

JOHCM UK Equity Income Fund

- The UK stock market was flat in July in what proved to be an eventful month both politically and economically
- The Fund marginally outperformed over the month, helped in part by a strong performance from ITV
- Portfolio activity included re-establishing a position in Savills



James Lowen
Senior Fund Manager

Clive Beagles
Senior Fund Manager

Return history (%)

	1m	3m	6m	1y	3y	5y	Since Launch
Fund	0.19	-0.22	3.36	9.16	52.08	119.57	170.60
Benchmark	0.15	0.31	5.76	6.31	32.16	80.66	114.40
Quartile	2	2	3	1	1	1	1
Lipper rank							2/48

Share class B in GBP

Investment background

The FTSE All-Share Total Return Index (adjusted) returned 0.15% in July, an eventful month economically and politically. The tragic events in Eastern Ukraine, combined with the escalation of hostilities in Gaza and a major outbreak of the Ebola virus in West Africa, have clearly raised the risk of a disruption to global economic progress. However, market reactions in both equity and fx/bond markets have been quite modest to date.

Strategy Highlights

The Fund marginally outperformed the benchmark in returning 0.19%. A number of largely mid-cap stocks continued to underperform, in most cases despite good results and, in all cases, despite what are now extremely attractive valuations - Synthomer, DS Smith, E2V, DX Group and Premier Farnell all fit into this category. In aggregate, this was the most material headwind to the Fund's performance during the month. Other negatives included the finalisation of the Shire takeover (which the Fund does not own) and the impact of the Russian situation on BP and Raven Russia.

On the positive side, the mining sector was one of the strongest sectors in the market, with holdings Rio Tinto and Glencore, in particular, performing well. In healthcare, we benefited from exiting GlaxoSmithKline, which was hurt by a major profits warning. In the financials sector, which was sluggish overall (driven in part by continued low bond yields), Intermediate Capital responded well to a clearer road map on capital allocation. Direct Line and Legal & General also performed brightly. The best performer in the Fund during the month was ITV, up 14% relative. This was mainly linked to the disposal by BSkyB of its stake, selling it to Liberty Global. The market, rightly in our view, concluded that it is now a matter of when not if Liberty ultimately acquires the whole group. We took some profits in the stock to keep our risk / weighting under control, although remain very positive here for both fundamental reasons (a recovering economy, the value of ITV's content and the mix change towards production) as well as the M&A optionality.

In terms of portfolio activity, within pharmaceuticals we finished selling our GlaxoSmithKline position in the first half of the month, prior to its profits warning. That capital was moved into AstraZeneca, which is now c. 3.2% of the Fund (c. 65bp overweight). In the property sector, we have continued to broaden our exposure and look to change the mix of exposures towards companies that are either more active in managing the property cycle and / or have an element of development activity that will help enhance returns given a shortage of supply in certain key markets (e.g. offices in the South-East outside London). This entailed the sale of Schroder Real Estate, the reduction of our weighting in Segro and the increase in the weighting of London Metric and McKay Securities. We have also re-established a position in Savills. Asked what Savills do, most people would respond 'high-end London property'. Whilst it does have exposure (c. 15%) to this market, what we are interested in is the other 85%, which is broadly split 35% Asia / China, with a large element being property management (this fits in with our gradual move 'East') and 50% commercial property (property valuation, transaction advice, consultancy, etc.), which fits nicely into our broader thesis of commercial property recovery. On our forecasts, Savills trades on a P/E of 10x and yields 4.5%. The valuation is roughly half that of the other global leaders, which are listed in the US.

PROFESSIONAL INVESTORS ONLY

Fund details

Fund size	GBP 2.6bn
Fund launched	30/11/2004
Benchmark	FTSE All-Share TR Index
Historic yield (%)	4.04
Ex-dividend date	Payment date
31-Mar	31-May
30-Jun	31-Aug
30-Sep	30-Nov
31-Dec	28-Feb
Domicile	UK
Status	UCITS
Tax	UK Distributor status Outside scope for EUSD

Min investment (or currency equiv)

A	GBP 1,000
B	GBP 1,000

Unit type	Distribution
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Denomination	GBP
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Valuation point	12pm
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Fund ratings and awards

Morningstar Rating	*****
Citywire Fund Rating	AA

Fees, charges, commission

Initial charge	Up to 5%
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Annual management charge

Share class A	0.75%
Share class B	1.25%

Performance fee

15% on excess if Fund outperforms benchmark, calculated daily. Any underperformance carried forward. This fee applies to all share classes.

Yield and Morningstar rating are based on share class B - accumulating.

Share Class	Sedol	ISIN	Bloomberg Tickers	WKN numbers
A Accumulating	B03KR50	GB00B03KR500	JOHUKIA LN	A0JLU1
B Accumulating	B03KR83	GB00B03KR831	JOHUKRA LN	A0JKW9
A Distributing	B03KP23	GB00B03KP231	JOHUKII LN	A0JLU0
B Distributing	B03KR61	GB00B03KR617	JOHUKRI LN	A0JKW8

JOHCM UK Equity Income Fund

Top ten equity holdings (%)

	Fund	Benchmark	Active
BP	6.73	4.33	2.41
Royal Dutch Shell	6.61	7.69	-1.08
HSBC	6.40	5.88	0.52
Rio Tinto	4.31	2.05	2.26
Vodafone	3.92	2.55	1.37
Glencore	3.84	1.68	2.16
AstraZeneca	3.24	2.65	0.59
Aviva	3.09	0.72	2.37
ITV	2.92	0.38	2.55
Standard Life	2.75	0.43	2.32

Top ten active bets (%)

	Fund	Benchmark	Active
ITV	2.92	0.38	2.55
BP	6.73	4.33	2.41
Aviva	3.09	0.72	2.37
Standard Life	2.75	0.43	2.32
Rio Tinto	4.31	2.05	2.26
DS Smith	2.36	0.12	2.24
Glencore	3.84	1.68	2.16
3i	2.26	0.18	2.09
TUI Travel	2.11	0.09	2.02
Laird	1.92	0.04	1.88

Sector allocation (%)

	Fund	Benchmark	Relative
Financials	36.84	24.70	12.15
Oil & Gas	14.09	15.20	-1.11
Consumer Services	13.66	10.15	3.50
Industrials	13.21	9.81	3.40
Basic Materials	8.82	8.45	0.37
Telecommunications	5.15	4.41	0.75
Health Care	3.24	8.35	-5.11
Technology	2.42	1.32	1.11
Utilities	2.08	3.80	-1.72
Consumer Goods	0.90	13.82	-12.91

Note: Figures exclude cash. Cash is -0.42%.
Totals may not sum to 100% due to rounding at the source.

Source: JOHCM/Bloomberg/FTSE Group. Note for return history table: NAV of share class B in GBP, net income reinvested. Benchmark: FTSE All-Share TR Index. Performance of other share classes may vary and is available on request. Universe for Lipper ranking is IMA UK Equity Income. Source and copyright of Citywire logo. James Lowen and Clive Beagles are both AA rated by Citywire for their three year risk-adjusted performance for the period 31/07/2011 to 31/07/2014.

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Enquiries

J O Hambro Capital Management	Dealing Line	Fax	www.johcm.co.uk
Ground Floor, Ryder Court	0845 450 1972	+44 (0) 20 7747 5678	
14 Ryder Street	+44 (0) 20 7747 5646 (UK)		
London	Investor Relations	Email	
SW1Y 6QB	+44 (0) 20 7747 5679	info@johcm.co.uk	