LWM Consultants Ltd

Meeting the Fund Manager

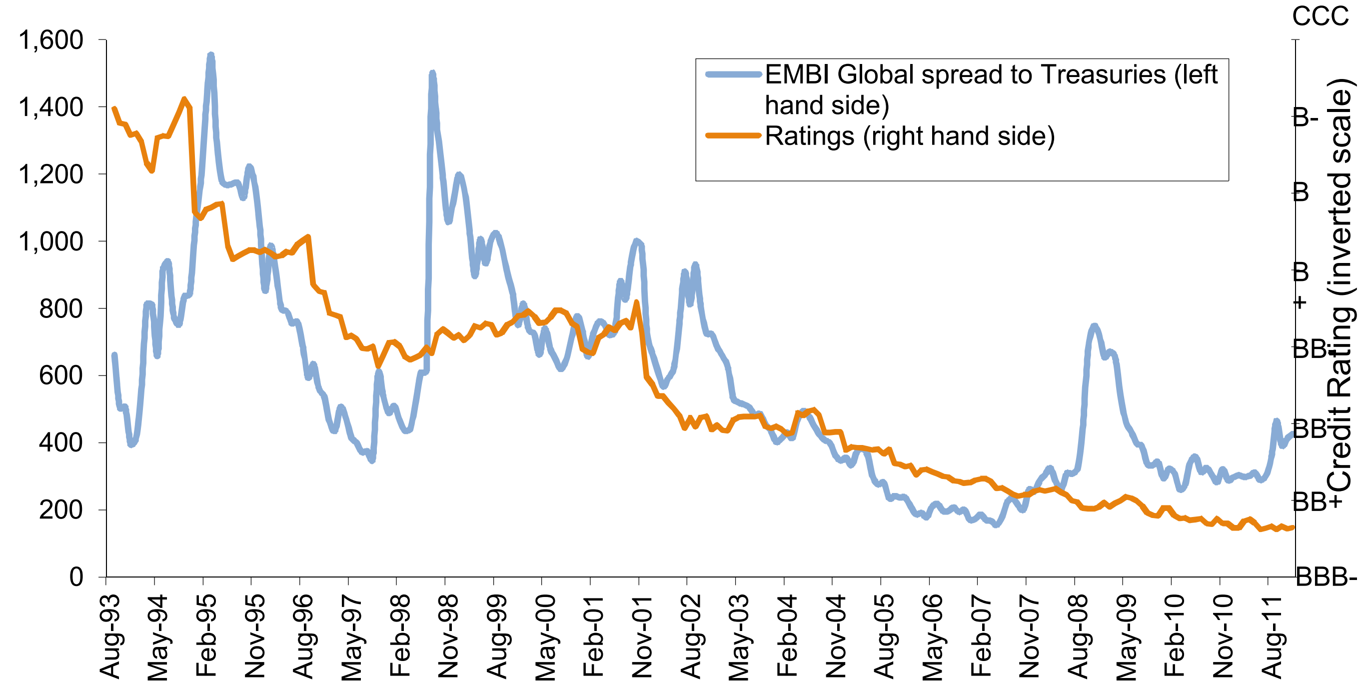
JP Morgan Update

We support a number of JP Morgan Funds in our portfolios including their Emerging Markets Funds, Consumer Trends Fund and Natural Resources Fund. We recently had an update with JP Morgan mainly focused on the Natural Resources Fund which is in an unloved sector but we also discussed in more detail the opportunities in emerging markets. The notes from these discussions are detailed below.

Emerging Markets

We discussed the opportunities in emerging markets and in particular we focused on emerging market debt. Clearly we are getting to a point where there is a convergence between developed and emerging market debt in terms of volatility but the difference is that emerging market debt has the greater potential for growth. This is seen in the fact that the likes of Russia, Poland et al have moved to investment grade status whereas a number of peripheral European countries are moving to almost junk like status.

This view was demonstrated in the graph below:



In 2011 Emerging Markets Bonds had volatility of around 4.7% and a yield of 6.1%, when you compare to say US Bond Index the volatility is slightly lower at 3.9% but the yield was only 2.7%. (Source JP Morgan). So clearly the idea of emerging bonds being more volatile and risky is starting to shrink. You also have to add into this that growth potential in many emerging market economies is greater than the western economies and the debt mountain is considerable smaller.

Away from emerging market bonds we discussed emerging equities. We have indicated before there is a misprice in the market and currently the JP Morgan team feel that the price of 1.5 x price to book for emerging markets is considerably below the fair value of 2 x price to book. In terms of returns when the markets return to norm then they feel this could generate a return of between 35 and 70%. Clearly the question is when do you join the train and at what point does the market return. The emerging markets is a big driver for our future and if this market collapses then we have a global problem, this is unlikely to happen so at some point normality will return. For long term investors clearly JP Morgan sees opportunities.

JP Morgan Natural Resources Fund

Clearly an unloved sector, macro conditions with concerns around a Chinese hard landing and uncertainty in Europe and question marks around the US have impacted on performance for this fund. The argument from JP Morgan is that the need for natural resources is still there it is just a question of when and therefore this is a long term growth story.

What was clear is the argument that there are many mispriced companies out there with good cash reserves and strong balance sheets and being able to identify these opportunities is crucial. It was also interesting when looking at copper as an example where the consumption has not changed much but the cost has rocketed. This is because of the difficulties in extracting copper ore; companies have to work much harder to get this. So they need to move 30% more earth which costs more in terms of land and people.

At the moment many large cap companies are holding back from development and this could create a problem when the market turns. We discussed one company that hadn’t monitored its supplies efficiently and now has idle dumper trucks because the waiting list for tyres is 18 months.

So with this backdrop the key is to find companies which have a strong management team, proven reserves and a strong balance sheet. We looked at one company Anglo American which fits this criteria and has a PE ratio of 6.

The feeling is that what they are seeing is some of the cheapest valuations for 25 years. Even small cap companies which are developing are cheap. It is felt that once the tap is switched on the bigger well run companies with strong balance sheets will be able to snap up these small companies at a low price and have instant capacity.

In summary although the sector is unloved the potential is there and JP Morgan believes they are best placed to respond in terms of performance when this comes back.

Conclusion

Clearly the global market is walking a carefully strung tightrope but the driver for the future appears to be the emerging world and with the convergence of volatility it offers the same volatility as the developed world but with the potential for greater returns.

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