



China: Active Management, And Liquidity, In A Shifting Economy

14 November 2015

By **Thomas Hughes**

Senior Editor of Global Investor Spotlight



The JP Morgan China Region Fund is a closed end fund that provides active management and liquidity in one easy to own package.

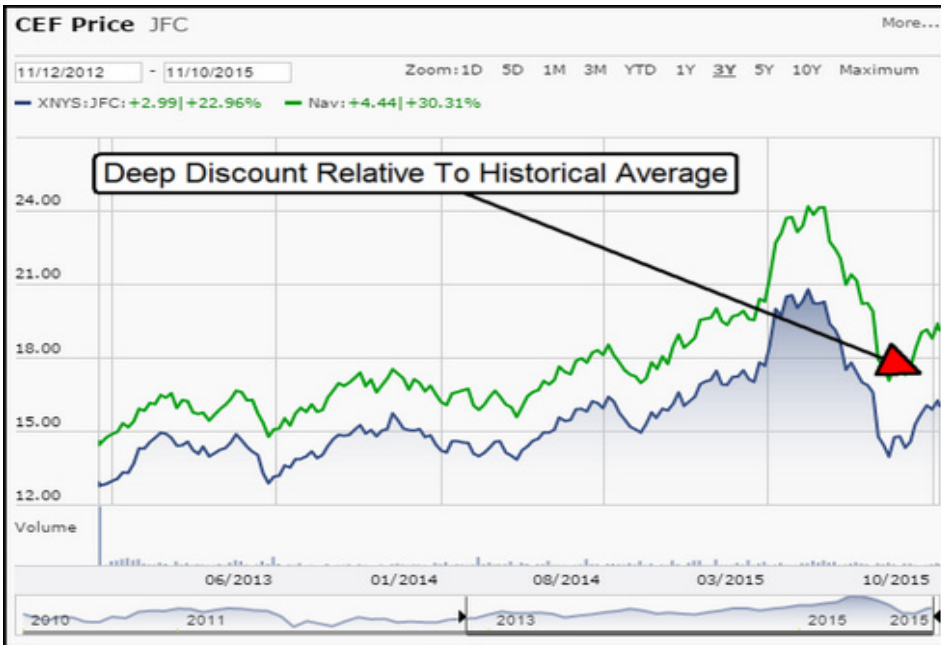
Closed End Funds Come With Some Advantages

The JP Morgan China Region Fund Inc. is a closed end fund with several advantages over other forms of equity investments in China. For one,

liquidity. Unlike more traditional open ended funds, which are only redeemable from the issuer and after the market closes the China Region Fund trades like a stock. It can be bought and sold at any time the market is open. Active management is another. The fund is benchmarked to two major China indices but is pegged to neither; the MSCI Golden Dragon Index (80%) and the CSI 300 (20%). JFC's managers sift through several thousands of Chinese businesses and only invest in the largest and most stable with the brightest forward outlook.

According to the fund prospectus and fact sheet managers seek

to achieve "Long term capital appreciation through investment primarily in equity securities of companies with substantial assets in, or revenues derived from the People's Republic of China, Hong Kong, Taiwan and Macau collectively, the China Region." As an individual investor this provides exposure to all forms of Chinese businesses, and companies doing business in China, unlike other funds and indices which tend to focus on smaller segments of the region. Within the fund are holding in China "A" shares, often only permitted to be owned by Chinese nationals, as well as China "b" shares, Hong Kong companies, Red Chips, P



◀ Chips and others.

Yet another advantage of the JFC is its discount to NAV. Like all closed end funds, which issue a set number of shares at inception and then no more, the China Region Fund trades at a discount to NAV. This provides an almost instantaneous gain, if only on paper, and interesting opportunities for investors. Over time the fund will trade at larger or smaller discounts, offering opportunities for investors to buy shares that are significantly undervalued. The fund has been trading at a much deeper discount to NAV than normal over the past 6 months, currently -16% or more, largely due to the market turmoil and reactionary measures we've seen in the region this year. The three year average discount is closer to -12.5%, suggesting a possible gain greater

In terms of focus, the fund is heavily invested in large and mega cap stocks and in particular financials, technology and industrials.

than 4% simply in terms of mean reversion.

In terms of focus, the fund is heavily invested in large and mega cap stocks and in particular financials, technology and industrials. The top five holdings; Tencent Holdings LTD, Taiwan Semiconductor Manufacturing Co LTD, China Construction Bank H Shares, AIA Group LTD and Ping An Insurance Company Of China comprise more

than 22.5% of fund holdings. Fund holdings span the investment style horizon from Deep Value through High Growth with a weighted average in the range of mega-cap/core growth. There is a small portion of fund holding dedicated to top mid and small cap stocks, just over 8%, slightly higher than industry average but key to the funds success.

Total returns, aided by an annual dividend distribution, are positive over the 1 year, 3 year, 5 year and 10 year time span, outpacing the industry averages. Over the past 6 months total returns are negative, not surprising given the sharp sell-off in Chinese equities, the positive side of that coin is that the sell-off contributed to current NAV discount, and Chinese markets are stabilizing, setting up long term investment opportunities alluded to previously.

Something else to consider, and a side of special importance to retirement investors, is the nature of the distributions. The China Region Fund has only paid out dividends from net investment income, NII, alleviating tax implications incurred through short and long term capital gains. Something else to take note of is distribution growth. Dividend distributions have been on the rise for the past 5 years, including 2015 when payments doubled compared to the previous year.

The up-capture ratios are also quite attractive with this fund. On a 1, 3 and 10 year basis up-capture is over 100%, averaging more than

Style Details JFC				
Market Capitalization				
Size	% of Portfolio	Benchmark	Category Avg	
Giant	61.22	73.93	71.15	
Large	30.49	25.23	20.59	
Medium	7.38	0.84	6.89	
Small	0.90	0.00	1.20	
Micro	0.00	0.00	0.16	
Ownership Zone				
Holdings Style				
	23	37	33	Large
	4	0	3	Mid
	0	1	0	Small
	Value	Blend	Growth	

