

SHINING A LIGHT ON..... JPM EMERGING MARKETS INCOME FUND

At a glance

Some of the best times to invest are when sentiment is so negative that the market is beaten up to a point where it is cheap. Of course on the flip side when there is negative sentiment it is very hard to determine at one point you hit the bottom.

Emerging markets are one of those “regions” where it just feels very beaten up and unloved. Investors can rightfully ask why invest in an area when value can be found closer to home in Europe or the UK. The other side is that during these periods it is very hard to identify good managers, as they all get dragged down with general market sentiment.

In this update we talk to the manager of the JPM Emerging Markets Income Fund about emerging markets and his fund.

Who are the team behind the fund?

The fund is managed by Omar Negyal. Omar joined JPM in 2012 and has been manager of the fund almost since launch. Prior to joining he had 14 years’ experience in Emerging Markets gained through previous analyst and portfolio management roles at HSBC Global Asset Management, Lansdowne Partners and F&C Asset Management. Over the period of management his performance is mixed but he is part of the wider JPM Emerging Markets team which has a good reputation.

Fund highlights?

The fund was launched on the 24 July 2012 and Omar took on the management on the 19 November 2012.

We started the discussion with a look at the outlook for emerging markets. Omar started by explaining that it has been a difficult year for emerging markets with the overall market down 9% year to date. Two factors have played against emerging markets; weak currency and lacklustre earnings growth. Countries like Brazil have continued to struggle but Russia is one of the strongest returning economies this year, he added that Russia is coming from a low base.

Looking at the average price to book he explained that the markets are close to the bottom of their historical range. The highs were 3 times in 2007 and lows 1 times between 97 and 99. Currently they are at 1.48 times.

Turning to currencies Omar explained these have been declining for a few years and are now back to 98 to 02 levels.

With so much headwind is emerging markets a place to invest?

Omar explained there are both short and long term factors to consider.

In the short term there are three factors that can help:

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1. More aggressive China stimulus – this is already filtering through, via the cutting of interest rates, increasing fiscal infrastructure spending etc
2. Stabilising global growth – again positive signs are coming through. The PMI data in both developed and emerging markets is stabilising
3. Clarity over Fed policy – once rates start rising this will help with sentiment in emerging markets

In the long term the area which needs to come through is a recovery in true earnings growth and this hasn't started to happen yet. However, as the currencies stabilise, countries become more competitive, which in turn helps economic growth and feeds into earnings growth.

Turning to the performance of the fund Omar explained that the fund has underperformed in line with the market. In theory he added in a down market the fund should perform better but there has been a style impact which has dragged down the performance.

The fund currently has a dividend yield of over 6% and the types of companies the fund targets have suffered from weak currency and a weakness in earnings. However, he feels this will change. He explained that 95% of the time these companies have traded higher. He added there is a 5% risk but he feels this would be due to a true global recession or severe currency pressures which he doesn't believe is on the cards.

Omar explained that when investing he is looking at multiyear investment periods. So rather than focusing in short term winners he is looking for those companies that will grow over time. The fund focus mainly on large cap with about 22% in mid-cap and currently holds 69 stocks.

He highlighted one company he holds which is Midea in China which is an A-Share. He explained that this company is a white goods manufacturer which feeds into the domestic growth story offering things like air conditioning units, washing machines, fridges etc. It has a good management team, its cash generative and has a strong balance sheet.

In Taiwan he favours those companies involved with semiconductor supply train to smart phones where many are cash generative and good dividend payers.

Turning to the make of companies the focus is on quality with 60% of the holdings paying between 3 and 6% in dividends. The fund then has 20% in high dividend payers (6% plus) and the balance in low dividend (below 3%).

From a sector view it favours financials, IT and telecoms.

In conclusion the performance of the fund has been mixed and this may deter investors. With income of nearly 6%, a small improvement in growth could see a positive return coming back. Fundamentally it is for investors to decide whether they feel emerging markets can deliver positive returns and whether this fund could respond in this environment.

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Fund performance

Performance from launch (24 July 2012) to 31 October 2015:

	2012	2013	2014	2015
JPM Emerging Markets Income Fund	10.17%	-3.32%	5.99%	-13.51%
iShares MSCI Emerging Markets	12.10%	-5.82%	2.62%	-9.40%

1, and 3-year performance and since launch and manager tenure ship.

	1 Year	3 Years	Since Launch	Since tenure ship
JPM Emerging Markets Income Fund	-15.98%	-7.12%	-2.36%	-6.85%
iShares MSCI Emerging Markets	-11.87%	-6.62%	-1.84%	-5.87%

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.

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