

SHINING A LIGHT ON..... JUPITER EUROPEAN 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.

One fund which has recently come onto our radar is the Jupiter European Fund. We are always sceptical when a fund is hailed as the best fund in its sector but we also like to understand why the fund might be tagged as such.

What surprised us was the size of the fund and the style of the management of the fund. The two almost don't match. The fund is large over £2 billion but the manager runs a highly concentrated conviction style portfolio. 55% of the fund is in the top ten holdings. We would expect the manager to struggle in terms of keeping to their style and deliver performance once the fund grows too big (which it appears to be).

The manager seems to have proven that you can keep to the style and outperform and the update provides an insight to his style and why investors might consider this fund.

Who are the team behind the fund?

The fund is managed by Alexander Darwall. He took over the fund in 2001 and therefore investors will benefit from his longevity of management. Prior to joining Jupiter he was an analyst and clearly this benefits his style of management which is pure stock picking irrespective of sector or country.

If there are any risks it appears this is run as an independent franchise so if he left there is no clear succession planning and potentially the strong performance could go with him.

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.

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

Fund highlights?

We always want to find hidden gems but are concerned when one of those funds appears to be a mammoth beast!

In the update with the manager there was an immediate hint to his style when he was explaining the underperformance of the fund over the last 12 months.

Firstly although he invests in alternative finance he doesn't invest in European Banks because he doesn't believe in the quality of them. This meant when the European banks rallied the fund didn't participate in this. Secondly he admitted mistakes in the Oil and Gas sector but still believes the fund is positioned to benefit from the opportunities offered, and that the position needs time to play out.

Two things from this firstly it is clear that the type of company he is looking for are those with a strong track record of profitability, as well as a proven product and business model. They also offer above average growth opportunities and he indicated that he likes those companies which have an entrepreneurial edge. Obviously if we look at the banking sector he doesn't believe these to be top class companies compared to other opportunities in Europe.

The second point is that this is a long term play and he is prepared to take short term pain as long he believes the fundamentals remain right and will play out. This means that the fund can suffer underperformance in periods of short term trends and investors need to be aware of this and not get spooked.

Some of the winners in the portfolio have benefited from the digital trend offering points of difference to the market. This includes Wirecard, Reed Elsevier and Amadeus IT Holdings. Another two companies have benefited the fund; Novozymes who are leaders in the industrial enzymes space and Novo Nordisk who are specialists in the diabetes space.

One stock which has struggled is Syngenta and in speaking to the manager it reflected his patient style of management. He believes Syngenta remains a world leader and is a well-run company. However, external factors have played against it. This is an example of looking to the long term and not worrying about the short term.

Although the manager has no sector or country bias it is well diversified geographically with 21.5% invested in Germany, 19.7% in France, 14.8% in Denmark and 13% in the Netherlands. From a sector side it favours Healthcare, technology and industrials.

In summary the manager describes the fund as a collection of 35 to 40 special companies who can sustain profit growth and margins over the long term. The concentrated nature of the portfolio and high conviction will deliver greater volatility for investors but it has a proven track of outperformance. For investors looking for a well-managed non mainstream fund this could be a viable option but they need to accept that there may be period of short term underperformance.

Two additional factors to watch are size and whether this creates a negative impact on performance and if the manager should leave (although there is no indication this will happen).

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Fund performance

The table below shows performance since 2009 and going into 2014:

	2009	2010	2011	2012	2013	2014
Jupiter European Fund	31.31%	26.36%	-12.79%	23.22%	24.84%	1.49%
iShares MSCI Europe Ex UK	15.08%	1.95%	-17.85%	14.00%	21.74%	3.13%

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

A high conviction manager who over a 13 year period has stuck consistently to his style of management and delivered long term outperformance. Investors selecting this fund will need to accept greater volatility and potentially short term periods of underperformance.

The source of information in this note has been provided by Jupiter and is correct as at May 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.