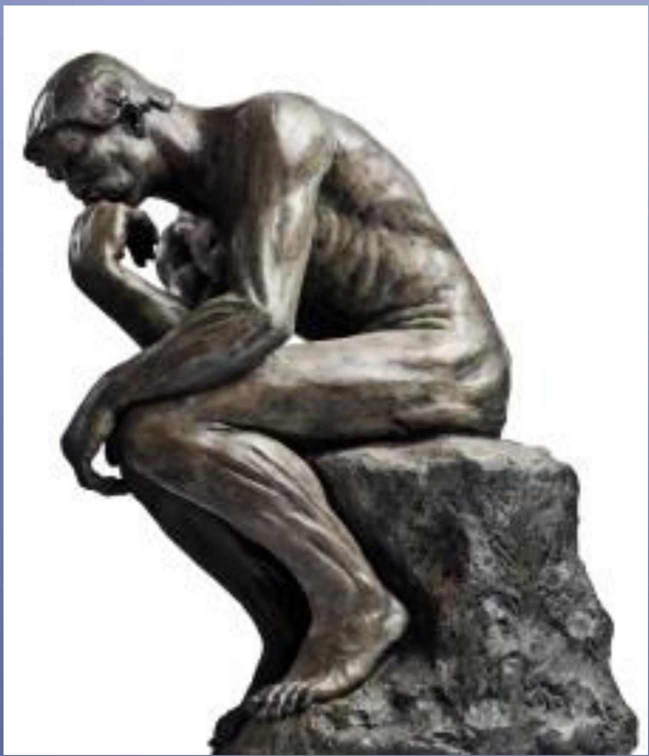

Fund Bites

JM Finn & Co Global Opportunities Fund

The JM Finn & Co Global Opportunities Fund is not part of our portfolios. This “fund bites” is a summary of the recent meeting with the fund manager, Anthony Eaton.

Introduction

We have indicated in the past the types of managers we like and the types of funds we prefer. So boutique managers tend to be more approachable and specialists within their areas, and we believe that more concentrated portfolios can deliver above average returns over the long term. Effectively once the holdings become too large the manager cannot know the companies well, and effectively he just starts to track the index.

We were contacted by JM Finn and Co to consider their Global Opportunities Fund as part of the portfolios. In the latest portfolio rebalance we have stripped back our global holdings to focus on a couple of global funds and some specialist sectors funds. We are not looking to add to this.

However, when we were contacted we were interested in this fund because it challenges the way we think, and is something that is a little different in the way the manager invests.

This fund looks at the global thematic picture and then looks at the key drivers. There is no conviction at stock level. So for example if food is required in Africa how does it get to its place of destination? So ports are the main entry point and therefore the fund will hold ports.

If emerging markets want Colgate toothpaste, where are the distribution centres in the local economies, so the fund will look to hold distribution centres.

The manager is keen to stress that this is not a stock pickers fund but a global thematic play. This in a way is an explorer's fund. Clearly the manager is focusing on emerging and frontier markets and although the stock holding is high (around 200) this might blend with some of the other Asian and Emerging Market Funds we have.

The challenge for us is that this reverses our normal thinking!

The Fund

The story behind the fund is very powerful and highlights why this is so different. In my recent paper on emerging markets I argued why I don't think the emerging market story is dead, and in fact why there remains an opportunity.

It is important to recognise that 80% of the world wants what 20% of the world has. It is also important to recognise the differences between the Western economies and Asian and African economies. So in the West the population is around 1 billion – this population is growing at less than 1% a year and is aged around 40 – 45 years old. Asia has a population of 4 billion and is growing by 1.5% p.a. with an average age of 30. Africa has around 1 billion people and is growing by 2% p.a. with an average age of 19. *

The dynamics for these huge populations are changing before our eyes. So in China in 2004 income per head was $1,300, this is now $6,000. * This means people are moving up the social scale and the move towards a self-sustaining consumption and a service economy. As people go up the social scale they want quality brands and the argument is that these are few in number. An example of this is VW and Kraft.

With VW it is becoming a price maker, so for example a few years ago it would sell its products at a discount in emerging markets now with demand for its products it can control the price and supply.

Kraft's takeover of Cadburys shows that global brands can snuff out the opposition and then

increase the price of their products because they can!
So this fund is about identifying global economic trends and then the best way to benefit from these trends. Effectively they want companies that cater to human wants and needs.

Because the manager starts from the top it is sometimes hard to understand how they choose stocks. So for example, Africa currently has income per head of around $1,300 and has the potential to grow at the same pace of some Asian economies*. To benefit from this you need to identify the routes into the economies and distribution networks. One company dominates this, a French company called Bollore which operates ports and warehouses across most of the African continent. So if you want access to the continent you have to go through their ports and their warehouses so to gain from the growth this would be the type of stock you want to hold, and one that the fund does hold.

But not all ports are good investments, so in China many of these are state owned and therefore difficult to invest in however there are good port companies in Hong Kong and Singapore.

Another example of investments is in Indonesia; with the growth in the country it will need more energy, so they need pipelines to deliver this. The fund invests in the dominant Indonesian gas pipeline business.

As the demand for food grows the question rises how can you benefit from this, one company called Amsterdam Commodities is one of the principle operators worldwide in the origin and supply of nuts and spices. It has strong connections with local farmers and distribution networks.

The fund looks at movement of people, so for example in Nigeria the growth of air travel means they have invested in domestic airports. This approach has seen them investing in Malaysian, Thai and Indonesian airports as well.

More recently they have looking at phone towers, following their initial investment in phone towers in the US they have replicated investment in this key infrastructure in Italy, Indonesia and Nigeria.

Of course because this looks at the top down it doesn't mean they don't research companies. Anthony doesn't like companies with too much debt and listed subsidiaries – he would prefer to hold the head company.

This is a long hold fund; the top ten have not changed that much over time. 75% of the fund value comes from the top 50% of the holdings (around 100 stocks). The satellite investments are on trial. If they grow will move into the core stocks but if they don't they will sell.

So for me this is about discovery and about benefiting from new opportunities. It does play heavily in emerging and frontier markets and therefore may be a good blend with pure emerging market and Asian market funds.

The fund has delivered strong performance, although it did struggle in 2008. Trustnet states "Overall, performing better than the peer group composite. Over a fairly lengthy track record, the manager has outperformed the peer group more often than not."

Conclusion

Clearly Anthony sees opportunities in emerging and frontier markets. The fund is different because it looks from the top down and it does have a high number of holdings. There is a drag on performance but the feeling is that long term the good will win. We will add this to our watch list and see how it might blend with other funds.

The source of information in this note has been provided by JM Finn & Co and is correct as at 5 June. These are notes from meeting the fund manager or representative 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 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 source of population data and earnings is JM Finn & Co, IIASA and McKinsey Institute*