Jupiter Green Investment Trust

Initiation of coverage

Seeking solutions to environmental challenges

Investment trusts

Jupiter Green Investment Trust (JGC) seeks to achieve capital growth by investing in companies that provide solutions to environmental challenges. It is managed by members of the environmental and sustainability team at Jupiter, which launched the UK's first environmental fund, Jupiter Ecology, in 1988. The portfolio is global and multi-cap, although because of a tilt towards smaller companies it uses the MSCI World Small Cap Index as a performance benchmark. Absolute returns have been positive over all periods from one month to 10 years (annualised for periods longer than one year), and an active discount control mechanism aims to keep the shares trading close to NAV.

12 months ending	Share price (%)	NAV (%)	MSCI World Small Cap (%)	FTSE ET50 (%)	MSCI World (%)	FTSE All-Share (%)
31/01/13	21.6	9.8	15.7	3.5	16.1	16.3
31/01/14	36.6	24.7	18.9	32.0	12.6	10.1
31/01/15	(3.1)	1.0	12.0	7.6	17.7	7.1
31/01/16	(6.6)	(1.1)	(0.4)	(2.7)	1.1	(4.6)
31/01/17	31.8	26.3	41.6	30.9	32.8	20.1

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

Investment strategy: Focus on green solutions

JGC's managers, Charlie Thomas and team, act as the knowledge centre for environmental investing within Jupiter Asset Management. They monitor a large global investment universe of c 1,200 companies, looking for themes, running regular financial screens and making use of academic contacts, broker networks and company meetings to identify promising investments that are providing solutions to environmental challenges. A rigorous investment process leads to a portfolio of 60 stocks covering three broad areas of resource efficiency, demographics and infrastructure. Turnover is low at c 10% a year.

Market outlook: Investors remain confident

Global equity markets performed strongly in 2016 and have begun the new year in a similar vein. Investors seem prepared to look beyond macroeconomic and political risks, focusing instead on the likelihood of, for example, higher infrastructure spending. While US environmental policy may be uncertain now that the new administration is in place, the swift ratification of the Paris Agreement (COP21) provides a measure of comfort that global powers are prepared to work together to meet environmental challenges.

Valuation: Discount slightly wider than target

At 31 January 2017, JGC's shares traded at a 5.1% discount to cum-income net asset value. This compares with averages of 7.1%, 4.1% and 5.4% over one, three and five years. The trust regularly buys back its shares to keep the share price close to NAV, particularly if the discount is wider than c 4%. The fact that the current discount is slightly wider than this may reflect the generally higher level of discounts on trusts with a bias to smaller companies; by way of comparison, UK smaller company trusts stood at an average discount of 13.0% at 31 January.

2 February 2017

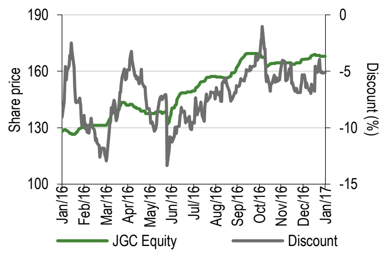
Price	**168.0p**
Market cap	**£35.4m**
AUM	**£37.1m**

NAV*	176.2p
Discount to NAV	4.6%
NAV**	177.1p
Discount to NAV	5.1%

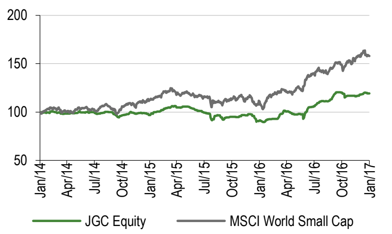
*Excluding income. **Including income. As at 31 January 2017.

Yield	0.4%
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	169.5p	126.5p
NAV* high/low	181.3p	130.3p

*Including income.

Gearing

Gross*	0.0%
Net cash*	1.1%

*As at 31 December.

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Edison profile page

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

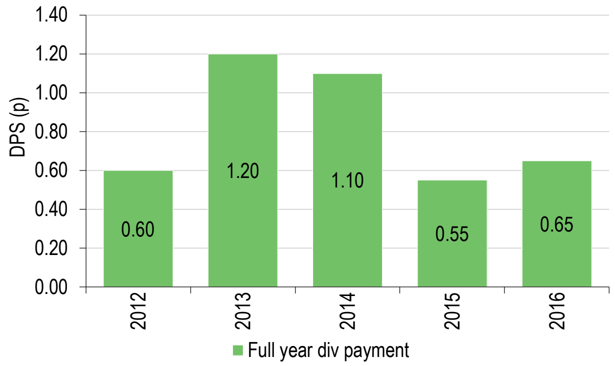
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
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.	■ 29 November 2016: Half-year results to 31 October. NAV TR +16.5% versus +20.9%% for the benchmark MSCI World Small Cap Index. Share price TR +23.6% as the discount to NAV narrowed from 13.0% to 7.6%. ■ 31 August 2016: Final dividend of 0.65p per share declared in respect of the year ended 31 March 2016, to be paid on 30 September. ■ 31 August 2016: Annual general meeting – all resolutions passed.

Forthcoming		Capital structure		Fund details	
AGM	August 2017	Ongoing charges	1.6%	Group	Jupiter Unit Trust Managers
Annual results	June 2017	Net cash	1.1%	Manager	Charlie Thomas & team
Year end	31 March	Annual mgmt fee	0.85%	Address	The Zig Zag Building, 70 Victoria Street, London SW1E 6SQ.
Dividend paid	September	Performance fee	Yes, see page 10		
Launch date	June 2006	Trust life	Indefinite	Phone	+44 (0) 20 3817 1000
Continuation vote	Three-yearly, next 2017	Loan facilities	£3m bank loan	Website	www.jupiteram.com/JGC

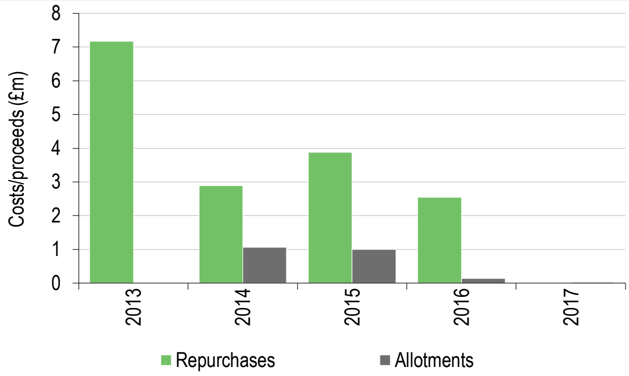
Dividend policy and history (financial years)

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

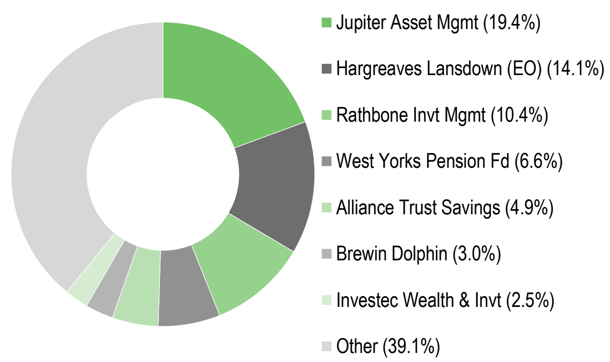


Share buyback policy and history (calendar years)

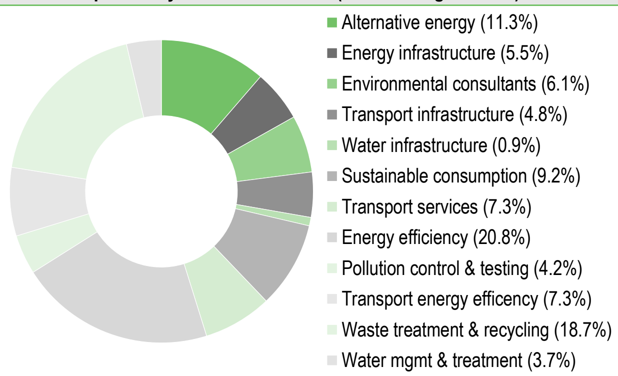
The board uses share buybacks and issuance with the aim of ensuring that in normal market conditions, the trust's share price does not materially differ from its net asset value. Up to 14.99% of shares can be bought back and up to c 10% of shares allotted annually.



Shareholder base (as at 8 December 2016)



Portfolio exposure by investment theme (as at 30 August 2016)



Top 10 holdings (as at 31 December 2016)

Company	Country	Sector	Business area	Portfolio weight %	
				31 December 2016	31 December 2015*
Wabtec	US	Industrials	Railway engineering	4.6	3.8
Emcor Group	US	Industrials	Construction	4.0	2.9
AO Smith	US	Industrials	Water heaters	3.8	5.3
LKQ	US	Industrials	Auto parts	3.5	3.3
Tomra Systems	Norway	Industrials	Recycling machinery	3.1	3.1
Cranswick	UK	Consumer staples	Food producer	3.1	4.6
Vestas Wind Systems	Denmark	Industrials	Wind turbines	2.9	4.1
Valmont Industries	US	Industrials	Engineering & irrigation	2.8	N/A
Xylem	US	Industrials	Water technology	2.7	N/A
Johnson Matthey	UK	Materials	Catalysts & speciality chemicals	2.4	N/A
Top 10 (% of portfolio)				**32.9**	**35.5**

Source: Jupiter Green Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in December 2015 top 10.

Market outlook: Balance of risk and opportunity

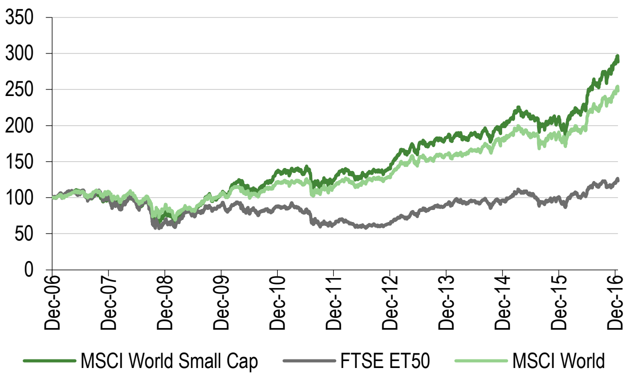
Global equity markets have entered 2017 on a high, in spite of arguably heightened macro risks from areas as diverse as the likely policy direction of the new US administration, the UK's Brexit negotiations, multiple election campaigns in Europe and the still-divergent state of monetary policy in major economies. As shown in Exhibit 2 (left-hand chart), large and small companies alike advanced strongly in 2016 in sterling terms, driven in part by the weakness of the pound following the EU referendum in June.

Against this buoyant backdrop, however, companies focused on environmental technology saw more subdued returns. The FTSE ET50 Index focuses on the largest 50 companies globally operating in this area, and produced a sterling gain of 18.3% in 2016 compared with 30-35% for the MSCI World and MSCI World Small Cap; in US dollar terms total returns for the year were -0.8%, 8.2% and 13.3%, respectively. Looking at valuations, smaller companies globally stand at a premium to the forward P/E ratio of larger companies (Exhibit 2, right-hand chart), but a discount on a price/book basis. Dividend yields are lower on average, which is unsurprising given that the small-cap index contains more companies at an earlier stage of development.

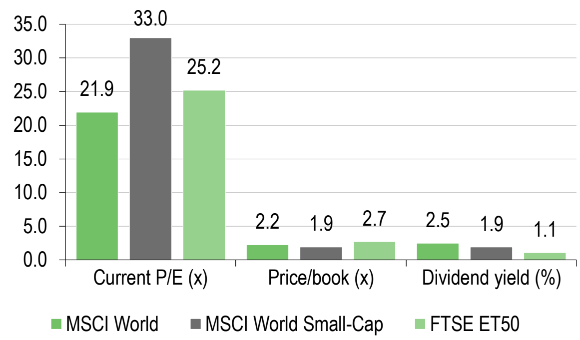
When average valuations look stretched, the value of an active investment approach becomes more evident. At 31 December c 65% of JGC's portfolio holdings traded on a forward P/E below 20x, suggesting a degree of valuation protection in the event of a market setback.

Exhibit 2: Market performance and valuation

Performance of MSCI World, MSCI World Small Cap and FTSE ET50



Valuation metrics for MSCI World, MSCI World Small Cap and FTSE ET50



Source: Thomson Datastream, MSCI, FTSE Russell, Edison Investment Research. Note: Returns in sterling terms. Data at 31/12/16.

Fund profile: Focus on environmental solutions

Jupiter Green Investment Trust (JGC) was launched in June 2006 as the successor to Jupiter Global Green Investment Trust, itself set up in 2001 as a follow-on vehicle for the Jupiter International Green Investment Trust, which began life in 1989. Jupiter Asset Management launched the UK's first open-ended 'green' fund, Jupiter Ecology, in 1988. JGC has been managed since launch by Charlie Thomas, Jupiter's head of environmental and sustainability investment strategy, who joined the firm in 2000 and also runs the £530m Ecology fund. Abbie Llewellyn-Waters, who joined Jupiter in 2007, has been a named member of the JGC investment team since 2011, first as an equities analyst, then as assistant fund manager, and since 2015 as fund manager alongside Thomas. Analyst Jon Wallace is also a member of the team, and Mark Evans supports the strategy from a thematic perspective.

JGC seeks to benefit from the secular growth of environmental and sustainable investment by investing globally in companies that provide solutions to environmental challenges. It has a bias towards smaller and mid-cap companies and is not constrained by any benchmark, although it measures its performance against the MSCI World Small Cap Index and also, informally, the FTSE ET100 Index, which includes the 100 largest pure-play environmental technology companies globally. Until 2010 it 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 firm to which US stock selection was outsourced; since June 2010 the entire portfolio has been managed by Jupiter. Up to 5% of total assets (at the time of investment) may be in unlisted securities, although no unlisted companies were held at end-H117 (30 September). The managers may use derivatives and short positions in order to mitigate risk, and may also use currency hedging. The aim is to provide a portfolio of c 60 holdings that is diversified by stock, sector and geography, and there is a two-tier monitoring system in place to ensure adherence to this aim, with monthly assessment by Jupiter's performance committee and a detailed portfolio analysis provided to JGC's directors at each board meeting.

The fund managers: Charlie Thomas and team

The managers' view: Opportunities in multiple sectors

Lead fund manager Charlie Thomas explains that JGC is looking to benefit from the secular growth of environmental and sustainable investment, by investing in companies that provide solutions to challenges. During the team's tenure at Jupiter, environmental investing has become increasingly mainstream, with growing recognition of the need to address environmental issues leading to innovation and a greater number of investment opportunities. The team acts as Jupiter's 'knowledge centre' on environmental issues, and Thomas adds that c 40% of JGC's portfolio companies are now also held by other Jupiter fund managers, as they realise the potential of the structural growth story.

The team classifies its investments as either transitional or transformational. Transformational stocks are those with demonstrable disruption to the status quo, such as wind, solar and innovative waste technologies, and currently make up c 40% of the portfolio. Transitional companies are those that are improving environmental sustainability in areas that might not be considered 'green'. Examples include carbon fibre company Toray, whose lightweight aircraft components improve fuel efficiency and lessen pollution, or Novozymes, whose biological washing powders clean clothes effectively at lower temperatures and on shorter cycles, reducing energy and water usage. Invariably, say the managers, the transitional stocks also offer the economically rational solution.

The managers comment that they are happy to avoid certain areas completely. For example, nuclear energy might be seen as having transitional characteristics in relation to fossil fuel reduction, but the hazardous waste generated by the nuclear industry outweighs any benefits in terms of reduced emissions. Even in a sector that meets environmental standards, such as solar energy, the managers had no exposure from 2008 until recently, having withdrawn from the area in "a real buzz period" on concerns over mass commoditisation, depressed margins and competition from China.

In terms of the current market backdrop, the managers welcome the swift ratification of the Paris Agreement on climate change (COP21), which came into force in November 2016. While there may be some headwinds as the new US administration works out its approach to environmental policy, the agreement suggests the rest of the world recognises the need to make significant and ongoing changes in order to tackle climate change, which will have to ratchet up over the coming years. JGC's managers comment that this regulatory environment should be a catalyst for many companies involved in providing environmental solutions. In addition, companies are increasingly taking environmental measures on the basis of economic rather than regulatory imperatives –

Llewellyn-Waters points to Amazon and Google fitting solar panels to the roofs of their warehouses, in order to secure a sustainable energy supply.

Areas where the team sees opportunities include climate change and water scarcity, both of which are trending up in terms of severity and likelihood on the World Economic Forum's risk map. The North China Plain – which is the source of c 45% of Chinese GDP – faces extreme water scarcity, as a result of which the Chinese government is investing significant sums in water infrastructure, providing opportunities for companies focused on solutions in this area. Pollution in China is another focus, with new legislation that enforces responsibility at a local and individual level. This removal of impunity is leading company managements to invest more in pollution control and water treatment measures, a further source of opportunity for firms active in these areas.

Regarding the outlook for the sector, JGC's managers note that against a backdrop of generally high equity valuations, growth companies that miss earnings estimates are being punished by the market. While equity markets continue to hit new highs, many macro factors remain that could tip investors into a more risk-off mood, such as the fallout of the US presidential election, forthcoming elections in Europe, Brexit negotiations, currency moves and the direction of interest rates. In such an environment, the team is taking a relatively cautious approach, and the trust currently has a small net cash position.

Asset allocation

Investment process: Threefold focus for long-term growth

Over its more than 25-year history, Jupiter's environmental and sustainability investment team has refined its investment focus to concentrate on bottom-up stock selection from three interlinked areas where it believes environmental and economic issues connect: infrastructure, resource efficiency and demographics. JGC's investment strategy is built on the view that environmental solutions businesses will have a deep and lasting impact in these areas.

Although pockets of resistance still exist to the now broad acceptance of the need to tackle the impact of humanity on the environment, green issues have moved from a niche interest to a mainstream global concern over the past three decades. As JGC notes in its recent half-year report, "problems such as energy security, climate change, freshwater scarcity, local pollution and waste are simply not going to go away without concerted action to tackle them on a global scale".

- **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. Global infrastructure spending has been a strong trend in recent years that shows little sign of abating, as developing nations seek to support rapid growth and developed markets look to replace their ageing infrastructure with modern, lower environmental impact solutions.
- **Resource efficiency** overlaps with infrastructure in the areas of grid, carbon, water supply, waste and buildings, and also includes fuel (lessening the polluting impact of combustion engines), water treatment and usage, electricity (more efficient motors and 'smart' meters), metal recovery and recycling, land use and pollution reduction.
- **Demographics** intersects with resource efficiency in the areas of land use and pollution, with infrastructure in the area of transport, and with both for waste management and buildings. It also includes food production, transport operators, agriculture, health and education.

The breadth of issues covered by these three broad themes helps to underline the size of the opportunity set for JGC's managers in terms of companies providing potential solutions. Since the inception of the strategy, the universe of potential investments has expanded from fewer than 100 companies worldwide to c 1,200. The JGC team monitors the universe for potential investments. At the highest level, they are looking for themes, such as the trend towards electric vehicles, which they have been following and investing in for a decade. The managers run regular financial screens, look at market movement trends, assess technology developments, and make use of broker networks, as well as talking regularly to companies. The first step in the investment process is to assess the product or service on offer. The managers say they are looking for technologies, and ultimately for products or services, that have longevity and opportunity. These may be high- or low-tech; one advantage of the team's long track record and technical knowledge is that they have experience in differentiating the advantages of a range of competing technologies. However, Llewellyn-Waters stresses that technologies must be proven before the team will invest, as all portfolio holdings must show strong balance sheets and strong cash flows.

Having identified promising products or services, the next step of the process is to appraise the management of the company. Thomas comments that while there are many great green ideas, there are fewer good investments, and the bridge between the two is the capability and quality of management teams. The JGC team undertakes 300-400 company meetings each year, enabling them to take a view on the style and experience of the management. Experience is a key factor as the companies themselves may be at a relatively early stage of development.

The third level of scrutiny is the financial assessment, looking at a company's capital structure and its ability to generate sustainable profits and return on equity. In terms of capital structure, the JGC team favours companies with good access to capital markets to sustain them through any tough periods, while cash flow capability is assessed over the long term, given that earlier-stage companies tend to have lower free cash flow.

As well as these key company-specific assessments, the managers also analyse end markets and factors such as political risk. They point out that while the phasing out of subsidies for certain green technologies may prove a headwind in the short term (as is the case with solar power in the US at present), in the longer term it is positive as it means companies in the sector will stand or fall on their own merits, and potential investors can adopt a more fundamentally-based approach to analysing them. In other areas such as waste management and water, political risk tends to work in JGC's favour, as the trend is towards tighter regulation and higher environmental standards, benefiting companies providing solutions in these areas. Specific risks, such as a lack of take-up of a particular technology, are also monitored. Further assessments are also made of a company's governance and sustainability factors, as well as detailed valuation work looking at historical and forward measures such as P/E (price/earnings), EV/EBITDA (enterprise value/earnings before interest, tax, depreciation and amortisation), P/S (price/sales) and P/B (price/book value).

New holdings tend to come into the portfolio at less than 1% of the total, with a view to increasing over time. Positions do not normally exceed 5% and may be trimmed if they become too large; for example, AO Smith was top-sliced after strong performance saw it reach c 6% of assets.

Although the JGC team has a watch list of c 350 companies, portfolio turnover is low, with an average holding period of five to six years. Llewellyn-Waters notes that the managers also run a daily screen on 10-20 companies that they feel are highly attractive on all measures other than valuation. This potentially allows the team to buy into these stocks on any dips.

Holdings may be sold if the managers feel valuations have become stretched, if a product or service is no longer viable or competitive, if long-term returns have fallen short of expectations, and potentially in cases of management change. The team may also sell holdings where they see challenging conditions emerging in a particular area of the market, recycling funds into areas where the operating environment is more favourable.

Current portfolio positioning

JGC has a portfolio of c 60 companies, broadly spread by geography and by environmental focus (see Exhibit 1). At 31 December 2016, the top 10 holdings made up 32.9% of the portfolio, compared with 35.5% a year previously. Seven of the top 10 holdings appeared in both periods.

In terms of environmental themes, the largest area currently is energy efficiency, which is distinct from renewable energy and energy infrastructure; JGC's managers note that this area is continuing to trend up over the years. Waste and water treatment are further areas of growth that are linked to the global economic recovery: higher GDP leads to higher consumption and consequently to more waste. Drivers for the portfolio include the modernisation of infrastructure in developed countries and the building of new infrastructure in developing countries, as well as the dynamics of dealing with finite resources and a growing population, which leads to a greater need for resource efficiency in areas such as water, soil, energy and metals.

Within a given theme there may be a wide range of types of holding. For example, Thomas notes that alternative energy holdings encompass anything from a wind turbine manufacturer such as Vestas Wind Systems, to a green utility company such as Innogy, a recent purchase that was spun out of the German company RWE (which owns Npower in the UK).

Geographically, JGC is moving away from a historically Eurocentric focus to be more international, with exposure to the US and Japan having increased over the past 12 months (Exhibit 3). The managers note that they expect the US and Asia to become an increasingly important part of the portfolio, given the large amount of innovation coming out of the US and greater opportunities in Asia. While UK exposure has fallen by 6pp over the 12 months to 31 December, it remains the second-largest area. However, the managers point out that most of the holdings are international earners, with premium pork products firm Cranswick and waste management specialist Augean the only pure domestic plays.

A recent purchase in the transformational area is va-Q-tec, which manufactures highly insulated containers that enable the transport of blood and organs for transplant without refrigeration. Like Innogy, the stock was bought at IPO, although the two stocks are very different in size, with Innogy coming to market at c $20bn compared with less than $100m for va-Q-tec. This illustrates the breadth of the JGC portfolio, which has a median market cap of c $2bn but a mean of nearer $6bn.

The most recent complete sale was Wacker Chemie, a manufacturer of polysilicon for solar panels. The stock was sold after the team's research suggested oversupply in the market ahead of a likely change in Chinese solar subsidies. Other recent activity includes trimming Novozymes, where it was felt that further upside was limited after a period of strong performance, and AO Smith, where the position had become too large.

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

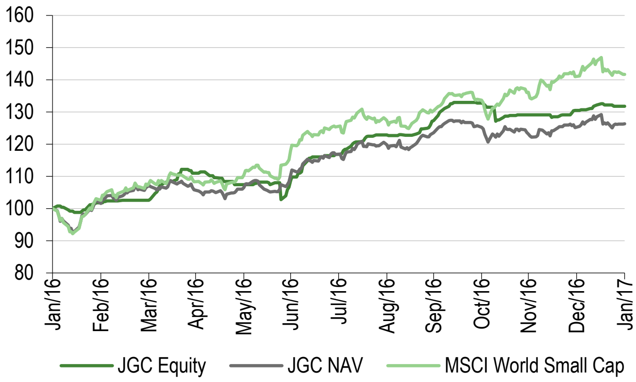
	Portfolio end-December 2016	Portfolio end-December 2015	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
US	39.8	37.0	2.8	58.8	-19.0	0.7
UK	18.2	24.2	-6.0	6.5	11.7	2.8
Japan	12.6	10.7	1.9	11.8	0.9	1.1
Denmark	5.0	6.4	-1.4	N/S	N/A	N/A
Germany	4.1	N/S	N/A	N/S	N/A	N/A
France	4.0	4.3	-0.3	N/S	N/A	N/A
Austria	3.9	2.7	1.2	N/S	N/A	N/A
Norway	3.1	3.1	0.0	N/S	N/A	N/A
Canada	2.2	2.9	-0.7	4.0	-1.8	0.5
Others	5.9	9.0	-3.1	18.8	-12.9	0.3
Cash & gearing	1.1	-0.2	1.3	0.0	1.1	N/A
Total	**100.0**	**100.0**		**100.0**		

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

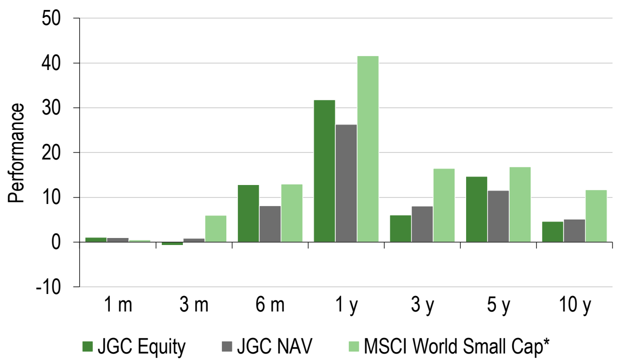
Performance: Positive over almost all periods

Exhibit 4: Investment trust performance to 31 January 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. Note: *Prior to 1 April 2010 JGC had a composite benchmark; see Fund profile on page 3.

JGC has a good record of achieving absolute returns, having produced positive share price and NAV performance (annualised over three years and more) over one and six months and one, three, five and 10 years (Exhibit 4). Over calendar 2016 its sterling total returns (NAV and share price) were c 20%. While this will in part have been boosted by the weakness of sterling (c 80% of portfolio holdings are listed outside the UK, and many of the UK holdings have an international revenue base), in local currency terms the top 10 stocks (see Exhibit 1 on page 2) produced an average return of 23.6% in calendar 2016.

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*	0.6	(6.4)	(0.1)	(6.9)	(24.5)	(8.7)	(44.2)
NAV relative to MSCI World Small Cap*	0.5	(4.9)	(4.3)	(10.8)	(20.1)	(20.5)	(41.4)
Price relative to FTSE ET50	(2.5)	(3.6)	5.4	0.7	(12.9)	6.0	28.3
NAV relative to FTSE ET50	(2.5)	(2.0)	1.0	(3.5)	(7.8)	(7.6)	34.8
Price relative to MSCI World	0.4	(4.0)	1.6	(0.8)	(24.5)	(3.9)	(35.3)
NAV relative to MSCI World	0.4	(2.4)	(2.6)	(4.9)	(20.1)	(16.3)	(32.0)
Price relative to FTSE All-Share	1.4	(3.6)	5.2	9.8	(2.7)	26.3	(8.5)
NAV relative to FTSE All-Share	1.3	(2.0)	0.8	5.2	2.9	10.1	(3.9)

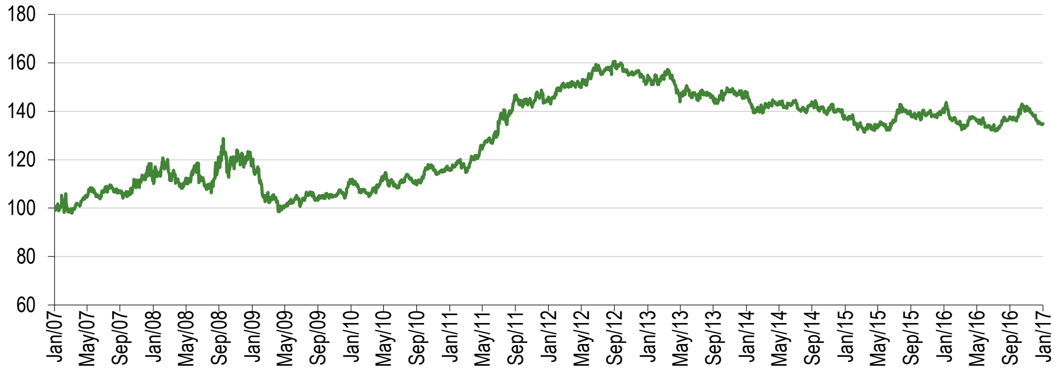
Source: Thomson Datastream, Edison Investment Research. Note: Data to end-January 2017. Geometric calculation. *Prior to 1 April 2010 JGC had a composite benchmark; see Fund profile on page 3.

In relative terms, JGC has underperformed its official benchmark, the MSCI World Small Cap Index, over the majority of periods (Exhibit 5). However, this is an imperfect comparator, owing to its broad market focus compared with JGC's targeted investment strategy, and its high weighting (c 60% versus c 40% for the JGC portfolio) in US stocks, whose performance in sterling terms has been particularly favourable owing to dollar strength. Compared with an index that has a similar investment focus, JGC's relative performance is much better: over many periods shown, the trust's NAV and share price total return has outperformed the FTSE ET50 Index, representing the 50 largest environmental technology-focused stocks globally; again this is a less than ideal comparator given JGC's greater focus on smaller companies. Over the 12 months to 31 December, the FTSE ET50 Index produced a sterling total return of 18.3% and the broader FTSE ET100 Index returned 20.7%. (In US dollar terms the returns were -0.8% and +1.9%, respectively, showing the powerful effect of sterling weakness given c 50% of both indices is made up of US-listed stocks.)

Contributors to JGC's performance in 2016 included local currency returns of 25%+ for several of the top 10 holdings (Emcor, Xylem, Valmont Industries, AO Smith and Wabtec), as well as strong positive returns from some stocks outside the top 10, such as US smart meter specialist Itron (+85.2% in 2016) and German semiconductor giant Infineon Technologies (+32.3%). Holdings in

US solar power names such as SunPower (-75.2%) and First Solar (-51.3%) detracted, as the extension of tax breaks led to projects being delayed. The election of Donald Trump to the US presidency also proved a headwind for long-standing Danish holding Vestas Wind Systems, which gave up the 35% gain it made between June and September to end the year flat (-0.23%) in local currency terms.

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



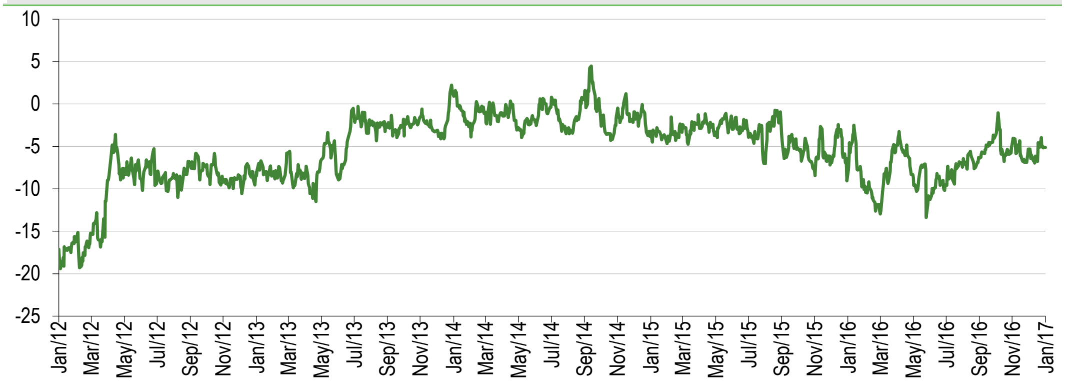
Source: Thomson Datastream, Edison Investment Research

Discount: Active policy aims to keep price close to NAV

At 31 January 2017, JGC's shares traded at a 5.1% discount to cum-income NAV. This compares with averages of 7.1%, 4.1% and 5.4% over one, three and five years. As noted below, the trust has a discount management policy aimed at ensuring the share price does not materially diverge from the NAV in normal market conditions. The current policy was announced in April 2012 when the shares were trading at a discount of c 16% and, as seen in Exhibit 7, had an immediate narrowing effect on the discount even though no repurchases were made until mid-May. Since then discount volatility has reduced substantially and the shares traded at close to par for most of the period from mid-2013 to mid-2015. The volatile market conditions in 2016 saw the discount widen on several occasions, notably in the broad market sell-off in January, the immediate aftermath of the UK's referendum on EU membership in June, and the result of the US presidential election in November. However, while the current level of discount is wider than the average for all investment trusts (3.5% at 31 January), it is in line with the 5.1% average for more generalist global equity trusts.

During 2016, 1.83m shares were bought back at a cost of £2.5m. While investors in the trust may be reassured by the presence of an active policy that aims to keep the share price close to NAV, JGC's board sees strong investment performance as the most important factor in limiting the discount over the longer term.

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



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

JGC is a conventional investment trust with one class of share. As at 20 January 2017 there were 21.1m ordinary shares in issue. At launch the trust issued one warrant for every five shares, with a final exercise date of 31 July 2011. Following the expiry of the warrants, at the 2012 AGM a proposal was approved to grant subscription rights to the shares, allowing shareholders to subscribe for one new share for every 10 shares held at 31 March each year, at a price equal to the audited undiluted NAV per share at the previous year-end. Under this scheme, 1.9m new shares have been issued to date. The 2017 subscription offer will take place on 3 April 2017 for a price of 150.79p, which is 10.5% below the current share price. Following this the exercise price for the 2018 subscription offer will be reset to the level of JGC's NAV on 31 March 2017. Shares acquired through the subscription offer are not subject to stamp duty or brokerage commission.

A share buyback programme is also in place, revised in 2012 with the aim of ensuring that in normal market conditions, the share price does not materially vary from the NAV per share. Since the introduction of the current discount management policy in 2012, 14.2m shares have been bought back at a cost of £18.2m. Repurchased shares are held in treasury and may be reissued as a result of the exercise of subscription rights.

Gearing is available to JGC's managers via a £3m flexible loan with Scotiabank Europe. If the whole loan were drawn it would represent gearing of 8.3%, compared with an upper limit of 25% permitted under JGC's articles of association. So far none of the borrowing has been drawn down since the loan was first arranged in October 2013. This incurs a small non-utilisation fee (£10k in FY16). At 31 December, JGC had a net cash position of 1.1%.

Jupiter Unit Trust Managers (JUTM) is JGC's alternative investment fund manager (AIFM) under the AIFM Directive, with Jupiter Asset Management acting as the investment adviser. JUTM is paid an annual management fee equivalent to 0.85% of net assets (minus any holdings in Jupiter-managed investments), calculated and paid monthly. A performance fee may also be paid if the trust's NAV total return exceeds that of the benchmark MSCI World Small Cap Index over a financial year. The fee is equal to 15% of the NAV per share total return outperformance (based on the time-weighted number of ordinary shares in issue, which takes into account allotments and repurchases), subject to the year-end NAV per share exceeding the highest of three measures: first, the NAV per share at the end of the previous financial year (meaning only positive absolute performance is rewarded); second, the NAV per share at the end of the last financial year in which a performance fee was earned; and third, 100p. (Currently, the 150.79p NAV per share at the end of FY16 is the highest of these three.) There is a 1.75% cap on total fees. The only year in the last five years for which a performance fee was paid was FY14, when a fee of £450,000 was earned, scaled back to £350,000 as a result of the fee cap. Ongoing charges stood at 1.6% at the 30 September 2016 half-year end.

Dividend policy and record

In order to maintain its investment trust status, JGC is not permitted to retain more than 15% of income received in the course of a financial year. As such, its policy is to pay out substantially all its distributable revenues in the form of dividends. A shift at the start of FY11 from charging management expenses entirely to income to a 90%/10% split in favour of capital facilitated the payment of a small dividend. Dividends have been paid each year since FY11, although the level has varied as there is no specific yield target, progressive policy or commitment to regular dividends, given that the trust is primarily a growth portfolio. The trust's articles prohibit the use of proceeds from disposals being used to fund dividends, and all dividends must be fully covered by portfolio income.

Until FY16, distributions had been declared as interim dividends and paid in late July/early August. In FY16, JGC declared a final dividend (requiring approval at the AGM) as a means of giving shareholders the chance to express an opinion on the desirability of dividend payments. The dividend was paid on 30 September 2016.

As the trust invests mainly in small and mid-cap companies and has significant exposure to those involved in developing new technologies, the dividend income is relatively small and the principal objective remains to achieve capital growth. The FY16 dividend of 0.65p per share was 18% higher than the FY15 dividend and represents a yield of 0.4% based on the 20 January 2017 share price.

Peer group comparison

There are six investment companies in the AIC's Sector specialist: Environmental peer group. For the purposes of Exhibit 8 below, we have excluded two very small funds that have assets of less than £10m. Of the remaining peers, two – Impax Environmental Markets (IEM) and Menhaden Capital – follow a similarly broad investment strategy to JGC, while Leaf Clean Energy, as its name suggests, has a narrower focus on renewable energy and associated technologies.

JGC is the smallest of the four peers shown. Its NAV total return performance is ahead of the simple average over one, three and five years, in each case ranking second. Because the first-placed fund, IEM, is several times larger than the others, its performance has skewed the weighted average for the peer group. JGC's risk-adjusted performance as measured by the Sharpe ratio is also above the simple average but below the weighted average over one and three years, again ranking second over both periods. In common with most of the peers, JGC is ungeared. It has the second-highest dividend yield and the second-lowest ongoing charges in the group. It also trades at the lowest discount to NAV, probably partly as a result of its active share buyback policy.

We have also included JGC's open-ended stablemate Jupiter Ecology, the longest-established 'green' fund in the UK, and the average performance of the 87 open-ended specialist environmental funds listed in the Morningstar database. JGC has slightly underperformed the open-ended fund over one year, underperformed by 6.7pp over three years, and outperformed by 4.9pp over five years. The NAV total return for JGC is behind the weighted average for the open-ended funds, albeit only marginally over five years.

Exhibit 8: AIC Sector specialist: Environmental peer group as 31 January 2017

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)	Sharpe 1y (NAV)	Sharpe 3y (NAV)
Jupiter Green IT	**35.4**	**25.9**	**23.8**	**72.3**	**1.6**	**Yes**	**(4.4)**	**100**	**0.4**	**0.8**	**(0.2)**
Impax Environmental Markets	411.8	46.5	54.4	105.9	1.1	No	(11.5)	103	0.7	2.0	0.5
Leaf Clean Energy	47.3	14.2	(16.1)	(30.1)	2.4	No	(44.1)	100	0.0	0.0	(0.6)
Menhaden Capital	48.8	9.5	--	--	2.1	Yes	(30.5)	100	0.0	(0.4)	(2.1)
Weighted average		**39.0**	**45.5**	**90.5**	**1.3**		**(15.6)**	**102**	**0.6**	**1.6**	**0.1**
Simple average	**135.8**	**24.0**	**20.7**	**49.4**	**1.8**		**(22.6)**	**101**	**0.3**	**0.6**	**(0.6)**
JGC rank in sector	**4**	**2**	**2**	**2**	**2**		**1**	**2**	**2**	**2**	**2**
Open-ended funds											
Jupiter Ecology	530.0	27.6	30.5	67.4	1.7	No			0.1	0.8	(0.0)
Sector weighted average		**30.6**	**35.6**	**71.5**	**2.0**				**1.4**	**1.1**	**0.1**

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

JGC has three independent non-executive directors, reduced from five during the year ended 31 March 2016. The chairman, Michael Naylor, has strong credentials as an investor in the sustainable asset class with a private equity focus. As well as JGC, he is a board member of a Toronto-based water technology private equity fund, a New York-based renewable power smart grid specialist and the Cambridge Institute for Sustainability Leadership, and an advisory board member of a London-based private equity fund focusing on energy infrastructure in emerging markets. He joined the JGC board in July 2009 and became chairman in September 2015 following the retirement of founding chairman Perry Crosthwaite. Dame Polly Courtice has been a director since JGC's launch in 2006. She is head of the Cambridge Institute for Sustainability Leadership, academic director of Cambridge University's Masters in Sustainability Leadership and director of the Prince of Wales's Business and the Environment Programme, as well as serving on several corporate advisory panels. The newest director, Simon Baker, was appointed in July 2015. He was formerly the head of Jupiter's green investment department from 1994 until his retirement in 2006, and managed JGC's two predecessor trusts, Jupiter International Green IT and Jupiter Global Green IT, before passing the latter to JGC manager Charlie Thomas in 2003.

Although the board is compact in comparison with most investment trusts, the directors have significant experience in both fund management and the environmental sector, and given the small size of the trust, having fewer directors means a smaller impact from fixed costs.

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