Jupiter Emerging & Frontier Income

Off to a great start

Jupiter Emerging and Frontier Income (JEFI) is a little over a year old. From launch to the end of July 2018, it delivered returns ahead of its benchmark and peer group. It has met the 4% distribution target it set out in its prospectus and its shares have traded within a narrow range, close to asset value. The lead manager has demonstrated his commitment to the fund by increasing his personal holding in the trust to 705,000 shares.

JEFI is already a reasonable size for a relatively new trust but we believe it deserves to be bigger.

Our update note analyses the drivers of its performance (see page 6), looks at some of the recent additions to and disposals from the portfolio (see page 3) and compares JEFI to its London-listed peer group (see page 7).

Long-term capital and income growth

JEFI aims to generate capital growth and income, over the long term, through investment predominantly in companies exposed directly or indirectly to emerging markets and frontier markets worldwide.

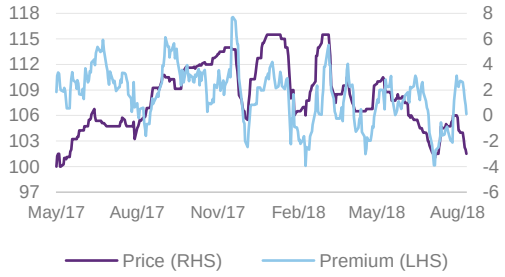
Year ended	Share price total return (%)	NAV total return (%)	MSCI Emerging Markets TR (%)	MSCI Frontier Markets TR (%)	MSCI World total return (%)
31/07/18	8.6	11.9	10.2	6.0	14.3

Source: Morningstar, Marten & Co.

Sector	Global emerging
Ticker	JEFI LN
Base currency	GBP
Price	101.5p
NAV	101.3p
Premium/(discount)	0.2%
Yield	3.9%

Share price and prem./(disc.)

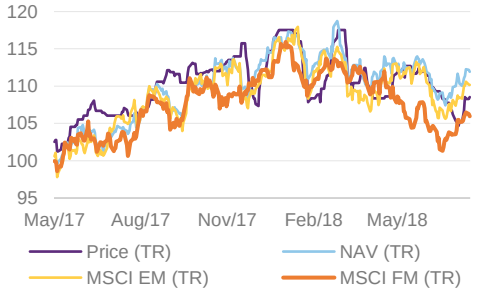
Time period 15/05/2017 to 27/08/2018



Source: Morningstar, Marten & Co

Performance since launch

Time period 15/05/2017 to 31/07/2018



Source: Morningstar, Marten & Co

Domicile	UK
Inception date	15 May 2017
Managers	Ross Teverson Charles Sunnucks
Market cap (GBP)	94.2m
Shares outstanding	92.843m
Daily vol. (1-yr. avg.)	117k shares
Net gearing	(9.3%)

Click here for our initiation note

Look through the noise

Our initiation note set out compelling long-term arguments for investing in emerging and frontier markets

The compelling long-term arguments for investing in emerging and frontier markets were set out in our initiation note and, as we pointed out in that note, beyond operating a risk overlay on the portfolio, the managers do not formulate macro views or incorporate them into portfolio construction.

We cannot completely ignore however, the rambling rhetoric emerging from the White House, the strength of the dollar and a few country-specific problems.

New trade pacts such as RCEP offer hope of greater intra-regional trade

Ongoing threats of trade wars have impacted on some markets. Vietnam's VN Index, for example, is 17.5% down from its peak. Nevertheless, intra-regional trade is accelerating in Asia and this may lessen any blow. Here the focus has switched from the TPP, which went ahead without the US, to the RCEP (Regional Comprehensive Economic Partnership), which will also include China and India. At the same time, China is pushing ahead with its Belt and Road initiative, aimed at deepening trade links and improving transport infrastructure across much of the world excluding the Americas.

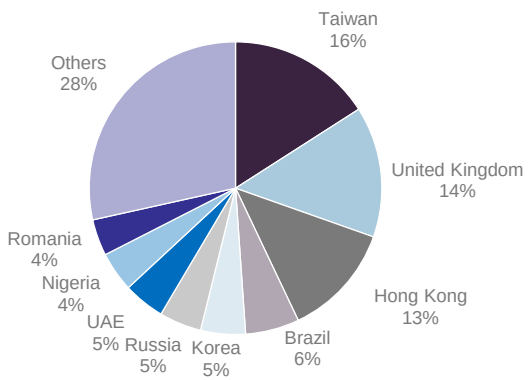
The managers have been avoiding companies engaged in the US dollar carry trade

The managers think that a stronger dollar is not a significant problem for most countries and companies that they favour. They have been actively avoiding companies engaged in the US dollar carry trade. They also note the potential problem looming with an excess of dollar denominated debt in Argentina and Turkey (Turkey's government bond market is in freefall with yields nudging 22% on its 10-year debt as US sanctions bite). JEFI's portfolio is not exposed to Argentina and has just one Turkish holding, Anadolu Hayatt, Turkey's leading insurance firm. The managers say their investment thesis is that the company already has an attractive dividend yield and is well positioned to profit from low but improving life insurance product penetration and significant pension reform targeted at developing Turkey's nascent private pension market.

Asset allocation

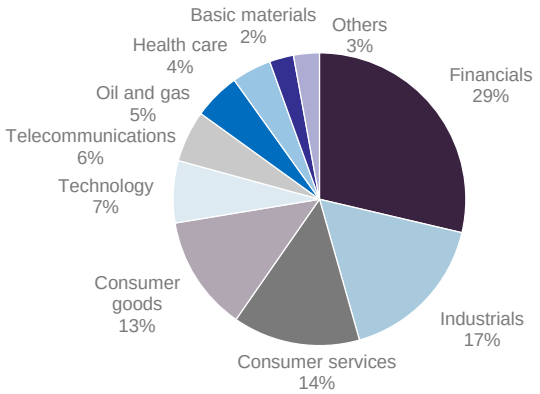
Geographic and industry sector weightings are the product of stock selection decisions. Figures 1 and 2 show how the portfolio was positioned at the end of June/July 2018.

Figure 1: Asset allocation by country as at 31 July 2018



Source: Jupiter Emerging & Frontier Income Trust

Figure 2: Asset allocation by sector as at 30 June 2018



Source: Jupiter Emerging & Frontier Income Trust

Our initiation note was based on data as at 31 October 2017. Since then, the managers have added to the trust's industrials sector exposure at the expense of technology. There has been no substantive change in the fund's geographical exposure.

JEFI remains underweight China relative to the MSCI indices. In Russia, the managers believe that valuations look particularly cheap following the imposition of new sanctions. JEFI holds Sberbank and Norilsk Nickel, both of which the managers think should not be unduly affected. As mentioned on page 2, Vietnam's stock market has been affected by the threat of trade wars. However, JEFI's exposure is restricted to Vinamilk, whose earnings should prove relatively defensive.

Top 10 holdings

Figure 3: Top 10 holdings as at 31 July 2018

	Country/Region	Sector	% of gross assets
Wilson, Sons	Brazil	Industrials	3.8
Corp Inmobiliaria Vesta	Mexico	Real estate	3.8
NagaCorp	Cambodia	Consumer services	3.4
KCB	Kenya	Financials	3.3
Ginko International	Taiwan	Consumer goods	3.2
Sberbank	Russia	Financials	3.2
Chroma ATE	Taiwan	IT	3.2
Grit Real Estate	Africa ex South Africa	Real estate	3.1
NWS Holdings	Hong Kong	Consumer services	3.1
Samsung Electronics	Korea	IT	3.0
Total			**33.1**

Source: Jupiter Emerging and Frontier Income, Bloomberg, Marten & Co

The top 10 holdings have changed significantly since we last wrote but, as Figure 3 demonstrates, the top end of the portfolio is fairly evenly distributed and so small market moves can affect the composition of the top 10 considerably. The managers say that portfolio turnover was just 11% in the first half of 2018.

Wilson, Sons

Figure 4: Wilson, Sons share price over one year

Source: Bloomberg, Marten & Co

Wilson, Sons continued to invest in its ports and logistics operations through Brazil's recession. Its asset utilisation is low and any upturn in revenue should now fall through to its bottom line. The managers also see opportunities for it to spin off some assets at valuations that would make the remaining business look inexpensive. The firm has announced that it is reviewing the possibility of disposing of its container terminals. This is material as recent M&A of terminal assets in Brazil has been done at multiples meaningfully higher than the multiple that Wilson, Sons is currently trading on, (Wilson, Sons trades at ~6x 2018E EV/EBITDA, however, terminal transactions have been done at 10x-14x.)

NagaCorp

NagaCorp is a Cambodian gaming and entertainment company. This is an owner/operator of a casino in Phnom Penh and part of the attraction is that it offers a high starting yield. The managers say that a large extension to its floor space (Naga 2) should underpin its future growth. Naga 2 includes 1,000 rooms, 38 luxury VIP suites and a 2,500 seat theatre.

While Naga cannot market its gaming activities to Chinese customers, it can promote its other leisure operations. The resort's clients are a mix of Chinese, Malaysians, Vietnamese and Thais (locals are not permitted to gamble). The managers tell us that they made a careful assessment of the ESG risks of the stock before making the purchase.

Sands China is the other major gaming stock in the portfolio. It is based in Macau and is more exposed to the 'high roller' market than Naga. However, part of the plan with Naga 2 is to offer more premium gaming opportunities.

Other top 10 holdings

With regard to the other top 10 holdings: Vesta is a Mexican property company with interests in industrial and logistics facilities across that country; KCB is a Kenyan bank with interests across east Africa; we discussed Taiwanese contact lens manufacturer, Ginko, in our last note (see page 6 of that note); Chroma ATE is a Taiwanese electronic testing solutions company; GRIT Real Estate recently listed in London. It offers an 8.5% yield and the potential for NAV accretion; and NWS Holdings is a conglomerate with interests in Chinese businesses as diverse as transport, logistics, facilities management, healthcare services and construction.

New investments - UBL

Taking advantage of the sell-off in Pakistan post its promotion to the MSCI Emerging Markets Index

Pakistan's stock market has de-rated since it was promoted to the MSCI Emerging Markets Index (from the Frontier Markets Index). The managers think there is a chance that incoming Prime Minister, Imran Khan, can tackle some of the country's corruption problems but he will also have to contend with whatever conditions the IMF chooses to impose on the country if, as rumoured, he approaches it for funds. Pakistan's current account looks poor but FDI, particularly from China as it progresses its Belt and Road policy, is strong.

The managers have added United Bank, Pakistan's second largest bank, to the portfolio. They believe its corporate governance is good, helped rather than hindered by being a family-controlled business. Pakistan has a very low penetration of financial products including bank accounts – much lower than India, for example. Consumer debt levels are very low by international standards, although to some extent there are cultural reasons why this is the case. Pakistan's banks can make high returns on equity (they can even make a decent margin on holding government bonds). JEFI's managers draw an analogy between Pakistan today and Indonesia in the early 2000s.

The managers have also been looking at auto OEMs in Pakistan. In the past, inconsistent supplies of electricity hampered manufacturers in the country but things are improving.

New investments – Salmones Camanchaca

Swapping wine for salmon in Chile

JEFI owned a stake in Chilean wine production company, VSPT Wine Group. This was acquired by its parent at a price that gave JEFI a solid uplift but, unfortunately, less than the managers thought the stock might fetch in time.

The proceeds from this offer were recycled into a Chilean salmon farming company, Salmones Camanchaca, in its IPO. This is a stock that is also held by Jupiter's sustainable investment team. Part of the attraction is that there is a limited and controlled supply of farmed salmon; policymakers are clamping down on rogue producers. To some extent there is also a consolidation story in this sub-sector. The

managers say that the stock offered a reasonable starting yield and the prospect of dividend growth. They also say that it has a clear roadmap for investment/organic growth, has limited leverage, (which is a key constraint on the valuation of other EM protein companies) and, moreover, it helps increase portfolio diversification.

New investments – Huayu Automotive Systems

Huayu Automotive Systems is a leading Chinese auto components company listed on the A share market. The company operates in a cyclical sector but the managers say that they were reassured that half the company's market cap is accounted for by the net cash on its balance sheet. The yield is 5% and the dividend is forecast to grow. The company is a listed subsidiary of Chinese auto giant, SAIC. Part of the attraction is that the company offers exposure to the shift to electric vehicles and a strong product launch pipeline. The managers also say that shareholders are positioned to benefit – 1) as the firm diversifies its client mix (including export growth), 2) from a favourable sales product mix shift change (including extending their product offering into battery management systems, intelligent braking and powertrain), and 3) from an improvement in capital management (including a 50% dividend payout).

Sales

Disposals include VSPT (which was taken private, as mentioned on page 4), State Bank of India, Hengan International and Brazilian education company, Kroton. In common with most public banks in India, State Bank of India has been hit by provisions for non-performing loans. The regulator has toughened up the rules related to provisions for NPLs which might accelerate the resolution of this problem. It has left the bank looking thinly capitalised, however.

Figure 5: Hengan International share price over one year

Source: Bloomberg, Marten & Co

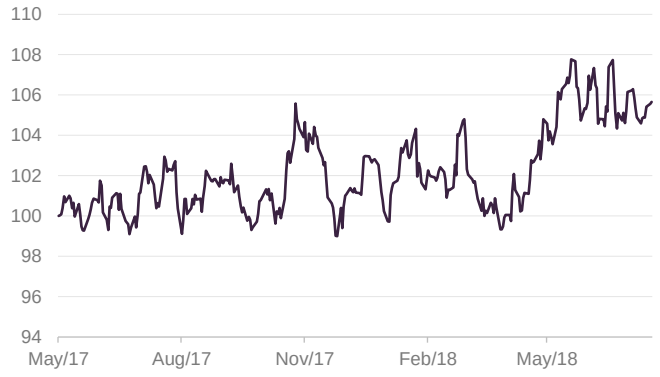
Chinese tissue paper and sanitary products business, Hengan International, was sold on valuation grounds after a strong period of price performance. The managers believe the market came to appreciate the positive impact of an improved sales structure on the company's margins. The stock rerated to 20x 2018 earnings and the yield had fallen to around 3% (from 4% at the time of purchase). Brazilian educational service company, Kroton, was supposed to be consolidating its market but regulators have opposed this on anti-monopolistic grounds and this has damaged its prospects in the managers' eyes.

Atrium sold down to finance GR1T

One stock that has been reduced is Atrium, the Polish real estate company. JEFI had been reducing its real estate exposure ahead of the successful IPO of African property company, GRIT Real Estate (GR1T), which they had decided to add to JEFI's portfolio. The managers were not keen to increase JEFI's overall exposure to real estate. This is not a 'top down' call, as this is not their style, but does reflect their policy of assessing and controlling concentration risk.

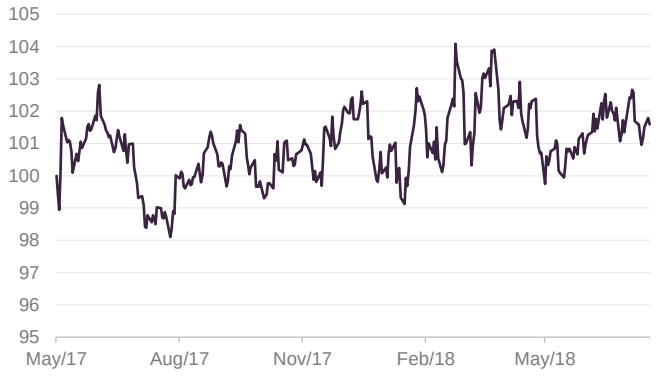
Performance

Figure 6: NAV TR relative to MSCI Frontier Markets



Source: Morningstar, Marten & Co

Figure 7: NAV TR relative to MSCI Emerging Markets



Source: Morningstar, Marten & Co

Figure 6, 7 and 8 demonstrate the fund's outperformance of both the MSCI Frontier Markets Index and MSCI Emerging Markets Index from launch to the end of July 2018.

Figure 8: Total return performance over periods ending 31 July 2018

Heading	1 month (%)	3 months (%)	6 months (%)	1 year (%)	since launch (%)
JEFI Price	(0.7)	0.2	(6.4)	1.6	8.6
JEFI NAV	2.6	(0.4)	(2.7)	7.6	11.9
MSCI Frontier Markets Index	4.3	(4.7)	(5.3)	3.8	6.0
MSCI Emerging Markets Index	2.9	(0.8)	(4.5)	4.9	10.2
MSCI World Index	3.8	8.9	6.6	12.4	14.3

Source: Morningstar, Marten & Co

To date, 2018 has been a tough period for emerging and frontier markets, as sentiment has been affected by the macroeconomic and political factors we referred to on page 2.

JEFI has outperformed despite an underweight exposure to technology and China, frontiers exposure and overweight exposure to small and mid caps

JEFI has also been fighting against a headwind comprised of the technology sector (not a sector known for its yield plays), China (where the company is underweight relative to indices), underperforming frontier markets and large caps outperforming small caps – JEFI has an overweight exposure to both frontier markets and small caps.

China and Hong Kong account for well over 30% of the MSCI Emerging Markets Index and firms such as Alibaba and Tencent dominate (comprising 8.9% of the index at the end of July).

Figure 9: Selected price movements since launch, in sterling

	Change (%)	Exposure
JEFI (NAV)	4.6	
MSCI China	19.8	Underweight
Alibaba	46.5	Underweight
Tencent	38.3	Underweight
MSCI Frontier Markets	2.5	Overweight
MSCI EM small cap	4.0	Overweight

Source: Bloomberg, Marten & Co

Against that backdrop, JEFI can be said to have had a good start. Two stocks that influenced returns, positively and negatively, were MHP and Ascendis Healthcare, respectively.

Positive – MHP

Figure 10: MHP share price over one year

Source: Bloomberg, Marten & Co

MHP is a Ukrainian poultry producer. It has done well as poultry prices have improved. It is not exposed to the troubled east of the country and the managers like the fact that it persevered with interest payments on its debt throughout the crisis. The backdrop was one of oversupply in the industry. Higher exports to the Middle East have helped address that situation. Margins are improving and the managers believe the company's debt is manageable.

Negative – Ascendis Health

Figure 11: Ascendis Health share price over one year

Source: Bloomberg, Marten & Co

South African consumer brand and healthcare product company, Ascendis Health, has seen its share price fall by about 33% year to date. The managers think local investors may have been influenced by the well-publicised problems with Steinhoff International (a South African company that used debt to finance acquisitions of businesses outside the country). Ascendis also has a track record of considerable M&A activity. JEFI's managers are sticking with it but, despite the fall, the yield is not high enough, in their view, to justify adding to the holding. Ascendis is undertaking a strategic review and the results of this are due to be published early in September 2018.

Peer group

Up-to-date information on JEFI and its peer group is available on the QuotedData website

JEFI is in many ways unique within the investment company universe. It sits within the AIC's global emerging market sector but no other London-listed investment company has a policy of investing across both emerging and frontier markets and only one other company, JPMorgan Global Emerging Markets Income Trust, invests in a portfolio of predominantly above-average yielding equities. Other trusts in the sector that pay a high dividend yield manufacture a significant part of this by distributing capital.

Figure 12: Peer group comparison as at 24 August 2018

Heading	Market cap (£m)	Premium/ (Discount) (%)	Yield (%)	Ongoing charge (%)
Jupiter Emerging & Frontier Markets Income	94	0.2	3.9	1.33
Aberdeen Emerging Markets	258	(15.3)	3.6	1.08
Aberdeen Frontier Markets	46	(10.9)	2.7	2.01
BlackRock Frontiers	291	1.2	3.6	1.45
Fundsmith Emerging Equities	339	1.5	0.0	1.91
Genesis Emerging Markets	929	(12.5)	1.5	1.43
JPMorgan Emerging Markets	1,083	(12.7)	1.3	1.07
JPMorgan Global Emerging Markets Income	359	(7.4)	4.0	1.30
Templeton Emerging Markets	1,855	(13.4)	2.1	1.09

Source: Morningstar

In the table in Figure 12 we have excluded Ashmore Global Opportunities and Terra Capital, which are in the throes of liquidating their portfolios, and Utilico Emerging Markets, which has a narrow sectoral focus.

JEFI is just getting started and we believe that it hopes to expand in time. It should be helped in this regard by its tight discount (it has often traded at a modest premium) and its high yield. Expansion should help to reduce its ongoing charges ratio, which is already towards the lower end of the peer group, as it spreads its fixed costs over a wider base.

Figure 13: JEFI relative to peer group average - NAV total returns since JEFI's launch, rebased to 100

Source: Morningstar, Marten & Co

Figure 14 breaks down the peer group's returns, fund by fund. JEFI ranks third of 10 funds in terms of NAV total return since launch, despite the underperformance of frontier markets relative to emerging markets over that period.

Figure 14: NAV total returns over periods ending 31 July 2018

Heading	1 month (%)	3 months (%)	6 months (%)	1 year (%)	Since launch (%)
Jupiter Emerging & Frontier Markets Income	2.6	(0.4)	(2.7)	7.6	11.9
Aberdeen Emerging Markets	2.1	(1.6)	(5.9)	2.4	7.2
Aberdeen Frontier Markets	0.1	(8.2)	(9.2)	(11.1)	(10.2)
BlackRock Frontiers	3.4	(4.9)	(5.8)	5.8	7.5
Fundsmith Emerging Equities	3.6	4.1	5.8	11.6	13.8
Genesis Emerging Markets	0.7	(1.3)	(4.2)	4.3	8.4
JPMorgan Emerging Markets	4.4	3.2	(1.2)	8.8	13.8
JPMorgan Global Emerging Markets Income	2.6	(0.0)	(6.4)	1.9	8.1
Templeton Emerging Markets	3.8	1.1	(2.3)	6.6	8.8

Source: Morningstar, Marten & Co

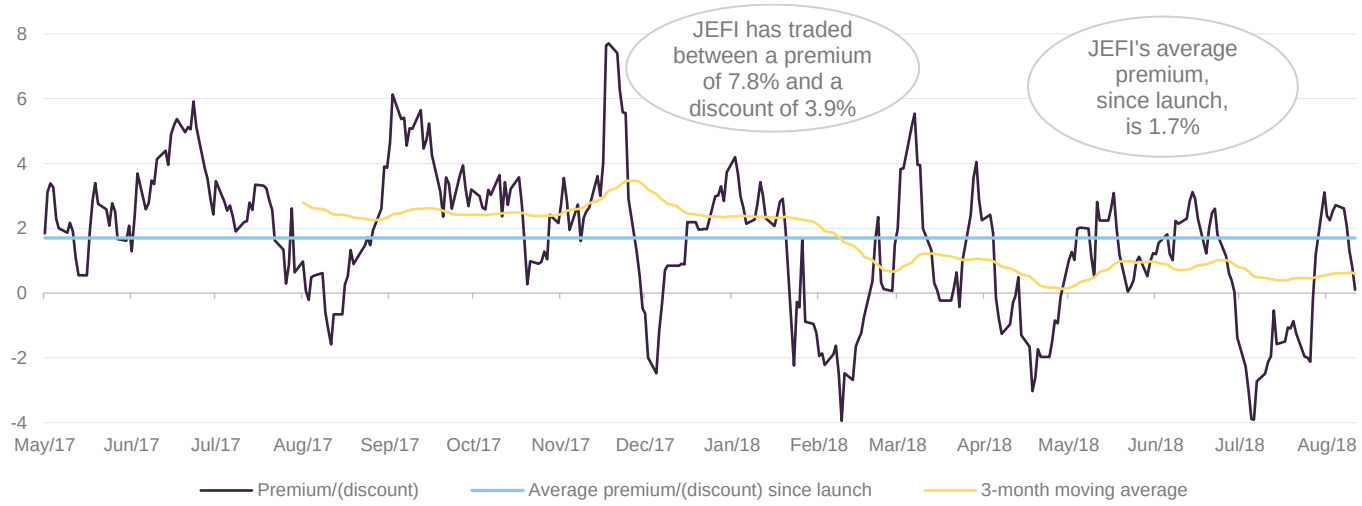
Dividends

JEFI has declared two dividends since launch, both of 2p per share, payable in January and June 2018. In its prospectus, JEFI's board said it intended to pay an interim dividend of 1.5p for the period from 31 May 2018 to 30 September 2018 in January 2019.

Net revenue per share for the period from launch until 31 March 2018 was 3.15p. JEFI's prospectus said that the intention was that, over the long-term, dividends would be covered by earnings.

Premium/(discount)

Figure 15: Premium/(discount) since launch



Source: Morningstar, Marten & Co.

As illustrated in Figure 15, JEFI has traded at a premium for most of the period since its launch in May 2017 (an average premium of 1.7%). The premium may reflect JEFI's performance track record. It has also been helped by the provision of an annual redemption facility at or close to NAV, which we described in our initiation note. The first of these was offered in June 2018 and 176,173 shares were offered back to the company. All of these were placed with other buyers.

Fund profile

Benefitting from positive change

4% yield, annual redemption facility

Jupiter Emerging & Frontier Income Trust (JEFI), launched in May 2017, invests globally in stocks that provide exposure to emerging and frontier markets (any country that is not classified as developed or emerging). The aim is to generate both capital growth and income, over the long term using an investment approach that is essentially benchmark agnostic, unconstrained and focused on identifying positive change (see pages 6 to 8 of our November 2017 initiation note for more details of JEFI's investment process).

You can access the fund's website here

Investment manager

JEFI's portfolio is managed by Ross Teverson, who is assisted by Charles Sunnucks (together, the managers), both of Jupiter Asset Management (Jupiter). There are eight people in Jupiter's emerging markets team. The managers can also draw on the expertise of Jupiter's wider pool of asset managers and analysts.

Previous publications

Readers interested in further information about JEFI, such as investment process, fees, capital structure, trust life and the board, may wish to read our initiation note, ***A very successful fundraise***, published on 28 November 2017. You can read the note by clicking on the link above or by visiting our website.

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