JK Global Opportunities Fund September 2021

USD Class -1.44%, GBP Class -1.49%, YEN Class -1.48%, EUR Class -1.48% in September.

The Fund fell -1.44% (USD Class, net of fees) in September. This was primarily driven by weakness in our tech holdings. Gains in Japan, Entain and our Flight Centre CB helped offset losses, as well as short positions in Nasdaq and Nikkei futures in the second half of the month.

Markets were hit by a perfect storm in September, as the Evergrande crisis showed no sign of abating and stagflation concerns became the topic du jour. This at a time when monetary and fiscal support are waning, and if anything, becoming more hawkish in many parts of the world. The combined ramifications of these are clearly negative for growth and earnings, which presents a tricky environment for risk assets whose valuations are stretched.

The Evergrande situation is a source of real concern, not only because of its sheer size, but the fact it reflects the severity of a broader property market clampdown by the CCP who show no signs of reversing course. China's property market has long been used as a valve by the government to stimulate the economy and meet ambitious GDP targets, which overtime has led to massive overinvestment in property. The result of which has created the largest asset class in the world at $60tn, representing 25% of Chinese GDP, two-thirds of household wealth and 40% of local government tax revenues (via land sales). Whilst this is a huge imbalance by any measure, the true extent of China's exposure to property is amplified by the leverage used to finance it, which presents systemic vulnerabilities across banks, shadow banks, LGFVs and SOEs, whose balance sheets have been the main funding channel for China's multi-year credit boom. The outsized contribution of property to any country's wealth and debt structure means it is the asset class we get most nervous about when problems arise, but nowhere is this truer than in China.

The regulations responsible for the current downturn are known as the 'Three Red Lines', which were imposed last year and prevent property developers from issuing debt if they are in breach of certain leverage thresholds. This has forced developers to rely on pre-sales as a source of funding recently, where advanced payments are collected on unfinished properties. The problem is that this only works if there are a constant stream of willing buyers, akin to a pyramid scheme. When house prices are rising there are no shortage of speculators willing to invest, however this is obviously an unstable source of funding and quickly dries up when prices fall (as they are now). The other more structural issue that China faces is its shrinking labour force and declining urbanisation rate, which is putting longer-term pressure on demand.

As short-term funding has dried up for Evergrande, it has run into a liquidity crisis, meaning it has been unable to finish projects, pay suppliers and honour payments on its wealth management products (WMPs) and other debt obligations. Whilst Evergrande has always been a basket case amongst Chinese property developers, it would be naïve to assume that others haven't been engaging in similar practices and that this will be isolated to just one casualty. Indeed, we have already seen two smaller developers, Sinic and Fantasia, suspend trading due to their own liquidity issues.

The consensus is currently leaning towards an orderly restructuring and ring-fencing of any contagion. Analysts point to the large stock of inventory on Evergrande's balance sheet which they claim can be monetised, without realising that much of it is unfinished and has been marked up way above its true value. Years of negative free cash flow without ever reporting a loss, indicates that revaluation gains have been booked through the income statement and never written down since (i.e., it has been overstating earnings and assets for years). Many also seem sanguine that the government will eventually step in when it matters, however investors (including ourselves) have continued to underestimate the government's pain threshold and desire to rebalance the economy recently. If Xi's plan is to play a dangerous game of chicken with the private sector and wait until the last minute to resolve the crisis, then we fear he is overestimating his ability to manage the fallout from such a systemic and complex web of debt. Regardless of whether this tail-risk materialises, however, there is no doubt that China's property market is under severe pressure, which will drag on growth and likely spill over to other parts of the global economy, particularly the EM complex.

The other major issue weighing on markets currently is the mounting evidence of stagflation creeping into the global economy. This is something we have raised concerns about for months but has only just entered mainstream debate, as recent disruptions in energy markets have compounded existing problems in supply chains still reeling from COVID, extreme weather events, and a general shift in inventory management behaviours post COVID.

The power shortages currently gripping China and Europe are a symptom of overly ambitious climate targets that have seen fossil-fuel plants shuttered and an impossible burden put on unreliable renewable energy sources. Needless to say, some unfavourable weather has left them unable to fill the void. Coal and natural gas prices have soared recently as a result, which has also been exacerbated by certain geopolitical tensions, namely China's coal embargo on Australia and Russia's political jostling over the Nord Stream 2 pipeline. The situation in the UK looks especially precarious given that its main power cable between France is currently offline. Small energy companies have gone bust and a fertiliser factory has stopped production, causing further knock-on effects to the food industry. Inflation is now unavoidable, but even more worrying are the people left in charge to deal with it. We have been shorting Gilts and Sterling as a result.

As more of these supply issues accumulate, central banks seem to be slowly waking up to the fact that inflation may not be transient. This has led to some hawkish shifts in their policy stances recently. For example, Norway became the first major developed economy to hike rates last week. New Zealand, having already ended QE, may raise rates before the end of the year. The Bank of Canada has cut its asset purchases in half. The Reserve Bank of Australia has begun tapering asset purchases. The Swedish Riksbank has indicated that it will end asset purchases this year. The Fed will likely announce tapering in November, while the Bank of England has hinted at rate increases and will end its latest round of QE expansion in December.

To summarise, it is clear we are entering a period of weaker growth, with risks skewed to the downside in the case of a severe property market contraction in China. Supply side issues don't appear to be going away either, which is further weighing on growth and fuelling inflation. This stagflationary environment presents a very tricky dilemma for central banks who have to decide whether to focus more on the 'stag' or 'flation' component. Our prior assumption was that they would stick to their 'transitory' narrative for longer than they have, but recent escalations in supply shortages (particularly in energy markets) seem to have caught them by surprise. Weak growth, high inflation, and hawkish policy seem to be the themes emerging, which presents a very difficult environment to make money in equities. We have been reducing risk in our equity book as a result, and feel we could be entering a period more suited to the nimble macro investor, with more opportunities presenting themselves in bond and currency markets.

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USD Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2021	+2.69	+1.99	-0.98	+1.91	-1.61	+1.11	-1.20	+0.36	-1.44				**+2.76**
2020	-0.27	-1.87	-5.25	+6.27	+2.16	+5.24	+6.50	+2.75	-3.05	+1.43	+6.40	+7.77	**+30.72**
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
2021	+2.54	+1.97	-1.12	+1.86	-1.59	+1.11	-1.20	+0.34	-1.49				**+2.33**
2020	-0.32	-2.00	-5.86	+6.18	+2.13	+5.73	+6.30	+2.64	-3.22	+1.35	+6.39	+7.67	**+29.26**
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
2021	+2.61	+2.12	-1.02	+1.87	-1.65	+1.09	-1.21	+0.33%	-1.48				**+2.59**
2020	-0.46	-1.91	-5.67	+6.00	+2.17	+5.97	+6.45	+1.93	-3.11	+1.38	+6.34	+7.67	**+29.02**
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
2021	+2.64	+1.99	-2.45	+1.67	-1.64	+1.06	-1.23	+0.30	-1.48				**+0.73**
2020	-0.44	-1.95	-5.69	+6.11	+2.05	+5.98	+6.39	+2.60	-3.15	+1.33	+6.36	+7.11	**+28.92**
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 30-Sep-21	
GBP class	280.14
USD class	377.00
Yen class	32,493.38
Euro Class	134.93

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)		
	Long	Short
Level 1	74	-36
Level 2	15	0
Level 3	0	0
Total	89	-36

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)

Apex Group Ltd, Dublin Tel: +353 1 411 2949, Fax: +353 1 411 2948
Email: ApexTA@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

Joe Armstrong	Francis Kirkpatrick
01483 401 525	01483 401 521
ja@jkim.co.uk	fk@jkim.co.uk

JK Investment Management LLP
Bury House
3 Bury Street
Guildford
Surrey GU2 4AW
Tel: +44 1483 301 142