In China Stability Is Enough For Investors

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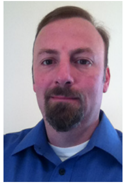
By **Thomas Hughes**
Senior Editor of Global Investor Spotlight



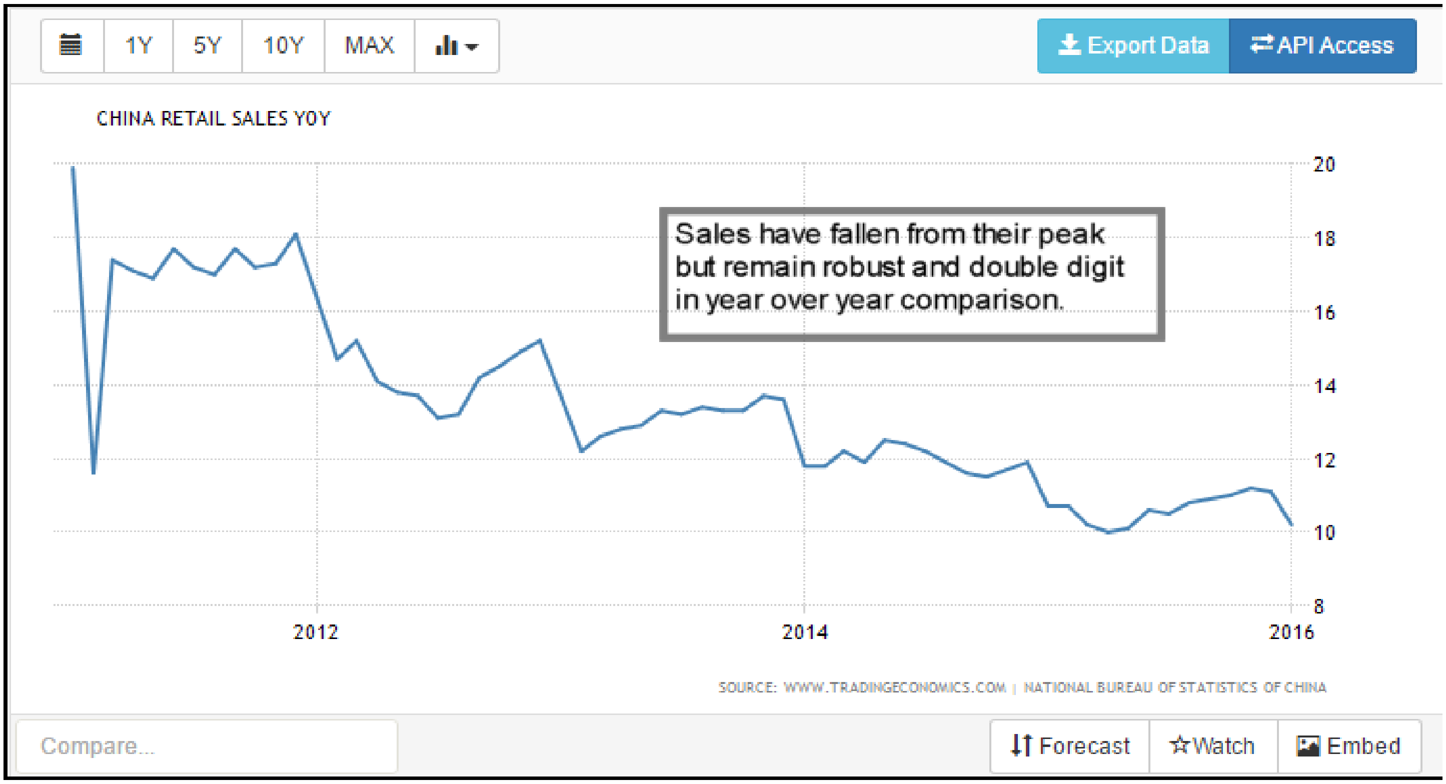
The past year has seen some volatile moves in the Chinese market, driven primarily by regulators and government actions, leaving investors wary of instability.

Recent Changes Help Stabilize Chinese Market

The Chinese market continue to be impacted by a less than confidence inspiring central government. Regulators and policy makers have both been active over the last month and neither has been able to drive the kind of gains that investors like to see. At best they have been able to at least stabilize a market that has seen massive volatility over the past 12 months. What they haven't done is cause another drop in equity values and that at least is a good thing. Fund managers at the JP Morgan China Region Fund tend to agree with this sentiment. In the latest fund fact sheet they refer to a lack of centralized effort as the major failing of the Chinese market structure.

"Chinese policymakers continued to lose credibility with markets due to opacity, inconsistency and a lack of intra-institutional coordination. While central banks in other major economies have generally been stabilizing forces in recent years, the PBOC has thus far not been. That said, given the growth bias of our portfolio, we only require stability rather than an improbable recovery in either policy credibility or the broader economy, and market dislocations are generally opportunities to add to our holdings in consumer, media, healthcare and technology."

Compounding the issues driven by Chinese policy makers is the ongoing shift in the economy from industrial based to consumer based. The latest data shows that while the economy in general is still slowing, the consumer portion is still growing at a double digit pace. The latest GDP forecast from government sources is calling for growth in the rang of 6.5% to 7% in 2016 and the chances of a hard landing have been shrugged off



by officials at the highest levels.

Fortunately for investors China has made a few changes of the past month that have helped to stabilize the market, at least in the near term. The most important may be the outing and replacement of China lead financial market regulator, blamed for a portion if not all of the volatility seen in the equities market over the past year. Another is the relaxing of capital requirements for banks which is intended to free up money for lending. Yet another is the newly announced move by the CSFC to loosen controls on margin lending, also intended to boost investment in the region.

About The JP Morgan China Region Fund

This fund is a comprehensive closed end fund focusing on the broad Chinese economic arena. While most funds operating in this sphere focus on one market the JCF is focuses on all avenues of Chinese business. This include shares listed on the mainland small and large cap exchanges as well as Taiwan, Hong Kong and Macau. The fund is benchmarked to the CSI 300 and the MSCI Golden Dragon Index but this reference can be a little misleading. While all companies held in the portfolio belong to one or the other of these indices the fund is invested only in the largest and best established companies. Fund holdings tend to be large caps, about 95%, with only a small 5% exposure to mid caps with no exposure to the volatile and incredibly risky small cap market.

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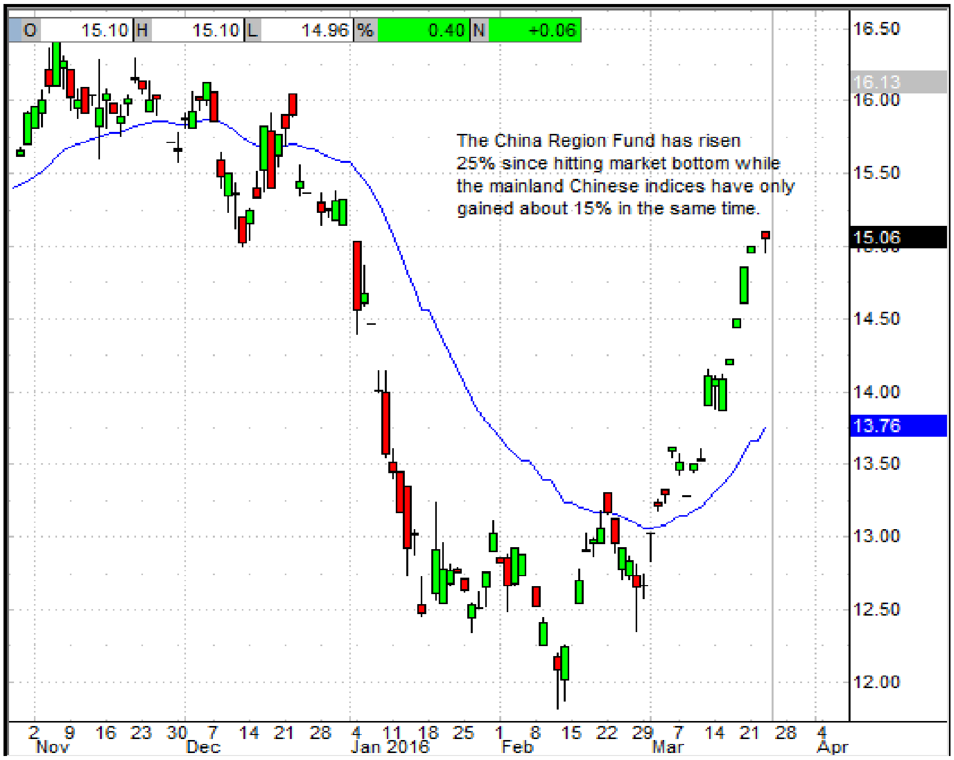
Managers at the China Region Fund have been making adjustments to match the evolving landscape in China’s economy as well as the political situation in the region. According to data gleaned from their website they have been upping the exposure to infotech, consumer discretionary and healthcare as well as adjusting where the money is put use. Exposure to infotech was increased by 0.8% and now totals a little more than 24% of the portfolio. A similar increase was made in healthcare and a much larger 2.1% was added to consumer discretionary bringing it up to nearly 9.5% of the portfolio.

Although the industrial side of the Chinese economy is slowing exposure to that sector remains steady near 10% with an addition of 0.9% in the last report. Other sectors of the market such as telecom, consumer staples, utilities and materials were cut back to make room for the changes leaving about 4.7% of portfolio value in cash ready for deployment when conditions dictate.

On the political side of the equation elections in Taiwan changed the tone of relations



with China resulting in a shift of focus for the fund. Exposure to Taiwanese based stocks was lowered by -6.2% in order to increase exposure in other areas, notably Hong Kong. Exposure to Hong Kong companies increased on both the Hong Kong Exchange and in China's Hong Kong "P" chips.

Valuation And Performance

As for valuation the fund does trade at a discount to NAV as most closed end funds do. This one has a 6 month and 3 year average dicount of -14.82% and -12.85%, with a recent low near -17%, all greater than the current discount of -10.88%. The recent rise in NAV is the result of market stabilization in China and a return of risk-on appetite in the region. Looking at the chart of JFC it is easy to see that it has increased in value 25% from its low, the mainland Chinese indices have only made a little more than half that gain.

In terms of performance it is outperforming the Morningstar benchmark in the 3, 5 and 10 year time horizons in both price and NAV. It also pays a tidy little dividend to help sweeten the pot, about 6.5% at current prices.

My Final Thoughts

China is a large, growing economy. It is also a slowing economy and one that is plagued by seemingly inept regulators and government officials. Despite the problems it remains a source of economic growth and an attractive place for investment. The key for investors is to be cautious when entering the market and be prepared for some volatility. One way to do that is with a fund like the JFC which seeks to weed out the worst and focus on the best while following economic and political trends.

Total Returns JFC

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Time Period: 1D 1M 3M 1Y 3Y 5Y 10Y

	Total Return
Price	2.13%
NAV	1.45%
Category Price	0.85%
Category NAV	1.29%
Morningstar Benchmark	0.67%

-2.13% 0 2.13%

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