

**JK Global Opportunities Fund**

**December 2017**

The Fund rose +1.55% in December, +26.7% for 2017 (GBP Class, Net of Fees).

2017 was a good year for the Fund, which was well positioned to capture the upside that we saw in global equity markets, and in particular those of Asia and emerging markets. Global equities in general benefitted from decent fund inflows, as investors focused on the improving global economic outlook, in turn generating one of the best risk adjusted outcomes for the global equity benchmark for many years. Whilst we do not foresee a repeat of these returns, we remain constructive on the outlook into 2018, as many of the things that usually prompt recessions – inflation, the perceived threat of inflation, a profits squeeze, monetary tightening and/or overinvestment – are largely absent. In fact, we see several structural forces that could mean this cycle lasts much longer than everyone is expecting, particularly if Germany ‘rebalances’ while new technologies deliver a powerful revival in productivity (assuming the authorities work out how to measure it). Furthermore, sentiment remains surprisingly downbeat as everyone continues to look for the end of the cycle and some sort of 2008 financial market redux, despite evidence - as far as we are concerned – to the contrary. The global economy continues to expand, inflation remains well behaved, liquidity is abundant, and geopolitics so abysmal it feels like things can only get better!

Furthermore, despite continual protestations from the media on the supposed ‘bubble’ like valuations in equity markets, we see nothing of the sort, particularly in our favoured Asian markets where due to strong earnings recoveries, valuations remain undemanding despite last year’s rallies. Whilst the Chinese credit cycle might well induce some volatility to the region, so far at least the authorities appear to be managing the process rather well.

The major risks as we see them are a rapid rise in real interest rates (the US PE multiple was affected far more by the fall in real interest rates than other variables in 2017), and/or some negative bond market reaction to the more aggressive balance sheet unwinding proposed principally by the FED. After all, if central bank policy has driven the dramatic collapse in yields over the last ten years then surely when policy reverses (central bank net asset purchases should fall to roughly zero by year-end 2018, down from \$180bn/month in mid-2016), rates should rise meaningfully? Whilst we have some empathy for this train of thought, and are running short positions in many global bond markets, we are not convinced that a wholesale collapse is imminent. In fact, as we see it, right now we seem to be in a rather strange situation where the Federal Reserve is reluctant to take on bond markets, convinced that the flat yield curve is telling it something profound about ‘equilibrium interest rates’, while the ECB and BOJ are simultaneously manipulating those same yields through their massive QE programmes (creating an acute shortage of safe assets). If anything, this is the perfect environment for bubbles to inflate further. The reason we like the short bond position is its asymmetry – we can’t lose much but could gain big if we are wrong on our upbeat assessment of the outlook for financial markets in 2018.

Our optimism is reflected in our relatively high equity exposure. The Fund is currently 55% long Asian (including Japan) equities, with 35% in the US, and 15% in U.K. and Europe. The short global bond exposure is 30% of the Fund. Within equities we continue to like the technology sector, where growth

opportunities abound in AI, robotics, autonomous driving and VR. There are also value opportunities such as Mediatek in Taiwan and Samsung in Korea. We believe there remains significant upside in the Chinese technology stocks, and we continue to hold positions in Alibaba, Tencent, and Baidu. Given our outlook on economic growth and interest rates we have added to cyclical and financial exposures through the purchase of Berkshire Hathaway and Goldman Sachs. We have also added to our existing position in the rare-earth mineral miner and chemical processor Lynas in Australia where upside potential looks significant as it capitalises on the electric-car revolution and environmental clean-up in China which has created a rare-earth shortage. The UK is one of the best value markets at present and we have been adding to exposures selectively. Imperial Tobacco, Hargreaves Lansdown and the Prudential remain our favoured picks. Whilst a number of our special situation stocks had good runs in 2017, we believe upside remains significant so are holding onto positions in the likes of Hutchinson China Meditech, IQE Plc, and Blue Prism Group Plc.

In 2019, the outlook could well get trickier. The consensus can't seem to decide whether the main problem will be a late-cycle burst of inflation (forcing long-term interest rates higher) or an inverted yield curve. As noted above, we think a sharp spike in yields is the main danger, particularly when central banks have ended their QE programmes and the shortage of global safe assets begins to unwind. This is also likely to be the trigger for a wider selloff in risk assets and a significant injection of volatility in global markets. To the extent there are bubbles, they are unleveraged and most major economies (including the US) are not as sensitive to long-term interest rates as often feared. But, of course, it depends how large these bubbles have become by 2019.

Happy New Year.

***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
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	<b>+26.66</b>
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	<b>+3.50</b>
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	<b>-1.69</b>
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	<b>-3.86</b>
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	<b>+31.51</b>
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	<b>+8.68</b>
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	<b>-12.71</b>
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	<b>+8.62</b>
2009				+1.73	+10.1	+2.66	+5.01	+1.23	+1.25	+1.57	-1.14	+3.32	<b>+28.40</b>

USD Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
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	<b>+28.09</b>
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	<b>+4.26</b>
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	<b>-1.65</b>
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	<b>-3.91</b>
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	<b>+32.33</b>
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	<b>+8.72</b>
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	<b>-12.73</b>
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	<b>+9.13</b>
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	<b>+35.61</b>
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	<b>-8.92</b>
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	<b>-11.27</b>
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	<b>-3.75</b>
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	<b>+40.31</b>
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	<b>+6.98</b>
2003											+0.01	+0.39	<b>+0.40</b>

EURO Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2017										+3.69*	+2.47	+1.43	<b>+7.77*</b>

\*Euro Class started on 04-Oct-17

YEN Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
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	<b>+26.07</b>
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	<b>+3.36</b>
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	<b>-1.63</b>
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	<b>-3.53</b>
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	<b>+33.21</b>
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	<b>+9.18</b>
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	<b>-13.02</b>
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	<b>+9.17</b>
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	<b>+46.57</b>
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	<b>-11.89</b>
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	<b>-14.68</b>
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	<b>-7.99</b>
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	<b>+37.47</b>
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	<b>+5.88</b>
2003											-0.06	+0.31	<b>+0.25</b>

NAV as at 31-Dec-17	
GBP class	215.57
USD class	274.87
Yen class	25,265.02
Euro Class	107.77

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)		
	Long	Short
Level 1	103	-31
Level 2	26	0
Level 3	0	0
Total	129	-31

Source: JK Investment Management LLP

For more information on the Fund, please see [www.jkim.co.uk](http://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 3<sup>rd</sup> 2003. GBP Class launched 1st April 2009.

Mandate broadened to Asia Inc Japan and Name of Fund changed April 1<sup>st</sup> 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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