



## **LWM Consultants Ltd**

### **Meeting the Fund Manager**

#### **Fund manager meeting - JPMorgan Global Consumer Trends**

We have followed this fund since launch, although thematic in its approach it plays on global changes particularly in the likes of China. The fund manager is based in the US and we were fortunate to meet one of the key analysts James Sutton which enabled us to gain a greater understanding of the fund and future opportunities.

The fund does form part of some of our portfolios and by its nature is higher risk but as a long term holding we continue to believe this remains a good holding.

#### **Investment objective and profile**

The fund looks to achieve capital growth by investing in companies throughout the world benefiting from consumer driven opportunities. There are three central themes to this - demographics and urbanisation, health and wellness and aspiration.

#### **Themes and investments**

One of the most striking facts to come from this meeting was the scale of the opportunity. The fund has a heavy play in China, with all the negativity around China we started to explore what the future holds. At the moment much of the growth is driven by the super-rich, around one million people. What we now have coming through is the affluent middle class, these are people with similar aspirations but only now are they starting to have the money to spend. This market is effectively at the beginning of the curve which means the potentially for demand is likely to grow and not shrink.

However, the concern with China as with any emerging markets is how much do we know about the companies that they invest in. JPMorgan blend the fund with companies that invest in these markets as well as Chinese companies. The key to JPMorgan is local knowledge. They have analysts on the ground and they have a global emerging markets team where they can share information. There is of course an element of risk but this is reflected in the long term play of the fund and what they aim to do is diversify such that the risk is spread.

The fund currently has around 65% exposure to emerging markets and China is the biggest slug of this. Because of the nature of the fund the geographical make up could change, perhaps the likes of India over the next ten years could become more of a focus.

Due to the holding in China we looked at the "hard landing", this was an interesting discussion with the general view that what is happening is a rebalancing of the economy. In China the valuation figures are back to the 2008 levels. The government accepted the economy grew quicker than they wanted and now they are bringing it back under control. The key for China is not to drop below 6%, as we mentioned at the start they want to bring in other people to the growth story. If growth drops and unemployment grows then we have a problem. But at the moment growth is at 7.5 / 8% which is where they want it to be.

We then started to look at stock selection, currently they have around 200 stocks they screen. We looked at a couple of examples; BMW drives 25% of its sales from China and 50% of its earnings. Sentiment would lead us to believe that as European sales are weak and the euro crisis is creating a great deal of uncertainty this would be a bad stock to hold. But it leads back to the growth story and for BMW that is China. Analysts are less worried about the euro and more worried about consumer consumption data in China. In viewing stocks they take a 3 - 5 year timeframe and therefore it is key that sentiment doesn't cloud judgement.

The second stock we looked at was connected with the untapped middle class. PCD stores are in the process of opening an outlet mall in China. This will bring designer brands to the middle classes at affordable prices. It is estimated this could be as many as 150 million people, when you consider the growth has been driven by just a million people you can start to see why stocks like this are so attractive.

The key with JPMorgan is depth and breadth within the company. They operate under a team based ethos and this is important because if the fund manager leaves the team will still be there meaning that the fund can operate with or without the current incumbent fund manager.

One final fact which sums up why emerging markets will grow in its importance under portfolios, 85% of the world is in emerging markets. We can't necessarily see this but the 85% desire what the 15% have. The tide is changing and this is why although theme focused this fund taps into the underlying tide that is changing the world we are in.

## **Conclusion**

We have always been impressed by JPMorgan and clearly their knowledge of emerging markets is second to none. We continue to be focused in our thinking that emerging markets will drive global growth now and in the future. This fund is likely to remain in the riskier portfolios for the foreseeable future.

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.