LWM Consultants Ltd

Meeting the Fund Manager

JPM US Equity Income Fund

The JPM US Equity Income Fund has recently come onto our radar as a fund to consider as part of our portfolio mix. The fund was launched in the US ten years ago and now has a three year track record in the UK. It aims to identify good quality companies with strong management which are committed to delivering a strong yield.

US firms tend to produce lower yields than the UK but it offers wider diversification across sectors and companies. The fund itself offers a more defensive exposure to the US market but could balance well with a more adventurous fund.

For this reason we wanted to find out more about the fund and how this might work in practice.

Overview

In the US the yield is an important part of the growth equation. During the 2000's capital appreciation in the S&P 500 was -2.7% whereas the dividend was 1.8%. In the 2010's the capital appreciation was 6.2% and the dividend was 2.1%. From 1926 to 2011 capital appreciation was 5.5% and the dividend was 4.1%.

The focus for JPM is twofold – firstly the pay-out ratio, by this they mean how much is being left in the company for research and development and future business growth and the consistency of dividend. They are looking at firms paying a minimum yield of 2%.

As is often the discussion with the US we discussed Apple which has just announced the payment of a dividend. They are currently underweight because there is no track record of paying a dividend. What was interesting was the potential game change that this dividend is doing. Previously for tech companies to pay dividends was a taboo, it just didn't happen. If it becomes acceptable for the likes of Apple and other tech firms to pay dividends then the universe for investing gets bigger.

We then looked at Coke as another example. Coke is a quality company with a desirable franchise. It has diversified product sets and has a strong management team. Coke is interesting for two reasons, firstly the business which now includes bottled water, smoothies and sports drinks and therefore is not reliant on one brand and secondly it provides a good example of the depth of experience within JP Morgan.

Kathleen Stack who is an analyst on consumer stables has worked for JP Morgan for 30 years. She has met 6 different CEO's at Coke during this time and knows the business really well. This is just one example of the depth of experience they have and it demonstrates that knowledge and experience plays a key part in making investment decisions.

On a general discussion we discussed the state of US companies. In early 2000 corporate cash as a percentage of current assets was below 16%, this now sits closer to 30%. There is little pressure on this cash, so for example there are no wage demands as unemployment is high so at some point this will be paid out. The long term average dividend payout ratio sits around 40%, in 2009 this came close to 60%, it currently sits around 25%. The point being at some point this cash will come back to investors.

In summary this fund provides a more defensive exposure to the US market and has the potential to balance well with more adventurous funds. It has a strong management team, the lead fund manager has 13 years' experience with the firm and her co fund manager has 32 years' experience. They have a strong support network as demonstrated with the likes of Kathleen Stack which feeds through to the decision making process.

Conclusion

In developing the portfolios we are looking for funds and fund managers who we feel can deliver in the particular sectors they specialise in. This fund has the potential to offer a defensive exposure to the US market which when balanced with other funds could offer good diversification. We will continue to monitor this fund as part of the portfolio review process.

The source of information in this note has been provided by JPM and is correct to the end of July 2012. These are notes from meeting the fund manager and should not be seen as a recommendation to purchase this fund. 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 also note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.