J O Hambro
Capital Management Group

JOHCM UK EQUITY INCOME FUND

UKEI Monthly Bulletin

June 2026 | FOR PROFESSIONAL INVESTORS ONLY

Fund overview

- The Fund aims to generate long-term capital and income growth through active management of a portfolio of UK listed equities.
- Established income investors, James Lowen, Clive Beagles and Josh Herson, abide by a strict dividend yield discipline, which leads to an emphasis on higher-yielding stocks and promotes a naturally contrarian style.
- The Fund will typically have significant exposure to small- and mid-cap stocks, often giving the portfolio a different holdings profile to many other income funds.
- Benchmark: FTSE All-Share Total Return Index.

Active sector positions as at 31 May 2026:

Top five

Sector	% of Portfolio	% of FTSE All-Share	Active %
Construction & Materials	10.15	0.47	9.68
Life Insurance	8.04	2.43	5.61
Real Estate Investment Trusts	6.09	1.67	4.42
Investment Banking and Brokerage Services	6.69	2.82	4.14
Industrial Transportation	3.96	0.12	3.84

Bottom five

Sector	% of Portfolio	% of FTSE All-Share	Active %
Pharmaceuticals & Biotechnology	3.31	11.35	-8.04
Aerospace & Defence	0.00	6.52	-6.52
Closed-end Investments	0.00	5.49	-5.49
Tobacco	0.00	4.25	-4.25
Personal Care, Drug and Grocery Stores	1.90	5.89	-3.99

Active stock bets as at 31 May 2026:

Top ten			
Stock	**% of Portfolio**	**% of FTSE All-Share**	**Active %**
Standard Life	3.11	0.21	2.90
Barclays	5.06	2.23	2.83
ITV	2.89	0.10	2.79
Hammerson	2.80	0.06	2.74
Lloyds	4.73	2.12	2.61
Aviva	3.22	0.67	2.55
Glencore	4.66	2.12	2.54
Zipup	2.56	0.03	2.53
Standard Chartered	3.57	1.16	2.31
BP	5.11	2.83	2.28

Bottom five			
Stock	**% of Portfolio**	**% of FTSE All-Share**	**Active %**
AstraZeneca	0.00	7.36	-7.36
Shell	0.00	6.23	-6.23
HSBC	3.39	8.46	-5.07
Rolls Royce	0.00	3.86	-3.86
British American Tobacco	0.00	3.52	-3.52

Performance to 31 May 2026 (%):

	1 month	Year-to-date	Since inception	Fund size (£m)	Strategy size (£m)
Fund – I Acc GBP	**3.98**	**7.34**	**626.50**	**1,969**	**2,312**
Lipper UK Equity Income mean*	2.29	4.44	354.25	--	--
FTSE All-Share TR Index (12pm adjusted)	2.07	7.06	414.79	--	--

Discrete 12-month performance (%) to:

	30.05.26	30.05.25	30.05.24	30.05.23	30.05.22
JOHCM UK Equity Income Fund – I Acc GBP	**23.20**	**13.47**	**25.17**	**-5.36**	**6.84**
FTSE All-Share TR Index (12pm adjusted)	22.11	9.53	14.42	1.01	8.15

Past performance is no guarantee of future returns. The value of an investment can go down as well as up and investors may not get back the amount invested. For further information on risks, please refer to the Fund's KIID and/or the Prospectus. Source: JOHCM/Lipper Hindsight. NAV per share calculated net of fees, net income reinvested, 'A' accumulation share class, in GBP. Performance of other share classes may vary and is available on request. Inception date: 30 November 2004. Index return is net income reinvested, adjusted for 12pm. *Initial estimate for the Investment Association's UK Equity Income sector.

Economic developments

Political uncertainty reared its head once again in the UK this month, with Andy Burnham putting himself forward as a potential new Prime Minister, with an agenda focused on the cost of living and regional disparities. This actually led to 2-and-10-year bond yields **falling** during May, despite the inevitable media commentary around a prospective left leaning leader. 10-year bond yields started the month at 5.01%, touched 5.17% in mid-May but ended the month around 4.80%. 2-year bond yields followed a similar trajectory. This was partly due to a modest global retrenchment in bond yields as markets (again) sought to anticipate a resolution in the Middle East. But it was also driven by a series of comments made by Mr Burnham dampening down expectations of a looser fiscal approach.

In contrast, bond yields in the USA rose during the month, with the 10- year yield finishing 12bps higher at 4.49%, only 35 bps lower than the often-derided UK. The move was driven by higher inflation prints this month with consumer prices up 50 bps at +3.8% and producer prices +6.0% vs +4.7% in the prior month. With inflation rising, consumer sentiment in the USA remains soft with the University of Michigan consumer sentiment survey hitting another all-time low at 44.8 (compared to 56.6 pre-war in February). Retail sales rose less than expected at +0.5% month on month. Labour markets have been relatively stable, helped by strong construction markets driven by AI datacentre roll outs, offset by softness elsewhere. A similar picture can be observed in the PMI data, with very strong activity in the manufacturing sectors offset by weakness elsewhere.

Back in the UK, the latest inflation release saw a fall of 50 bps to 2.8%, driven by base effects as we annualised against national insurance, and other tax increases a year ago. Fuel prices were +15% vs March which added 0.4% to the inflation print. This shows that if the crisis in the Straits of Hormuz had not happened, UK inflation would have been back at close to the 2.0% target. GDP for Q1 was confirmed at +0.6% quarter on quarter, and running at 1.1% over the last 12 months as activity strengthened earlier this year once the November Budget was delivered. However, geopolitical uncertainties are weighing on current activity – the flash PMI data for May suggests a modest economic contraction at 48.5 and retail sales fell more than expected in April at -1.3%, reversing some of the strength from earlier in the year. Consumer confidence improved modestly by 2 points to -23, as households began to anticipate a resolution in the Gulf.

Economic data in China was soft during the month with retail sales only +0.2% month on month vs +1.7% in the prior month, and industrial production growth slowing to +4.1% annualized vs +5.7% previously. Similarly, activity in Europe continued to be sluggish with the latest PMI release of 47.5 suggesting a contraction in Q2 after a mere +0.1% GDP growth across the Continent in Q1. However, industrial new orders have begun to strengthen in some countries including Germany.

Performance

The UK market was positive in March with the FTSE All-Share rising 2.1%. The Fund outperformed the market during the month, returning 4.0%. Year to date, the Fund is up 7.3%, which is slightly ahead of the market.

Looking at the peer group, the Fund ranked, second decile in the Equity Income sector over the month, and second decile year to date. On a longer-term basis, the Fund ranks in the 1st decile over 3 and 5-year periods. The Fund remains the best in the sector since inception, and over the last 10 years. (Source: Lipper.)

Interestingly, despite the UK political issues and intra-month move in yields, the more domestically orientated FTSE 250 materially outperformed the FTSE 100. This size effect was a c. 140bps tailwind to the Fund's relative performance over the month. The valuation architecture in small and mid-caps continues to look very attractive and part of the outperformance was driven by heightened M&A activity.

Currys (c.18% relative) and **Marks and Spencer** (c.6% relative) both delivered strong results. Currys trading momentum continued, with management reporting little impact from the Middle East war, and significant free cash flow generation. Despite a disrupted year following the well documented cyber-attack last Spring, Marks and Spencer re-iterated their ambition to double sales in food and improve margins in fashion, home and beauty to more than 10%. The ongoing transformation of the business continues at pace.

Zigup (c.15% relative) delivered a strong full year update, driven by robust growth in both the UK and Spain, a normalisation of the fleet replacement cycle and ongoing business simplification which will all lead to a material inflection in cashflow. Despite this the shares continue to trade on a PE of c. 8x and a dividend yield of 6%. Other Industrials **Vesuvius** (c.9%) and **Morgan Advanced Materials** (c.5%) also performed well following solid updates.

Both **IAG** (c.14% relative) and **easyJet** (c. 11% relative) rallied as we appear to have passed peak oil price and uncertainty around fuel availability reduced ahead of the vital summer season. IAG shares are now up c.4% year to date, whilst easyJet continues to trade well below book value. We discuss the post-month end bid speculation in the outlook.

Whitbread (c.6% relative) performed well following the publication of their updated strategy. Activist Corvex Management, who own c.7% of the business, also publicly urged Whitbread to launch a formal sales process.

L&G (c.6% relative) rallied on reports that there could be potential bidders given their market leading position in the UK bulk annuity market. **Standard Life** (c.3%) continued to perform strongly post Aegon UK acquisition.

BP (down c10%) fell markedly late in the month, following the announced immediate removal of the Chair relating to 'governance oversight and conduct issues'. Although disappointing from the attention it has drawn, the self-help potential remains in place, and we anticipate new CEO Meg O'Neill continuing the strategic transformation of the business at pace. Prior to the news, the shares had been weaker on the lower oil price. **Centrica** (down c.14% relative) was soft primarily around weakness in British Gas due to the warm weather and shape of the commodity price curve. Separately, the company also announced the £370m acquisition of Severn Power. This is a further positive step towards their ambition to double profits by 2030 driven by more regulated and predictable income streams.

Shares in brick producer **Forterra** fell c.10% on increased cost pressures and uncertain demand. Despite these industry pressures, **Ibstock** (up 3%) shares were more resilient as management re-iterated full year guidance. We discuss the outlook for UK housing in more detail below.

Finally, shares in **Vodafone** dropped c.5% after a strong run. Although results were in line with expectations, customer numbers in Germany fell due to heightened competition.

Portfolio Activity

With volatility remaining elevated with a high degree of skew between stocks outperforming and those underperforming we continued to actively manage positions during May.

There are several stocks, which performed well – mainly linked to strong news flow – some of which we note in the previous section. Here we marked positions back to our target weights. Currys (c. 200bp), **Keller** (c. 175bp), **Conduit** (c. 100bp), Zigup (c. 250bp) and **TP ICAP** (c. 225bp) were stocks that fit into this category. It remains encouraging that such a high proportion (c. 80%) of the Fund continues to deliver strong operational momentum and execute well despite the volatile backdrop.

We also slightly reduced **Galliford Try**. This stock hosted a very positive capital markets event at one of its water customers facilities which we attended. Water investment has c. doubled in the latest investment cycle to £100bn (across 5 years) and is forecast to do so again over the following 10 years.

Galliford Try has c. 5 folded since we acquired it, with upside to our target price narrowing, which we reflect in a lower weighting.

In the financial sector we made two material changes, **Aberdeen** was added into the Fund, and we c. halved our position in Legal & General.

We sold Aberdeen c.3 years ago and have acquired it back at a similar price to that sale. Since then, it has made positive progress on resolving legacy and operational issues under the leadership of the new Chief Executive Jason Windsor. It has three businesses: Interactive Investor, which is one of the best positioned / strongest growing businesses in the UK stock market, an asset management business, and a financial advisor platform. The Asset Management business has a negative perception associated with it due to historic issues, but under the bonnet, c. 80% of products are performing above average over 3 years and asset flows are starting to turn in certain areas. There are some areas of excellence (e.g. fixed income, commodities, property, real assets etc) and profits are recovering to more respectable levels. It is also noticeable that Aberdeen has started to do innovative accretive small deals e.g. the Stagecoach pension transaction last year and more recently the Herald / Saba transaction. Our valuation includes these three businesses, as well as their stake in Standard Life, excess capital and the pension surplus, where they have court approval to transfer it to shareholders, but are awaiting HMRC clarity. Our target price is c. 310-320p vs our entry price of c. 220p. It is currently just under 100bp of the Fund. The stock yields 6%.

This was funded by a half sale of Legal & General following a full review of the Life Assurance sector and our holdings. Legal & General has the highest dividend yield but the lowest free cashflow yield, in fact the two numbers are similar at c. 9%. Valuing all stocks consistently, using a free cash flow framework shows Legal & General to have less upside than our other holdings. Its excess capital will also be eroded down into their target range as the business grows over the next few years, meaning share buy backs are likely to stop post the current £1.2bn. We continue to assess our positioning across this sector.

We added to two recent additions – **Derwent** and **Breedon** – which we have covered in previous monthly reports. They are now c.125bp and 55bp of the Fund respectively. There are also two other new names, that we have initiated a position in, which we will discuss when and if they have been properly established.

Elsewhere there were a few stocks that underperformed. One of the smaller parts of the Fund that is not on the front foot is UK housing exposure. Here there were several sluggish updates e.g. Forterra, fell to a new recent low. Housing activity is falling, which is priced into stocks. It is highly likely that whoever emerges as the new Labour leader will prioritise reigniting activity in the housing market, with the potential of some demand side help. Most of the stocks the Fund holds in this area would more than double if c. 200,000 homes were built per annum, a number that has been met in recent years (e.g. 2019 and 2022). This remains the part of the Fund with the most upside. We also added to **Wickes** which fell after an 'in line' and held guidance trading update, which qualitatively highlighted a slower start to the year (in line with others) due to poor Q1 weather.

We also added to **Whitbread**. As noted above, an activist shareholder has published a letter indicating it may seek board changes unless the company explores a sale.

Outlook

It appears increasingly likely that the conflict in Iran is gradually moving towards a resolution. Equity markets continue to look through the impasse, and oil prices, while still elevated, have stopped making new highs. With the US mid-terms approaching and Iranian oil storage reaching capacity there are clearly incentives on both sides to reach a deal. Nonetheless, negotiating a final agreement on the re-opening the Strait of Hormuz and Iran's nuclear program appear challenging. Until then oil prices are likely to remain elevated and this remains the principal transmission mechanism into inflation and rate expectations globally.

As expected, and noted previously in the economic developments section, UK CPI fell from 3.3% to 2.8% between March and April due to the announced reduction in the energy price cap and rolling base effects. Given the energy price cap will increase by 13% in July, inflation will inevitably increase in the second half of 2026. The market continues to suggest that Central Banks will be forced to raise rates. However, in the UK, the wage dynamics that drove the inflation peak in 2022 are simply not present. Notably, the labour market is much softer, underlying wage growth has dipped below 3% and economic growth remains lackluster. The range of possibilities does however remain wide, but the path to reduced interest rates in the UK remains key to unlocking the consumer, investment and economic growth.

The domestic political backdrop remains a source of uncertainty and creates potential for bouts of volatility. We are conscious this will likely weigh on near-term confidence among both consumers and corporates especially until we have more clarity on policy. Burnham's seeming commitment to stick to the government's fiscal rules stabilised UK gilt yields in the latter part of the month. Interestingly, this political uncertainty has not deterred bid activity, with both strategic and financial buyers continuing to find value across the market cap spectrum. We take that as a useful reality check on the gap between perception and fundamentals and importantly valuations. We observe this reality vs perception gap daily when meeting with the managements of Fund holdings. Post month end, we note the reported takeover interest in easyJet. The shares trade at a significant discount to book value and this excludes both the value of the landing slots and the Airbus order contract. The position size was 1.5% as at month end.

We have also been struck by the extraordinary moves in global technology stocks over recent weeks, particularly the near parabolic re-rating of 'memory' shares. Alongside the planned IPOs of several AI related business later this year, we continue to watch these trends with interest. Concentration risk in US and global indices have reached extreme levels. Although we make no prediction about this, we would observe that a portfolio of cash generative, undervalued UK equities (many of which trade below asset value) with strong balance sheets and trading on sensible multiples of normalised earnings looks an increasingly sensible diversifier. Despite the strong rebound we have seen since the March lows, valuation across the Fund continues to look highly appealing and the portfolio has rarely traded more cheaply, relative to the market on a price to book basis. As discussed in the activity section, we have been selectively leaning into weakness, the pipeline of new ideas is strong and the competition for capital remains high. We believe this positions the Fund well to benefit as uncertainty recedes.

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Sources: JOHCM/MSCI Barra /Bloomberg (unless otherwise stated)