## JK Global Opportunities Fund December 2018

USD Class -4.47%, GBP Class -4.64%, YEN Class -4.74%, EUR Class -4.75% in December.

The Fund fell –4.47% during December, as financial markets experienced a major sell-off going into year-end. Particular weakness was seen in US equities, which had up until December proved most resilient, but finally succumbed to mounting evidence of slowing global growth and further deterioration in financial conditions. It seems as though the market was giving the FED the benefit of the doubt over its plans for further tightening through 2019 up until December, but this changed abruptly last month as the market moved to price in no Fed Fund rate increases, clearly a massive difference in view from that of the FED itself. The spectre of a major policy mistake began to loom large in investors' eyes, and the panic button was pressed, resulting in a 10% fall in the S&P during the month, and a roughly 15% fall since the high in September.  World equities fell roughly 13% during the quarter, losing approximately $20 trillion, and credit markets seized up.

Fund performance was hurt by the equity book, as well as the short position in Italian bonds. Technology holdings bore the brunt of the sell-off, with the likes of Samsung, Alibaba, and Sunny Optical being sold-off mercilessly.

Looking back, 2018 was hit by a 'perfect storm'. Trade tensions escalated meaningfully, the Fed hiked rates fairly aggressively, China tightened funding, and oil, for a while at least, surged. We had expected that policy tapering/tightening in the U.S. would have a negative effect on asset prices, but we did not foresee the escalation in tension between the US and China, and miscalculated the combined impact on risk assets which we felt would be supported by good earnings and little competition from other less risky assets. In the eventuality earnings were strong, particularly in the U.S. (helped of course by the Trump tax cuts), but it seems that the lure of cash rates of 2%+ in US Dollars tipped the balance and given all the global uncertainties listed above provided the trigger for significant risk reduction on behalf of investors.

The resulting sharp sell-off has, of course, left many equity markets looking significantly better value than they were at the start of 2018. In particular, our models view Asia, Japan, and the U.K. as very cheap, with Europe neutral, and the US back to slightly above neutral valuation from expensive. We need to keep this in mind as volatility increases. These valuations act as an anchor, and whilst short-term movements are more sentiment driven, ultimately the time to buy risk assets for the long term investor is when they are cheap, as they are now.

Thus, having raised meaningful amounts of cash in the fourth quarter, we are now in the position to use further weakness in equity markets to start rebuilding exposures. We will do this gradually and selectively as we do not feel markets are 'out of the woods' as yet. Also, earning 2.4% in treasury bills looks reasonably attractive to us as well.

To make us more positive on risk assets tactically we will need to see some policy shifts and improvements in US/China relations. We have discussed the latter in previous monthlies, and our view remains that this will be an ongoing issue and not one where we expect much change in stance by either party. The US is out to contain China's military and economic ambition, and we rather empathise with this. However, on the former, recent announcements have been somewhat more constructive. In particular, the US FED appears to have called time (at least temporarily) on its rate hike agenda, and China seems to be easing up on its efforts to purge financial excesses through aggressive deleveraging initiatives. Policy pirouettes like this can have meaningful implications for global asset markets, as well as the global economy. They can also act as a significant counter to the negative headwinds of slowing global growth and falling earnings which look 'baked-in' for this year at least. This shift in Washington has echoes of the FED retreat in 2016 when China's currency scare threatened to spin out of control. FED chair Yellen came to the rescue then, shelving plans for higher rates, and the world equity index surged. Whilst we are not expecting this to happen this time, we need to bear it in mind as bearish sentiment becomes 'de rigeur'.

Turning back to the global economic outlook, many of the indicators that tend to turn first around peaks in the business cycle are now flashing red in several major economies e.g. output and activity indices are falling, business surveys are weakening, world trade is contracting, and inflation and commodity prices are falling. Admittedly, some survey measures of confidence and real activity remain at fairly high levels by past standards, but overall the evidence suggests that a synchronised slowdown is now underway. We expect the global economy will lose further momentum over the next year or so, led by slowdowns in the US and China. With core inflation in the US already past its peak, we expect the FED to change its view on the rate cycle and barely raise rates at all during the year. Recent comment by FED chair Powell reinforce this shift in view – no doubt influenced by the collapse in risk asset prices in the fourth quarter. Furthermore, given the headwinds in China's economy, we're expecting stimulus measures – including the reserve requirement cuts announced by the PBOC last week – only to stabilise growth later this year, and not to drive a significant rebound. Meanwhile, there are increasing signs that euro-zone GDP growth won't be as good in 2019 as it was in 2018, raising the risk that the ECB will wait until after September before hiking rates.

Thus, whilst the economic and profit outlook looks challenging going into 2019, FED policy is really what matters in our view. Last year it was draining liquidity aggressively, resulting in a strong US Dollar, and in turn squeezing a world financial system that has never been more dollarized or more sensitive to US rates. FED policy has a huge global impact, with the global financial system once again brought to the brink by the end of 2018. If the FED is indicating a meaningful shift in policy, and as a result the Dollar starts to weaken, then clearly the pressure eases and the outlook for risk assets improves. We would become more bearish if the trade war escalates, the FED starts raising rates again, and/or Beijing tries to force a further meaningful devaluation of its currency. Needless to say, we will be paying close attention to these policy issues over the coming months.

Wishing you all a very Happy New Year and all the best for 2019.

***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 | +3.67 | -3.30 | -0.01 | +1.14 | -2.35 | -7.11 | +0.08 | -4.64 | **-10.85** |
| **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 | +3.75 | -3.06 | +0.12 | +1.25 | -2.14 | -6.91 | +0.28 | -4.47 | **-9.02** |
| **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 | +3.59 | -3.39 | -0.10 | +1.12 | -2.53 | -7.19 | +0.03 | -4.75 | **-11.61** |
| **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 | -1.14 | +3.59 | -3.26 | -0.11 | +1.15 | -2.45 | -7.06 | +0.07 | -4.74 | **-11.15** |
| 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 31-Dec-18 | |
|---|---|
| GBP class | 192.19 |
| USD class | 250.09 |
| Yen class | 22,448.86 |
| Euro Class | 95.26 |

Source: Apex Fund Services (Ireland) Ltd.

| Asset Type as at above date (market exposure % of Total NAV) | | |
|---|---|---|
| | Long | Short |
| Level 1 | 74 | -24 |
| Level 2 | 14 | 0 |
| Level 3 | 0 | 0 |
| Total | 88 | -24 |

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)**

Apex Fund Services, Dublin Tel: +353 21 463 3366, Fax: +353 21 463 3377,
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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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