JOHCM Global Opportunities (UK OEIC)

Global

Introduction

This is a high conviction, benchmark unconstrained fund, focused on investing in high quality companies at attractive valuations. The managers take a long-term investment approach to identify companies that are capable of producing compounding growth over time. This can include the identification of long-term trends and themes and the companies that will benefit from these. The difference between this onshore UK OEIC version of the fund and the equivalent offshore OEIC version is that the latter carries a performance fee.

[Click here to read the JOHCM approach to ESG investing.]

Why RSMR Rate this Fund

- Provides a differentiated investment style to many of the RSMR-rated funds in the global equity sector
- Benchmark unconstrained fund with an absolute return mindset
- A relatively low risk approach focused on investing in a blend of quality and value
- Structured and disciplined investment process implemented by an experienced management team

Fund Process

The investment process is designed to identify quality and value companies with durable franchises and estimate the intrinsic value and the risk and reward in owning the shares. The team believe that the best way to generate high risk-adjusted total returns in absolute terms is by building a concentrated portfolio comprising shares in compounding growing companies on attractive valuations. Investee companies can generate cash reliably through a cycle and reinvest that cash into the business in order to generate further growth, compounding at a high marginal return. The team use themes to help identify potential investments.

The starting point is to identify companies that are likely to earn high marginal returns on capital. The team use multiple screens over multiple time periods looking for companies with high returns, reliable cash generation and strong balance sheets. This reduces the universe down to around 20%. There is typically a strong bias towards sectors that are not capital intensive and have pricing power, but with a bias away from the most highly rated sectors in the market. It will hold more cyclical sectors at times. Companies going through structural change may also be on the watch list. Turnover on the watch list is typically low.

The screens identify companies of interest where further due diligence is required. They look for evidence of a company's ability to create value through re-investment of profits and to calculate a company's intrinsic value in order to apply a valuation assessment to the company. The team consider a company' s report and accounts, looking particularly at cash flow stability, pricing power, growth opportunities and capital intensity to gain an understanding of the returns on capital and cash flow. Company meetings are deemed useful but not essential. The managers are looking to gain an understanding of the capital discipline of management and the track record and appropriate incentives can also provide a good indication on a management's motivations. They will also conduct independent research into suppliers and competitors to augment their understanding of the opportunity set.

Once the fundamental due diligence has been completed, the managers then look to invest either at a discount to intrinsic value and/or where there is a sufficient margin of safety. This is an assessment of absolute, rather than relative, valuation and uses the discounted value of future cash flows, which means there needs to be an awareness of cyclicality. The portfolio will often cluster around pockets of value in the marketplace, which change over time. At certain times there may be industry clustering, although the managers look to diversify exposure to correlated downside risks such as foreign exchange, credit and cyclicality.

The fund tends to be concentrated compared to its peers, typically holding between 25 and 40 stocks. The fund is multi cap in nature, but with a bias to the smaller end of large cap and the larger end of mid cap for liquidity purposes. There are no formal constraints at regional or sector level versus any benchmark and the fund's active share is usually very high. Position size is determined by the upside/downside ratio - risks to the base case are assessed and stocks are only purchased where the downside is acceptable, and the upside is substantial. Companies must be large enough to be dominant within a sector and to be able to survive if things go wrong. There is a strict 'sell to zero' discipline as the managers believe that holding unfavoured companies prevents them from investing in better opportunities.

Evaluation

Historically, the fund has generally delivered outperformance and protected capital well on a relative basis during market drawdowns due to their quality /value bias and willingness to hold cash when they find valuations to be expensive. The fund tends to lag when lower quality companies are driving market returns, which could be during the early or late stages of a bull market, but the focus on compounding growth should help to drive outperformance in 'normal' market conditions.

Application

This is a lower volatility option for investors seeking a quality and valuation aware global equity fund and it can be used as core global equity exposure in the majority of portfolios. There could be periods of underperformance in strong markets driven by a small number of companies.

Our Opinion

The fund is looking to offer investors a differentiated low risk approach through its emphasis not just on quality, but lowly valued quality with good capital growth prospects. The managers are very disciplined in following and applying their investment process and continue to be willing to hold above average level cash levels when absolute valuation levels are deemed unattractive. This cash is then re-invested when stocks become more attractively valued, typically after some sort of market sell-off. The fund has demonstrated the characteristics you would expect given the investment process, and its style is complementary to many other global equity funds. The fund is not suited by momentum or out-and-out growth phases in the market but can deliver outperformance is most market conditions and especially when investor focus is on valuation.