

JK Global Opportunities Fund

April 2019

USD Class +2.21%, GBP Class +2.13%, YEN Class +1.97%, EUR Class +1.96% in April.

The Fund rose +2.21% (USD Class) in April driven by gains in our China equities and US technology holdings. April saw a continuation of the trends that have driven equity markets higher YTD; namely easier policy/financial conditions and improving economic data. In particular, the China 1Q19 macro data released in April showed real GDP growth at 6.4% yoy, better than market consensus of 6.3% and driven by broad gains in industrial production, fixed asset investment and retail sales, suggesting its economy is much more resilient than expected and the previous bearish sentiment is probably overdone. The US GDP data (albeit slightly distorted by a strong inventory component) also confirmed the upbeat picture that the higher frequency data has been painting, coming in at 3.2% vs. consensus of 2.3%. The accompanying soft inflation number weighed on bond yields, stirring whispers of 'Goldilocks' within the financial community, particularly as the subsequent FOMC meeting confirmed the FED is on hold.

Whilst these favourable dynamics have kept us bullish on equities all year, the recovery in sentiment we witnessed in April suggested that most of the good news on economic data, policy stimulus, and until this week, trade was priced in. Whilst we are still constructive on these issues medium term, we felt that the market was beginning to get ahead of itself on certain points, leaving them vulnerable to disappointment and a short-term correction as the recent resurfacing of US-China trade tensions has proven. We became particularly sceptical of the probability that markets were assigning to a FED rate cut at some point this year and thought investors were beginning to misread the FED's reaction function to softer inflation. Powell's reference to the decline in inflation as being "transitory" at the FOMC meeting was viewed hawkishly by the market, confirming this view. Another source of concern was the fact that Chinese stimulus appears to have been front-loaded this year, leaving sentiment vulnerable to an expected deceleration in future easing. Combined, the general public budget and the government fund budget ran an enormous deficit of RMB955bn in the first three months of this year, compared with an average surplus of RMB487bn during the period 2012-18. With assets priced for perfection and new near-term catalysts lacking, we began to wonder how much upside was left to squeeze out of this year's rally and started to take profits on some of our strong YTD outperformers last month as a result.

Whilst further significant easing is unlikely in our view, we don't expect the FED or China to start tightening anytime soon either. Therefore, we would downplay Powell's "transitory" comment, which only gained as much attention as it did because the market was wrong-footed in its dovish consensus. Powell reiterated that the Fed's primary goal is to keep the economy growing, employment increasing and inflation at 2%. With a potential inventory correction complicating that goal and a yield curve still perilously close to inverting, we think the threshold that inflation has to breach before the FED starts to tighten is higher than most anticipate.

We would also downplay recent market speculation that the Chinese authorities are preparing to restart their deleveraging campaign, despite the policy message from the April Politburo meeting re-emphasising the need for structural reforms and Xi Jinping's mantra that "housing is for living, not for

speculation". Credit growth is now running only modestly above nominal GDP growth and with the ratio of debt-to-GDP broadly stable, there is no need to further clamp down on credit formation. As we have said before, there is no 'magic' level at which China's debts suddenly become unsustainable, especially as the country is not reliant on foreign creditors and state-owned banks are unlikely to force a 'margin call' on state-owned companies. The Chinese government also wants to keep the economy buoyant in order to gain negotiating leverage in trade talks with the Trump administration, as the RRR cut on Monday (one day after Trump's tariff tweets) seemed to suggest. Consequently, we expect China to tone down language about "structural deleveraging" in the coming months.

Our view is that policymakers are adopting a "wait and see" approach to future policy with a moderately dovish bias. As this less exciting policy narrative disappointed the 'more easing' camp, we thought markets would temper their rise but largely hold their nerve until the next catalyst came along. Whilst the market rally so far this year has been mainly driven by policy easing, growth stabilisation, sentiment recovery and valuation re-rating, we expected further equity market upside to be more driven by earnings growth in second half of the year, with the recent bottoming in China's earnings revision ratio being a particularly encouraging sign. We also expected a resolution in the US-China trade talks to coincide with a synchronised recovery in global growth, creating a favourable environment for risk assets later in the year.

As a result, we were willing to hold the majority of our risk position despite the risks mentioned earlier and markets tending to be weaker this time of year. In hindsight, our assessment of the US-China situation was too optimistic and like most, we were caught off guard by the surprising deterioration in trade relations this month. In response, we have significantly reduced risk in the last few days, particularly our high-beta Asia names, as we navigate through what's likely to be some difficult summer months.

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
2019	+3.17	+2.05	+1.37	+2.21									+9.09
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
2019	+2.98	+1.93	+1.23	+2.13									+8.51
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
2019	+2.95	+1.87	+1.16	+1.97									+8.18
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
2019	+2.90	+1.82	+1.11	+1.96									+8.01
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-April-19	
GBP class	208.54
USD class	272.83
Yen class	24,284.14
Euro Class	102.89

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)		
	Long	Short
Level 1	85	0
Level 2	52	0
Level 3	0	0
Total	137	0

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

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 Fund Services, Dublin Tel: +353 21 463 3366, Fax: +353 21 463 3377,

Email: jkinvestments@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