JK Global Opportunities Fund July 2018

The Fund was flat in July, (GBP Class, Net of Fees).

The Fund was flat during the month. Stock performances were mixed, with weakness in Facebook offset by strong moves in the likes of Illumina, Reckitt Benckiser, and Mesoblast. The short bond positions have been reduced significantly as we feel the chance of a rally is there given the pressure on risk assets generally. We have increased the US Dollar long position through the Dollar Index (DXY), and we have increased the Sterling short as Brexit uncertainty increases. Long Dollar positions act as a hedge to our long risk asset (equity) positioning.

There are a lot of cross currents operating in global financial markets at present. On the one hand the global economy is relatively robust, albeit largely due to strength in the US, with earnings generally good, and positioning and sentiment relatively cautious. However, rising US interest rates and the stronger Dollar is clearly putting pressure on emerging markets. Central Banks are draining liquidity, and the current trade 'spat' with China, and its effect on the Renminbi and the Chinese economy, is a source of considerable concern. Equity markets have gone nowhere in aggregate so far this year, although there has been considerable dispersion. The US market has been relatively strong, with certain EM's – principally China and Turkey – seeing meaningful corrections. Times like these create opportunities for a Fund like ours, and recently we have been adding to Chinese exposures, as well as convertible bonds in the Asian region. Whilst we are clearly not out of the woods yet, valuations are starting to get compelling. As such we are gradually building exposures back up, having had a fairly defensive exposure to risk assets for much of the year. We should reiterate as well that the strong earnings growth in the US, combined with the muted stock market reaction, has led to a meaningful derating in this market and as such we are reluctant to be too bearish. We would also note that there are no signs of a major real estate bubble which is how financial crises usually come about in developed markets.

The major risk as we see it for financial markets is a significant rise in the US Dollar, combined with sharply rising US interest rates. We have increased our Dollar longs recently, partly as a hedge against our increasing Asia equity exposures. We would note that China has started to ease policy recently. There has been a big rally in SHIBOR (i.e. interbank interest rates have fallen) and the Yuan has weakened considerably. The Shanghai Composite index is off over 20% in US Dollars this year, and back to levels last seen in 2014. Conditions ideal to take a contrarian view and start accumulating.

Turning to Turkey, the current topical story, while US sanctions may have been the trigger for the latest declines, concern about rising inflation (15.8% y-y in July) and economic vulnerability was already acute (especially after the central bank kept rates on hold on 24 July when consensus was looking for a 100bp hike. Policy rates are 17.75%. 10yr bond yields are 22%. PMI has been below 50.0 since April). A comprehensive policy package is needed to bolster confidence, which looks unlikely at present. Turkey's foreign debt is about $450bn, or four times its foreign exchange reserves and reflects large historic current account deficits. In the next 12 months the combined forecast current account and maturing debt total over $220bn or 25% of GDP. A deep recession combined with debt renegotiations seems the most likely outcome. Spanish banks have the largest exposure to Turkish debt at just over $100bn, followed by French banks at $45bn. Most of the debt is in euros so debt service costs in lira have soared. Corporate defaults will likely rise significantly as a result of this and the forecast recession.

For Asia, the main impact remains through risk aversion, dollar strength and resulting portfolio outflows**.** The Euro has declined more than -2% since the highs of last week (given exposure of European, especially Spanish, banks to Turkey), and the J.P. Morgan EM currency spot index was down -4% last week (biggest weekly decline since September 2011). We would note however: (1) Asian companies' declared revenue exposure to Turkey is almost zero. (2) Asian banks have marginal exposure to Turkey. (3) Turkey is 0.6% of MSCI EM and thus the direct impact on flows is likely limited.

As we have alluded to above, the US Q2 earnings results were solid across the board**.** The proportion of companies beating EPS estimates was the highest in the US since 3Q '09, and was higher than historical trends in Europe and Japan. Q2 EPS growth improved sequentially vs Q1 in both the US and Europe. While there were some notable profit warnings at the beginning of the quarter, we note that an above average proportion of companies have revised EPS guidance higher in the US.

84% of S&P500 companies have reported Q2 earnings: 83% beat EPS estimates, the highest since 3Q '09. EPS growth at +25% y/y is surprising expectations by 5%. Most sectors are reporting double digit earnings growth, with earnings for Cyclicals growing almost twice the rate of Defensive sectors. Top line delivery is healthy as well, with 70% of companies beating sales estimates. Overall revenue growth is running at +9% y/y.

Earnings revisions in Asia have been negative in recent weeks, and particularly so in China. But the picture looks much less worrisome when USD dynamics are removed. Thus, MSCI China EPS in CNY terms is quite stable. Regionally, half of the 2Q reporting season is done so far. While the early strong momentum has faded somewhat, EPS is still 5% ahead of expectations on aggregate. Revenues are 4% ahead. India and Taiwan have seen the most upside surprises.

In conclusion, at present we are trying to navigate our way through a challenging environment in markets without too great a drawdown. Value however is starting to look quite compelling in certain areas and we are building back exposures, albeit tentatively.

JK Global Opportunities Fund *is a weekly dealing UCITS fund. It can be held by ISA's, SIPP's, Pensions, Charities, Family Offices, Endowments, as a direct holding or through a Private Wealth Manager. All classes have UK Reporting Status.*

GBP Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2018	+6.32	-1.45	-2.01	-1.05	+3.67	-3.30	-0.01						**+1.83**
2017	+2.97	-1.11	+1.97	+3.52	+2.16	-0.43	+2.84	+2.19	+0.46	+5.38	+2.54	+1.55	**+26.66**
2016	-5.68	+0.15	+6.37	-0.85	+0.92	-1.35	+3.67	-0.87	+1.49	+1.80	+0.20	-1.92	**+3.50**
2015	+1.87	+3.87	+0.24	+2.11	+3.89	-4.65	-0.16	-8.20	-6.51	+6.29	+1.40	-0.77	**-1.69**
2014	-4.02	-1.96	-0.93	-4.69	+0.89	+1.90	+0.06	-1.61	+2.02	+0.09	+7.77	-2.86	**-3.86**
2013	+6.18	-1.23	+3.52	+8.65	-2.79	-2.93	+3.05	-0.77	+6.43	+0.96	+4.15	+3.23	**+31.51**
2012	+2.43	+4.74	-0.62	-1.98	-1.54	-0.84	+0.73	+1.49	-0.54	-1.21	+1.25	+4.75	**+8.68**
2011	-0.92	-0.19	-1.13	+0.80	-2.89	-1.55	-1.43	-1.14	-3.60	+0.94	-2.67	+0.37	**-12.71**
2010	+0.83	+0.90	+3.77	+1.93	-4.44	+1.69	+0.70	+0.87	+0.02	+1.38	-0.88	+1.74	**+8.62**
2009				+1.73	+10.1	+2.66	+5.01	+1.23	+1.25	+1.57	-1.14	+3.32	**+28.40**

USD Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2018	+6.49	-1.25	-1.89	-0.89	+3.75	-3.06	+0.12						**+2.97**
2017	+3.07	-1.06	+2.06	+3.56	+2.15	-0.31	+2.96	+2.35	+0.63	+5.47	+2.60	+1.71	**+28.09**
2016	-5.53	+0.16	+6.52	-0.81	+0.93	-1.32	+3.74	-0.81	+1.53	+1.86	+0.22	-1.82	**+4.26**
2015	+1.95	+3.92	+0.28	+2.17	+3.81	-4.75	-0.15	-8.28	-6.48	+6.34	+1.36	-0.74	**-1.65**
2014	-4.07	-1.88	-0.95	-4.73	+0.85	+1.92	+0.05	-1.59	+1.97	+0.18	+7.70	-2.84	**-3.91**
2013	+6.06	-1.22	+3.54	+8.83	-2.63	-3.09	+3.02	-0.86	+6.57	+1.00	+4.52	+3.38	**+32.33**
2012	+2.43	+4.80	-0.65	-2.03	-1.50	-0.87	+0.72	+1.52	-0.56	-1.22	+1.23	+4.79	**+8.72**
2011	-0.95	-0.20	-1.13	+0.82	-2.88	-1.55	-1.50	-1.17	-3.51	+0.94	-2.63	+0.34	**-12.73**
2010	+0.81	+0.84	+3.74	+1.92	-3.95	+1.76	+0.74	+0.87	+0.01	+1.39	-0.88	+1.72	**+9.13**
2009	-2.51	+0.03	+3.13	+2.13	+13.8	+3.42	+6.08	+1.06	+0.99	+1.58	-1.10	+3.14	**+35.61**
2008	-1.76	-0.01	-0.50	+1.22	-1.15	-4.74	-1.58	-1.00	-1.93	-0.05	-0.44	+2.83	**-8.92**
2007	+2.01	-1.34	-2.35	-0.81	+1.63	+4.04	+0.41	-6.10	+0.14	-1.38	-3.97	-3.74	**-11.27**
2006	+0.13	-3.78	+3.72	-2.27	-3.75	+1.57	-4.58	+3.13	-0.84	+2.73	-1.03	+1.61	**-3.75**
2005	-0.75	+1.04	+0.36	-0.65	-1.05	+0.90	+2.01	+1.99	+9.65	+4.55	+7.71	+9.41	**+40.31**
2004	+0.82	+2.03	+6.57	+0.16	-2.15	+1.61	-1.66	-0.96	-0.48	-0.78	-0.27	+2.18	**+6.98**
2003											+0.01	+0.39	**+0.40**

EURO Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2018	+6.36	-1.44	-2.09	-1.16	+3.59	-3.39	-0.11						**+1.64**
2017										+3.69*	+2.47	+1.43	**+7.77***

*Euro Class started on 04-Oct-17

JK Investment Management is authorised and regulated by the Financial Conduct Authority

YEN Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2018	+6.38	-1.42	-2.06	-1.16	+3.59	-3.26	-0.10						**+1.43**
2017	+2.87	-1.14	+1.88	+3.57	+2.21	-0.63	+2.83	+2.20	+0.54	+5.33	+2.42	+1.49	**+26.07**
2016	-5.47	+0.00	+6.50	-0.83	+0.89	-1.40	+3.87	-0.93	+1.38	+1.74	+0.07	-2.01	**+3.36**
2015	+1.96	+3.85	+0.29	+2.08	+3.93	-4.77	-0.19	-8.07	-6.54	+6.33	+1.42	-0.85	**-1.63**
2014	-4.10	-1.86	-0.96	-4.74	+0.82	+1.90	+0.03	-1.61	+2.03	+0.51	+7.92	-2.93	**-3.53**
2013	+6.31	-1.17	+3.49	+9.16	-2.78	-3.02	+2.98	-0.88	+6.62	+0.99	+4.61	+3.52	**+33.21**
2012	+2.35	+5.36	-0.68	-2.00	-1.50	-0.92	+0.66	+1.49	-0.58	-1.26	+1.24	+4.98	**+9.18**
2011	-0.99	-0.21	-1.17	+0.78	-2.91	-1.54	-1.47	-1.21	-3.52	+0.90	-2.67	+0.25	**-13.02**
2010	+0.76	+0.82	+3.93	+1.90	-3.62	+1.67	+0.68	+0.83	-0.02	+1.32	-0.92	+1.62	**+9.17**
2009	-0.44	+2.14	+2.41	+3.29	+17.6	+5.35	+2.75	+1.22	+1.17	+1.98	-1.32	+3.85	**+46.57**
2008	-1.92	-0.22	-0.69	+1.09	-1.31	-4.88	-1.77	-1.32	-1.87	-1.00	-0.86	+2.31	**-11.89**
2007	+1.64	-1.67	-2.71	-1.19	+1.26	+3.72	-0.03	-6.09	-0.28	-1.75	-4.16	-4.10	**-14.68**
2006	-0.31	-4.10	+3.40	-2.55	-4.13	+1.21	-5.00	+2.76	-1.23	+2.29	-1.43	+1.25	**-7.99**
2005	-0.94	+0.93	+0.20	-0.96	-1.36	+0.67	+2.08	+1.71	+9.66	+4.45	+7.66	+8.98	**+37.47**
2004	+0.74	+2.04	+6.20	+0.45	-2.20	+1.52	-1.82	-1.04	-0.61	-0.88	-0.40	+2.01	**+5.88**
2003											-0.06	+0.31	**+0.25**

NAV as at 31-Jul-18	
GBP class	**219.51**
USD class	**283.04**
Yen class	**25,679.35**
Euro Class	**109.31**

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)		
	Long	Short
Level 1	**89**	**-15**
Level 2	**21**	**0**
Level 3	**0**	**0**
Total	**110**	**-15**

Source: JK Investment Management LLP

For more information on the Fund, please see **www.jkim.co.uk**

Administrator for JK Global Opportunities Fund (Orders by 3pm on a Tuesday)

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All data is Net of management and performance fees. Fund was launched on November 3rd 2003. GBP Class launched 1st April 2009. Mandate broadened to Asia Inc Japan and Name of Fund changed April 1st 2009. Please note that performance from 1st April 2009 to 30th August 2013 is for the JK Absolute Return Fund. This Fund re-domiciled from Cayman to Ireland becoming an Irish UCITS on 30th August 2013 and changed its name to The JK Global Opportunities Fund. Management and performance fees have also been reduced from this date (see Prospectus in for details). Historic performance is not a guide to future returns.
Source: JKIM LLP, Apex Fund Services (Ireland) Ltd.

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