LWM Consultants Ltd

Meeting the Fund Manager

JPMorgan Emerging Markets

We have added the JPMorgan New Europe Fund to our more adventurous portfolios. In the previous portfolio we had held the Neptune Russia and Greater Russia which we felt was too country specific. We wanted to find a fund which provides exposure to Russia but also other peripheral countries. With JPMorgan's emerging market expertise this seemed a perfect choice. The meeting was primarily to learn more about the fund but expanded into a wider discussion on emerging markets and this is reflected in the notes below.

The fund manager is Oleg Biryulyov. At the meeting we met Emily Whiting who is the Client Portfolio Manager on the Global Emerging Markets Team.

Investment Objective and profile

The JPMorgan New Europe Fund looks to provide long term capital growth by investing principally in companies operating or investing in Eastern Europe and Russia.

Emerging choice - why is it so important for asset class and is it the Wild West

The recent scandal in Mexico around Walmart confirms in many people's eyes that emerging markets is full of corruption. The point that JPMorgan made on this was that we have to understand that every country, and its underlying culture, is different. We tend to be blinkered by the way the west thinks but when you consider the west only makes up 15% of the global population then you start to appreciate the importance of understanding different cultures (source JPMorgan).

This point was further supported by an article in Forbes which highlighted this fact, stating that in the likes of Russia paying protection money is not unheard off. The point is that it is important to understand this and equally to be careful not to cross the line.

Equally emerging markets have to moderate how they deal with western countries. We are seeing that in China. In 2008 China thought they had everything in control. In 2008 the bottom fell out of the market and they have had to rebuild confidence. We can see in Russia that Putin is likely to shift his focus in favour of the consumer.

The key to investing in emerging markets is twofold - firstly searching for good companies or looking for companies that derive profits from emerging markets.

The New Europe Fund does have a heavy bias to Russia. Russia has been seen as the Wild West but that is changing and there are great companies with corporate governance. An example was given of a company with a domestic play, so rather than oil this company focuses on food and has 100 hypermarkets across Russia. It has strong corporate governance and pays a small amount of dividend income which is another sign of a good company.

The advantage with JPMorgan is that they can open doors with specialists on the ground. The fund manager speaks Russian and is ex Russian forces so not only can he communicate in their language he can pick up on expressions which are sometimes key to understanding a business. So what they are looking for is strong corporate governance, strong cash flow and re-investing in a sensible manner.

They don't tend to hold oil companies in Russia preferring to look to countries like Kazakhstan and Turkistan where the tax regimes are more favourable and gas prices better. So being on the ground is important for emerging markets.

Often when looking to invest in emerging markets we forget there are 25 countries all at different stages of development and this provides great diversity. Countries like Chile and Brazil are seeing people being pulled out of poverty and into a new emerging middle class. The likes of Mexico have good companies closely aligned to US companies.

Often Emerging market countries are good models for how it should be done. We talked about Brazil. Twenty years ago it was a mess. At that time the central bank was given independence and what followed were nasty short term measures. The key was looking at the bigger picture and having a tighter control of fiscal policies and therefore creating a positive cycle which in turn provides investment.

Chile and Columbia have companies which are more western looking and in some cases have western management.

A lot of the discussion re-affirmed our belief in emerging markets but crucially having the team on the ground and the local knowledge will ultimately deliver success. We feel comfortable with our selection of the New Europe. We also covered the Emerging Market Income Fund which is a potential fund for the future; it is more defensive in its nature but taps into good companies paying good dividends.

The Emerging Market Income Trust primarily focuses on companies which provide a target yield of between 3 to 6% and it overlays this with low dividend stocks which have the potential to grow, and those with high dividends but little growth potential. An example of a high yielding company is AES Tiete in Brazil which is paying a 11.5% yield. This is a large utility business providing good cash generation and providing stable dividend yield but has little opportunity for growth.

Conclusion

Emerging markets will drive global growth, and by having a holding in the New Europe Fund in the more adventurous portfolios we are able to tap into the growth story within Europe without relying on the more developed European countries.

The source of information in this note has been provided by JP Morgan and is correct to the end of April 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.