

SHINING A LIGHT ON..... JPM US EQUITY INCOME FUND

At a glance

Investing in the US is very tricky and few managers outperform the index. In 2014 only 20% of active managers achieved this. Listening to the portfolio manager of the JPMorgan (JPM) US Equity Income Fund express this made me think that perhaps this was a hidden gem.

The fund was launched in the US 10 years ago and in the UK seven years ago. The portfolio manager went on to explain that to outperform the index a fund manager has to be a good stock picker. So the question is, if the portfolio manager is so keen to highlight the difficulties of investing in the market and that stock picking is the key to success how well have they performed.

Since launch in 2008 the S&P 500 has returned 164.23%, the fund has returned 151.33%. Over five years the performance is almost identical and volatility the same. Effectively the fund seems to track the index, and the manager's argument that good stock picking wins the day doesn't appear to apply to them.

However, before we discount the fund it is worth considering that the last five years have been unusual for investing.

The S&P as a whole appears to be fair to fully valued. Many would argue that what has happened in the past is unlikely to repeat and therefore the only way logically to outperform the index is through active management. If we agree with this argument then it is worth considering this fund.

Who are the team behind the fund?

The manager is Clare Hart, Fiona Harris is the Portfolio Manager who works alongside Clare.

Clare has two dedicated analysts but has access to a further team of 25. Her performance has been about the same as the peer group composite.

She joined JPM in 1999 and has managed this fund since launch. Prior to joining JPM she worked at Arthur Anderson and Salomon Smith Barney.

Fund highlights?

Picking up on the point that much of the S&P is fair to fully valued. We discussed the growth within the S&P and it is expected to be around 3.3% in 2015 (compared to 2014). However, Fiona explained that not all sectors will respond in the same way.

The key growth areas are likely to be Financials, Consumer Discretionary and Information Technology and the biggest negative is Energy. Fiona explained that if we excluded Energy stocks then the expected growth in the S&P is 10.3%. The point that she was making was that a fund that tracks the index cannot discriminate in this way and it is her view that the active managers can start to add value vs the index.

Fiona went on to explain that interest rates will rise and normally in this environment it has a negative impact on the market. However, all the signs are that there is sometime before this happens because

LWM Consultants Ltd

of the gradual rise in rates. In reality there will be beneficiaries of rising interest rates which will include financials.

So what makes this fund stand out from the crowd? The management team focus on quality, so looking for those businesses with strong franchises, consistent earnings and strong management teams. Secondly valuation is important, quality but at the right price and then dividend yields of 2% plus.

The advantage of the approach is that it is proven historically to deliver less volatility in the market with less exposure to downside risk and this may be attractive to those looking to invest in the US. Unsurprisingly the fund is skewed towards Financials (25.5%), Consumer Discretionary (12.5%) and Health Care (11.8%).

The types of banks they like are regional banks like Wells Fargo and M&T Bank rather than the big banks like Bank of America and Citibank where she feels there is still much to be done. In financials the fund also likes T Rowe Price, CME Group, Travelers and Prudential.

In Consumer Discretionary brands include VF (take struggling brands and make them work), Lbrands, GAP and Home Depot.

Effectively this is your steady eddy. It has 95 holdings and although the top two make up 10% of the holdings the balance is fairly equally split. It is also a large fund with over £3 billion of assets. However, as this invests in large cap stocks, size doesn't really matter. It remains a worry that it has simply tracked the index but if the index starts to underperform which it may then a well-managed fund could be the place to be.

The appeal of the fund is the focus on reducing volatility and providing some downside protection, for those wanting exposure to the US this may appeal to investors especially at a time where the markets are so volatile.

Fund performance

Performance from 2010 to 2015, and since launch vs S&P 500.

	2010	2011	2012	2013	2014	2015*	Since launch
JPM US Equity Income Fund	20.71%	8.07%	5.24%	29.02%	20.73%	1.45%	151.33%
S&P 500	18.68%	2.87%	10.91%	29.93%	20.76%	3.49%	164.23%

***1 January to 28 February 2015**

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

Since launch the fund has failed to beat the index and this may deter investors. However, if the manager is correct and that going forward you need to discriminate between sectors to deliver above index returns then this could mean that this fund has the potential to outperform. It has a staple management team and a proven process. The lower volatility and protecting the downside risk is likely to appeal to those wanting to invest in the US for the first time or wanting to blend with a more volatile fund.

The source of information in this note has been provided by JPM and is correct as at February 2015. 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.