

SHINING A LIGHT ON THE..... JOHCM US Small Mid Cap Equity Fund

AT A GLANCE

Investment Objective	
The investment objective of the Fund is to achieve long-term capital appreciation. The Fund will seek to achieve its objective by investing in a portfolio of equity securities of smaller and mid-sized capitalisation companies domiciled in the United States.	

Inception Date	30 th September 2014
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000UHSE

Management	
Manager Name	Start Date
Arun Daniel	30 th September 2014
Thorsten Becker	30 th September 2014
Vincent Rivers	30 th September 2014

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	0.00%
Large	0.00%
Medium	80.72%
Small	17.39%
Micro	1.90%

Top 10 Holdings		
Total number of holdings	47	
Assets in Top 10 Holdings	27.43%	
Name	Sector	% of Assets
Woodward Inc	Industrials	2.97%
First American Financial Corp	Financial Services	2.92%
Nomad Foods Ltd	Consumer Defensive	2.88%
ForeScout Technologies Inc	Technology	2.77%
Leidos Holdings Inc	Technology	2.71%
Raymond James Financial Inc	Financial Services	2.69%
Masco Corp	Basic Materials	2.68%
Jacobs Engineering Group Inc	Industrials	2.66%
ServiceMaster Global Holdings Inc	Industrials	2.59%
MasTec Inc	Industrials	2.59%

Volatility Measurements	
3-Yr Std Dev (volatility)	15.20%
3-Yr Mean Return (average)	18.17%

FUND PERFORMANCE

Performance from 1st January 2015 to 31st May 2019:

	2015	2016	2017	2018	2019
JOHCM US Small Mid Cap Equity Fund	5.41%	38.64%	8.10%	-3.66%	15.13%
iShares Core S&P Mid-Cap ETF	3.32%	44.01%	6.20%	-5.66%	10.63%
iShares MSCI North America ETF	3.75%	34.26%	10.18%	-1.16%	12.72%

Performance over 12 months, 3 years, and since launch:

	1 year	3 years	Since launch
JOHCM US Small Mid Cap Equity Fund	3.07%	59.59%	88.00%
iShares Core S&P Mid-Cap ETF	-0.33%	46.63%	81.18%
iShares MSCI North America ETF	8.35%	57.39%	86.89%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE....

This was our first introduction to the team who are based in the US but are in the UK promoting the fund. The team worked together at Fidelity before leaving to set up this strategy at JOHCM. Effectively, this is a franchise operated under the JOHCM banner and enables the team to build a long-term business and over time have equity within the firm. The managers invest their money in the US version of the fund.

The fund was launched in 2014 and has taken some time to settle in. We have shown performance vs the Mid-Cap Index and the North America Index. The North America Index has a bias to large cap and its top holdings are Microsoft, Apple, Amazon, Facebook, Johnson and Johnson and Alphabet. The Mid-Cap Index is very different with the main constituents being IDEX, Domino's Pizza, STERIS, MarketAxess Holdings and Leidos.

The argument for having this fund vs a North American Index Fund is that it provides access to a very different set of holdings which they believe overtime will outperform larger stocks. Since launch the fund has slightly outperformed the North America Index and the Mid-Cap Index. The team explained in the first few months the fund suffered negatively as it settled in and this has dragged down the performance story.

They feel that what they offer is truly different. They have high level themes which they focus on, including the world and the environment, rise of consumerism, technology change and innovation, demographics and health care and global mega trends.

They talked about “following the money”. What they mean by this is rather than following the trend it is often about finding those businesses that benefit from the trend. An example of this would be AI technology. Research identified that the money for this lay in those companies developing the algorithms. From these there were four companies which fitted this profile and this led to investment in Tableau Software.

For every stock they hold they all have to agree, and one of crucial questions is do they want to own it and what does it give to the portfolio. The aim is to have a spread across sectors and themes with low correlation between stocks. In choosing how they select the weightings this depends on the risk reward. As an example, a drug company they have has a single drug risk. If the drug is approved, then the potential returns are high. However, any delay would be negative. So in this case the weighting would be low.

The fund tends to provide some downside protection; in 2018 it was down just over 3% vs the mid-cap index which was down over 5%. However, against the large cap index this was down just over 1% so the larger cap performed better. In markets where low quality relies the fund will underperform as we saw in 2016.

Overall the US is a really tricky market to invest in and although this has slightly outperformed the index since launch it is marginal. Obviously investors have to consider that this is a relatively new fund and it was negative in the first few months of launch. It is worth comparing the fund to other similar strategies. This might be a blend with a large cap, or where investors feel mid-cap is the place to be this could be an option to consider.

In terms of the economy they remain very positive. Behind the Trump Tweets they see his administration as positive for the economy. This is a pro-business government with growth only coming over the last three years. Tax cuts and deregulation are helping and these work alongside monetary policies. Trade wars are a distraction with the deal with Mexico and Canada updating a treaty signed 20 years ago. China is tricky but no-one has engaged with them and they feel positive about the eventual outcome.

As growth has only been for three years and inflation remains low, they don't see a recession at this stage.

In summary, this on paper appears an interesting fund. The team have come across together and are building a long-term franchise under the JOHCM brand. It has marginally outperformed both indexes. It may act as a blend with a large cap fund. We would recommend this is compared to other similar funds before any decision is made.

The source of information in this note has been provided by JOHCM and is correct as at June 2019. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.