

◆ JOHCM UK EQUITY INCOME FUND

UKEI Monthly Bulletin

MAY 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 30 April 2026:

Top five			
Sector	% of Portfolio	% of FTSE All-Share	Active %
Construction & Materials	10.66	0.46	10.20
Life Insurance	9.10	2.41	6.69
Real Estate Investment Trusts	5.93	1.66	4.27
Banks	19.32	15.76	3.56
Investment Banking and Brokerage Services	6.12	2.87	3.25

Bottom five			
Sector	% of Portfolio	% of FTSE All-Share	Active %
Tobacco	0.00	3.99	-3.99
Personal Care, Drug, & Grocery Stores	1.75	6.01	-4.26
Closed-end Investments	0.00	5.41	-5.41
Aerospace & Defence	0.00	6.13	-6.13
Pharmaceuticals & Biotechnology	3.44	11.46	-8.02

Active stock bets as at 30 April 2026:

Top ten			
Stock	% of Portfolio	% of FTSE All-Share	Active %
Standard Life	3.11	0.20	2.91
ITV	2.89	0.10	2.79
Glencore	4.79	2.10	2.69
BP	5.93	3.26	2.67
Hammerson	2.73	0.06	2.67
Barclays	4.83	2.17	2.66
Aviva	3.32	0.68	2.64
Lloyds	4.62	2.08	2.54
TP ICAP Group	2.57	0.08	2.49
Zigup	2.48	0.03	2.45

Bottom five			
Stock	% of Portfolio	% of FTSE All-Share	Active %
Unilever	0.00	3.27	-3.27
Rolls Royce	0.00	3.37	-3.37
HSBC	3.42	8.26	-4.84
Shell	0.00	6.75	-6.75
AstraZeneca	0.00	7.42	-7.42

Performance to 30 April 2026 (%):

	1 month	Year-to-date	Since inception	Fund size (£m)	Strategy size (£m)
Fund – I Acc GBP	4.89	3.24	598.70	1,908	2,242
Lipper UK Equity Income mean*	2.81	1.96	339.86		
FTSE All-Share TR Index (12pm adjusted)	2.18	4.89	404.36		

Discrete 12-month performance (%) to:

	30.04.26	30.04.25	30.04.24	30.04.23	30.04.22
JOHCM UK Equity Income Fund – I Acc GBP	27.78	9.67	14.83	1.97	6.50
FTSE All-Share TR Index (12pm adjusted)	24.88	6.68	9.03	5.57	8.67

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

The on-off nature of diplomatic negotiations in the Middle East saw oil prices move around considerably during the month. Brent crude started April at \$118 per barrel and fell to \$90 by mid-month, as an agreed ceasefire and an apparent unwillingness from President Trump to engage in a prolonged conflict gave markets confidence that a resolution was in sight. However, by the end of April, some of this optimism had been diluted and Brent finished the month broadly unchanged at c. \$114 a barrel. Given the implications for short-term inflation expectations, bond yields moved in a similar pattern. For example, the UK 2-year yield started the period at 4.41%, fell to 4.13% mid-month, and ended at 4.45%, partly driven by renewed UK political uncertainty. In contrast, equity markets were less perturbed by the lack of diplomatic progress in late April and ended close to all-time highs.

Whilst the war in the Middle East will inevitably cause a slowdown in UK economic activity, most of the releases during April reflect the fact that prior to the conflict, economic activity was accelerating, with clear evidence that the November 2025 Budget had acted as a clearing event. Although we are not great fans of monthly GDP data, given its short timeframe and inherent volatility, it was striking that GDP grew by 0.5% month-on-month in February. The first two months of the year combined saw growth of 0.6%, broadly in line with what many economists now forecast for the whole of 2026.

Retail sales grew 0.7% month-on-month in March despite the Iran war, while the UK PMI rose to 52.0 from 50.3, in contrast to mainland Europe where it fell two points to 48.6. However, it should be noted these surveys were carried out in the week after the ceasefire agreement and may well have reflected a higher degree of confidence, mid-month, that a resolution was imminent.

Consumer confidence did take a further step backwards this month, falling 4 points to minus 25, its lowest level for over 2 years. Notably, it remains well above the levels seen in 2022, when it fell to -38 in April following the start of the war in Ukraine and the energy spike, and to -49 in September after Liz Truss' fiscal experiment. Consumer-facing companies have generally reported a more sluggish trading environment over the last 6-8 weeks due to the rise in uncertainty, particularly around the path of short-term interest rates. In this respect, BOE Governor Andrew Bailey continued to suggest that the Bank will seek to look through any short-term inflation volatility when setting policy.

The March CPI inflation print of 3.3% was up 30 basis points from the prior month, driven entirely by fuel and energy. Somewhat counterintuitively, the April inflation number is likely to be lower, possibly below 3%, as the energy price cap level falls, having been set before the war, and as base effects drop out, including the rise in vehicle excise duty last year. It will likely rise again later in the summer as the price cap fall is reversed. Encouragingly, wage inflation has continued to decelerate, with the latest three-month average increase at 3.8%, down from 5.75% a year ago. Unemployment actually fell below 5% this month, but this was entirely due to a lower participation rate rather than higher employment. Vacancy levels have remained broadly flat this year and suggest that workers will not have the same ability to demand higher wages as they did after the Ukraine war energy spike, indicating that this inflation spike is likely to be much less pronounced than in 2022.

The UK annual budget deficit ended up at £132bn for the fiscal year 2025-26, which is £20bn lower than the previous year and represents 4.3% of GDP (vs 5.2% last year).

PMI data in the USA exhibited a similar recovery to the UK, moving back to 52.0. Durable goods new orders in March also recovered the setback they had seen the previous month, with orders for core capital goods rising at their fastest rate (+3.3%) in over 5 years, in part helped by ambitious AI infrastructure roll outs. Retail sales grew 1.7% month-on-month in March, although this was partly driven by higher prices for gasoline. Yet the University of Michigan consumer sentiment survey was 3.5 points lower at 49.8, its lowest level ever recorded, suggesting highly-elevated concerns around fuel prices and the outlook for inflation.

Performance

The UK market recovered sharply in April as the conflict in Iran waxed and waned somewhat, as explained above, and the focus started to move back to company specific fundamentals and valuation. The FTSE All-Share rose 2.18%. The Fund recovered strongly during the month, returning 4.89%. Year to date, the Fund is up 3.24% vs the FTSE Allshare which is up 4.89%.

Looking at the peer group, the Fund ranked **2nd decile** in the Equity Income sector over the month, and **4th decile** year-to-date. On a longer-term basis, the Fund ranks in the **1st decile** over 3- and 10-year periods. The Fund remains the best in the sector since its inception in 2004. (Source: Lipper as at 30 April 2026).

Oil stocks pulled back slightly from the elevated March levels which, given the Fund's underweight, was helpful to relative performance.

However, the biggest contributor to the Fund's recovery versus the market was broad strength in the financial sectors. Banks all moved higher – by 5-12% relative, as the implications of a flatter interest rate curve was priced in and early Q1 results showed resilience and strength. **Standard Chartered** – up 14% relative – was the strongest performer in this group.

Standard Life announced the acquisition of Aegon UK, which was viewed positively by the market. This transaction is discussed in the next section. The stock was up 10% relative. We also saw strength in our other financials – **TP ICAP** performed well (up 15% relative) as continued volatility in markets benefitted its business whilst **Polar** rose (by 9% relative) on a very positive earnings statement highlighting good asset flows.

In the property subsector, stocks had been weak in March and the start of April but strengthened as the month progressed. We cover **Derwent** in the next section.

There was less company reporting in April, after the full year results period ended in March. Of stocks reporting – in non-financial sectors – there is more weakness feeding into statements. **Mondi** (down 11% relative) had a weak statement, albeit the energy cost increases it is seeing (which created the downgrades) are expected to (a) be passed on with a lag and (b) hasten capacity exit, which will aid medium-term recovery.

Page and **EasyJet** issued weak statements, both linked to the demand side impact of the war, and in Easyjet's case, the higher cost of jet fuel. **DFS**, which came back to the dividend list with its results during the month, was cautious on its outlook for similar reasons. In aggregate, these three stocks were flat on the month, with share price reactions to their respective statements less marked than one may have expected. This suggests we are starting, in certain areas, to see deep value support. For example, Easyjet is trading below book value. This book value does not account for the value of its slots at key airports, the value in its airbus order (where it has contracted cheap planes due over the next 3-7 years), or the NPV of its zero-tax position (which we think is worth c. 50% of its market cap).

Portfolio Activity

We noted last month that we made some significant changes to the Fund across the period when global markets dislocated as the Iran war started. As markets recovered during April, activity was more moderate.

We added two new stocks to the Fund. One was **Breedon**, continuing a trend over the past 18 months of introducing names not previously held across the 22-year history of the Fund. The other will be discussed in future months.

Breedon is a heavy-side building material producer. Its main products are aggregates, ready mix concrete, asphalt, and cement. It operates in the UK, Ireland, and the US – the latter two geographies provide differentiated exposure versus the Fund's mainly UK centric building related exposure. The stock is down over 50% on a relative basis over the last 12 months, reflecting a weak (macro driven) performance in the UK. Temporary headwinds in the US from adverse weather and in Ireland from contract delays are now reversing. Backed by physical assets in the form of aggregates in the ground, the company is trading on a PE of 10x depressed earnings and a yield of 5%.

Our normalised earnings are conservatively struck at c. 45p per share, which on a PE of 12x would suggest a target price of c. 550p, which is 75% higher than the current share price.

Our new idea pipeline remains healthy, with a few other new names in the latter stages of due diligence.

Elsewhere in the Fund, with no holdings anywhere close to full valuation, most reductions were limited to risk management adjustments. Standard Life was one such case, with the position trimmed back to our maximum overweight of 300bp following the strong performance noted above. The acquisition of Aegon UK announced during the month was viewed positively by the market. It is a strong strategic fit, consolidating leading positions in key growth areas such as workplace pensions. The deal was completed at an attractive valuation, around 9x PE including synergies, and creates a stronger combined balance sheet, which is likely to support a rolling share buyback starting in 12 months. The stock yields 7.5%.

Other risk management adjustments reflected strong share price moves. We moved **Zigup** and TP ICAP back to pre-rally weights, and reduced **Conduit** to 125bp as it continued to recover towards book value.

We also modestly reduced **Galliford Try**, which still has c. 25% upside to its target price, despite increasing over five-fold over the last few years. We also continued to reduce **Vodafone** (which is up over 40% relative over 12 months) as the valuation argument becomes less clear cut.

Additions were focused on stocks that were weak. **Centrica** weakened intra-month on leaks suggesting the government would change certain aspects of electricity price regulation. In the outturn, the changes were less significant and could potentially be considered positive depending on how old nuclear (which Centrica part own) is treated in the suggested regime. The stock had recovered to broadly where it had started the month by the end of the month. The position size is just below 200bp. We also added to select retailers which were weak – **Marks & Spencer's** and **Currys**.

We also continued to add to recent addition Derwent, which is now c. 120bp of the Fund. At the start of the month it was trading around 50% of forecast book value. During the month it announced the sale of Horseferry House in Westminster, Burberry's head office. It was sold for c. £130m, 'marginally below book value'. The gap between stock market valuations and real-world transactions remains stark in the property sector. Anecdotal evidence suggests capital from the Middle East, post the Iran conflict, is looking at property in key gateway cities, which suggests a continuation of healthily priced real-world transactions. Derwent used the proceeds from this sale to reduce leverage, which is already low in a sector context at around 20–25% loan to value. We expect the next property sale to fund a share buyback, which would help close the valuation gap noted.

Outlook

With no immediate resolution in sight to the standoff in the Straits of Hormuz, most market participants were surprised by the resilience of global equity markets. Indeed, given oil prices and bond yields have returned close to recent highs, this view appears justified. However, equity markets tend to discount future outcomes. As it became clearer that the Trump administration has limited appetite for a prolonged conflict, markets have largely looked through the current impasse despite no clear path to a resolution. But the greater the short-term disruption is to oil supplies, the more likely it is that a short-term solution will be found.

Central banks are also grappling with this dynamic and the Fed and the Bank of England have both made it clear that their preferred course is to sit on their hands until a resolution is found. The ECB feels more hawkish, partly because interest rates on the Continent are lower and policy may no longer be restrictive. Bond markets continue to suggest that a degree of monetary tightening will be necessary in all regions, although the range of possibilities remains wide.

The Fund has been positioned in anticipation that at some point in the future UK consumers and corporates will begin to accelerate their spending, as many years of de-leveraging and saving has left an unprecedented degree of firepower. The missing ingredient has been confidence and, disappointingly, the war in Iran has provided another reason for another delay in this process. However, the quantum of the opportunity means that we will, by and large, remain committed to the likely beneficiaries of this spending, even though we will need to wait longer for it to materialize. Furthermore, in many cases stocks exposed to this theme have become much cheaper in the last 2 months. We will also use weakness to establish new positions in stocks that have been soft during this period as outlined in the portfolio activity section above. Critically, we will ensure that we are mindful of balance sheet strength in these areas as we cannot be certain of how long this disrupted phase may last. The UK has also entered another period of heightened political uncertainty, and this may provide another reason for short-term caution by consumers and corporates.

In aggregate, however, valuations remain highly supportive across our investible universe whether we are looking at price-to-book multiples, dividend yields, price/earnings multiples, or free cash flow yields. At some stage the fog will clear revealing many modestly priced stocks with the potential for significant capital upside. It is also striking that UK PLC has continued to be on the receiving end of M&A activity despite the current uncertainties.

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