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Peace dividend

A virtually dormant, mistitled, tiny, closed-end, London-listed equity fund might be just the thing for an optimist on world peace who can afford to lose each and every pence that he may or may not be able to invest in it. JEMA is the ticker on the London Stock Exchange, and JPMorgan Emerging Europe, Middle East and Africa Securities plc is the not-entirely-descriptive name. More informative is its 2002 birth name: JPMorgan Russian Securities plc.

JEMA owns Sberbank of Russia PJSC, Lukoil PJSC, Rosneft Oil Co. PJSC, Gazprom PJSC and Novatek PJSC, among other familiar Russian names. It invests, as well, in Saudi Arabia, the United Arab Emirates, South Africa, Greece and Turkey, among other countries. Average daily volume on the London Stock Exchange rarely exceeds £70,000, market cap stands at £48.9 million and 40.4 million shares are outstanding

By the directors' reckoning, non-Russian exposure accounts for fully 93%, or £18.6 million, of the fund's £20.1 million net assets. That high percentage, indeed, is the directors' doing. Hard on the heels of the February 2022 Russian invasion of Ukraine, the board marked down the shareholders' instantly illiquid Russian portfolio by 99%.

Meanwhile, the Moscow Exchange Russia Index has performed directionally just as you would have expected it to do, down 21% from the middle of April and 36% from the pre-invasion peak in October 2021. The Moscow Exchange Russia Index changes hands at 2 times earnings and yields 6.37%—or, rather, it did on June 20, the final day before Bloomberg stopped updating the figures.

Separate and distinct from JEMA's £48.9 million market cap is £25.2 million in accumulated Russian dividends (with another £7.9 million expected), undistributed since the war began. However, whether the JEMA shareholders or Vladimir Putin will wind up pocketing the money is a good question. Decree No. 442, signed by the president of Russia on May 23, authorizes retaliatory compensation for Western seizures of Russian assets. Surely, if push came to shove, Putin would not overlook the JEMA dividend pile.

Russia may be the world capital of things not going right, but say that peace and foreign investors return. Say that JEMA has refrained from diluting its Russian exposure by issuing new shares with which to diversify itself in non-Russian markets (the board "has no current plans to buy back or issue shares in the Company," according to the current annual report). And say that the dividend stash has remained intact or even grown and that Russian share prices lift off (2 times earnings makes an undemanding entry point).

Accounting for the aforementioned writedown of Russian assets, JEMA's NAV per share stands at £0.50. However, if one were to replace the marked-down value with current market value, the picture would instantly brighten—it could, in fact, dazzle. NAV per share would soar by 813% to £4.54. A premium to NAV of 143% would plummet to a discount of 73%.

Can you buy JEMA and still look yourself in the mirror? Well, you couldn't buy much of it. As a practical matter, the indirect acquisition of frozen Russian shares couldn't contribute to Putin's war effort. The prohibition on foreign trading precludes capital inflow. Similarly, the prohibition on selling Russian shares rules out the possibility of an inflow of capital-gains tax receipts into the Kremlin's war coffers. This is a peace trade.

Reporter Willem de Mol van Otterloo contributed to this story.

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