

# Rating Report

J O Hambro Capital Management Global Income Builder

ISIN: IE00BFZWPD35



Scope Analysis has assigned J O Hambro Capital Management Global Income Builder a B rating ( good). Launched in April 2018, the fund has a dual mandate to generate income while growing the capital base and providing downside protection. It is actively managed using an integrated, bottom-up approach, driven by a value-investing philosophy which identifies resilient business models that provide steady income streams and a margin of safety.

## Fund overview as of 31/03/2021

| Fund                        | Peer group               | Volume EUR m | Total Expense Ratio | Inception year* |
|-----------------------------|--------------------------|--------------|---------------------|-----------------|
| JOHCM Global Income Builder | Balanced Global balanced | 129.4        | 0.93%               | 2018            |

\* The fund's relevant track record has been running since 30.04.2018.

## Rating

The table provides an overview of Scope's assessment of key indicators. They form the basis for the overall rating.

### Scope Rating overview

|        | Performance indicators | Risk indicators | Rating score |
|--------|------------------------|-----------------|--------------|
| Points | 82                     | 64              | 77           |
| Rating | A                      | B               | B            |

As of 31st of March 2021, quantitative indicators accounted for 33% of the analysis and qualitative indicators accounted for 67%.

### Selected aspects of qualitative fund evaluation

| Company | Investment team | Investment process | Risk management |
|---------|-----------------|--------------------|-----------------|
| Good    | Very good       | Very good          | Good            |

The strategy is managed by J O Hambro's Multi Asset Value team, which includes three senior portfolio managers with an average industry experience of 22 years and by two analysts. In Scope's view, the investment team has adequate research capabilities and capacity. The team's integrated, bottom-up approach, which seeks to identify excellent risk-reward opportunities by investing across the capital structure and focusing on attractively valued companies with strong, persistent businesses is both structured and systematic. The approach is implemented in a very disciplined manner and is aligned with the team's investment philosophy as a value investor. Since its launch 35 months ago, the fund has significantly outperformed, with annualized returns of 7.5%. This is well above its peer group, which achieved 4.4%. The fund's volatility was slightly higher (7.4%) than its peer group average (7.1%) over the 18-month period. This is because it has the flexibility to take contrarian positions and remains benchmark unconstrained. The fund's volatility is 11,4%, which is above its peer group average of 8,9%.

### Lead Analyst

Barbara Claus, CIIA  
+49 69 66773 8976  
[b.claus@scopeanalysis.com](mailto:b.claus@scopeanalysis.com)

### Second Analyst

Manqing Sun  
+49 69 87002 7499  
[m.sun@scopeanalysis.com](mailto:m.sun@scopeanalysis.com)

### Business Development

Christian Michel  
+49 69 6677389 35  
[c.michel@scopegroup.com](mailto:c.michel@scopegroup.com)

### Scope Analysis GmbH

Neue Mainzer Straße 66-68  
60311 Frankfurt am Main  
Tel. + 49 69 6677389 0

### Headquarters

Lennéstraße 5  
10785 Berlin  
Tel. +49 30 27891 0  
Fax +49 30 27891 100  
Service +49 30 27891 300  
[info@scopeanalysis.com](mailto:info@scopeanalysis.com)  
[www.scopeanalysis.com](http://www.scopeanalysis.com)

Bloomberg: SCOP

#### Company

J O Hambro Capital Management (JOHCM) is a small asset manager, with EUR 33.7bn in assets under management. The company was founded in 1993 as an investment boutique firm. Since its acquisition in October 2011 by Pental Group, an Australian investment firm, the company has operated as an independent unit within the group. There is a cooperation with Regnan, the business unit of Pental Group specialized in ESG and responsible investing.

The company considers the independence of its investment teams to be one of its greatest assets. There are no overarching investment committees, nor are decisions bound by an inhouse standard. This allows a great diversity of opinions and has manifested itself in a large variety of investment processes at JOHCM.

The company focuses on both regional and global equity products and currently runs 22 strategies. A multi-asset strategy, introduced in April 2018, complements the product offering.

JOHCM employs 41 investment professionals in London, Singapore, New York and Boston.

#### Investment Team

The fund has three fund managers with an overall average industry experience of 22 years. Last year saw a change in the management team: Lale Topcuoglu, who was previously senior fund manager and head of credits primarily responsible for the bond side, left J O Hambro. She was replaced in November 2020 by Adam Gittes, who took over her responsibilities within the team.

Senior fund managers Giorgio Caputo and Robert Hordon both have 24 years of industry experience. Before joining the Multi-Asset Value team at J O Hambro Capital Management in 2017, they have been working closely together for seven years and co-managing First Eagle's Global Income Strategy since 2011, which includes the Global Income Builder Fund and the First Eagle Amundi Income Builder Fund.

Giorgio Caputo is the head of JOHCM's Multi-Asset Value team. Prior to JOHCM and First Eagle, he was managing director and investment analyst at hedge fund JANA Partners LLC. Before completing his postgraduate education, he worked as a quantitative analyst at Lehman Brothers.

Robert Hordon (CFA) is senior fund manager for JOHCM's Multi-Asset Value team. He co-managed two income funds at First Eagle together with Caputo. Before completing his postgraduate education, he was equity research analyst with Credit Suisse First Boston.

Adam Gittes is a senior fund manager and head of credit at the multi-asset value team at JOHCM. He has 19 years of industry experience. Prior to J O Hambro, he was a senior investment professional at hedge fund Piney Lake Capital, where he focused on private credit and special situations. Prior to that, Gittes was a portfolio manager at TOMS Capital, a single-family office, and BlackRock Kelso Capital, among others.

Rémy Gicquel and Hugues Le Bras are investment analysts for Multi-Asset Value team, with 14 years and seven years of industry experience respectively. Prior to JOHCM, Rémy Gicquel (CFA) spent four years at Harris Associates as senior international investment analyst supporting its flagship Oakmark International Fund. Hugues Le Bras was most recently employed as a research analyst for Paradigm Capital AG, a Munich-based investment firm focusing on small and mid-cap companies.

Scope rates the experience and expertise of the team as "very good" overall. The team's set up is diverse yet complementary. The team saw the departure of an experienced fund manager in Lale Topcuoglu last year, who was adequately replaced by Adam Gittes, who also has many years of experience. Given the small size of the team, investment decisions are made on team-consensus basis, with Caputo having the ability to form final decisions in case of any disagreement.

In the absence of other sector analysts, there is an active exchange of ideas with the fund management teams for regional products. In addition, the diversified set of skills across the team, such as extensive language capabilities, highlights the investment professionals' extra research qualifications at a global level.

The remuneration structure is appropriate in Scope's view. It consists of a base salary, a share of the management fee generated by the fund. Employees can also acquire shares in Pandal Group, JOHCM's parent company. Fund managers are asked to invest part of their variable remuneration in the funds they manage or other JOHCM funds.

#### Investment approach and portfolio construction

The team views itself first and foremost as global cross asset value investors, whose primary focus is to protect capital. The strategy was developed based on the symbiotic relationship between a value philosophy and an income mandate, where equities must compete for capital with a fixed income on a risk-adjusted basis. This competition essentially powers the flexibility to invest across geographies and capital structures in a bottom-up driven asset allocation.

The strategy's dual mandate of income and capital appreciation aims to generate stable income streams from durable business models and helps to avoid "yield traps" that could result in capital impairment. A flexible income mandate also provides managers with the latitude to avoid overvalued asset classes.

The team places a premium on patience and conservatism and seeks to build long-term conviction in key themes and core holdings. As value investors, the team is willing to take contrarian positions and remain benchmark agnostic. The strategy is not limited only to classic value investing dogma, but rather is willing to consider growth, intangible assets and sustainability as attractive qualities in its search for investments that trade at a discount to their intrinsic value. The team places a premium on durable businesses of which the team has the conviction to buy more in times of stress when discounts to intrinsic value are often at their widest.

Business persistence is analyzed using a proprietary seven-point scoring model within a "persistence framework". This assesses whether the underlying business models' durability, resilience of income stream and margin of safety will stand the test of time.

The investment process is driven by a bottom-up approach in which the financial positions and prospects of a company are reviewed. The team can invest across the capital structure of a company.

The team's all-capitalization approach focuses primarily on companies with a market capitalization of at least USD 1 billion or higher and an attractive dividend yield of more than 3%. This universe is reduced to a shortlist of roughly 500 issuers when the team's persistence criteria are applied. The team will conduct active fundamental research on and maintain a watchlist of roughly 200 of these issuers as potential candidates for portfolio inclusion and potentially allocate capital to these based upon where team believes it can earn the best risk-adjusted returns and/or reduce overall portfolio risk. The team's persistence framework is the key driver of the team's issuer level risk assessment with the team requiring higher prospective returns and margin of safety for investments in businesses which the team believes are less durable (or persistent).

The team has the discretion to invest across the capital structure of a company depending on the risk/reward assessment of the stock or bond issuance. This cross-capital structure analysis also provides valuable insight for the overall asset allocation of the strategy between equities and bonds, as the team is able to assess firsthand how risk is being priced by different capital markets. The equity exposure may fluctuate between 30%-70%, while bonds, mostly corporate issuances from both the investment grade and high-yield sectors, account for around 30%-50% of the portfolio. Cash and hedge assets, such as gold exposure and government bonds, usually make up 5%-15%, which may be held to offset the portfolio's risk during phases of market stress. The managers maintain a cash reserve to purchase when opportunities in the markets arise. This is in line with their contrarian stance. For example, the fund added around 10% to its equity exposure when markets fell in Spring 2020. The contrarian element can lead to higher short-term fund volatility compared to peers during phases of market stress. However, over the long-term horizon, the team have proved, both at JOHCM and previously managed fund First Eagle

Global Income Builder, that they can make up for the strategy's higher volatility with convincing returns and a lower downside capture ratio than their peers.

In terms of portfolio allocation, Scope considers the fund to be well-diversified, with position sizes well below 3% at individual company level. The number of holdings in the portfolio can vary. The portfolio usually consists of a maximum of 100 stocks and around 50 credit positions. The team's valuation and income-oriented investment style is reflected in the fund's slight value tilt. However, this is not very pronounced given that the managers also include quality and persistency factors in their analyses and do not solely focus on low valuation metrics. This is also confirmed by their well-diversified sector allocation, with no single sector dominating the portfolio. The largest sector on the equity side is financials with 14.0% followed by technology with 10.2%. On the bond side, the largest sector is communications with 8.7% followed by financials with 3.9%. As of the end of March 2021, the equity exposure in the fund was 70.8% followed by bonds with 21.2% cash and gold with 4.1% and 4.0% respectively.

Given the income-oriented strategy, the fund can invest in sub-investment grade issuance (roughly 40% as of March 2021), often mostly rated BB. This adds a level of credit risk for investors. The higher credit risk is typical for outcome-oriented investment strategies but sets the fund apart from most of its category peers, whose portfolios tend to have better credit quality.

The fund has a fixed distribution of 4% per annum. The fund seeks to prioritize capital preservation instead of blindly chasing income at all costs, and so payouts to investors out of capital gains to supplement dividend and interest income are possible, especially in times when interest rates are abnormally low. It is reassuring that the managers monitor the sustainability of payouts and constantly reassess whether the payout level can be maintained in the future in order to avoid dipping into the fund's capital.

Although JOHCM Global Income Builder's track record since April 2018 is of moderate length, results are encouraging. With a total annualized return of 7.5% the fund has substantially outperformed its peer group average of 4.4%.

#### After-cost returns in EUR as of 31/03/2021

|                                    | Return<br>1y | Return 35m<br>(p.a.) | Return 3y<br>(p.a.) | Return 5y<br>(p.a.) |
|------------------------------------|--------------|----------------------|---------------------|---------------------|
| <b>JOHCM Global Income Builder</b> | <b>18.9%</b> | <b>7.5%</b>          | -                   | -                   |
| Peer group Benchmark*              | 17.8%        | 9.5%                 | 9.9%                | 7.6%                |
| Peer group Average                 | 19.4%        | 4.4%                 | 4.7%                | 4.1%                |

\* BM: 50% FTSE World Government Bonds Index, 50% MSCI World Standard Core (gross) Index

## Risk management and costs

JOHCM nurtures a culture which explicitly encourages fund managers to take the appropriate level of risk while avoiding unforeseen risks and undesired portfolio concentrations.

To this end, the company maintains a comprehensive risk monitoring and reporting framework that provides portfolio managers with numerous risk indicators and analyses.

In quarterly risk reviews, the investment director and portfolio managers discuss statistical evaluations of risk exposures, 'style' analyses and the consistency of decision-making processes provided by risk management.

An independent risk management team monitors compliance with risk limits.

Scope considers risk management at JOHCM Global Income Builder to be well structured, disciplined and comprehensive. However, Scope also believes that the major risk analyses and discussions with investment teams, currently undertaken quarterly, could be more frequent.

The fund's volatility over the 35-month period since inception is 11.4% p.a., which is above its peer group average of 8.9% p.a. The maximum drawdown of the fund over a rolling six-month period for the 35-month horizon amounts to -13.8% versus the peer group average of -12.3%.

With regard to risk, in this case in the form of volatility, the fund management has set itself an annual long-term volatility target of 5% to 7%, which has not been met so far due to market movements. The higher short-term volatility is also due to the fund's value-oriented strategy, which includes countercyclical purchases during bear markets and the fund's income-oriented focus, for which, for example, overweights in credit bonds are typical.

The fund's ongoing charges equate to 0.93%. The fund's annual management fee amounts to 0.65%.

There is no additional performance fee.

#### Risk metrics in EUR as of 31/03/2021

|                                | Volatility<br>35m (p.a.) | Volatility 3<br>years (p.a.) | Max. loss<br>6m / 35M roll | Tracking<br>Error 35M |
|--------------------------------|--------------------------|------------------------------|----------------------------|-----------------------|
| JOHCM Global<br>Income Builder | 11.4%                    | -                            | -13.8%                     | 3.9                   |
| Peer group<br>Benchmark*       | 8.8%                     | 8.7%                         | -9.6%                      | -                     |
| Peer group Average             | 8.9%                     | 8.7%                         | -12.3%                     | 5.5                   |

\* BM: 50% FTSE World Government Bonds Index, 50% MSCI World Standard Core (gross) Index

## Conclusion

The performance of the JOHCM Global Income Builder fund is convincing. It is an actively managed fund with a distinct approach, which invests in those securities across capital structures that offer the best risk-adjusted returns. The fund benefits from a very experienced and adequately sized management team, with each manager focusing on a different area.

Scope acknowledges the fund's well-founded investment process with a focus on absolute value, quality and margins of safety. The managers' contrarian stance should prove beneficial to investors over the long term, as long as they are willing to accept above-average short-term volatility and sit out a full market cycle.

Based on a qualitative assessment in conjunction with a quantitative assessment, the rating for the JOHCM Global Income Builder as of 31.03.2021 is thereby: B (good).



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### The fund rating

Scope's fund rating evaluates the quality of a fund relative to its peer group. Among other factors, the rating reflects long-term earnings power, the stability of fund performance, and timing and loss risks. The analysis incorporates both quantitative and qualitative criteria. For further detail, refer to [the methodology](#).

Rating agency Scope currently rates over 6,000 investment funds (UCITS) authorised for distribution in Germany. The funds collectively manage over EUR 3.0bn in assets.

| Rating scale – investment funds (UCITS) |               | Score    |
|---|---------------|----------|
| A                                       | Very good     | 100 - 78 |
| B                                       | Good          | 77 - 60  |
| C                                       | Average       | 59 - 41  |
| D                                       | Below average | 40 - 23  |
| E                                       | Poor          | 22 - 1   |

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The present fund rating was generated and written by: Barbara Claus, Director Mutual Funds Rating.

### Rating history

In case the fund has been rated by Scope Analysis before Rating history can be viewed [here](#).

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If Scope Analysis has issued an asset manager rating for a provider of the financial instrument analysed, the asset manager rating or ongoing updating thereof can result in a change in the rating of the present financial instrument.

### Principal sources of the fund rating

The following principal sources of information were used to prepare the fund rating: prospectus, provider's website, annual/semi-annual reports of the investment fund, performance record, detailed information provided on request, data from external data providers, interview with the asset management company.

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### Methodology

The methodology used for the fund rating can be viewed at <https://www.scopeanalysis.com/#rating-and-research/mutual-funds/methodologies>.

Information on the meaning of the rating scale used for the rating can be viewed on the website of Scope Analysis GmbH at <https://www.scopeanalysis.com/#methodology/rating-scales>.

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### Contact

**Scope Analysis GmbH**  
**Lennéstraße 5**  
**10785 Berlin**  
**Germany**  
**Phone +49 30 27891-0**  
**Fax +49 30 27891-100**  
**VAT-ID DE226486027**