

SHINING A LIGHT ON..... JM FINN GLOBAL OPPORTUNITIES FUND

At a glance

The central theme of the fund is to invest in companies which will benefit from the growth in the global market with a particular focus on the emerging economies across the world.

This provides a way to invest in emerging markets but by using developed market companies which look to seek growth from these markets. This means that when emerging markets are out of favour it can still deliver potentially positive returns against other emerging market funds, and when emerging markets are back in favour it can benefit from this as well. Effectively the best of both worlds.

There are three themes, “what the world needs” (recurring demand like food, energy, raw materials etc) “what the world wants” (aspirational demands i.e. consumer goods – toothpaste, soap etc) and then “what links the two” – logistics, transport and ports.

Unlike others this fund is about allocating assets to benefit from the different themes rather than picking particular stocks. This means it has around 200 holdings and for some this may be something they are uncomfortable with as the danger is it ‘tracks’ rather than outperforms and has higher charges.

Overall we feel this fund sits well with a cautious to balanced investor who is looking to benefit from emerging markets but may not want to invest in pure emerging markets or alongside another pure emerging market fund to lessen volatility.

Who are the team behind the fund?

This is a boutique operation which brings risks and benefits. The risks are that the operation is small and therefore if the team leaves then effectively the fund goes with them; however the benefits are that often the management team are an integral part of the business.

The lead manager is Anthony Eaton. He joined JM Finn & Co in 2001 and has managed the fund since its launch in 2004. The co-manager on the fund is Isabella Galliers-Pratt who joined JM Finn in 2010 to work alongside Anthony.

JM Finn & Co was founded in 1945 and manages over £7.4 billion; the fund itself has just £90 million of assets.

What is the story behind the investment?

The story is a simple one. There are 4 billion people in Asia and another 1 billion in Africa. This group is the principle agent of change within the global economy. China is the cheerleader. Incomes per head were circa \$1,200 in 2003 and have grown to \$6,000 in 2012.

By 2030 emerging markets will make up 50% of global trade, currently this is around 44%. The other point that we discussed with Anthony is that the developed economies are very different to emerging economies. In the developed markets they are mature, there are only so many cars you

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can have or televisions and when you want to replace them. People are older and the economies have significant debt.

Whereas in the emerging markets you have a younger population, a growing population and one that is starting to demand new things like cars, and basic consumer goods which we would take for granted like toothpaste. Unilever recently stated that there was no new demand in the west but emerging markets were booming.

The point is that if you can tap into this without specifically selecting companies you can benefit from this growth. For example, you can invest in the ports and warehouses which act as the distribution network to a wider audience; equally you invest in airports which are growing as well as brands which will service this growth.

The companies tend to be western companies and therefore have the potential to avoid the downturn when emerging markets are out of favour, i.e. when then market sentiment is against emerging markets.

Fund highlights?

Some examples of why Anthony favours emerging markets are in relation to growth. Nigeria is an economy growing by 8% p.a. whereas as the west shows a much lower level. In Nigeria it is law that people save 17% of their earnings towards their retirement whereas in the West (particularly the UK) there is more reliance on the state. You also have an economy which had poor roads and no national grid; factories often had their own generators to drive power. This is all changing with tarmacked roads and a national power grid. Once you open up the country you open up the growth further.

On a stock specific side if you are looking at global airports, as an example, you can invest in Beijing airport where the P/E ratio is 9x and is in a growing dynamic growth area (growing at 6%). Alternatively you can invest in what Anthony calls an annuity zone, where you can buy into Frankfurt airport growing at 2% at 23 times earnings. Equally you can invest in Maple Tree Logistics which rents warehouses in Asia with 98% occupancy; renewals are rising with a yield of 7.5% p.a. These are areas where there are opportunities.

Fund performance

We have indicated that the fund sits in the emerging market space. Performance for the past five years and since launch vs iShares MSCI Emerging Markets (Inc) is shown below:

	2009	2010	2011	2012	2013	Since launch
JM Finn Global Opps	53.15%	33.31%	-16.58%	10.14%	12.90%	9.10% p.a.
iShares MSCI Emerging Markets	56.62%	23.94%	-20.53%	9.50%	-7.31%	6.07% p.a.

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

If we see the fund as a play concentrating on emerging markets (rather a global fund) then clearly it has significantly outperformed the emerging market index. However, there is an argument that 200 funds is a closet tracker fund and therefore is it simply a more selective tracker fund. The feeling remains that this could work well for lower risk investors against a pure emerging markets fund, and therefore any investor choosing this fund would have to decide whether this is how they want to access this market or whether an alternative option might be better.

The source of information in this note has been provided by JM Finn and is correct as at January 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.