

SHINING A LIGHT ON..... JPMORGAN EUROPE DYNAMIC (EX-UK) FUND

At a glance

Since Draghi's 'do whatever it takes' speech in 2012 the markets have become less worried about the collapse of the Euro and peripheral economies. There is a greater confidence around political stability in Europe.

However, investors continue to be wary of Europe which is reflected in negative inflows over the last five years. Towards the end of 2013 the outflows reduced and although still negative in aggregate it continues to narrow. As a consequence we are seeing more European fund managers on the road explaining why now is the time to invest.

In this review we will consider the JPM Europe Dynamic (ex-UK) Fund. The fund has a strong track record over the last five years significantly outperforming the benchmark in 2010, 2012 and 2013. The funds mantra is that it is a high conviction contrarian fund, focusing on stock selection rather than having a country or sector bias.

Who are the team behind the fund?

The fund is managed by Jon Ingram, John Baker and Blake Crawford. John joined JPM in 1994, Jon in 2000 and Blake in 2008. The team have therefore worked together for some time and this provides stability for both the fund and the process behind it.

Jon Ingram is Head of the Dynamic Team and his performance track record against his peer group is strong outperforming in 7 years out of 9. He has demonstrated strong performance both in a rising and falling market.

What is the story behind the investment?

Some commentators argue that the US has had a strong run and there is not much more that can be gained from this market whereas the opposite is true for Europe. Although the European market was one of the strongest in 2013 much of it was through re-rating rather than growth.

The lead indicators (PMI and Consumer Confidence) indicate that this growth can come through in 2014 (although the economies are very fragile). The Q1 and Q2 corporate earnings news will be a crucial to how 2014 will behave.

Additionally companies in Europe are sitting on over €1 trillion on balance sheets. As companies feel more confident on the outlook the markets would expect this money to be put to use. This could be through M&A activity, buy-backs and special dividends.

If the news is positive the belief is that the second half of the year could be strong for European equities.

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Fund highlights?

The fund performed strongly in 2013; one of the key elements of this growth was the manager's contrarian approach. The fund invested in some of the peripheral economies including Italian banks. It was the peripheral markets which out performed in 2013 and therefore allocating assets to companies in these regions drove stronger returns.

However, although the fund managers have clearly demonstrated their contrarian approach the fund holds nearly 100 stocks. Our view of conviction investing is that the holdings would be between 30 and 50 stocks with the favoured stocks having the highest weighting. In this case the top ten holdings have between 2 to 3% weighting. The fund manager will argue that this reduces the risk (no-one stock will make you rich but equally no-one stock will make you poor). We would therefore question whether this is a conviction portfolio or just a contrarian portfolio.

The style of the management follows three arrows – value (stocks which are cheap on an absolute basis), quality (businesses with strong cash flow and balance sheets) and momentum (earnings, order book and product pipeline). This approach had them invest in strong Italian and Irish Banks which saw them rewarded. Other stock examples are BMW where they have in the past been able to purchase shares on perceived negative news.

The fund is relatively small with less than £200 million of assets which means that it can be more flexible than some of the larger European funds. It is not looking to pick countries or sectors but is a pure stock picking fund and has a multi-cap approach. For investors who want to benefit from the potential upside in Europe with no view on where this will come from this fund may fit.

Fund performance

The table below shows performance over the last five years and going into 2014:

	2009	2010	2011	2012	2013	2014
JPM Europe Dynamic (ex-UK) Fund	16.61%	16.03%	-19.21%	21.88%	36.89%	3.06%
iShares MSCI Europe Ex UK	15.08%	1.95%	-17.85%	14.00%	21.74%	2.26%

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

The fund has demonstrated its ability to outperform the market index and the team have a good track record. The significant outperformance in 2013 was due to a contrarian approach of investing in companies in peripheral economies. However, going into 2014 the performance has slowed.

For investors looking for a risk balanced, multi-cap investment this could be a fund to choose.

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