SHINING A LIGHT ON……
JUPITER CHINA FUND

At a glance

Last year this fund was stated as a dog fund against the Asian index. However, it cannot be compared to the Asian index and should be compared to the China index.

Against the iShares China Large Cap ETF it has performed strongly, in the update with the manager we wanted to understand why someone might want to invest in China as a standalone economy and why they might invest in this fund.

As an overview we felt for investors wanting a manager with experience and longevity in emerging markets and China this would be the fund to choose. On the holdings the managers stated bias is too small to mid-cap but the data we have shows a bias to mid to large cap. It could simply be how data is presented and the fund has a bias to mid-cap with some edging into the large cap space.

Who are the team behind the fund?

Philip Enrmann has managed the fund since its launch in 2006. He has managed emerging market equities since 1990 and prior to joining Jupiter he worked for Gartmore.

Over a 1, 3 and 5 year period he is ranked as a top five manager investing in China.

What is the story behind the investment?

China is pivotal to emerging markets as are India, Russia and Brazil. These economies outspend the US (which on its own accounts for 25% of the world's spending) and the gap will grow.

Average earnings in China have grown by 300% in 10 years and wealth is being distributed to a growing aspirational middle class. Growth in 2012 and 2013 was 7.7% and is expected to be 7.4% in 2014.

Fundamental reforms are now being adopted which include private investment in state controlled industries, reversal of the one child policy, freeing up of interest rates, improving treasury yield curves and the ability for qualified private investors to set up small to medium sized banks. These reforms will take time; probably decades.

Fund highlights?

Philip explained that China's sustainability hinges on the reform agenda. The key areas being rationalisation of state owned industries, financial de-regulation and emphasis on emerging strategic industries.

Effectively the economy is moving to consumption led.

Going back two or three years ago there was negative sentiment on China and this remains. It is unloved by investors and most Asian and emerging market funds remain under weight. Philip believes the markets are cheap and that is being missed by foreign investors.

With our sceptical hat on we have heard this before in 2012 and although investors were rewarded in 2013, most of this has been taken away in 2014. However, Philip indicated that the positioning of the fund means that it is tilted towards consumption which is where the growth is likely to come from in the future.

The question mark we have is around the holdings which are stated as small to mid-cap but appear to be more skewed towards large to mega cap. Often the classifications managers use are different to agencies like Morningstar and it could be the companies are at the lower end of the large cap space.

This is important for two reasons, firstly the manager believes that growth will come from small and mid-cap companies and if the fund is not really positioned in this place then it won't capture that growth and secondly we compared the holdings to the iShares Large Cap 25 and the funds top 5 holdings were the same as the tracker.

In a down market in 2011 and 2014 to date the fund has significantly underperformed but in an upmarket it has significantly outperformed the market. For investors wanting to invest in China the manager has the experience and track record. The fund is also positioned towards the consumption story which appears to be where China is heading. If investors are looking for a small to mid-cap fund we would question this.

Fund performance

The table below shows performance since 2009 and going into 2014:

	2009	2010	2011	2012	2013	2014	Since Launch
Jupiter China Fund	76.13%	8.91%	-27.25%	11.87%	19.88%	-12.78%	75.70%
iShares China Large Cap 25 ETF	34.79%	4.62%	-18.60%	8.92%	-8.48%	-7.74%	40.86%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

For investors looking for a China Fund the manager has both experience and track record to deliver. The fund is also positioned to benefit from the China Consumption story. There are question marks around whether this is a small / mid-cap fund or large / mega cap fund and there is a crossover of holdings with the ETF equivalent.

The source of information in this note has been provided by Jupiter and is correct as at May 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.