

SHINING A LIGHT ON..... JPM NATURAL RESOURCES FUND

At a glance

Natural Resources Funds enjoyed a prosperous time on the back on emerging market demand, especially China. The JPM Natural Resources Fund returned 615.98% over a ten year period to the end of December 2009.

However, as economies turned to being domestically focused demand for resources dropped and commodities prices declined. Since 1 January 2010 the JPM Natural Resources Fund has fallen just over 35%.

Often when a sector appears in decline and the fund reflects that decline it is unusual to have an update with the manager. However, there are reasons investors might consider investing in the sector and this fund.

From the 1 January to the 27 July this year the fund was up over 11%, and this pointed towards some optimism in the sector. However, since that point to the end of October the fund is down over 20% (in November up to the 26th the fund was up 5.69%).

The update with the manager was to understand whether now is a time to invest or whether it is a sector to avoid.

Who are the team behind the fund?

Neil Gregson has managed the fund since 2010 when he joined JP Morgan. He is well qualified previously working for CQS Asset Management with a focus on natural resources and prior to that at Credit Suisse as Head of Emerging Markets. He has also worked in mining and resources companies.

Obviously the timing of managing the fund has been bad and it is difficult to judge him as an investment manager. Trustnet state that overall he performs worse than the peer group but there is not sufficient data to say whether his stock picking skills have had any real effect on the results.

Fund highlights?

Investors choosing this sector will be considering the long term picture. This may mean in the short term there are declines but when (or if) it corrects the reverse could be strong.

The fund invests in four areas – base metals, energy, gold and precious metals and diamonds.

Gold and precious metals saw a decline of over 50% in 2013 and is down 15% this year. Base metals saw a decline of 14% in 2013 and are down 10% this year. The only area which seems to have been fairly unscathed is Diamonds which was up just over 8% in 2013 but down slightly this year.

The manager explained that a number of factors are playing a part, strength of the dollar and concerns over global growth are key factors. To some extent the sector is seen as a homogenous group which means everything suffers from bad news. Even those companies providing good data are cheap because nobody wants to invest. Even when looking at how people are allocating globally these sectors are underweight and unloved.

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It depends on your view, whether you are half empty or half full as to what you think. When the manager described the different sectors it did raise concerns in some areas.

Lower oil prices is a concern and comes on the back of supply growth from the US, a ramp up of production from Libya and slowdown in demand globally. In fact Saudi started to sell discounted barrels to Europe, the US and Asia. So there is too much supply and this means that production could slow (and possibly will). The result is that as prices drop demand increases as demand increases it should soak up the oversupply and as production slows the reverse should happen. So prices rise due to a lack of supply etc.

We discussed base metals and most have seen significant falls in demand – copper, aluminium and zinc. The manager discussed copper and he believes that the outlook is good in the medium to long term because supply is slowing significantly and he believes we are heading for a shortfall where prices will go up rather than down.

We touched briefly on Iron Ore where he believes there will be some pain in some areas but we are close to the bottom and although some companies will suffer those quality companies are the ones which will benefit. One area he seems less optimistic on is gold where the share prices of gold companies continue to rise and he believes they are overvalued.

In summary clearly the markets are cheap but there are a number of factors to consider. If oil reverses, if for example copper increases and iron ore increases then assuming the prices are rock bottom the return could be significant. But with all these things calling the bottom is very hard to do. It could be tomorrow, it could be next year it could be several years. Investors could invest and wait or pay regulars but this is risky with no guarantees of potential upside.

Fund performance

Performance vs FTSE All World Ex UK from 2009 to 2014 is shown below:

	2009	2010	2011	2012	2013	2014
JPM Natural Resources Fund	95.64%	47.45%	-29.74%	-12.68%	-20.00%	-11.35%
DB X-Trackers FTSE All World Ex UK	22.37%	16.83%	-8.33%	9.75%	20.98%	8.82%

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 struggled over the last four years reflecting an unloved sector. It is hard to judge the manager in this type of scenario and investors need to consider whether they believe the sector is cheap and will reverse or whether it is cheap and will get cheaper.

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