread has invested in its hotels, its technology, and its brand, resulting in a YouGov quality perception score nine times that of Travelodge and more than double that of Holiday Inn. We expect further market share gains in the UK and a potentially greater opportunity as they roll out in Germany.

Ashtead

Ashtead's Sunbelt business has seen market share treble from 4% of the US equipment rental market in 2010, to 12% at the end of 2021.

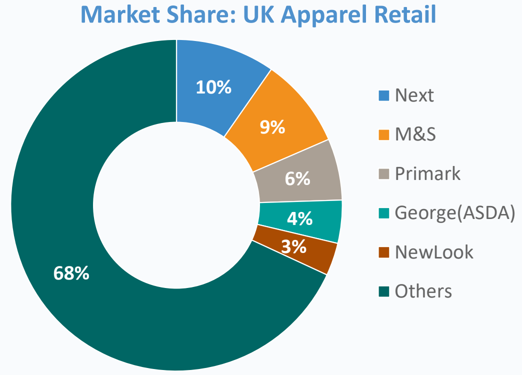


Source: Ashtead Plc, Q4 2022 Presentation.

Scale means the ability to move equipment between its 967 US stores to where equipment is needed, to invest in app-based customer ordering and to win business from customers who want a nationwide service. The 68% of the market that don't enjoy such scale benefits continue to cede share and fuel the growth of the top two players. Ashtead have a clear plan for a further 30% increase in US locations by 2024 and can see a pathway to a 67% increase in market share.

Next

UK apparel is a market that has been transformed by online sales. Next have been a beneficiary, with 87% of profit coming from online sales and finance. It's ability to invest in technology and logistics has seen its online sales double over the last 5 years. Building an all-encompassing platform of this scale does not come cheap. Fortunately, in the battle with the online-only newcomers, the most recent accounts show that Next benefits from cashflows four times the size of ASOS and almost one hundred times greater than BooHoo. We expect it to continue to win share.



Source: Barclays Research calculations based on Kantar data. 20 September 2022.

Engagement

We continue to implement our sustainability framework through team led active engagement with boards rather than by slavishly following the box-ticking recommendations of external agencies. We currently have 23 active engagements in a portfolio of 29 holdings.

There has been progress in our engagement with Unilever, covered in our last quarterly report, related to our concerns that Unilever management had become too focused on short-term margins and shareholder returns, and as a result were underinvesting in marketing and new product development.

Over the last three months we have seen the company step away from margin targets and restate a commitment to sustainable top-line growth and enhancing brand equity. They have also changed the reporting structure to give greater visibility to investors, and in late September, Unilever announced that the current CEO would step down at the end of 2023.

We have continued our engagement with mining companies where our focus is on transparency and action regarding their impact on the communities in which they operate. We have engaged with Anglo American and Barrick Gold during the quarter, with both companies either delivering or committing to greater transparency on community surveys and progress in achieving compliance with industry standards.

We had a more encouraging meeting with Next on plastic use, albeit with limited actions. We also met with the non-executives at Whitbread and Future to press for remuneration metrics that are better aligned to their long-term growth strategies.

Outlook

Our 'Plan for Growth' continues to focus on well-managed businesses with strong tailwinds. This coupled with healthy balance sheets and attractive valuations provides an excellent platform to navigate the near-term uncertainties and deliver attractive returns over the long-term.

JOHCM UK Opportunities Fund

5 year discrete performance (%)

	30.09.22	30.09.21	30.09.20	30.09.19	30.09.18
A GBP Class	-12.07	16.22	-7.24	5.68	2.89
FTSE All-Share TR Index	-4.33	28.31	-16.51	2.72	5.84
Relative return[1]	-8.09	-9.42	11.10	2.89	-2.79

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 September 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	Unilever	4.51
2	Experian	4.30
3	Relx	4.29
4	BP	4.21
5	AstraZeneca	4.02
6	Ashtead	3.94
7	National Grid	3.75
8	Serco	3.74
9	Smith & Nephew	3.69
10	SSE	3.68

	Stock	Weight (%)
11	Tate & Lyle	3.43
12	Barrick Gold	3.40
13	IMI	3.17
14	Hargreaves Lansdown	3.12
15	Conduit	3.11
16	Mondi	3.08
17	Anglo American	3.06
18	CRH	3.03
19	Smiths	3.03
20	WPP	2.97

Source: JOHCM/Bloomberg as at 30 September 2022. Cash position: 4.51%.

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 September 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.

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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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