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Ariel Bezele started his career at Jupiter and has been a member of the Fixed Income team since 1998 and a fund manager since 2000. He is currently Head of Strategy, Fixed Income and manages the Jupiter Strategic Bond Fund and the Jupiter Dynamic Bond fund (SICAV).

Ariel has a degree in Economics from Middlesex University.

About Jupiter

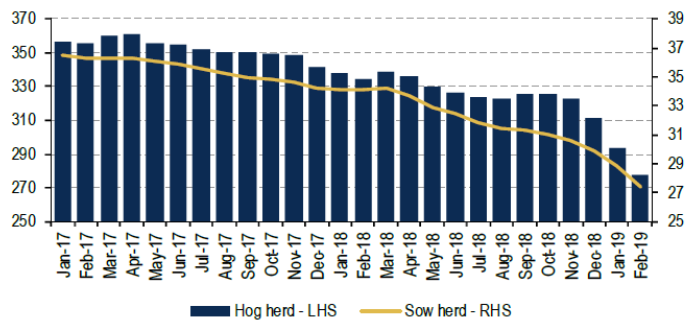
The listed British investment manager with boutique-like investment approach, located in London and founded in 1985, employs more than 400 employees worldwide (thereof about 35 fund managers). Today Jupiter is one of the UK's most respected asset management groups. „The Jupiter Global Fund SICAV“ (a Luxembourg based UCITS structure) provides clients outside the UK access to the diverse investment capabilities through its 29 sub funds which are registered for distribution in several European countries. Jupiter's total AUMs are GBP 42.7 bn as of 31 December 2018.

Protein powered credit opportunities

There is a cruel irony that 2019 marks the year of the pig in the Chinese zodiac. African swine flu is harmless to humans but fatal, incurable and highly contagious for pigs. Since the outbreak began in China last August, the government has tried to get the disease under control, to no avail. The virus has now also spread to pig populations in other countries in the region. In May, Vietnam reported that they had culled 1.5 million pigs in an effort to stem the epidemic.

Official reports from China last year initially indicated that only 1% of their hog population (or 1 million) had been culled to prevent further contamination. Then, in February 2019, reports stated a 17% year-on-year decline in hogs and a 19% decline in sows (see Figure 1). This translates into around 62 million on an absolute basis. Given this data is delayed and the disease is still far from under control, actual numbers may well be higher.

Figure 1: China's supply loss exceeds the entire US pig population



Source: Ministry of Agriculture and Rural Affairs

Pork is a key staple food in China and before the culls the total pig herd population in China was around 400 million. China is both the world's largest producer and consumer of pork. It produces 47% of the world's pigs, or more than 54 million tonnes in 2018. It is a minor net importer of pork, having consumed about 55 million tonnes of pork last year, almost half the global total. Analysts at BofAML estimate the supply gap left by the disease could be up to 17 million tonnes, which is 30% of China's pork production and 15% of global production.

Given the huge supply loss in China and across the region, and the fact that it can take up to two years for hog production to get back to pre-contamination levels, it was no exaggeration when the CEO of Tyson Foods said in May that he had "never seen an event that has the potential to change protein production and consumption patterns as African swine fever does."

The supply loss in China has already driven higher demand and higher prices for alternative sources of protein like chicken and beef, as well as pork. China imported 106,000 tonnes of pork from the US during just one week in May this year, despite 62% tariffs – an increase from just 1,300 tonnes the previous year. Pork processing margins are expected to increase by around 300bps in 2019. Another tailwind for chicken producers has been declining Chinese soybean demand (as it's a key hog feed component), which is contributing to lower poultry feed costs.

The US and Brazil are two of the largest animal-based protein producers in the world, with the natural resources to support the world with chicken, beef and pork meat. Based on recent data, US chicken pricing has already risen 4.3% year-on-year with margins expanding by 667 basis points (chicken prices benefit from the shorter animal lifecycle, which allows producers to more easily fill the pork supply gap with a cheaper protein). US beef pricing has also benefited, rising 4.0% year-on-year with margins increasing 184bps from 10 year-highs achieved in 2018.

My team at Jupiter realised the impact African swine flu could have on global markets shortly after the outbreak began last August. In our Dynamic Bond Fund, we already held securities from JBS USA, which is the US credit entity of Brazil-based JBS S.A, the largest global beef and pork processing company. Our credit research in this area and relationship with JBS



MARKET COMMENTARY



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management alerted us early on to the widespread impact the swine flu outbreak could have on global protein production. When JBS took advantage of renewed investor appetite this year (its bonds are trading at their highest levels for two years and its share price is at an all-time high) to issue bonds to reduce their refinancing risk, we didn't hesitate to participate in its new issuance, given their market share, low leverage, and strong free cash flow.

Our exposure to the protein producer theme now makes up 2% of the bonds in our fund. As well as JBS, we also hold bonds from Pilgrim's Pride, which represents JBS's poultry operations in the US, Mexico and Europe and already has a strong credit profile; Marfrig, the fourth largest beef producer in the US; as well as two special situations already in the strategy, poultry producers Boparan (UK) and Simmons Foods (US), that have benefited from increased export demand, higher chicken pricing and lower feed costs. Given the severity of African swine flu outbreak, the supply loss, and the time it takes for herds to recover, we believe the market may well be disrupted for at least the next one-to-two years, which should benefit these global protein producers.

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