

JK Global Opportunities Fund

October 2021

USD Class +0.51%, GBP Class +0.49%, YEN Class +0.49%, EUR Class +0.46% in October.

The Fund rose +0.51% (USD Class, net of fees) in October, which was another frustrating month where losses largely negated any gains in the portfolio. Gains were concentrated in some of our long-term favourites in the US tech space, such as Nvidia, Microsoft, and Accenture, as well as a new addition to the Fund, Coinbase – reflecting our bullish stance on Crypto. Strong performance from tech was partially offset by a short position in Nasdaq futures, which we initiated as a hedge in September (now closed). Our short Nikkei hedge worked better last month as Japanese equities took a tumble, but again the net effect was a small positive. Other losses came from our short bond positions and currency bets, namely long Dollar vs Sterling and Yuan, and long Yen vs Dollar. In the case of Japan, inflation of key import prices (particularly energy commodities) has led to a deterioration in its terms of trade, which combined with widening interest rate differentials has weighed on the Yen. Despite the cheapness of the currency now, we feel that these are two trends that will continue and have therefore closed out our long Yen position.

Despite ongoing concerns about inflation, growth, policy tightening, and China property, markets continued to climb the ‘wall of worry’ in October. Strong earnings, particularly in the US, are providing support for the rally, confounding sceptics’ worries about margin pressure from supply shortages and inflation. Margins for the S&P 500 continue to hover around record highs, which is remarkable to think given everything happening in supply chains at the moment. Perhaps we haven’t seen the full impact of cost pressures yet, but we suspect the growing trend towards digitisation is responsible for a large part of this earnings resilience. Companies like Apple and Amazon, for example, are seeing enormous demand for their high-margin services businesses, helping offset the supply-chain issues plaguing their mainstay businesses currently. Tech companies with digital, recurring revenue (software, cloud, streaming, etc.) should continue to provide relative shelter from supply-chain disruptions, which is why the sector remains our biggest overweight.

Moreover, the pace of innovation at these companies is far from slowing down. The integration of virtual reality into their products and services seems to be an emerging theme, whether that is Meta Platform’s (formerly Facebook) and Microsoft’s shift towards the ‘Metaverse’, or Adobe’s and Nvidia’s partnership on an ‘Omniverse’ (which is part of a segment representing around 10% of Nvidia’s sales now), there doesn’t seem to be any shortage of growth drivers on the horizon.

Whilst the US has been our preferred way to express this bullish tech stance up until now, we have been rebuilding exposures to China tech more recently too. At current valuations, we feel that regulatory risks are now largely priced in and that share prices should be less sensitive to any increase in real interest rates – which is a greater risk for their higher-valued US counterparts. We also sense that Chinese policymakers are becoming more focussed on stabilising the property and energy markets than cracking down on tech companies further, which has mitigated any remaining tail-risk in our view.

As always, this tech exposure needs to be tempered by the interest rate outlook, as whilst we are bullish on earnings, there is always the question of what rate to discount them at. We have been

more hawkish on inflation than the consensus this year, which has largely informed our short bond position recently. Our view was that central banks would eventually capitulate and tighten policy more than expected, which was appearing to be the case until the dovish surprises from the FED and BoE last week. Despite clear evidence of inflation being stickier than expected, central banks appear in no rush to increase interest rates, which has led to a sharp fall in yields from recent highs.

The question of whether this inertia will add further fuel to the inflation fire - and therefore greater upside risk to bond yields down the line - is an elusive one. We have been surprised by central banks' ability to anchor long-term yields in the face of some of the greatest inflationary pressures we've seen for a long-time. Whether by accident or design, the combination of stable nominal yields and high inflation is keeping real yields suppressed in negative territory, resembling a policy of financial repression. Even if inflation continued to accelerate, we are becoming less certain that this would necessarily translate into much higher nominal yields. We therefore can't rule out a 'lower for longer' real yield scenario, where inflation actually benefits high-duration assets like tech via a further lowering of real interest rates. The assumption here being that inflation rises faster than nominal yields. Given our lack of conviction, we are maintaining our short bond positions as a hedge for the time being.

Gold has traditionally been a good way to maintain purchasing power during periods of financial repression, which is why we have been rebuilding exposures to Bullion and Gold Miners. Increasingly, we also view Crypto as a major beneficiary of repressive government and central bank policies. Institutional investors have clearly entered the space too, with the approval of a Bitcoin ETF, the launch of numerous crypto and NFT funds, and even a Bitcoin investment from the Houston Firefighter pension fund - cementing it as a legitimate asset class.

To appreciate the size of the market opportunity in Crypto, one only needs to look at a subset of it, known as Decentralised Finance (DeFi). DeFi is aiming to replace all financial services with code, which means it can be offered at a fraction of the cost and in a permissionless and trustless way. Globally, banks manage over \$150tn of assets, which dwarfs the \$240bn of assets currently deposited in DeFi protocols (known as Total Value Locked (TVL)), and the \$3tn market cap of all Cryptocurrencies. If you assume that DeFi captures even a fraction of this market (we happen to think it will be large over the next 10-15 years), then we haven't even seen the beginning of the upside in Crypto. Gaining pure exposure to Crypto is limited through the Fund, but we see Coinbase as a reasonable proxy, so have initiated a position here.

We maintain our positive outlook for Japanese Equities. With PM Kishida in place, Japan has lagged other equity markets and looks good value in absolute and relative terms.

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USD Class (%) ISIN IE00BBCR2L08													
	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	+0.51			+3.29
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 (%) ISIN IE00BBCR2K90													
	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	+0.49			+2.83
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 (%) ISIN IE00BBCR2M15													
	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	+0.49			+3.09
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 (%) ISIN IE00BBCR2N22													
	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	+0.46			+1.19
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 31-Oct-21	
GBP class	281.50
USD class	378.94
Yen class	32,651.34
Euro Class	135.55

Source: Apex Fund Services (Ireland) Ltd.

Asset Type as at above date (market exposure % of Total NAV)		
	Long	Short
Level 1	76	-30
Level 2	19	0
Level 3	0	0
Total	95	-30

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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