EDISON

Jupiter Green Investment Trust

Quality growth through environmental solutions

Investment trusts

Jupiter Green Investment Trust (JGC) invests in companies around the world that are providing solutions to environmental challenges. It aims for capital growth from a portfolio of c 60 companies, chosen through a disciplined, bottom-up investment process with a focus on quality and valuation. The trust is managed by a team at Jupiter Asset Management who also run the UK's first environmentally focused collective investment fund, Jupiter Ecology. The managers report that their investment universe has expanded considerably as environmental issues have become more mainstream and technological advances have made companies in areas such as renewable energy more competitive. JGC's small size and closed-end structure allow the managers more flexibility to invest in smaller, less liquid and potentially higher-growth companies than in their larger open-ended mandates, including up to 5% in unlisted stocks.

12 months ending	Share price (%)	NAV (%)	MSCI World Small Cap (%)	FTSE ET50 (%)	MSCI World (%)	FTSE All-Share (%)
31/07/13	41.3	30.9	35.1	41.0	28.1	24.3
31/07/14	9.7	7.4	3.5	8.7	4.7	5.6
31/07/15	(0.5)	4.1	14.5	10.5	14.1	5.4
31/07/16	6.6	12.4	20.4	14.7	17.7	3.8
31/07/17	21.6	16.0	18.5	19.5	17.6	14.9

Source: Thomson Datastream. Note: All % on a total return basis in GBP.

Investment strategy: Meeting ecological challenges

Jupiter's environmental and sustainability investment team monitor a large, global universe of stocks in three intersecting thematic areas: demographics, resource efficiency and infrastructure. JGC has a particular focus on companies providing solutions through technology. The team undertakes c 300-400 company meetings each year, and all potential holdings are subject to detailed due diligence before investment, focusing on areas such as valuation and management quality. Investments are made for the long term and turnover is low at c 10% a year.

Market outlook: 'Green' goes mainstream

Strong equity market performance across many sectors and global markets has persisted in the face of rising geopolitical tension. In the environmental arena, the market has largely shrugged off Donald Trump's statement of his intent to withdraw the US from the Paris climate change agreement, arguably illustrating the extent to which the adoption of solutions to environmental challenges has moved from a top-down policy decision to one based on competitive and economic realities.

Valuation: Active buyback policy limits discount

At 24 August, JGC's shares traded at a 5.5% discount to cum-income NAV. This was broadly in line with the 12-month average discount of 5.8%, and a little wider than the three- and five-year averages of 4.8%. JGC's board aims to keep the share price close to NAV, and regularly buys back shares to limit the discount. The trust invests for capital growth, but also offers a current dividend yield of 0.7%, broadly in line with its closest peer.

29 August 2017

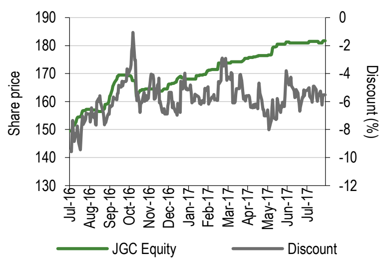
Price	**181.8p**
Market cap	**£38.4m**
AUM	**£40.0m**

NAV*	190.5p
Discount to NAV	4.6%
NAV**	192.3p
Discount to NAV	5.5%

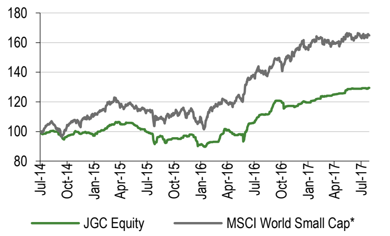
*Excluding income. **Including income. As at 24 August 2017.

Yield	0.7%
Ordinary shares in issue	21.1m
Code	JGC
Primary exchange	LSE
AIC sector	Sector specialist - environmental
Benchmark	MSCI World Small Cap

Share price/discount performance



Three-year performance vs index



52-week high/low	181.8p	156.5p
NAV** high/low	194.0p	165.8p

**Including income.

Gearing

Gross*	0.0%
Net cash*	4.2%

*As at 31 July 2017.

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Edison profile page

Jupiter Green Investment Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

Jupiter Green Investment Trust (JGC)'s investment objective is to generate long-term capital growth through a diverse portfolio of companies providing environmental solutions. The company invests globally across three key areas: infrastructure, resource efficiency and demographics. It has a bias towards small and mid-cap companies and may invest up to 5% of total assets in unlisted companies. Performance is measured against the MSCI World Small Cap Index.

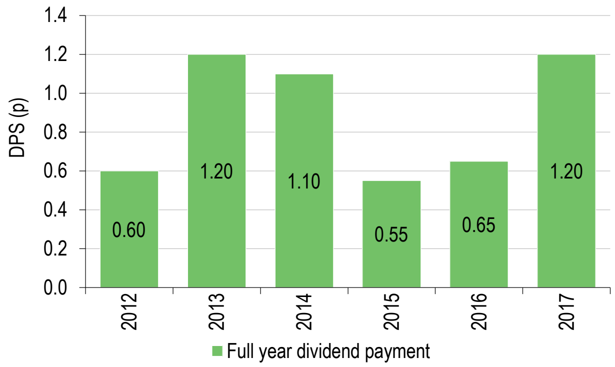
Recent developments

- 30 June 2017: Annual results for the year ended 31 March. NAV TR +22.2% and share price TR +32.4% versus +35.2% TR for the benchmark.
- 7 April 2017: 554,321 new shares issued as a result of annual subscription rights exercise.
- 29 November 2016: Half-year results for the six months ended 30 September. NAV TR +16.5% and share price TR +23.6% versus +20.9% TR for the benchmark.

Forthcoming		Capital structure		Fund details	
AGM	September 2017	Ongoing charges	1.58%	Group	Jupiter Unit Trust Managers
Interim results	November 2017	Net cash	4.2%	Manager	Charlie Thomas & team
Year end	31 March	Annual mgmt fee	0.75%	Address	The Zig Zag Building, 70 Victoria Street, London SW1E 6SQ.
Dividend paid	September	Performance fee	Yes, see page 7		
Launch date	June 2006	Trust life	Indefinite, subject to vote	Phone	+44 (0) 20 3817 1000
Continuation vote	Three-yearly, next 2017	Loan facilities	£3m	Website	www.jupiteram.com/JGC

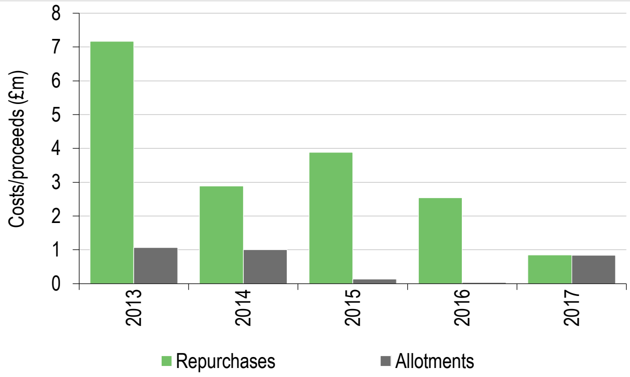
Dividend policy and history (financial years)

While the trust has a capital growth objective, substantially all distributable revenues generated by portfolio companies are expected to be paid as dividends. Dividends will not be paid unless they are covered by income from underlying investments.

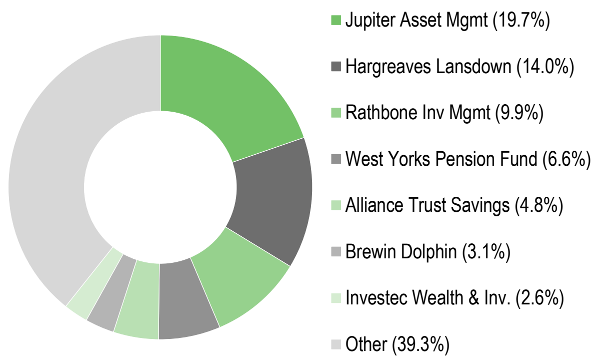


Share buyback policy and history (calendar years)

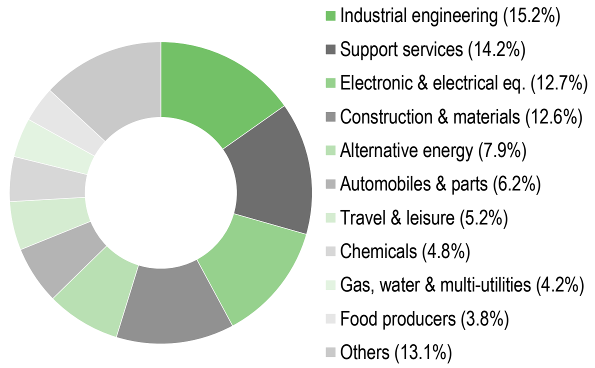
The board uses share buybacks and issuance with the aim of ensuring that in normal market conditions, the trust's share price does not materially differ from its net asset value. Up to 14.99% of shares can be bought back and up to 10% allotted annually. Allotments below include exercise of subscription rights.



Shareholder base (as at 12 June 2017)



Portfolio exposure by sector (as at 30 June 2017)



Top 10 holdings (as at 31 July 2017)

				Portfolio weight %	
Company	**Country**	**Sector**	**Business area**	**31 July 2017**	**31 July 2016***
Vestas Wind Systems	Denmark	Industrials	Wind turbines	3.7	3.2
AO Smith	US	Industrials	Water heaters	3.7	5.9
Tomra Systems	Norway	Industrials	Recycling machinery	3.6	3.1
LKQ	US	Industrials	Auto parts	3.4	3.8
Emcor	US	Industrials	Construction & engineering	3.2	3.4
Cranswick	UK	Consumer staples	Food producer	3.2	3.7
Wabtec	US	Industrials	Railway engineering	2.8	3.6
Xylem	US	Industrials	Water technology	2.7	N/A
Valmont Industries	US	Industrials	Engineering & irrigation	2.6	N/A
Toray Industries	Japan	Industrials	Plastics & chemicals	2.3	2.6
Top 10				**31.2**	**34.6**

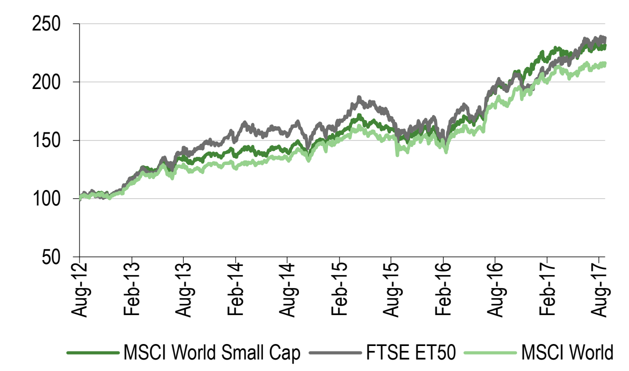
Source: Jupiter Green Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in July 2016 top 10.

Market outlook: Climbing a wall of worry

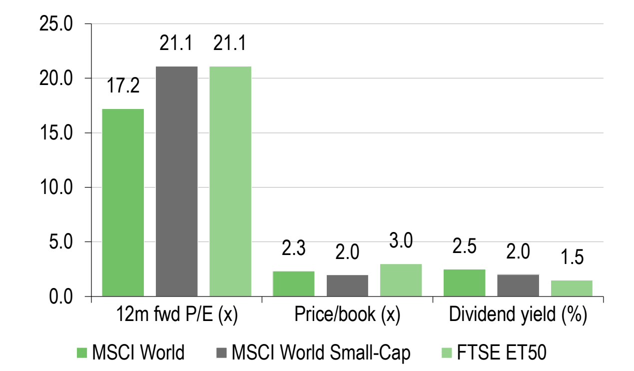
In spite of heightened geopolitical tension and emerging evidence that the world's largest economy, the US, might be past its cyclical peak, global equity markets have continued to perform strongly. As shown in Exhibit 2 (left-hand chart), smaller companies have outperformed large-caps globally over the past five years, and environmental technology stocks – in common with technology stocks more generally – have led the pack. However, as shown in the right-hand chart, equity valuations are also high on both forward P/E and price/book measures, while there is limited support from dividends in an environment where bond yields could start to rise. Against such a backdrop, a disciplined investment process that focuses on finding genuinely innovative companies at reasonable valuations could find favour with investors.

Exhibit 2: Market performance and valuation

Index performance (total returns, rebased to 100)



Valuation metrics (as at 24 August 2017)



Source: Thomson Datastream, Edison Investment Research, Bloomberg

Fund profile: Global investment in eco-solutions

Jupiter Green Investment Trust (JGC) was launched in 2006, the third in a succession of environmentally-focused investment trusts managed by Jupiter Asset Management, which had pioneered the sector with the launch of the open-ended Jupiter Ecology Fund in 1986. The trust is managed by Charlie Thomas – head of environmental and sustainability investment at Jupiter, and also manager of the Ecology fund – and Abbie Llewellyn-Waters.

JGC invests globally in a portfolio of c 60 companies that provide solutions to environmental challenges, with the aim of benefiting from the secular growth of environmental and sustainable investment, and achieving capital appreciation. The portfolio is diversified across the market capitalisation spectrum, although the trust's relatively small size and closed-end structure means it can invest in smaller and less liquid companies than would be appropriate or permissible for the £574m Ecology fund. JGC is not constrained by any benchmark, although it measures its performance officially against the MSCI World Small Cap index and informally against the environmental technology-focused FTSE ET100 index. At launch the trust outsourced its US stock selection to Winslow Asset Management, and until 2010 had a composite benchmark made up of the FTSE Global Small Cap ex-US and Russell 2500 Growth indices, in proportions dependent on the percentage of assets managed by Jupiter and Winslow. The current benchmark was adopted in June 2010 at the same time as stock selection was brought fully in-house.

The trust may invest up to 5% of total assets (at the time of investment) in unlisted securities, and the managers may use derivatives and short positions in order to mitigate risk. A two-tier monitoring process aims to ensure that JGC is appropriately diversified by stock, sector and geography.

The fund managers: Charlie Thomas and team

The managers' view: Forget Paris?

We spoke with managers Charlie Thomas and Abbie Llewellyn-Waters after Donald Trump's vow to withdraw the US from the Paris climate agreement, ratified late in 2016. They commented that while the development is outwardly negative, it has had a strong galvanising effect for other countries, as well as many states within the US that have their own targets on emissions reduction, to get on and deal with the issues. Regardless of the rhetoric, there is also a strong political imperative for the Trump administration to support renewable energy, with 80% of US wind farms being located in Republican heartlands such as Ohio and Texas, and providing an important source of employment.

Thomas comments that as environmental solutions become more developed and less dependent on subsidies, political risk diminishes. Technological advances in wind turbines are reducing downtime through remote reporting and the ability to schedule maintenance for non-wind days, so no output is lost. This is bringing down costs for wind power generation and making it more competitive with other energy sources. JGC portfolio companies benefiting from this trend include Vestas Wind Systems and recent purchase, Dong Energy. The managers are also tapping into greater acceptance of the need for a move towards electric vehicles, although they prefer to access the sector through parts suppliers such as semiconductor manufacturer Infineon Technologies.

Meanwhile, Llewellyn-Waters notes that it has become a little harder to find compelling investment opportunities, as valuations on portfolio holdings and stocks on the watch list are high relative to history. However, with companies being punished more for missing earnings expectations than they are rewarded for beating them, there may be opportunities to buy on the dips.

Asset allocation

Investment process: Disciplined focus on growth and value

Jupiter's environmental and sustainability investment team selects stocks on a bottom-up basis from three interlinked areas where it believes environmental and economic issues connect:

- **Infrastructure** includes areas such as utilities, alternative energy, construction and planning, waste management and communications networks, energy grids, carbon emissions trading/ strategies, water supply, transport infrastructure, waste management facilities and buildings.
- **Resource efficiency** intersects with infrastructure in the areas of grid, carbon, water supply, waste and buildings, and also includes fuel, water treatment and usage, electricity, metal recovery and recycling, land use and pollution reduction.
- **Demographics** overlaps with infrastructure in the area of transport, with resource efficiency in the areas of land use and pollution, and with both for waste management and buildings. It also includes food production, transport operators, agriculture, health and education.

JGC focuses on companies that can have a deep and lasting impact on these areas through the provision of environmental solutions. It classifies its investments as transformational – companies that are disrupting the status quo through new technologies – or transitional, meaning those that are improving environmental sustainability in areas that might not usually be considered 'green'. The increasing global acceptance of the need for environmental solutions has expanded the trust's investment universe from fewer than 100 companies at the strategy's inception to c 1,200 today.

The investment team monitors this universe, looking for themes and trends, such as increased development and adoption of electric vehicles. Through the use of financial screens, monitoring market and technological developments, attending industry conferences, talking to companies (the team undertakes 300-400 company meetings each year) and making use of broker networks, the managers identify potential investments. Candidate companies should have proven technologies, strong balance sheets and cash flows and good-quality, experienced management teams.

Potential investments undergo a financial assessment, looking at capital structure and the ability to generate sustainable profits and return on equity. The managers also analyse end markets and factors such as political risk – which can cause volatility in share prices even where the genuine impacts are less than headlines may suggest – and specific risks such as a lack of take-up of a particular technology. Detailed financial modelling is used to analyse a range of historical and forward valuation metrics, while the team also assesses governance and sustainability factors.

Where the managers decide to invest in a company, they will usually take an initial position of less than 1% of the portfolio, with a view to increasing it over time as their investment thesis is validated. The portfolio has c 60 stocks, and positions will normally be trimmed if they exceed 5% of assets. Holdings may be sold if the managers feel valuations have become overstretched, if a product or service is no longer viable or competitive, if challenging conditions occur in an area of the market, if long-term return expectations are not met, or in cases of management change. The strategy has low turnover of c 10% pa, but the managers keep a 'shopping list' of companies they would like to own but where valuations are too high; names from this list may be added to the portfolio on any dips.

Current portfolio positioning

At the 31 March 2017 year-end, JGC had 61 holdings. The top 10 stocks at this date made up 32.6% of the portfolio, with concentration falling marginally to 31.2% at 31 July 2017 (31 July 2016: 34.6%). Holdings are well spread by geography and industry, with the largest sector weightings currently being in industrial engineering and support services (see Exhibit 1) and the largest geographical weightings in the US, UK and Japan (Exhibit 3).

Exhibit 3: Portfolio geographic exposure vs MSCI World Small Cap (% unless stated)

	Portfolio end-July 2017	Portfolio end-July 2016	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
US	36.7	39.4	(2.7)	55.3	(18.6)	0.7
UK	15.8	19.0	(3.2)	7.6	8.3	2.1
Japan	12.7	12.7	0.0	12.1	0.6	1.0
Denmark	6.1	6.7	(0.6)	N/S	N/A	N/A
Germany	4.3	3.0	1.3	2.8	1.5	1.5
Austria	4.2	3.3	0.9	N/S	N/A	N/A
Norway	4.2	3.1	1.1	N/S	N/A	N/A
France	4.1	4.2	(0.1)	N/S	N/A	N/A
Canada	N/S	3.0	N/A	3.9	N/A	N/A
Others	7.6	5.7	1.9	18.4	(10.8)	0.4
Cash & gearing	4.2	(0.2)	4.4	0.0	4.2	N/A
	100.0	**100.0**		**100.0**		

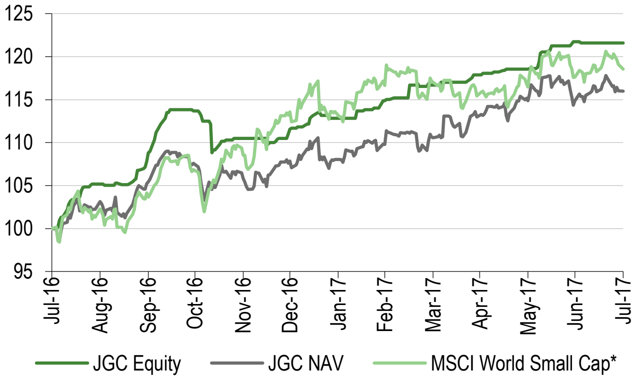
Source: Jupiter Green Investment Trust, Edison Investment Research. Note: N/S = not separately stated.

The managers have taken a number of new positions in recent months. These include Dong Energy, Fjord 1, Innogy, Lenzing and Vac-U-Tec. Thomas says Dong Energy is a classic transitional stock – originally the Danish national oil & gas supplier, it is now the world's largest developer of offshore wind power. Lenzing is an Austrian textiles company that makes Tencel fibre out of wood pulp. Llewellyn-Waters says the fibre has superior performance characteristics to cotton, while being far less resource-intensive: Lenzing uses a closed-loop manufacturing system so no water is wasted; conversely, it takes 2,700 litres of water to manufacture just one cotton T-shirt. Two new holdings since the year-end are Norwegian local ferry operator Fjord1 and Prysmian, which is an Italian cable manufacturer selling into the energy and utility sectors. Most exits from the portfolio have been as a result of M&A (see Performance section). Other recent notable changes in the portfolio include additions to holdings in US companies Clean Harbors (environmental services) and Itron (energy solutions) and reducing the size of the positions in Cranswick (UK food producer) and Wabtec (US provider of technology products and services to the transportation industry).

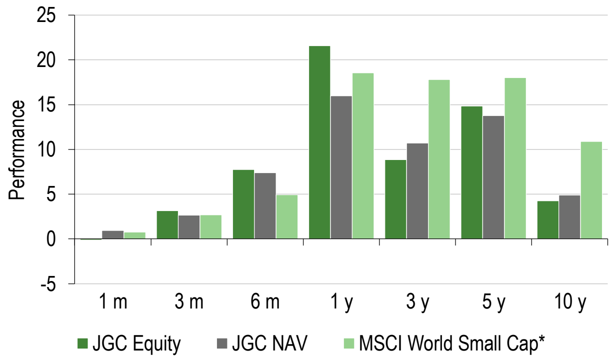
Performance: Strong record of absolute returns

Exhibit 4: Investment trust performance to 31 July 2017

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. *Prior to 1 April 2010 JGC had a composite benchmark; see Fund profile on page 3. 10-year returns are versus a blended benchmark.

JGC has performed strongly over the past year (Exhibit 4), with its share price total return also surpassing the return on the MSCI World Small Cap index. Medium-term returns have also been compelling on an absolute basis, annualising at close to 15% a year over five years. As shown in Exhibits 5 and 6, the trust has tended to lag the large-cap 'green' FTSE ET50 index, although its global portfolio has helped it to outperform the main UK FTSE All-Share index over most periods.

Positive performance drivers in FY17 included Republic Services and AO Smith, on the expectation of a pick-up in US industrial activity following Donald Trump's election, while Xylem and Itron were rewarded by a strong demand environment, and Japanese stocks also did well. US solar power stocks First Solar and Sun Power fell on fears of less support for renewables under the new regime. More recently, M&A has boosted returns, with the takeovers of EDPR, WS Atkins and Whole Foods, while Vestas Wind Systems and waste-sorting specialist Tomra Systems also performed well. Whole foods supplier United Natural Foods and Shimano have detracted from returns.

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI World Small Cap*	(0.9)	0.4	2.7	2.6	(21.2)	(12.7)	(45.9)
NAV relative to MSCI World Small Cap*	0.2	(0.1)	2.3	(2.2)	(17.0)	(16.6)	(42.5)
Price relative to FTSE ET50	0.0	(2.2)	(3.5)	1.7	(14.8)	(13.9)	14.4
NAV relative to FTSE ET50	1.1	(2.6)	(3.8)	(2.9)	(10.4)	(17.8)	21.8
Price relative to FTSE All-Share	(1.3)	0.2	0.6	5.8	2.6	21.1	(13.9)
NAV relative to FTSE All-Share	(0.2)	(0.3)	0.3	0.9	8.0	15.6	(8.4)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-July 2017. Geometric calculation.

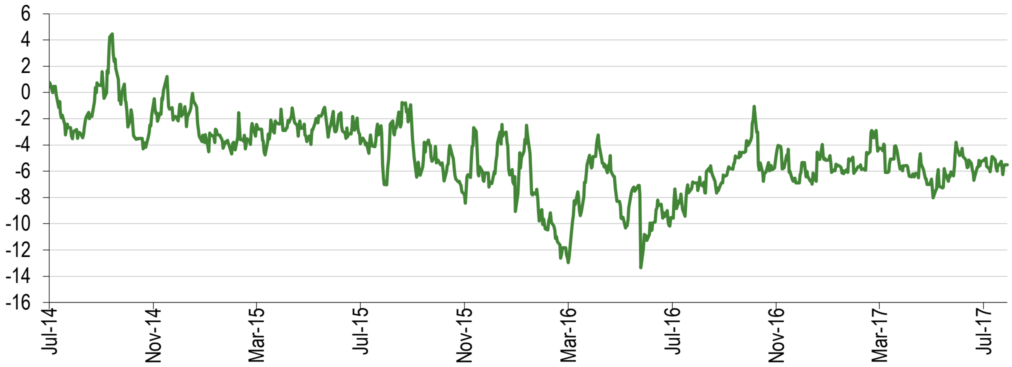
Exhibit 6: NAV total return performance relative to FTSE ET50 over 10 years

Source: Thomson Datastream, Edison Investment Research

Discount: Back in a range, supported by active policy

At 24 August 2017, JGC's shares traded at a 5.5% discount to cum-income NAV. This is broadly in line with the one-year average of 5.8%, but a little wider than the three- and five-year averages of 4.8%. Having widened in a period of risk-aversion in early 2016 and again in the immediate aftermath of the UK's EU referendum (reaching a five-year high of 13.4%), the discount has settled back into a 4-6% range. JGC's board aims to keep the share price close to the NAV and may buy back or issue shares to manage a discount or a premium. In the past 12 months, c 0.8m shares have been bought back at a cost of c £1.4m.

Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

Structured as a conventional investment trust, JGC has one class of share, with 21.1m ordinary shares in issue at 24 August 2017. The shares have subscription rights that entitle shareholders to subscribe for one new share for every 10 shares held at 31 March each year, at a price equal to the undiluted NAV per share at the previous year-end. A discount/premium management programme aims to ensure that the share price does not materially vary from the NAV. Gearing is permitted up to 25% and is available via a £3m flexible loan, which, if fully drawn, would equate to gearing of 7.5% based on 24 August net assets. So far none of the borrowing has been drawn.

Jupiter is paid an annual management fee of 0.75% of net assets (reduced from 0.85% with effect from 1 January 2017), after deducting the value of any Jupiter-managed investments. A performance fee structure is in place whereby the manager receives 15% of outperformance of the MSCI World Small Cap index over a financial year, subject to various conditions (see our initiation note) and an overall fee cap of 1.75%. The last time a performance fee was paid was in FY14, and ongoing charges as at end-FY17 were 1.58% (FY16: 1.63%).

Dividend policy and record

JGC invests for capital growth, and only pays dividends to the extent required to maintain its investment trust status, the rules for which state that no more than 15% of income received in the course of a financial year may be retained. Dividends have been paid each year since FY11 and have tended to reflect portfolio income, meaning that they have fluctuated from year to year. The FY17 dividend of 1.2p per share is equal to the revenue earnings per share for the year. This is 85% higher than the FY16 dividend, partly reflecting the translation effect of a weaker sterling on income received from overseas investments. The dividend will be paid on 6 October to shareholders on the register at 15 September, and represents a yield of 0.7% on the current share price.

Peer group comparison

The AIC's Sector Specialist: Environmental sector is a small group but still includes a diversity of funds with more and less similar mandates to JGC's. The Impax and Menhaden funds invest broadly like JGC, while Leaf Clean Energy has a narrower focus on renewables. The sector is dominated by the large Impax fund, whose strong performance skews the weighted averages, whereas JGC is the smallest in the group. JGC's NAV total returns are ahead of the simple average for the sector over one, five and 10 years, and broadly in line over three years. The trust ranks second in the group over all these periods. Performance has been broadly similar to the open-ended Jupiter Ecology fund, although the two portfolios are quite different, with JGC having more of a focus on smaller companies. JGC's ongoing charges are above the weighted average but below the simple average. The trust is ungeared and has the narrowest discount in the peer group. It is one of only two closed-ended peers with a yield, and it also yields more than its open-ended cousin.

Exhibit 8: AIC Sector Specialist: Environmental peer group as at 24 August 2017*

% unless stated	Market cap/ fund size £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)
Jupiter Green IT	**38.4**	**14.4**	**32.3**	**87.4**	**66.5**	**1.6**	**Yes**	**(4.8)**	**100**	**0.7**
Impax Environmental Markets	437.2	19.5	62.3	132.3	140.6	1.1	No	(10.4)	106	0.8
Leaf Clean Energy	44.9	(9.8)	15.4	(32.6)	(37.2)	2.4	No	(37.4)	100	0.0
Menhaden Capital	53.6	6.6				2.1	Yes	(25.9)	100	0.0
Simple average	**143.5**	**7.7**	**36.7**	**62.4**	**56.6**	**1.8**		**(19.6)**	**102**	**0.4**
Weighted average		**15.7**	**56.0**	**114.7**	**119.8**	**1.3**		**(13.5)**	**105**	**0.8**
JCG rank in sector	**4**	**2**	**2**	**2**	**2**	**3**		**1**	**2**	**2**
Open-ended funds										
Jupiter Ecology	573.2	15.1	39.1	84.2	77.6	1.7	No			0.1
Weighted average		**14.7**	**40.8**	**89.2**	**77.8**	**1.9**				**1.5**

Source: Morningstar, Edison Investment Research. Note: *Performance to 23 August 2017. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

As a small trust, JGC's board is cognisant of the impact of fixed costs such as directors' fees on the ongoing charges ratio. As a result, the board is small, with only three directors, but all are experts in the environmental sector. Chairman Michael Naylor was appointed to the board in 2009 and took on his current role in 2015. His background is as a private equity investor in the sustainable asset class. Dame Polly Courtice is a leading environmental academic and has been on the board since launch in 2006. Simon Baker was appointed in 2015 following a career in fund management. He headed Jupiter's green investment department from 1994 to 2006.