

JK Global Opportunities Fund

October 2018

USD Class -6.91%, GBP Class -7.11%, YEN Class -7.06%, EUR Class -7.19% in October.

The Fund fell -6.91% during the month, with the bulk of the losses being seen in the equity book. As if we didn't need reminding of events 10 years ago, equity markets once again got clobbered, with particular weakness in China and the rest of Asia. With the exception of the Asian crisis of 1998 and the GFC in 2008, October 2018 ranks as one of the worst months for Asian equities that we can remember. Everything got hammered, despite attractive valuations, solid balance sheets, and little sign of major economic dislocations. The asset class is now discounting a very poor earnings and economic outlook, and we just don't believe things will prove that dire.

Whilst we had been reducing risk in the portfolio, we were caught out by the speed and ferocity of this latest move, as well as our fairly high exposure to China/Hong Kong. If nothing else it has served as a wake-up call of the significant tail risk that exists in markets at present.

Investors have many concerns namely: rising bond yields (both nominal and real), the contraction in global 'liquidity', China's slowdown, RMB devaluation, trade wars, corporate debt levels, peaking earnings and Italy. In our opinion, the most important of these is the move in real and nominal interest rates in the US. However, what seems to have caused the sharp sell-off in October was a growing unease with the increasingly hawkish rhetoric from the FED, at a time when it looks as though Trump may be miscalculating on trade policy.

Furthermore, 3% seems to have become an important psychological level for 10-year US yields, above which stock markets struggle. We had originally believed that real interest rates above 2% were a more relevant indicator (currently just over 1%) but now we are not so sure. Rising real interest rates combined with further tightening of monetary policy in the US is proving a major headwind for markets. While improving growth expectations explained much of the rise in yields since 2017, the term premium has also played a decisive role recently – the bit of the curve that was most responsive to global QE – as it too has started to rise. In addition, the market seems to be looking through the current robust US economic data (believing it to be unsustainable), instead reacting to clearly weaker data everywhere else - China is slowing and Europe is starting to look really sluggish. With the macroeconomic data looking softer, investors are increasingly nervous about what might happen in 2019.

One of the risks for 2019 is that falling stock markets create additional damage to an already weaker global economy, further undermining market sentiment. Coming at a time when the FED seems intent on tightening further, and the ECB starts to taper in earnest (supposedly), the possibility of things getting out of hand seems plausible. Certainly Europe is starting to look vulnerable once again as Italy is bubbling up and the European economy is starting to slow down rather rapidly. Germany also is starting to look more fragile, and we know the banking systems in Italy, Spain et al remain far from healthy. Can these economies really live with rising rates?

Is a re-run of 2008 likely? We don't think so. The subprime crisis was dangerous because it involved a global housing bubble and an international banking sector seriously overleveraged with asset-backed

securities as the main form of collateral. It is well known that bubbles which involve housing and banks have traditionally been more damaging than stock market bubbles. Furthermore, banks have reduced their leverage aggressively since 2008 and do not pose the same risk to global stability.

We believe that a split Congress is the best outcome for the US and global equity markets. As well as providing more checks and balances on Trump and his administration, we feel that now he cannot rely on Congress or the FED for more easing he will have to ease up on the damaging trade war policies if he is to keep the economy rolling. This in turn increases our hope of some sort of agreement/deal with China over the next quarter.

Despite these rather poor macro fundamentals, at the micro level real value is starting to emerge. Certainly this is the case in Asia where stocks have been sold aggressively after slightly disappointing earnings numbers. Many stocks have fallen 50% or more, for no apparent reason other than a 5% or so earnings miss. Analysts, who had been positive on these stocks early on in the year, are downgrading their target prices and earnings (despite the huge falls) which is always a sign that we are approaching a bottom. We are buying selectively into this weakness, having raised meaningful amounts of cash of late to mitigate downside risks. The best value resides in China/Hong Kong. We expect US equities to recover their poise, and remain of the belief that we remain in a multi-year bull market for this asset class. Our strategy is to buy into weakness and gradually rebuild exposures.

***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	+1.14	-2.35	-7.11			-6.58
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	+1.25	-2.14	-6.91			-5.02
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

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	-0.10	+1.12	-2.53	-7.19			-7.23
2017										+3.69*	+2.47	+1.43	+7.77*

*Euro Class started on 04-Oct-17

YEN Class (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2018	+6.38	-1.42	-2.06	-1.14	+3.59	-3.26	-0.11	+1.15	-2.45	-7.06			-6.80
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-Oct-18	
GBP class	201.39
USD class	261.06
Yen class	23,548.04
Euro Class	99.98

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)		
	Long	Short
Level 1	92	-40
Level 2	15	0
Level 3	0	0
Total	107	-40

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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