

SHINING A LIGHT ON..... JOHCM UK DYNAMIC FUND

At a glance

There are over 400 UK Equity Growth and Income Funds; providing investors with access to many different investment styles. So choosing the right fund depends upon understanding their methods and aims.

Performance is part of the equation but equally the management team is crucial. We have met a number of talented Fund Managers, the likes of Standard Life Investments, Neptune, Schroders, Legal and General, Threadneedle and Liontrust (not all of these are in our portfolios).

One fund we have been following for some time is the JOHCM UK Dynamic Fund. The fund has an excellent track record of investing in the all cap space but with 60% focused on large cap stocks. Where it differs is twofold, firstly all stocks must demonstrate an ability to pay dividends (which we will cover in the update) and all companies will be of high quality.

Unlike many funds there is a ceiling at which the manager will cap new money into the fund. This ensures that the manager doesn't need to compromise performance as the fund attracts greater assets. This cap is set at £1 billion (currently the fund is around £230 million).

In this update we will unpack why we think this is a fund for investors to consider.

Who are the team behind the fund?

The fund is managed by Alex Savvides who joined JOHCM in 2003 and has managed the fund since its launch in 2008. He is well respected and has a number of awards for his management style and performance.

He is the lead manager and there is a risk around succession planning but he is supported by the wider UK team who could take on the fund should anything happen.

Fund highlights?

This is fundamentally about stock picking, it doesn't ignore macro risks but Alex considers long term investment opportunities and avoids short term speculation. There are three baskets of stocks – restructuring, recovery and growth and within this there are recent investments, medium term holdings and longer term holdings.

What is common with all the stocks is that they are high quality companies, often unloved and under researched and out of favour. The other factor is the discipline to pay dividends. This second point is taken very seriously and companies are added where no dividend is paid but they have a year to get onto the dividend rooster.

This is not an income fund but the dividend test demonstrates a company's ability to manage cash well and adds to the overall potential return.

Alex is therefore looking for companies at the low point of their life cycle and then backs them until they recover and move into the growth phase.

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The longer term holdings are the core holdings and tend to be the highest conviction holdings. As an example of holdings in the restructuring phase there are the likes of Barclays, BP, Man Group and HSBC and in the Growth phase there are the likes of Shell, DS Smith and ITV (other stocks are held in the recovery phase). The core holdings make up for around 60% of the portfolio, and have been held for 24 months plus.

The next group are medium term holdings where conviction is growing and more is allocated to stocks as the conviction grows. As an example of holdings the types of companies in the recovery phase are the likes of National Express and Lloyds (other stocks are held in the restructuring and growth phase). The medium term holdings make up for around 25% of the portfolio allocated to these stocks.

The final stage is recent investments; the holdings will be low but will grow as conviction grows. This includes companies like RBS, Taylor Wimpey and Sky (covering restructuring, recovery and growth).

Alex stresses the importance of holding stocks for a long time and adopting a patient approach. It doesn't mean he does nothing. He constantly reviews what he is holding, adopting a tactical approach. If a stock has had a short term spike in profits he will shave the holding and use that money to invest in a stock which has underperformed. Recent examples have been increasing holdings in Barclays and DS Smith and reducing holdings in Smith and Nephew and Dragon Oil.

Where this fund may appeal to investors is where they want to take advantage of stock weakness but are concerned around the volatility associated with these stocks. There are many companies which investors will recognise and can understand the opportunity but individual holdings in the short term can be uncomfortable. Also with some stocks what may seem to be an opportunity may not be and this fund to some extent takes that risk away.

Fund managers don't always get things right but the game is to get more right than wrong. Alex aims to pick the best companies and there will be occasions where he gets it wrong. Clearly the strong performance indicates that the upside is greater than the downside.

In summary for individual investors it can be challenging to operate a portfolio like this, and this fund responds to that need. It has to be seen as a long term play and not a short term opportunity.

The manager is careful to only select companies where he can see opportunities for the company to reverse its negative performance. This may mean acting against the crowd and in many cases will need time to play out. The fund won't appeal to everyone because by their very nature the stocks will be more volatile but the potential reward could be greater if the manager gets it right.

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Fund performance

Performance since launch and over the last five years is shown below:

	2009	2010	2011	2012	2013	2014	Since launch
JOHCM UK Dynamic Fund	38.43%	16.20%	-8.36%	27.34%	31.34%	2.39%	112.78%
Lyxor ETF FTSE All Share	29.16%	15.40%	-4.61%	11.67%	20.16%	0.53%	45.87%

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. Returns are based on the US share class.

Conclusion

We believe this is a well-managed fund with an excellent track record. In the short-term it is likely to be volatile and it should only be considered as a long term investment. It will not suit all investors especially with the nature of holdings as there is considerable risk if the calls he makes are wrong.

The source of information in this note has been provided by JOHCM and is correct as at September 2014. 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. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.