

JK Global Opportunities Fund

July 2020

USD Class +6.50%, GBP Class +6.30%, YEN Class +6.45%, EUR Class +6.39% in July.

The Fund rose +6.50% (USD Class, net of fees) in July, as our strategic allocation to the US/China tech complex continued to bear fruit. Naura Technology and Alibaba were strong contributors in China, whilst Amazon was a bright spot in the US after some impressive Q2 results. Our long position in Gold, which includes a Miners ETF, also added to gains towards the end of the month.

Fund performance was front-loaded in July, as Chinese authorities sparked a strong rally in A-shares after expressing their desire for a “healthy bull market” in state media. This upswing triggered ominous memories of the 2015 bubble for some investors, as policymaker cheerleading and a surge in margin financing were also hallmarks of the bull market and subsequent collapse back then. Whilst we are aware these similarities potentially expose Chinese equities to the same boom and bust dynamics today, we would also note a few important differences between now and then which make us more sanguine about holding onto our positions.

First, although margin financing has risen fast this year, it remains well below 2015 levels, and as a share of overall trading in the A-share market it is at one of its lowest levels, meaning Beijing has little reason to cut the rally short just yet. Second, there is growing evidence that China sees the equity market as an important transmission mechanism in restructuring household balance sheets away from property and risky shadow banking products, whilst simultaneously bolstering the economy without a corresponding surge in debt. The fact China hasn't resorted to property market easing and allowed losses on wealth management products (WMPs) this year, indicates that it's serious about structural deleveraging and reigning in financial risks. A shift in investor psychology that these asset classes are no longer one-way bets could prove to be a watershed moment in reallocating China's enormous stock of domestic savings into the equity market. This may be a longer-term theme, but we sense a renewed urgency to legitimise China's stock market as a credible place to invest, not least because China increasingly needs to attract foreign capital as it becomes a current account deficit economy. Capital market tensions with the US will only hasten this requirement, as the 'national champions' spearheading China's strategic industrial policies will have to rely more on the domestic market to raise capital. For these reasons, we believe a weak stock market is not in China's best interest at the moment, meaning support will likely be provided for the foreseeable future.

The performance of our equity book was more muted in the second half of July. This coincided with choppy action in equity markets, as investors grew concerned that virus resurgences were causing some of the high-frequency economic data to plateau. This was despite some generally upbeat earnings announcements, which was likely due to the Q2 recovery being discounted and a lack of clear guidance for 2H20 by corporates. Uncertainty about the future naturally led markets to trade around headlines surrounding the next fiscal bill in the US, as investors searched for clues on where the economy might be heading next. Whilst there have been some mixed headlines on this recently, we ultimately expect Congress to pass a bill, as this is likely to be President Trump's last chance to score a legislative victory before the election and the last significant legislative economic relief until early

2021. Assuming this is the case, we expect the current slowdown to be temporary with more fiscal support and a slowdown in the virus buoying activity. This should help markets regain their footing.

Gold was the asset class of choice at the back-end of July, bolstered by a corresponding fall in real yields and the Dollar. The continued debasement of fiat money by central banks is clearly the culprit for this move, and one the Fund was rewarded for having been positioned this way for some time. We added a Gold Miners ETF during the month to increase our beta and remain bullish on the outlook for Gold medium term.

US tech was again responsible for a significant portion of gains during the month, particularly after the blow-out earnings from Amazon, Apple and Facebook – all of which we own. We are noticing some permanent step-changes in many of these tech business models, as we feel the pandemic has not only accelerated the ‘secular disruption’ themes in place before the virus, but broadened them as well. These companies have been fundamental pillars of the stay-at-home economy, allowing them to penetrate new customers and markets which were out of reach before. Once new habits become entrenched in these new customers, we think many are unlikely to revert to their old ways due to the benefits and efficiencies being realised. We believe investors are still underappreciating this increase in serviceable available market (SAM) and the long-term growth potential that greater network effects will bring.

The other big story in tech recently has been the potential purchase of TikTok by Microsoft, after Trump threatened to ban the app in the US. The fact Microsoft seems to be the only buyer and way for TikTok to get White House approval currently, means it probably has good chance of acquiring it at an attractive price. We have added to our Microsoft position for this reason. Scrutiny of other Chinese apps and software by the US seems to be an emerging theme, which will only result in greater state support for Chinese tech in our view. Indeed, China just announced a range of measures to benefit the semiconductor and software industries including up to 10 years of tax relief for some manufacturers. We increasingly view Korea and Taiwan as beneficiaries in this ‘tech war’, so have been adding to positions in Samsung and UMC, which stand to benefit from Huawei disruptions and Intel’s recent blunder with its 7nm process node. Separately, we are closely watching negotiations between one our current holdings, Nvidia, and a company we have owned in the past, ARM, as a merger between these two companies would present an unstoppable force in the semiconductor industry.

Despite the strong run in markets recently, we still feel it is right to maintain a pro-risk stance. Investor surveys continue to show a degree of bearishness and valuations still look sensible on our preferred models of liquidity and long-run real returns. We are also optimistic on the prospects for at least one vaccine approval this year because of the large pipeline, mostly strong preliminary results, and developer plans to seek approval starting in Q4. Under this scenario, we might need to be prepared for a bout of inflation at some point after the US election, as economies reopen fully whilst extraordinary monetary and fiscal support remain. The reaction of bond markets would be a crucial determinant of equity returns here, but barring a blow-out in yields, equities should perform strongly, although we would need to think about winding down our tech exposures in favour of cyclicals.

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.

USD Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2020	-0.27	-1.87	-5.25	+6.27	+2.16	+5.24	+6.50						+12.83
2019	+3.17	+2.05	+1.37	+2.21	-6.21	+2.59	-0.08	-1.19	-1.06	+2.89	+1.52	+4.79	+12.22
2018	+6.49	-1.25	-1.89	-0.89	+3.75	-3.06	+0.12	+1.25	-2.14	-6.91	+0.28	-4.47	-9.02
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

GBP Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2020	-0.32	-2.00	-5.86	+6.18	+2.13	+5.73	+6.30						+12.09
2019	+2.98	+1.93	+1.23	+2.13	-6.37	+2.45	-0.32	-1.37	-1.19	+2.72	+1.43	+4.62	+10.20
2018	+6.32	-1.45	-2.01	-1.05	+3.67	-3.30	-0.01	+1.14	-2.35	-7.11	+0.08	-4.64	-10.85
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

YEN Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2020	-0.46	-1.91	-5.67	+6.00	+2.17	+5.97	+6.45						+12.53
2019	+2.95	+1.87	+1.16	+1.97	-6.37	+2.35	-0.27	-1.42	-1.29	+2.63	+1.38	+4.47	+9.36
2018	+6.38	-1.42	-2.06	-1.14	+3.59	-3.26	-0.11	+1.15	-2.45	-7.06	+0.07	-4.74	-11.15
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

EURO Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2020	-0.44	-1.95	-5.69	+6.11	+2.05	+5.98	+6.39						+12.39
2019	+2.90	+1.82	+1.11	+1.96	-6.46	+2.34	-0.22	-1.44	-1.31	+2.63	+1.38	+4.49	+9.07
2018	+6.36	-1.44	-2.09	-1.16	+3.59	-3.39	-0.10	+1.12	-2.53	-7.19	+0.03	-4.75	-11.61
2017										+3.69*	+2.47	+1.43	+7.77*

*Euro Class started on 04-Oct-17

NAV as at 31-Jul-20	
GBP class	237.40
USD class	316.65
Yen class	27,625.47
Euro Class	116.77

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)		
	Long	Short
Level 1	86	0
Level 2	28	0
Level 3	0	0
Total	114	0

Source: JK Investment Management LLP

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

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

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

Apex Fund Services, Dublin Tel: +353 21 463 3366, Fax: +353 21 463 3377,
Email: CorkTA@apexfunds.ie

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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For further information please contact

Francis Kirkpatrick
JK Investment Management LLP
Bury House
3 Bury Street
Guildford
Surrey GU2 4AW
Tel: +44 1483 301 142
Fax: +44 1483 452 219
Email: fk@jkim.co.uk