

SHINING A LIGHT ON..... JUPITER UK SPECIAL SITUATIONS FUND

At a glance

We recently had an update with Ben Whitmore who is the manager of the Jupiter UK Special Situations Fund. The style of management is very similar to the funds offered by Schroder and Investec. In the discussion it became clear that investors wanting this type of strategy are going to have to base their decision on the manager and the holdings as the performance between the three isn't that much different with perhaps Investec being the weakest.

The thesis behind the fund is to buy what's cheap today with a focus on the 10-year average price to earnings ratio, return on operating assets and the balance sheet and cash conversion. The subjective element of the process is the quality of the franchise as this is what drives the final decision on what is held.

What slightly surprised me was that of the 36 holdings only 13 are on low P/E ratios (below 10). Six are on what might be classed as high. This may be typical across these funds but investors might wish to explore this further. One other concern was the level of cash and this impart may because the fund is large at over £1 billion with such a concentrated portfolio (just 36 holdings).

Currently the cash holding is near 7% although this maybe higher as it appears there are cash instruments used in the portfolio. His argument is that this is because he can't find enough diversification to deploy capital but any large cash holding could in the long term create a drag on performance (conversely it can protect in volatile markets).

The main areas of focus are Food Retail, Banks, Energy and Mining. The holdings are sufficiently different to the Investec and Schroder Funds; running tests on Morningstar the similarity to Schroder is 0.40 and with Investec 0.22 so the funds could be blended. The top 5 across the three funds are:

Jupiter UK Special Situations Fund (36 stocks)		Schroder Recovery Fund (44 stocks)		Investec UK Special Situations Fund (60 stocks)	
BP PLC	5.37%	Aviva PLC	5.15%	HSBC	7.56%
Imperial Brands	4.68%	BP PLC	4.99%	BP PLC	7.21%
BAE	4.33%	RBS	4.36%	Shell	7.18%
AstraZeneca	4.29%	GSK	4.09%	GSK	6.87%
RELX	4.01%	Anglo American	4.04%	Grafton Group	5.37%

Covering a couple of holdings Ben highlighted Tesco and Standard Chartered as the types of companies he likes. With Tesco there is new management and this team is addressing issues with no new stores and businesses being sold. This is starting to filter through but it is trading at 6 x earnings.

Standard Chartered grew too quickly with a focus on one area but with new management it is starting to rebuild a good franchise.

The belief behind all these funds is that evidence shows that to get the greater returns you need to capture the value premium. However, over the last ten years this hasn't really worked but Ben believes this is starting to change and he is optimistic for the future.

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In conclusion it is very difficult to point which fund is better because across the three are excellent managers and the performance is similar. The difference in holdings means that if there is shift in sentiment, then it could easily benefit one fund over the other and this is less easy to quantify.

The level cash held by the fund is a concern but this may be the same across the funds. The thing that does seem to differ is volatility and the Jupiter Fund has volatility over 3 years of 9.36%, Investec 9.58% and Schroders 12.40%. The volatility is reflected in the returns below but it is worth adding if there is large weighting to cash this will dampen volatility. Our view is that this a good manager but investors need to decide whether this fund matches their requirements.

Fund performance

Performance from 2011 to 26 May 2016:

	2011	2012	2013	2014	2015	2016
Jupiter UK Special Situations	1.62%	17.10%	28.22%	2.88%	-0.70%	1.52%
Schroder Recovery Fund	-13.96%	34.32%	45.50%	1.67%	-13.23%	9.15%
Investec UK Special Situations Fund	-2.10%	15.31%	26.05%	-0.98%	-1.73%	2.51%
FTSE All Share Total Return	-3.46%	12.30%	20.81%	1.18%	0.98%	1.83%

1 year, 3 years, 5 Years and 10 Years Performance:

	1 Year	3 Years	5 Years	10 Years
Jupiter UK Special Situations	-7.47%	12.79%	53.03%	119.18%
Schroder Recovery Fund	-10.11%	12.73%	57.67%	131.39%
Investec UK Special Situations Fund	-7.63%	5.52%	38.05%	97.24%
FTSE All Share Total Return	-6.41%	9.06%	34.43%	69.73%

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.

The source of information in this note has been provided by Jupiter and is correct as at May 2016. 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.