MARTEN & CO

Update | Investment companies

22 January 2019

JPMorgan Russian Securities

Expert access to attractively valued market

When we last wrote on JPMorgan Russian Securities (JRS), we drew attention to Russia's deteriorating relationship with the west and how this had impacted on foreign investors' attitudes towards Russian stocks. Since this time, while sentiment has worsened; Russia's domestically focused economy appears resilient and its corporates are generally providing good earnings growth. Valuations and yields are therefore all the more attractive.

Russia's economy benefitted for much of 2018 from a recovery in the oil price and rising prices for a range of other commodities. A weaker rouble has offset the recent oil price fall. Oleg Biryulyov, JRS' longstanding manager, has the depth of experience to steer the fund through this current period of uncertainty and is comforted by prospect of rising dividends over the coming year.

Growth from a diversified Russian portfolio

The company's objective is to maximise total return through investment predominantly in Russia, with distribution of income dependent upon levels received. Up to 10% of the portfolio can be invested in companies located in former republics of the Soviet Union. The portfolio is fairly concentrated (typically between 25 and 50 positions). JRS is permitted to use gearing but has not done so for some years.

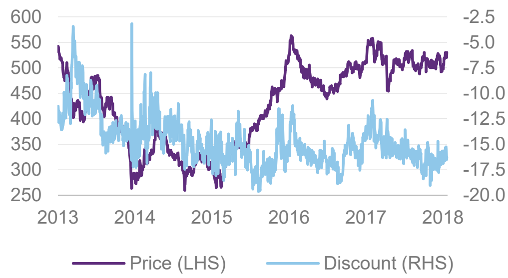
Year ended	Share price total return (%)	NAV total return (%)	Blended bench-mark TR* (%)	RTS total return (%)	MSCI Russia 10/40 TR (%)
31/12/14	(46.6)	(45.9)	(39.4)	(38.4)	(39.4)
31/12/15	12.4	16.9	13.4	6.2	13.4
31/12/16	87.4	81.5	83.7	90.2	83.2
31/12/17	2.2	(0.2)	(3.3)	(3.3)	(8.0)
31/12/18	1.9	4.7	4.3	4.3	5.2

Source: Morningstar, Marten & Co. *Note: JRS's blended benchmark is the MSCI Russia 10/40 Index until 31 October 2016 and the RTS Index thereafter (see page 14). ** Note: JRS was established in December 2002 as a rollover vehicle for The Fleming Russia Securities Fund, which was first established in 1994.

Sector	European – single country
Ticker	JRS LN
Base currency	GBP
Price	530.0p
NAV	633.90p
Premium/(discount)	(16.3%)
Yield	4.9%

Share price and discount

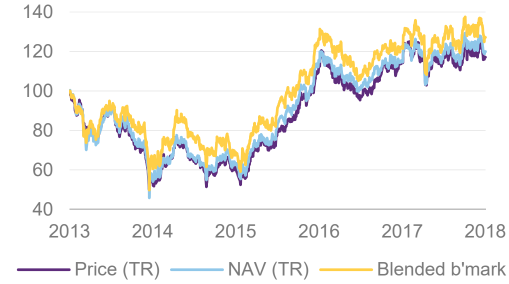
Time period 31/12/2013 to 18/01/2019



Source: Morningstar, Marten & co

Performance over five years

Time period 31/12/2013 to 31/12/2018



Source: Morningstar, Marten & Co

Domicile	UK
Inception date	20 December 2002**
Manager	Oleg Biryulyov
Market cap	258.3m
Shares outstanding	48.7m
Daily vol. (1-yr. avg.)	71.8k shares
Net gearing	0.3%

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Stronger oil provides short-term boost

Figure 1: Oil price (Brent) in dollars and roubles over five years to end December 2018, rebased to 100

Source: Bloomberg, Marten & Co

Weak rouble offsets oil price decline

The steady recovery in the oil price between 2016 and October 2018 was good news for Russia, providing a welcome boost to government revenues. Over the past couple of months, however, the oil price has gone into a sharp reverse. For Russian producers, with costs largely priced in the local currency, a weak rouble has offset the decline in the oil price. In rouble terms, the oil price is still higher than it was five years ago. As we have discussed in previous notes, the tax arrangements that apply to Russia's oil producers mean that the government takes 90% of oil revenue when the price exceeds $65bbl and the government's share declines below this level. This further cushions local producers from oil price fluctuations; the bigger impact is on government revenues. The current budget is predicated on oil at $45 per barrel.

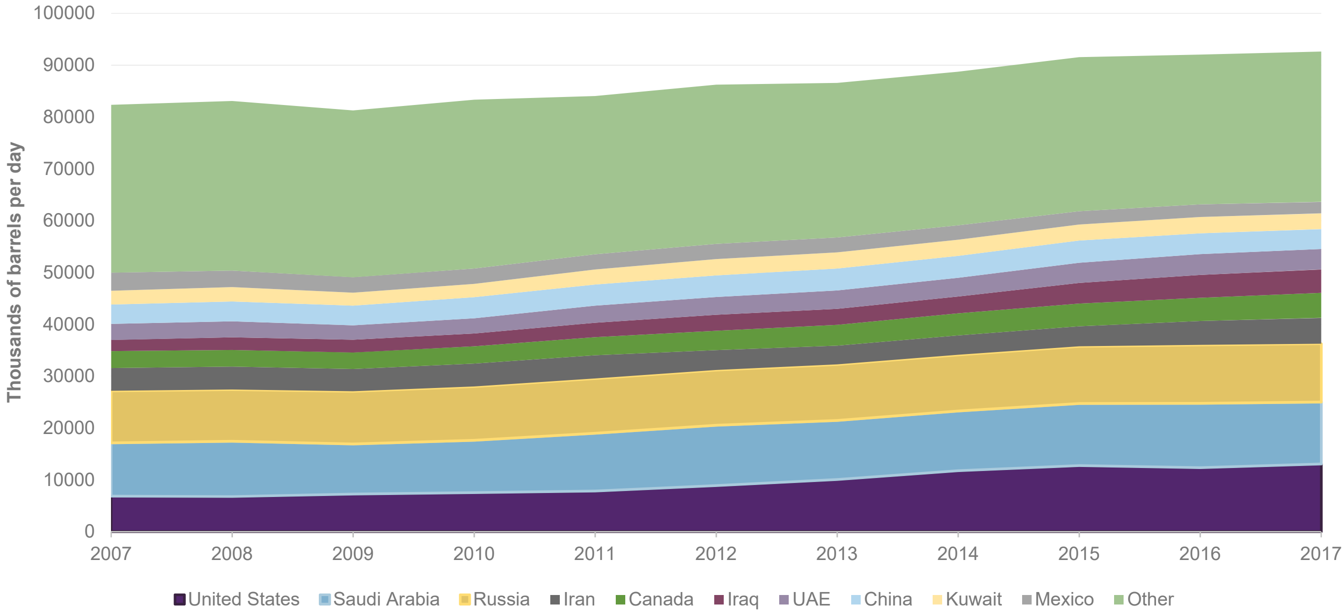
US production from shale is the big swing factor in oil markets

The oil market is quite finely balanced. Fears that new US sanctions on Iran would reduce supply helped ramp up the oil price but, in reality, arrangements were put in place to allow countries such as India to continue to import Iranian oil for a while. These arrangements will expire, however. At the same time, as is evident in Figure 2, US production has been ramping up rapidly as shale production booms. Estimates from the Joint Organisations Data Initiative put total US production at 11.1m barrels of oil per day in October 2018, up by 19.2% over the average for 2017. However, it has been reported that the rate of new drilling of wells has fallen back in Q4 2018, suggesting production may start to fall in the New Year.

Low oil prices choke off development of new fields

The manager believes that low oil prices run the risk of choking off capital expenditure (capex). He says oil majors have been using cash flow to pay down debt and seem less keen to acquire exploration companies. He believes that production growth will not match demand growth in the long run.

Figure 2: Oil production by country



Source: BP Statistical Review of World Energy 2018. Includes crude oil, shale oil, oil sands and NGLs (natural gas liquids – the liquid content of natural gas where this is recovered separately). Excludes liquid fuels from other sources such as biomass and derivatives of coal and natural gas.

In Russia, production volumes have been edging up this year. Russia is implementing changes to the taxation of the oil industry that would gradually eliminate oil export duties, offsetting this by increasing mineral extraction taxes. Part of the aim is to encourage more exports, but refining margins may be adversely affected. The new regime also incentivises the development of wells in harder-to-access areas such as Eastern Siberia. Consequently, companies are skewing production towards areas that benefit from tax breaks.

Increased European dependency on Russian gas

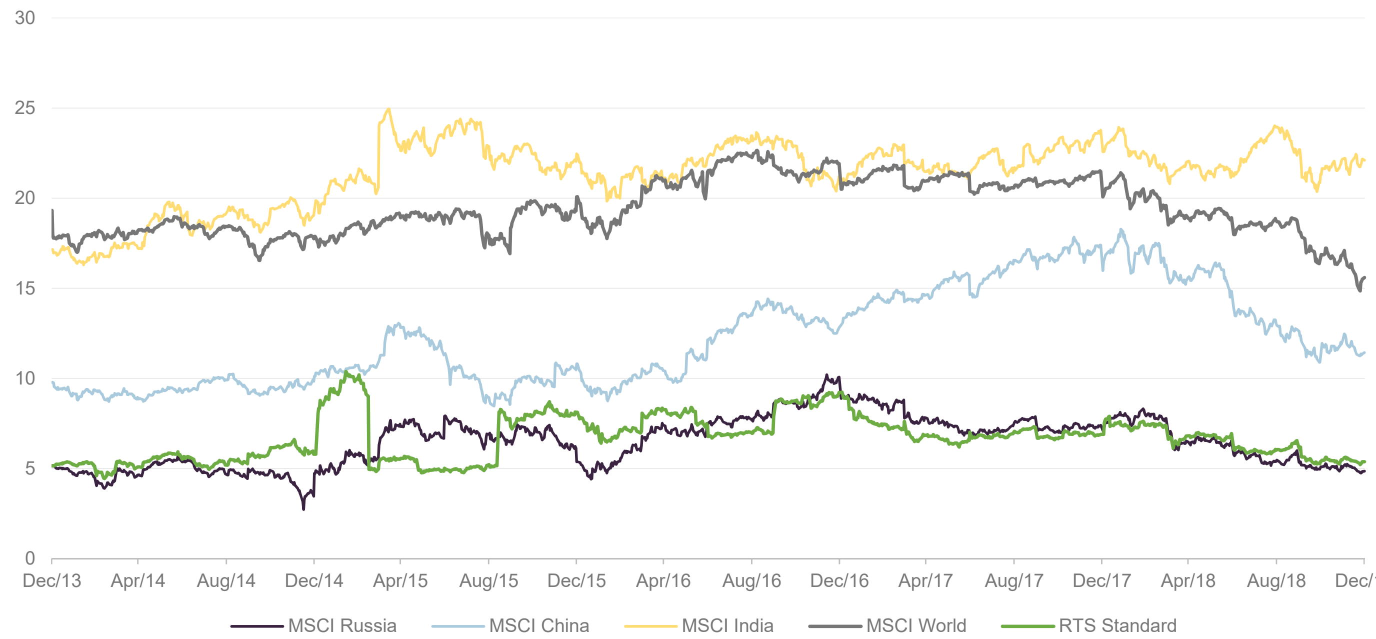
JRS has exposure to European gas prices, through its holdings in Gazprom and Novatek, in particular. As illustrated in Figure 3, European gas prices have broadly been on a rising trend during the last two years, albeit with some softening in Q4 2018 (the data in Figure 3 is the Pegas GASPOOL price for Germany but a very similar pattern is seen for other European gas markets). Russia is Europe's largest gas supplier. This position has been bolstered by the closure of fields in Holland, lower production as a result of measures introduced following earthquakes in the Dutch Groningen region, as well as dwindling reserves elsewhere. On the demand side, demand for gas has increased as it is increasingly employed as a clean alternative to coal and as a substitute for nuclear energy as ageing power stations are taken offline. All of these served to increase European dependence on Russian gas. The Russian gas market is highly regulated but companies such as Gazprom's and Novatek could see a boost to their bottom line, magnified by rouble depreciation.

Figure 3: Pegas GASPOOL natural gas price € per MWh

Source: Bloomberg

Russian stocks are still cheap

Figure 4: Major emerging market price/earnings ratios over five-years to 31 December 2018



Source: Bloomberg, Marten & Co

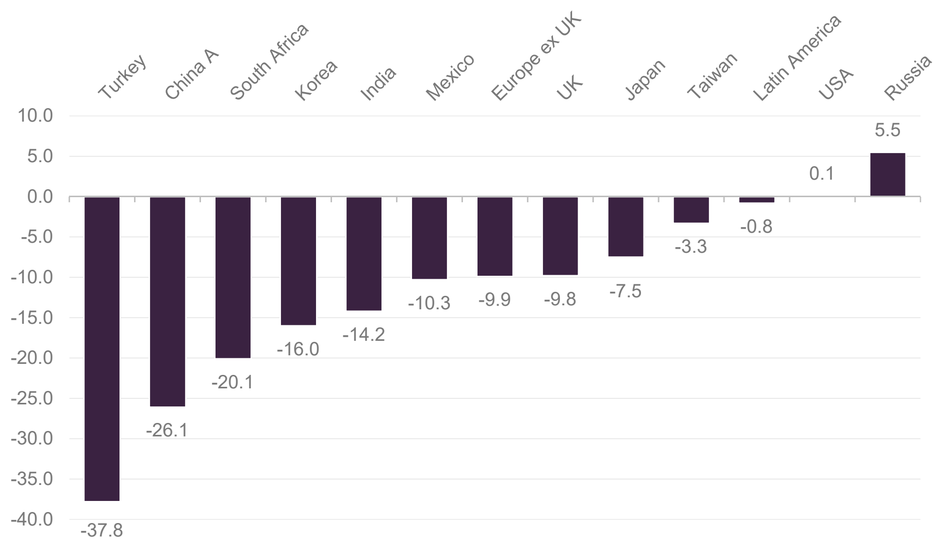
Russia's sovereign wealth fund – the National Wellbeing Fund – is growing. Restrictions on what it can invest in may be relaxed to allow investment in highly liquid equities (currently the fund is restricted to government bonds, cash deposits and infrastructure projects).

Privatisations are unlikely while sanctions persist and the market is undervalued. Also, the government does not have need of the cash to the same extent as it did.

Figure 5: Major emerging market dividend yields over three years ending 31 December 2018

Source: Bloomberg, Marten & Co

Figure 6: Performance of a selection of MSCI Indices over 2018 (year to 31 December 2018)



Source: Morningstar, Marten & Co

Investor flows have not yet favoured Russia

Investors may potentially be attracted to the Russian market by its high dividend yield (the yield of the Russian market, as measured by the MSCI Russia and RTS Standard indices, has been markedly above that of the MSCI World, MSCI China and MSCI India indices during the last five years and has increased significantly during the last two years). However, emerging market investors appear to be bargain-hunting in Asia instead, taking advantage of the trade-war-related weakness in those markets. A period of consistent payments of dividends could help change this.

Russian exporters and dollar earners benefiting from currency weakness

As illustrated in Figure 6, Russia has been one of the best-performing emerging markets globally in 2018. Companies' cashflow has been quite healthy and exporters have benefitted from rouble weakness. This does not just apply to the oil and gas companies; for example, Rusal is benefitting from an increase in the rouble price of aluminium.

Russian inflation, while a bit higher in recent months thanks largely to the weaker currency, remains in low single digits (3.5% in October 2018). The Bank of Russia increased rates in September by 0.25% to 7.5%. This was the first increase in official interest rates since the end of 2014. Moderate inflation is helping margin expansion in many industries, but not in food retail (see the comment on Magnit on page 11). Unemployment is less than 4%. However, the manager feels that wage inflation, which has been falling this year, is under control.

Rising dividends

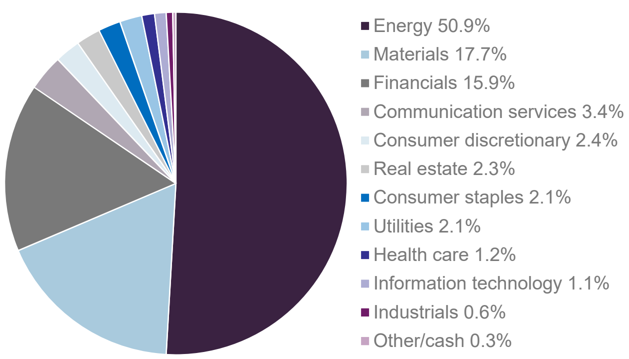
Dividends are rising

Companies are using their cashflow to pay down debt as well as to fund higher dividends. In some cases, the dividend increases are a pre-emptive move to avoid the re-imposition of windfall taxes. In recent years, the government has been keen to see companies raise their dividends, as a way of boosting its cashflow. It penalised some companies that did not raise their dividends by imposing windfall taxes. This time, encouraged by investors such as JPM, the companies have been proactive.

For example, Gazprom is said to be considering hiking its dividend significantly from 8.04 roubles to something in excess of 10 roubles. The manager says that this should leave it trading on around a 7% yield. The news has helped its share price rise towards the end of November.

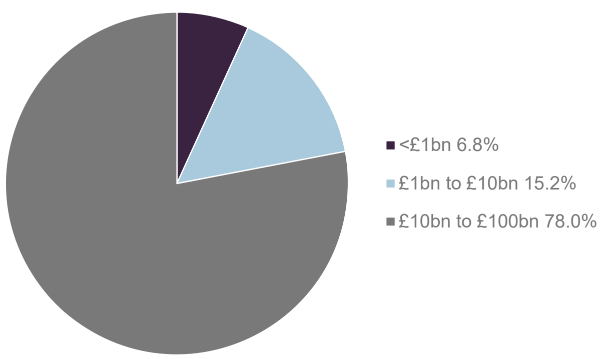
Asset allocation

Figure 7: Industry sector allocations as at 30 November 2018



Source: JPMorgan Russian Securities

Figure 8: Market capitalisation split at 30 November 2018



Source: JPMorgan Russian Securities

The portfolio is now even more concentrated than it was but remains diversified. The fund's exposure to smaller companies was unhelpful in 2018, as a number of funds investing in this area were forced sellers of positions.

Top 10 holdings

Low turnover, high conviction portfolio

Many of the names in Figure 9, which shows JRS's top 10 holdings as at 30 November 2018, will be familiar to readers of our previous notes on JRS. In part reflecting the underlying market in which it invests, JRS's portfolio is concentrated and low turnover (note: Oleg breaks down the portfolio into 'trading' stocks that he will move in and out of on valuation grounds, 'quality' stocks that will form the core of the portfolio as long-term holdings, and 'premium' stocks – the crème de la crème; turnover works out to about 25% to 35% per annum). When comparing JRS's top 10 holdings at the end of November and at the end of May, the key change is that Novolipetsk Iron & Steel GDS has moved out of the top ten to be replaced by Yandex, which is a new portfolio entrant. Yandex and some of the more interesting developments are discussed below.

Figure 9: 10 largest holdings as at 30 November 2018

Holding	Sector	Allocation as at 30 November 2018 (%)	Allocation as at 31 May 2018 (%)	Change (%)
Lukoil ADR	Energy	15.4	10.7	4.7
Gazprom ADR	Energy	14.1	15.0	(0.9)
Sberbank of Russia	Financials	11.4	13.5	(2.1)
Novatek GDR	Energy	8.7	7.3	1.4
Norilsk Nickel ADR	Materials	7.0	7.1	(0.1)
Rosneft GDR	Energy	5.7	5.9	(0.2)
Tatneft (including ADR)	Energy	4.5	4.8	(0.3)
Yandex	Communication services	3.4	0.9	2.5
ALROSA	Materials	3.0	2.8	0.2
Inter RAO	Utilities	2.1	2.3	(0.2)
Total of top 10		**75.3**	**71.7**	**3.5**

Source: JPMorgan Russian Securities, Marten & Co

Yandex (3.4%)

Figure 10: Yandex share price (US$)

Source: Bloomberg

Yandex (**www.yandex.ru**) is a Russian information technology company that Oleg describes as being Russia's Google in the internet sphere. Oleg says that the company, whose stock is not a component of the MSCI Russia Index, has a compelling ecosystem of services (for example, video, music, consumer cloud, taxi services, car sharing, car software, e-commerce, payments, business and consumer cloud services and AI services/smart speaker). The company owns Russia's leading online ad platform and an online (Uber-like) taxi service, both of which, it says, benefit from large economies of scale and low incremental costs. It also, in the manager's opinion, has excellent mapping software. Oleg believes that, in Russia, Yandex can sustain its advantage over Google due to its greater focus, wide ecosystem of services and a 'friendly' regulator. He says that Yandex, as a private sector company, benefits from an opportunistic management mindset with a well-aligned CEO who has a large part of his personal wealth invested in the company. Oleg says that this is reflected in its track record of sensible capital allocation.

Sberbank (11.4%)

Figure 11: Sberbank share price (RUB)

Source: Bloomberg

The portfolio now has a big underweight exposure to Sberbank (**www.sberbank.ru**) – see Figure 13 – and this has helped JRS's performance relative to its benchmark (see page 11). The manager cut the Sberbank position to fund increases in both Lukoil and Gazprom. The decision was positive. Sberbank has been hit by the tightening in sanctions since the Skripal poisoning in Salisbury in March 2018. While the sanctions have been disruptive, JRS's manager feels that, overall, they are making Russia more self-reliant.

Gazprom (14.1%)

Figure 12: Gazprom share price (RUB)

Source: Bloomberg

Gazprom (www.gazprom.com) had a strong start to 2018 with volumes up some 8%, year-on-year between January and August. The company continues to invest in new gas pipelines and announced in September that it was increasing its capex budget for 2018 by 16%, due to its pipelines to China, Europe and Turkey. Despite resistance from both the US and some Eastern European countries, its Nord Stream 2 pipeline looks set to go ahead (Nord Stream bypasses Ukraine and goes straight to Germany, thereby denying Ukraine lucrative transfer fees). The increase in capex has caused some to question whether it makes sense to proceed with the second pipeline, but Oleg says that, in common with most of Gazprom's projects, these will be very long-lived assets and he believes that it will be worth the cost to gain direct access to the western European market via Germany, which will become the main promoter of Russian gas.

Underweight and overweight exposures

Figure 13: Five largest overweight exposures relative to the RTS Index at 31 October 2018

	Country	Sector	JRS weight (%)	RTS weight (%)	Relative weight (%)
TBC Bank	Georgia	Financials	1.9	0.0	1.9
Ros Agro	Russia	Consumer staples	1.9	0.0	1.9
Novatek	Russia	Energy	8.5	6.7	1.8
MD Medical	Russia	Health care	1.4	0.0	1.4
TCS	Russia	Financials	1.3	0.0	1.3

Source: JPMorgan Russian Securities

Figure 14: Five largest underweight exposures relative to the RTS Index at 31 October 2018

	Country	Sector	JRS weight (%)	RTS weight (%)	Relative weight (%)
Sberbank	Russia	Financials	11.0	15.6	(4.6)
Surgutneftegas	Russia	Energy	1.4	4.5	(3.1)
Mobile Telesystems	Russia	Communication services	0.0	2.5	(2.5)
Magnit	Russia	Consumer staples	0.0	2.4	(2.4)
X5 Retail	Russia	Consumer staples	0.0	1.7	(1.7)

Source: JPMorgan Russian Securities

TBC Bank (1.9%)

Figure 15: TBC Bank share price

Source: Bloomberg

JRS has authority to hold up to 10% of the portfolio in companies located in former republics of the Soviet Union. TBC Bank (www.tbcbankgroup.com) is the largest banking group in Georgia and it is also JRS's largest off-benchmark position. TBC Bank's share price fell over the course of 2018 but this was primarily due to its exposure to the Turkish economy. Oleg continues to like the company as it provides exposure to the Georgian economy. This is growing at around 4-6% per annum (much faster than Russia) and has a highly under-penetrated banking sector. Oleg says that banking product penetration is around 50% of that of Russia, which is also an under-penetrated market relative to western European norms.

Ros Agro (1.9%)

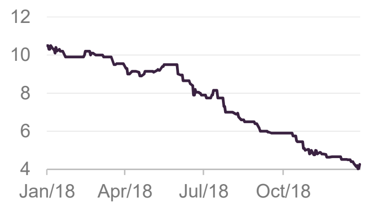
Figure 16: Ros Agro share price (US$)

Source: Bloomberg

Off benchmark holding Ros Agro (**www.rusagrogroup.ru/en**) is the largest vertically integrated agriculture industry holding company in Russia. It has major positions in sugar, pork, crop, oil and fats production. The company's share price came under pressure as soft commodity prices weakened, but it has continued to develop its business in Russia's far east. This is aimed at expanding production and increasing the company's ability to supply into the Chinese and Korean markets (Ros Agro already sells products in over 80 regions in Russia and to more than 35 countries abroad).

MD Medical (1.4%)

Figure 17: MD Medical share price (US$)



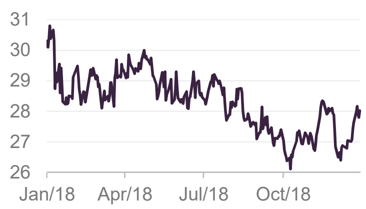
Source: Bloomberg

MD Medical (**www.mcclinics.com**) is a leading private healthcare provider in Russia, with a key focus on women and children. It has five state-of-the-art hospitals and 35 clinics offering advanced diagnostics and treatment capabilities, spread across some 25 cities. The company was one of a number whose share price suffered as investors sought to liquidate funds (Etalon and LSR were similarly affected) and was a top five detractor in the year to 31 October 2018 – see Figure 22 on page 11. The manager remains positive on the stock but does not think that it is liquid enough to add to at the current time.

Surgutneftegas (1.4%)

Oleg has initiated a position in Surgutneftegas (**www.surgutneftegas.ru**), a Russian oil and gas company created from the merger of a number of state-owned enterprises (SOEs) that owned large oil and gas reserves in Western Siberia. JRS's holding accounts for 1.4% of its portfolio as at 31 October 2018 and, as Surgutneftegas accounted for some 4.5% of the RTS Index, JRS is underweight.

Figure 18: Surgutneftegas share price (RUB)



Source: Bloomberg

Oleg is expecting a large dividend from the company (Surgutneftegas has benefitted from a combination of higher energy prices and a weaker rouble) and with its output priced in US dollars, Oleg sees holding Surgutneftegas as a natural hedge against rouble volatility. Over the longer term, he expects the company to benefit from improving margins as the effects of capex cuts during the last five years start to bite.

Portfolio characteristics

As noted in our May 2018 note, JRS's portfolio resembles the RTS Index with the exception perhaps of its higher return on equity than the average stock in the RTS Index. JRS's portfolio is also more concentrated. This is consistent with JPMorgan Asset Management's (JPMAM's) investment approach for JRS. Given the small number of stocks in the benchmark, it is not surprising that the active share and tracking errors are lower than might be the case for JPMAM funds in other markets (JPMAM is targeting active shares of 50%-60% in India and China, for example). Oleg feels that it is hard to get the fund's active share much higher, given the high index concentration and relatively limited opportunity set. However, JRS's portfolio is distinctly different from its benchmark and it should be noted that Oleg has sufficient room to avoid companies or areas of the market that he does not like. He excludes companies facing sanctions and avoids companies where he considers corporate governance standards to be too low. He also avoids sectors that have structural difficulties that he feels are not adequately reflected in the price.

Figure 19: portfolio characteristics as at 30 September 2018

	JRS	Benchmark index
Price/earnings ratio (forward)	5.7x	5.4x
Price/book value	0.9x	0.8x
Prospective dividend yield	6.1%	6.2%
Return on equity	16.3%	15.2%
Beta	0.92	
No. of holdings	33	39
Active share	24.0%	

Source: JPMorgan Russian Securities

Performance

Figure 20: JRS NAV total return performance relative to its blended benchmark over five years*

Source: Morningstar, Marten & Co *Note: JRS's blended benchmark is the MSCI Russia 10/40 Index until 31 October 2016 and the RTS Index thereafter (see page 14).

JRS has been outperforming its benchmark over the past few years but has not yet made up its underperformance in 2014

As illustrated in Figure 20, 2014 was a difficult year for JRS. This was a year in which Russia was hit both by sanctions and the collapse in the oil price. Since 2015, the general trend has been one of outperformance of the blended benchmark, albeit with considerable volatility. It is evident from Figure 21 overleaf that the RTS Index provides a more challenging comparator than the MSCI 10/40 Index (the returns of the RTS are greater than those of the MSCI Index over all of the time periods provided), which validates the board's decision to change the reference benchmark in 2016. It is also a key factor in why JRS performance relative to its blended benchmark has stabilised during the last 18 months (if it was still being compared against the MSCI Russia Index, JRS would be outperforming). The manager attributes most of the fund's significant episodes of underperformance (in 2008, 2011 and 2014) to its small cap exposure. With small cap exposure at 15% today, this should be less of a problem than it has been in the past. Looking at the long-term 10-year period, it is noteworthy that JRS's NAV and share price total returns exceed, by some margin, those of the MSCI Index and JRS's Blended benchmark.

Figure 21: Cumulative total return performance to 31 December 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)
NAV total return	(3.4)	(6.3)	0.5	4.7	89.6	19.9	256.2
Price total return	(1.9)	(3.8)	(0.2)	1.9	95.2	17.1	226.8
Blended benchmark total return*	(4.4)	(7.0)	0.1	4.3	85.2	27.1	195.6
RTS Index total return	(4.4)	(7.0)	0.1	4.3	91.7	25.3	N/A
MSCI 10/40 Index total return	(3.2)	(6.3)	(0.2)	5.2	77.3	21.7	183.0

Source: Morningstar, Marten & Co *Note: JRS's blended benchmark is the MSCI Russia 10/40 Index until 31 October 2016 and the RTS Index thereafter (see page 14).

Please click here to visit QuotedData.com for up to date information on JRS.

Looking at shorter-term performance, JPMAM has kindly supplied us with some performance attribution information covering the year to 31 October 2018 and this is reproduced in Figure 22 below. The key themes are the timely cutting of Magnit, the impact of sanctions on the banks and energy stocks benefitting from recovering oil and gas prices. These themes are explored in more detail below.

Figure 22: The five largest positive and negative contributions to returns relative to its benchmark over the year to the end of October 2018

Holding	Active weight (%)	Stock return (%)	Positive contribution (%)	Holding	Active weight (%)	Stock return (%)	Negative contribution (%)
Magnit	(2.80)	(34.26)	1.35	MD Medical	1.92	(41.28)	(1.07)
VTB Bank	(2.19)	(23.99)	0.60	Lukoil	(3.36)	41.68	(0.87)
Rosneft	1.37	55.49	0.59	Nostrum Oil & Gas	1.12	(36.85)	(0.53)
Sberbank	(0.25)	(15.61)	0.58	Tatneft	(0.37)	43.30	(0.53)
Novatek	0.98	51.59	0.53	Sollers	0.93	(33.42)	(0.50)
Total			**3.65**				**(3.50)**

Source: JPMorgan Asset Management

Magnit

Figure 23: Magnit share price (RUB)

Source: Bloomberg

Topping the leader board in terms of positive contributions for the year to 31 October 2018 was the underweight position in supermarket chain, Magnit. Magnit (**magnit-info.ru**) has been a good investment for JRS over a number of years (the stock was purchased at around US$8, sold at around US$40 and JRS received US$4 of dividends during its ownership). However, the stock has suffered heavily during the last 15 months. Oleg says that food deflation has been a major issue during the last 18 months and that Magnit's response, to try and retain customers with promotional activity, has been counterproductive and has impacted heavily on margins (which have fallen from around 12% to 7%).

The market also reacted negatively to the news in February 2018 that the company's founder, Sergei Galitsky, had sold his 29% stake to the state-owned VTB bank for US$2.5 billion. Oleg thinks that Magnit leadership is very poor at the moment and that it will take some time to turn this business around.

The banks

Figure 24: VTB Bank share price (RUB)

Source: Bloomberg

Like Sberbank, which was discussed on page 7, VTB Bank has suffered from the imposition of sanctions, and JRS's underweight exposure has made a positive contribution to its performance.

Oil and gas

Figure 25: Rosneft share price (RUB)

Source: Bloomberg

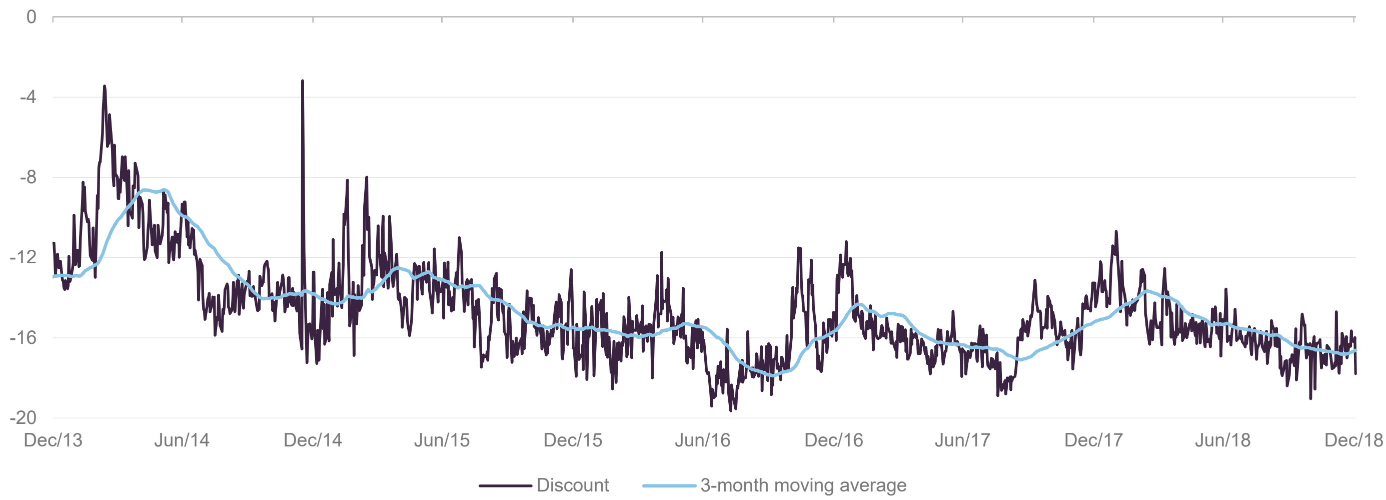
Buoyed by a combination of a recovery in oil and gas prices and a depreciation of the rouble, oil and gas stocks generally performed well. Overweight exposure to Rosneft and Novatek made positive contributions to relative performance, while underweight exposure to Lukoil and Tatneft detracted from it. The exception to this was Nostrum Oil & Gas, which experienced geological problems with its field. This depressed production and, having borrowed heavily to expand its gas plant (its third gas treatment unit is nearing completion), Nostrum does not need the increased capacity. Despite the significant slide in its share price, the impact was limited, as the manager had already become concerned and liquidated the position.

Novatek, Russia's largest independent gas producer, shipped its first liquefied natural gas (LNG) cargo to India in March 2018. One of the company's core priorities is to expand its supply geography and to grow its presence in key Asian markets. It has also been reported that the company is in talks with Saudi Aramco regarding the development of a large LNG project.

Discount

Figure 26 shows how JRS's discount has moved over the past five years.

Figure 26: Premium/(discount) over five years to end December 2018



Source: Morningstar, Marten & Co

Discount has widened a little

Over the past 12 months, JRS's discount has moved within a range of 10.7% to 19.0% and, as at the 18 January 2019, was 16.3%. As illustrated in Figure 26, the discount has recently been on a widening trend, arguably reflecting increasing tensions with the West and concerns regarding the impact of a deteriorating oil price on government finances and the economy. However, JRS's manager highlights that the Russian economy has adjusted to an environment of ongoing sanctions and is very domestically focused as a result, and he says that the underlying companies in JRS's portfolio continue to perform well.

The board is aiming to repurchase at least 6% of issued share capital per annum

As part of its annual results announcement on 23 January 2018, JRS's board said that it had agreed, subject to market conditions, that it would increase JRS's buy back activity with a view to buying back at least 6.0% of the trust's issued share capital per annum. This is positive in our view as it provides with some confidence surrounding the level of purchase activity they should ordinarily expect.

The repurchases are also providing a greater amount of liquidity for shareholders who wish to exit and are NAV accretive for remaining shareholders. Furthermore, JRS is of sufficient size that the impact on remaining liquidity (from a smaller number of shares in issue) and on the ongoing charges ratio (buy spreading JRS's fixed costs over a smaller asset base) should be minimal with the benefits of the repurchases more than outweighing the costs.

Performance related tender offer in 2022

It is also noteworthy that JRS has a continuation vote in 2022 (the last was passed at the March 2017 AGM). If the 2022 continuation passes, the board has committed to providing shareholders with a tender offer if, over the five years from 1st November 2016, JRS's NAV total return on a cum income basis is less than the total return of the benchmark (all in sterling equivalent terms). If triggered, the tender will be for up to 20% of JRS's outstanding share capital. The tender price being NAV less the costs of the tender and less a discount of 2%. The tender will therefore be NAV accretive to remaining shareholders while allowing exiting shareholders to get a price close to NAV. This should help narrow the discount as we approach 2022.

Fund profile

You can access the fund's website at www.jpmrussian.co.uk

JPMorgan Asset Management (JPMAM) is one of the world's largest asset managers. Its Emerging Market and Asia Pacific equities team consists of over 90 investment professionals, including Oleg Biryulyov (Oleg or the manager). Oleg is a Russian native. He has been with JPMAM and its predecessors since 1994, has been managing JPMorgan Russian Securities (JRS) since it was launched in 2002, and managed a precursor to JRS (The Fleming Russia Securities Fund) from 1998. He is assisted by Habib Saikaly in managing JRS's portfolio.

JRS aims to generate capital growth for its shareholders by investing in a portfolio that consists predominantly of quoted Russian companies. It is also permitted to invest up to 10% of its portfolio in companies that are outside of Russia but are located in the former Soviet republics.

Blended benchmark

JRS switched its benchmark from MSCI Russia 10/40 Index to the RTS Index with effect from 1 November 2016. We have used a blend of the two indices within this report (as JRS does in its communications with shareholders). The reason for the change in benchmark was that RTS is a much broader index than the MSCI 10/40 and the manager believes that the RTS Index better represents the universe that this portfolio is selected from.

Previous publications

Readers interested in further information about JRS may wish to read our previous notes, which are summarised in Figure 27 below. You can read them by clicking on the links in Figure 27 or by visiting our website.

Figure 27: Marten & Co. previously published notes on JRS

Title	Note type	Date
Russian recovery	Initiation	9 March 2017
Low valuations and rising yields	Update	27 September 2017
Beyond politics	Annual overview	30 May 2018

Source: Marten & Co.

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IMPORTANT INFORMATION