JK Global Opportunities Fund April 2018

The Fund fell -1.05% in April, (GBP Class, Net of Fees).

The Fund fell -1.05% during the month, with weakness largely due to small falls in the equity book. Markets are rebounding somewhat in May, which is encouraging, as we remain bullish on risk assets, whilst accepting that returns going forward might be subjected to greater volatility.

Of late, pressure seems to be building on certain emerging markets, principally Turkey and Argentina as US interest rates and the US Dollar start to rise. This is leading to a rising market risk premium in EM countries whose balance of payments (BOP) are vulnerable. EM central banks are responding by allowing some exchange rate flexibility (i.e., depreciation) and some FX intervention, but if BOP pressures intensify, policy rate hikes may be needed. On 9 May, Argentina requested financing from the IMF to avoid a crisis. This came after the central bank hiked policy rates to 40% in response to the Peso's sharp depreciation. Related to this, we have been uncomfortable with the outlook for Turkey for some time, as it's an economy that is up to its eyeballs in foreign currency denominated debt, and therefore extremely vulnerable to currency weakness. Private sector debts have doubled as a proportion of GDP in 10 years, and its banks have 60 percent more dollar loans outstanding than they did 5 years ago. It is estimated that Turkey needs to attract foreign capital worth 25 percent of economic output each year just to cover its current account and debt repayments. As a result of this, and our expectation for further US Dollar strength, we have initiated a short position in the lira.

More generally, we would re-iterate that the risk-reward for stocks remains good, despite higher volatility. We would note that the complacency over the growth outlook has largely corrected and the rollover in recent high frequency data should not extend much further. We expect a pickup in global growth in 2H and note that almost all recent years tended to have the pattern of weaker Q1 followed by a rebound later on in the year. Earnings should remain supportive, and we would note that the Q1 reporting season is extending the run of double-digit EPS delivery in both the US and Europe. We note though that the bulk of the EPS upgrades on the back of the US tax cuts are by now behind us, and the positive surprises might shift to Europe. We can certainly find value here. The weakness in share prices of late, particularly in the technology sector has created a good medium term entry point and we have been adding to positions. Furthermore, positioning is not stretched – Hedge Fund beta for instance is back to its historical range.

Despite persistent concerns, bond yields are still within past ranges, and central bank tightening is still in its early stages, with US real policy rates continuing to be negative. We have noted before how none of the last eight downturns started with real rates lower than 2%. Classic end-of-cycle indicators are not flashing warnings signs, yet. The yield curve is flattening, but it is unlikely to get inverted for some time. Crucially, stocks have never peaked before the yield curve inverted. Most equity market P/E multiples have de-rated this year, as equities have been flat despite decent earnings numbers. In absolute terms equities are fairly valued in a historical context. Relative to fixed income, equity valuations remain undemanding and continue to offer a substantial valuation gap vs historical averages. Whilst we expect bond yields will rise further, we believe that equities should be able to tolerate this, as we are not yet reaching the yield levels that would be detrimental to valuation multiples or to the sustainability of the economic cycle.

We have just returned from Hong Kong and Japan, where our overriding feeling remains one of optimism over the potential for good medium term investment returns in Asia in general, as profits are growing and valuations remain undemanding. China remains a huge opportunity in our view and we continue to add to positions in what we believe are long term structural themes, such as education, technology, financial 'deepening', and healthcare. Spending time in the region merely reinforces these views.

However, the political backdrop is less constructive. Xi Jinping has acquired dictatorial powers. How he will use such levers of power is still to be seen, but he is certainly tightening his grip. We need to remember that the Chinese Communist Party believes its model to be superior to that of liberal democracy. A lack of recognition by China of the structures (IMF, GATT, etc.) set-up post WW2, principally by the US, will result in ongoing conflict in terms of trade and security. At present, Chinese (and other Asian) citizens seem to regard government intrusion as an acceptable trade-off for rapidly rising living standards, but we would note that dictatorial economic management has a chequered history. Ultimately China is a mercantilist empire builder. China agreed to do a lot of opening up when they joined the World Trade Organisation (WTO) in 2000 but a lot of promises have not been fulfilled, according to the US. Therefore, countries should treat Xi's public announcements about China, its aims and its actions with a degree of scepticism. A stance that the US seems to be adopting.

China is clearly confronting the financial and economic pre-eminence of America, via the One Belt One Road initiative (in effect a China centred trading network), and Made in China 2025 industrial policy (an industrial policy to boost China's manufacturing to move up value chains). Given such initiatives it is not hard to envisage the potential for an escalation in trade wars, protectionism, or more serious geopolitical consequences.

Xi Jinping's other stated aims of per capita income targets, reducing leverage and financial risks, cleaning up the environment and addressing inequality are all laudable if arguably inconsistent, and clearly involve a large amount of execution risk. Here at JK, we can't help feeling that China is likely to reach the limits of investment-led and export-led growth at a much lower income level than its north Asian peers did, while its growing political interference in large swathes of the economy is becoming a growing constraint on productivity.

However, despite the above, when we are looking at opportunities at the stock level in China we feel that the potential rewards still meaningfully outweigh the risks.

Japan, whilst less exciting than other regional markets still represents an excellent long term investment, with deliverable returns in the high single digits, amid continued advancements in corporate governance combined with compelling valuations. Furthermore, the monetary policy backdrop will remain supportive, affirmed by our meeting with BOJ officials who were at pains to downplay any near-term potential tightening of policy. Whilst consumption taxes will rise this year, the impact will be minimal in reality and will create an opportunity should the market adopt a differing view nearer the time.

***JK Global Opportunities Fund** is a weekly dealing UCITS fund. It can be held by ISA's, SIPP's, Pensions, Charities, Family Offices, Endowments, as a direct holding or through a Private Wealth Manager. All classes have UK Reporting Status.*

GBP Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2018	+6.32	-1.45	-2.01	-1.05									+1.59
2017	+2.97	-1.11	+1.97	+3.52	+2.16	-0.43	+2.84	+2.19	+0.46	+5.38	+2.54	+1.55	+26.66
2016	-5.68	+0.15	+6.37	-0.85	+0.92	-1.35	+3.67	-0.87	+1.49	+1.80	+0.20	-1.92	+3.50
2015	+1.87	+3.87	+0.24	+2.11	+3.89	-4.65	-0.16	-8.20	-6.51	+6.29	+1.40	-0.77	-1.69
2014	-4.02	-1.96	-0.93	-4.69	+0.89	+1.90	+0.06	-1.61	+2.02	+0.09	+7.77	-2.86	-3.86
2013	+6.18	-1.23	+3.52	+8.65	-2.79	-2.93	+3.05	-0.77	+6.43	+0.96	+4.15	+3.23	+31.51
2012	+2.43	+4.74	-0.62	-1.98	-1.54	-0.84	+0.73	+1.49	-0.54	-1.21	+1.25	+4.75	+8.68
2011	-0.92	-0.19	-1.13	+0.80	-2.89	-1.55	-1.43	-1.14	-3.60	+0.94	-2.67	+0.37	-12.71
2010	+0.83	+0.90	+3.77	+1.93	-4.44	+1.69	+0.70	+0.87	+0.02	+1.38	-0.88	+1.74	+8.62
2009				+1.73	+10.1	+2.66	+5.01	+1.23	+1.25	+1.57	-1.14	+3.32	+28.40

USD Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2018	+6.49	-1.25	-1.89	-0.89									+2.26
2017	+3.07	-1.06	+2.06	+3.56	+2.15	-0.31	+2.96	+2.35	+0.63	+5.47	+2.60	+1.71	+28.09
2016	-5.53	+0.16	+6.52	-0.81	+0.93	-1.32	+3.74	-0.81	+1.53	+1.86	+0.22	-1.82	+4.26
2015	+1.95	+3.92	+0.28	+2.17	+3.81	-4.75	-0.15	-8.28	-6.48	+6.34	+1.36	-0.74	-1.65
2014	-4.07	-1.88	-0.95	-4.73	+0.85	+1.92	+0.05	-1.59	+1.97	+0.18	+7.70	-2.84	-3.91
2013	+6.06	-1.22	+3.54	+8.83	-2.63	-3.09	+3.02	-0.86	+6.57	+1.00	+4.52	+3.38	+32.33
2012	+2.43	+4.80	-0.65	-2.03	-1.50	-0.87	+0.72	+1.52	-0.56	-1.22	+1.23	+4.79	+8.72
2011	-0.95	-0.20	-1.13	+0.82	-2.88	-1.55	-1.50	-1.17	-3.51	+0.94	-2.63	+0.34	-12.73
2010	+0.81	+0.84	+3.74	+1.92	-3.95	+1.76	+0.74	+0.87	+0.01	+1.39	-0.88	+1.72	+9.13
2009	-2.51	+0.03	+3.13	+2.13	+13.8	+3.42	+6.08	+1.06	+0.99	+1.58	-1.10	+3.14	+35.61
2008	-1.76	-0.01	-0.50	+1.22	-1.15	-4.74	-1.58	-1.00	-1.93	-0.05	-0.44	+2.83	-8.92
2007	+2.01	-1.34	-2.35	-0.81	+1.63	+4.04	+0.41	-6.10	+0.14	-1.38	-3.97	-3.74	-11.27
2006	+0.13	-3.78	+3.72	-2.27	-3.75	+1.57	-4.58	+3.13	-0.84	+2.73	-1.03	+1.61	-3.75
2005	-0.75	+1.04	+0.36	-0.65	-1.05	+0.90	+2.01	+1.99	+9.65	+4.55	+7.71	+9.41	+40.31
2004	+0.82	+2.03	+6.57	+0.16	-2.15	+1.61	-1.66	-0.96	-0.48	-0.78	-0.27	+2.18	+6.98
2003											+0.01	+0.39	+0.40

EURO Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2018	+6.36	-1.44	-2.09	-1.16									+1.45
2017										+3.69*	+2.47	+1.43	+7.77*

*Euro Class started on 04-Oct-17

YEN Class (%)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2018	+6.38	-1.42	-2.06	-1.16									+1.45
2017	+2.87	-1.14	+1.88	+3.57	+2.21	-0.63	+2.83	+2.20	+0.54	+5.33	+2.42	+1.49	+26.07
2016	-5.47	+0.00	+6.50	-0.83	+0.89	-1.40	+3.87	-0.93	+1.38	+1.74	+0.07	-2.01	+3.36
2015	+1.96	+3.85	+0.29	+2.08	+3.93	-4.77	-0.19	-8.07	-6.54	+6.33	+1.42	-0.85	-1.63
2014	-4.10	-1.86	-0.96	-4.74	+0.82	+1.90	+0.03	-1.61	+2.03	+0.51	+7.92	-2.93	-3.53
2013	+6.31	-1.17	+3.49	+9.16	-2.78	-3.02	+2.98	-0.88	+6.62	+0.99	+4.61	+3.52	+33.21
2012	+2.35	+5.36	-0.68	-2.00	-1.50	-0.92	+0.66	+1.49	-0.58	-1.26	+1.24	+4.98	+9.18
2011	-0.99	-0.21	-1.17	+0.78	-2.91	-1.54	-1.47	-1.21	-3.52	+0.90	-2.67	+0.25	-13.02
2010	+0.76	+0.82	+3.93	+1.90	-3.62	+1.67	+0.68	+0.83	-0.02	+1.32	-0.92	+1.62	+9.17
2009	-0.44	+2.14	+2.41	+3.29	+17.6	+5.35	+2.75	+1.22	+1.17	+1.98	-1.32	+3.85	+46.57
2008	-1.92	-0.22	-0.69	+1.09	-1.31	-4.88	-1.77	-1.32	-1.87	-1.00	-0.86	+2.31	-11.89
2007	+1.64	-1.67	-2.71	-1.19	+1.26	+3.72	-0.03	-6.09	-0.28	-1.75	-4.16	-4.10	-14.68
2006	-0.31	-4.10	+3.40	-2.55	-4.13	+1.21	-5.00	+2.76	-1.23	+2.29	-1.43	+1.25	-7.99
2005	-0.94	+0.93	+0.20	-0.96	-1.36	+0.67	+2.08	+1.71	+9.66	+4.45	+7.66	+8.98	+37.47
2004	+0.74	+2.04	+6.20	+0.45	-2.20	+1.52	-1.82	-1.04	-0.61	-0.88	-0.40	+2.01	+5.88
2003											-0.06	+0.31	+0.25

NAV as at 30-Apr-18	
GBP class	219.00
USD class	281.08
Yen class	25,652.62
Euro Class	109.33

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)	Long	Short
Level 1	104	-41
Level 2	20	0
Level 3	0	0
Total	128	-41

Source: JK Investment Management LLP

For more information on the Fund, please see **www.jkim.co.uk**

Administrator for JK Global Opportunities Fund (Orders by 3pm on a Tuesday)

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All data is Net of management and performance fees. Fund was launched on November 3rd 2003. GBP Class launched 1st April 2009. Mandate broadened to Asia Inc Japan and Name of Fund changed April 1st 2009. Please note that performance from 1st April 2009 to 30th August 2013 is for the JK Absolute Return Fund. This Fund re-domiciled from Cayman to Ireland becoming an Irish UCITS on 30th August 2013 and changed its name to The JK Global Opportunities Fund. Management and performance fees have also been reduced from this date (see Prospectus in for details). Historic performance is not a guide to future returns.
Source: JKIM LLP, Apex Fund Services (Ireland) Ltd.

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