Jupiter UK Growth Investment Trust

Initiation of coverage

Concentrated, high-conviction growth portfolio

Investment trusts

Jupiter UK Growth Trust (JUKG) adopted its new strategy, name and manager in April 2016, having previously been a global portfolio. Manager Steve Davies has built a successful track record on the Jupiter UK Growth unit trust and brings to JUKG the same contrarian, high-conviction, thematic and concentrated approach. Davies invests for capital appreciation in a mix of secular growth (c 65%) and recovery (c 35%) stocks. While tilted to larger companies, most of the biggest FTSE 100 stocks are absent from the portfolio and the unconstrained approach means weightings diverge widely from the FTSE All-Share index benchmark, from a 12.3% overweight in general retailers to zero weights in oil & gas and utilities, as well as c 8% in non-UK stocks. There is a zero-discount management policy and the board views the investment strategy as highly scalable.

12 months ending	Jupiter UK Growth UT	JPG/JUKG Share price (%)	JPG/JUKG NAV (%)	Benchmark* (%)	FTSE All-Share (%)	FTSE World (%)
31/05/12	(7.7)	(11.8)	(7.3)	(7.2)	(8.0)	(5.4)
31/05/13	48.2	36.3	34.0	30.0	30.1	29.4
31/05/14	15.4	18.6	7.3	8.4	8.9	7.0
31/05/15	22.5	10.7	11.6	9.8	7.5	15.8
31/05/16	(12.1)	(7.4)	(8.5)	(3.9)	(6.3)	0.6

Source: Thomson Datastream. Note: Total returns in sterling terms. *Benchmark is 75% FTSE All-Share and 25% FTSE World ex-UK until 17 April 2016, and FTSE All-Share thereafter. JUKG track record is for Jupiter Primadona Growth/Jupiter Global Trust until 18 April 2016.

Investment strategy: Thematic and growth focused

JUKG's manager, Steve Davies, has been running an equivalent unit trust (£1.6bn AUM) since 2009, aiming to achieve mid-cap style returns from a portfolio biased to more liquid large-cap stocks. The JUKG portfolio is concentrated with c 35 holdings chosen for their capital growth potential (a mix of growth and recovery stocks, with up to 20% in overseas companies). Positions are sized based on conviction and holdings broadly fall into one of four themes: UK banks, UK domestic, global brands & travel and 'the connected world'.

Market outlook: Unsettled in the near term

The forthcoming EU referendum has proved a drag on appetite for UK equities so far in 2016, with the FTSE 100 index broadly flat year-to-date. While a vote to remain is likely to spark a broad-based relief rally in the near term, some companies could also benefit from sterling weakness in the event of a leave vote. However, volatility is likely to persist in the short term whatever the outcome, given low trading volumes in the summer and macroeconomic worries in the wider world.

Valuation: At a small premium

At 10 June 2016, JUKG's shares were trading at a 0.9% premium to cum-income NAV. The trust operates an active zero-discount management programme, with the aim of maintaining the share price at close to NAV. While buybacks have reduced the size of the trust in recent years, the board and managers expect that the new strategy will command sufficient interest to be able to grow the trust through new issuance in the future.

15 June 2016

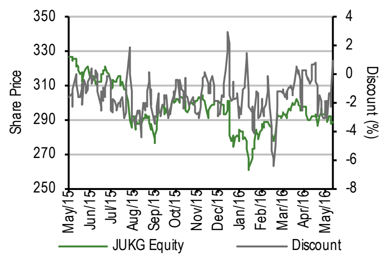
Price	**288.8p**
Market cap	**£42.9m**
AUM	**£51.5m**

NAV*	282.6p
Premium to NAV	2.2%
NAV**	286.2p
Premium to NAV	0.9%

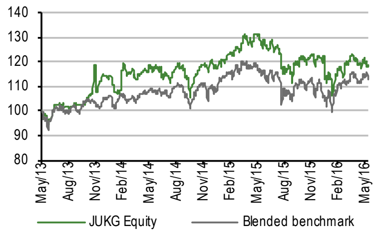
*Excluding income. **Including income. Data at 10 June.

Yield	2.2%
Ordinary shares in issue	14.9m
Code	JUKG
Primary exchange	LSE
AIC sector	UK All Companies

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	321.5p	261.0p
NAV** high/low	326.5p	264.3p

**Including income.

Gearing

Gross*	22.0%
Net cash*	2.9%

*As at 31 May 2016.

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Edison profile page

EDISON

Exhibit 1: Trust at a glance

Investment objective and fund background

Jupiter UK Growth Investment Trust aims to achieve capital appreciation by holding predominantly listed investments. It invests in a concentrated portfolio made up of the manager's best ideas from any sector, with typically a bias towards FTSE 100 stocks. The trust was known as Jupiter Global Trust from November 2015 until April 2016 and was previously Jupiter Primadona Growth Trust. It adopted its new name, fund manager, investment strategy and FTSE All-Share benchmark on 18 April 2016.

Recent developments

- 11 May 2016: Third quarterly dividend of 1.6p declared, payable 16 June.
- 18 April 2016: Change of name and investment policy approved by general meeting; effective immediately.
- 21 March 2016: Jupiter Global Trust half-year results to 31 December 2015. NAV -1.3%, share price -4.5% versus composite benchmark (75% UK/25% World ex-UK) total return of -0.8%. Proposal to change the name, investment policy and fund manager of Jupiter Global Trust.

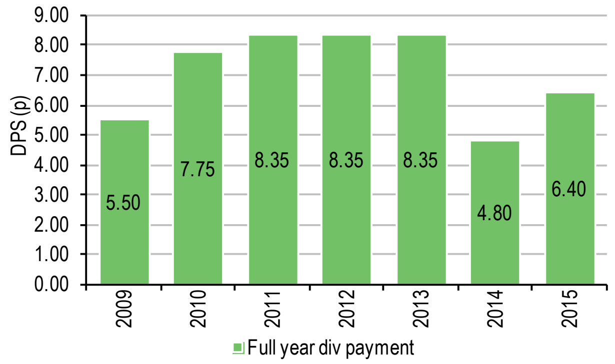
Forthcoming		Capital structure		Fund details	
AGM	November 2016	Ongoing charges	1.54% (30 June 2015)	Group	Jupiter Unit Trust Managers
Final results	September 2016	Net cash	2.9%	Managers	Steve Davies
Year end	30 June	Annual mgmt fee	0.5% (see page 10)	Address	The Zig Zag Building, 70 Victoria St, London SW1E 6SQ
Dividend paid	Quarterly (see below)	Performance fee	Yes (see page 10)		
Launch date	June 1972 (April 2016 for new strategy)	Trust life	Indefinite	Phone	+44 (0) 20 3817 1000
Continuation vote	No	Loan facilities	£10m with Scotiabank	Website	www.jupiteram.com/JUKG

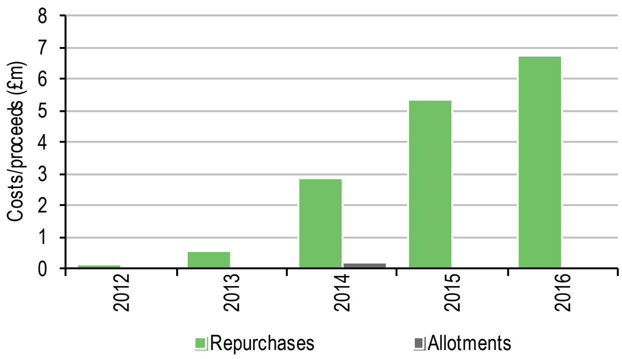
Dividend policy and history

Dividends paid quarterly in December, March, June and September for current financial year (indicated full-year dividend of 6.4p); likely to move to a single annual dividend from FY17. Owing to a change in dividend policy in Q114, only three dividends were paid in FY14.

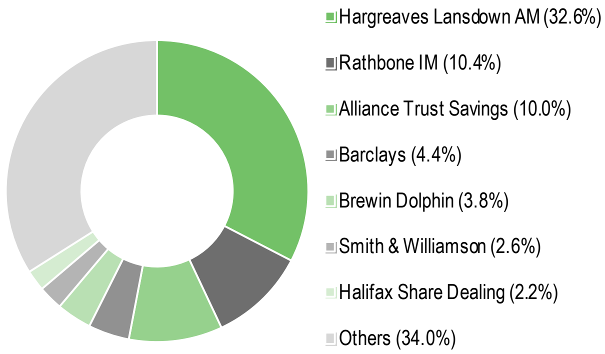
Share buyback policy and history

A nil-discount management policy was adopted in FY14 and has been retained under the new strategy. The board aims to remove discount risk and improve liquidity by maintaining the share price close to par through the use of regular share buybacks or allotments.

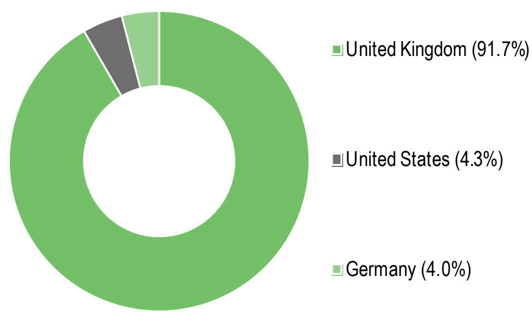




Shareholder base (as at 14 March 2016)



Portfolio exposure by geography, adjusted for cash (as at 31 May 2016)



Top 10 holdings (as at 31 May 2016)

		Portfolio weight %	
Company	**Sector**	**31 May 2016**	**31 May 2015***
Lloyds Banking Group	Banks	7.4	2.8
Dixons Carphone	General retailers	6.1	N/A
Barclays	Banks	5.5	N/A
Legal & General	Life insurance	5.4	N/A
TalkTalk Telecom	Fixed line telecom	4.1	N/A
Experian	Support services	4.0	N/A
WH Smith	General retailers	3.5	N/A
International Consolidated Airlines	Travel & leisure	3.5	N/A
Zoopla	Media	3.1	N/A
Royal Bank of Scotland	Banks	3.1	N/A
Top 10 (% of portfolio)		**45.7**	**44.8**

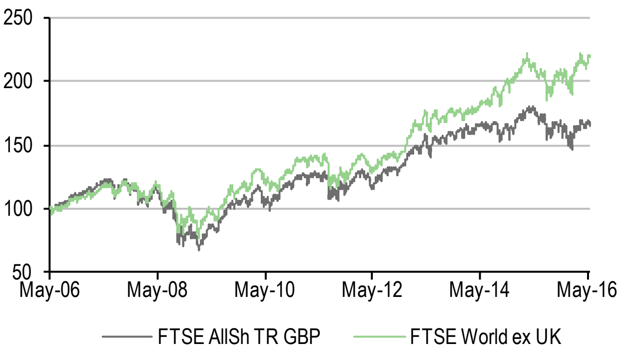
Source: Jupiter UK Growth IT, Edison Investment Research, Morningstar, Bloomberg. Note: *N/A where not in May 2015 top 10.

Market outlook: Near-term volatility likely

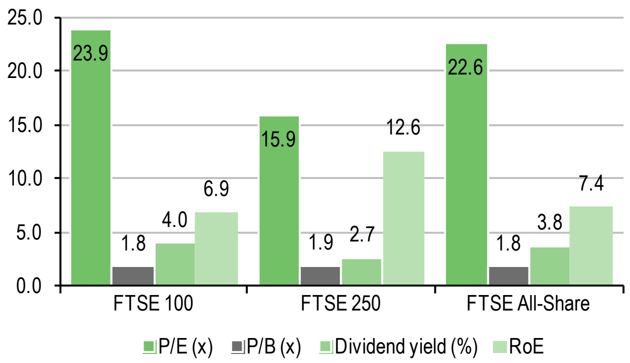
With all eyes on Britain's referendum on EU membership on 23 June, UK stocks have struggled to advance in recent months, exacerbating a gap versus the rest of the world that has opened up over the past two years (Exhibit 2, left-hand chart). However, the UK stock market contains a multitude of companies with differing competitive dynamics, with some that would be boosted by the likely weakness of sterling should the 'leave' vote prevail, while others would benefit from maintaining the status quo, with a 'relief rally' possible across the board if (as widely expected by bookmakers, if not by the opinion polls) the vote is in favour of 'remain'. Set against this are the wider economic and geopolitical worries that have weighed on world equities so far in 2016, and the fact that trading volumes are generally lower in the summer, which suggests that volatility may be higher in the near term.

Exhibit 2: Market valuation and performance

UK and rest of the world equity markets over 10 years



Valuation metrics for FTSE All-Share and component indices



Source: Thomson Datastream, FTSE Russell, Edison Investment Research. Note: Index valuations at 31 May.

Meanwhile, valuations on larger UK companies (Exhibit 2, right-hand chart) arguably look less than compelling, with the FTSE 100 index on an average trailing P/E multiple of 23.9x at 31 May. What is important to remember here, however, is that an average does not paint the whole picture, and while the in-demand 'bond proxies' such as FTSE 100 consumer goods companies traded on an average 5.9x book value, the less-favoured financials in the blue-chip index were on 14.7x P/E and a price/book valuation of 0.9x at 31 May. This underlines the value of a selective and perhaps contrarian approach to identify stocks with the optimum combination of value and growth potential.

Fund profile: New strategy, manager and name

Jupiter UK Growth Investment Trust (JUKG) was formerly Jupiter Primadona Growth Trust (JPG, renamed Jupiter Global Trust between November 2015 to April 2016). Originally launched in 1972, in April 2016 it moved from a combination of UK equities and global funds to a concentrated, mainly UK equity portfolio that mirrors the £1.6bn Jupiter UK Growth unit trust. Both portfolios are managed by Steve Davies, fund management director and head of strategy for UK Growth at Jupiter Asset Management.

The trust invests in a concentrated portfolio of c 35 mainly large-cap stocks, chosen for their capital growth potential based on extensive analysis and modelling by the fund manager. Stocks are broadly split between those with secular growth potential (c 65%) and recovery situations (c 35%). It is a high conviction approach, leading to a portfolio that diverges significantly from the FTSE All-Share index benchmark. As a differentiator from the unit trust, JUKG may use gearing of up to 20% of net assets, and may also use derivatives. Both funds can hold up to 20% (currently less than

10%) in non-UK stocks. A zero-discount management policy was adopted by JPG in February 2014 and remains in place under the new strategy.

The fund manager: Steve Davies

The manager's view: Cast net widely for compelling ideas

Manager Steve Davies outlines several bold decisions he has made for the Jupiter UK Growth unit trust portfolio, from initiating positions in overseas stocks in 2010, largely as a way of tapping into growth in emerging market consumers, to completely selling out of mining in 2011 after a research trip to China showed evidence of slowing infrastructure spending, and exiting his last oil holding in 2013 on the back of detailed supply and demand analysis. On an individual stock basis, he owns just one of the top 10 stocks in the FTSE 100 (Lloyds Banking Group), eschewing such household names as HSBC, Shell, BP, Vodafone, GlaxoSmithKline and AstraZeneca.

Davies's former boss Ian McVeigh, lead manager of the Jupiter UK Growth fund until 2013, now heads Jupiter's corporate governance function, which is an important input to the process. Davies says that governance concerns led him to avoid Tesco long before its operational problems came to light, while on the other hand, discussions with the CEO of Manchester United made him comfortable enough to take a position in the football club in spite of its majority ownership by the Glazer family. The manager has also engaged positively with ITV, encouraging the broadcaster not to go ahead with a rights issue in the depths of the financial crisis; Davies and McVeigh had seen early signs of recovery at the company, which remains in the UK growth portfolio today.

Davies casts his net widely in search of themes and stock ideas, drawing on sell-side analyst research and travelling extensively (including an annual trip to China). Sometimes ideas come from unusual sources: the manager first read about the trust's one mining stock, Sirius Minerals, in a newspaper. While in the long term Davies is negative on the mining sector, Sirius is an atypical example: it owns a fertiliser mine under the North Yorkshire Moors, so is more geared to advances in food and farming than to how many new tier 4 cities are being built in China. Starting as an initial 0.5% position in the unit trust, Sirius is now c 2% in both the unit trust and investment trust, driven partly by further purchasing and partly by strong performance. Having secured planning permission in 2015, the company is likely to seek a further fundraising, in which JUKG would participate. Sirius is currently a small stock with a market cap of c £400m, but Davies says "there is a very big prize at the end" if it successfully reaches operation.

The manager views the JUKG strategy as eminently scalable given its high weighting (typically two-thirds to three-quarters) in FTSE 100 stocks. He describes the approach as one that aims to achieve mid-cap returns with large-cap liquidity. At present he sees the greatest capital appreciation potential from recovery stocks, although the average upside to two-year target prices across the portfolio is 60%, suggesting strong performance is possible if investment cases play out as forecast.

Asset allocation

Investment process: High-conviction, analytical approach

Davies's background is as a sell-side analyst and he initially joined Jupiter as an analyst in 2007. As such, the manager sees detailed analysis of potential holdings and the competitive environment as fundamental to the JUKG investment process. This includes extensive field research in areas that might not seem immediately obvious for a UK equity fund manager, such as annual visits to China and a recent trip to a shale oil/gas producers' conference in Texas, as well as staying in touch with the sell-side community as a potential source of ideas. While Davies is the sole manager on JUKG, the environment at Jupiter is collegiate and the manager is able to bounce ideas off team members, including global equity and bond managers as well as those in the UK equity team. Up to 20% of the portfolio may be held in overseas stocks.

JUKG's portfolio is largely analogous with that of the Jupiter UK Growth unit trust, a concentrated fund with very low turnover (almost one-third of the 30-35 holdings have been in the portfolio at least since Davies joined the firm). At any one time he will have 10-12 companies on a reserve list for potential inclusion.

The portfolio is built from the bottom up, although Davies has a set of themes (see Current portfolio positioning) into which the majority of the stocks fit, and blends recovery and growth stocks, currently one-third and two-thirds of the portfolio respectively. The manager seeks capital growth from both types of stock, but has a distinct approach to assessing each type. Positions are sized based on conviction, with the top five holdings alone making up more than a quarter of the portfolio at 31 May.

Recovery stocks

With recovery stocks, Davies seeks situations where the potential reward outweighs the likely risk. Where a company has seen a sharp fall in profits and/or share price, the manager looks for a catalyst for recovery, such as a change in management or strategy, or an industry restructuring that takes capacity out of the market. (Dixons, still in the portfolio as Dixons Carphone, is an example of this, purchased for the unit trust in 2011 at a time when Davies saw the likelihood of main competitor Comet going into administration.) Cyclical recovery is another area of focus, with banks currently being the principal example.

With both recovery and growth stocks, valuation is a key factor. In the recovery 'bucket', potential holdings should have substantial price upside (at least 50% on a two-year view) and will normally have a forward P/E ratio of less than 10x at purchase, with a free cash flow yield of more than 10%. Financial stocks are usually valued on a price/book basis, with less than 1x P/B seen as potentially attractive. Davies models profit forecasts for all current and potential holdings, and looks for situations where there is substantial divergence between his projections and consensus forecasts.

Growth stocks

For growth stocks, Davies runs a monthly screen to identify companies with at least 5-6% top-line sales growth, 7-10% profits growth and a free cash flow yield of 5% or more, leading to total annual shareholder returns of 12-15%. The screen might yield a list of 15-20 names, from which Davies will usually discard those that do not fit within a portfolio theme. Potential holdings in the growth 'bucket' should have long-term sustainable growth characteristics, and sufficiently predictable revenues for Davies to be able to build detailed financial models. He prefers to avoid areas such as business services (Capita, G4S and others) that are hard to forecast because of their reliance on external contracts. As with recovery stocks, valuation is important, and while growth stocks are unlikely to be trading on the sub-10x P/E multiples Davies seeks in the recovery area, he notes that it is possible to find sustainable growth on low-teens forward P/Es. An example is auto retailer Inchcape, bought on 12x P/E as a replacement for Burberry, sold on 20x P/E, with both stocks providing exposure to the Asian consumer. The above criteria narrow down the output from the screens to one or two companies per month that Davies deems worthy of further investigation.

For both types of stock, meeting management is a key part of assessing a potential investment, and Davies will usually meet with a company before undertaking detailed modelling work. With governance and sustainability forming a key part of Jupiter's house style, Davies also meets with the chairmen and non-executive directors of investee companies at least once a year, a discipline he says gives him additional insights that he might not get from a CEO or finance director.

Every stock in the portfolio has a target price on a two-year view, worked out with a consistent methodology across stocks and sectors. When the share price reaches the target, Davies will make a further assessment and may revise the target higher if he sees continued growth, or exit the position completely. In selected cases, such as if there is potential for M&A activity, the manager may hold on to a position that might otherwise have been sold. Davies describes himself as a patient investor and will not necessarily sell a stock if it has not reached the target price within two years: an example is Lloyds Banking Group, where the manager's recovery forecasts for the business proved accurate save for the longer-than-expected drain from PPI claims. However, where a recovery does not occur or growth does not materialise, Davies may exit a position, such as with Pearson, which was bought as a growth stock but came under pressure from providers of free education resources in the US, leading to earnings forecasts being missed.

In the unit trust, Davies has taken an active approach to managing cash as a means of risk reduction; the ability to gear up to 20% with JUKG gives him a further tool as a means of expressing market views. The investment trust also offers the ability to use derivatives, limited to 10% maximum exposure. Davies says he is likely to use this for specific alpha shorting opportunities, rather than for portfolio management purposes (other managers may write call options to boost portfolio income, or put options as a way of buying favoured stocks when prices fall). Shorting offers an extension to the high-conviction approach of JUKG, with the manager already being happy to have a zero weighting in big index sectors (oil and gas is a current example) where he sees the outlook as negative.

Current portfolio positioning

At 31 May 2016 there were 39 equity holdings in the JUKG portfolio. This is a much shorter stock list than the weighted average figure of 120 for the AIC's UK All Companies sector; although this is skewed by the presence of a FTSE All-Share index tracker, even excluding this fund the weighted average is 87. The JUKG portfolio is also more concentrated in its top 10 holdings, which make up 45.7% of the portfolio, compared with a weighted average for the peer group of 33%.

Manager Steve Davies has a bias towards larger companies, which currently make up more than 60% of the portfolio, with most of the remainder in mid-cap stocks. Overseas stocks made up 8% of the total, split between the US (mainly Apple) and Germany (BMW and Adidas).

Exhibit 3: Portfolio sector exposure vs FTSE All-Share index (% unless stated)

	Portfolio end May 2016	Index weight	Active weight vs index (% pts)	Trust weight/ index weight (x)
Banks	16.2	9.4	6.8	1.7
General retailers	14.8	2.5	12.3	5.8
Travel & leisure	11.5	4.7	6.8	2.4
Support services	9.5	5.4	4.1	1.7
Media	8.0	4.0	4.1	2.0
Life insurance	5.4	4.5	0.9	1.2
Fixed line telecoms	5.2	2.0	3.2	2.7
Tech hardware & equipment	2.8	0.8	2.0	3.5
Financial services	2.8	2.7	0.1	1.0
Other	20.9	64.0	-43.1	0.3
Cash	2.9	0.0	2.9	N/A
	100.0	**100.0**		

Source: Jupiter UK Growth Investment Trust, Edison Investment Research

Industry weightings (Exhibit 3) are largely an output of the broad themes within which the manager selects stocks. The main recovery theme is **UK banks**, driving the largest single sector exposure. Lloyds, Barclays and Royal Bank of Scotland were all among the top 10 holdings at 31 May. The banks are recapitalised following the financial crisis yet remain unloved and very cheap, particularly Barclays and RBS, which are less far along the recovery path than Lloyds, and trade on price/book valuations of c 0.6x. While PPI mis-selling refunds have been a long-standing drag on balance sheets, the expected 2018 time bar on claims should provide a future boost to earnings.

Growth themes are split between cyclical and structural. The main cyclical theme is **UK domestic** stocks, which includes the aforementioned Inchcape and Dixons Carphone, as well as stocks geared to the housing market, such as housebuilder Taylor Wimpey, estate agent Countrywide and property portal Zoopla, builders' merchant Howdens and furniture retailer DFS. The domestic theme has been present in the unit trust portfolio since 2012 and Davies says there will come a time when it begins to slow, although it could receive a boost if the UK votes to remain in the EU at the referendum on 23 June.

Global brands & travel is mainly a structural growth theme, driven in part by the growing middle class in emerging markets and the rapid growth in Chinese tourism. This theme supports the large overweight in travel and leisure: International Airlines Group, the owner of British Airways, is in the top 10, while Thomas Cook (bought as a recovery stock) is just outside. Merlin Entertainment, which operates Legoland and Madame Tussauds, is rapidly expanding into overseas locations, with theme parks due to open in Dubai, Japan and Korea over the next two years. Davies bought the stock when its valuation fell back following an accident at its Alton Towers theme park in 2015, in which several people were badly injured. Travel is also a theme underlying some of the overweight exposure to general retailers, with WHSmith a top 10 holding partly on the strength of its commanding position in UK airports.

The final main growth theme, **'the connected world'**, includes several stocks that also appear under other themes. More than simply a tech/telecom idea, the overarching theme is split into four sub-themes: devices, connection, content and data and e-commerce. Apple is central to the devices theme, with Dixons Carphone included as a leading handset retailer. TalkTalk is the largest exposure in the 'connection' theme, which includes mobile/satellite data and broadband providers fulfilling the appetite for connectivity. The content and data area features established media channels such as ITV and Sky alongside digital-first platforms such as Zoopla and credit scoring agency Experian, as well as Apple itself, which has recognised that in a market of increasing device penetration, in the future content is likely to be king. Also, there is a position in Manchester United, whose global fanbase (it has 69 million 'likes' on Facebook) would fill its Old Trafford stadium a thousand times over. The e-commerce area covers many stocks included under other themes, such as Lloyds, Dixons, Adidas and Thomas Cook.

Stocks may be included even if they do not fit within a theme; an example is Legal & General, which makes up the whole of the weighting in life insurance. Davies likes the company for its yield and dividend growth, a rare combination at the top end of the FTSE 100, where dividend cover is under pressure across a number of sectors.

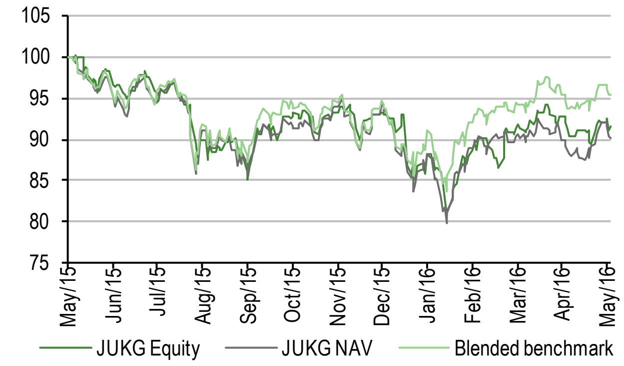
A further manifestation of the high-conviction approach is the manager's willingness to have little or nothing in certain sectors: currently the zero weightings in oil & gas and utilities, and very small exposures in healthcare and materials, add up to a c 25% underweight versus the FTSE All-Share. The avoidance of commodity stocks (with the exception of Sirius Minerals – see The manager's view) is a theme in itself. Based partly on extensive conversations with US shale oil producers, Davies expects oil prices to be 'lower for longer', noting that the majority of these companies can survive with oil at $40 and would be able to ramp up production at $50. In contrast, he says that oil majors such as BP and Shell are priced for $60 oil, which has negative implications for their cash flows and dividends in the near term.

Performance: Potential for more differentiated returns

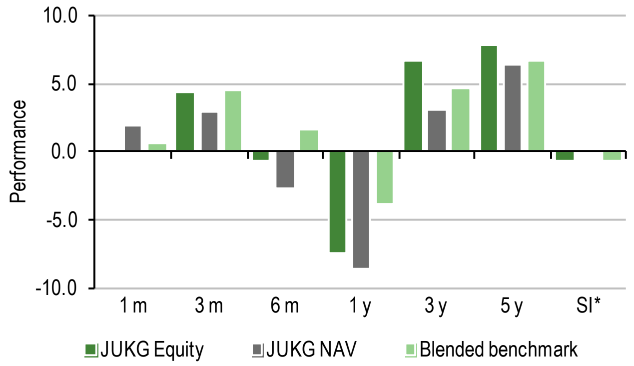
JUKG's new investment mandate and benchmark means an analysis of historical performance is of limited relevance to assessing its future prospects. The exhibits below use a blended benchmark, made up of 75% FTSE All-Share and 25% FTSE World ex-UK until the new strategy was officially adopted on 18 April 2016 (with the portfolio rebalancing effective largely from that date), and 100% FTSE All-Share thereafter. The one-month and since inception figures in Exhibits 4 and 5 are the only ones that fully reflect the new approach, and it is encouraging to note that over this short period, JUKG's NAV total return performance has been ahead of its benchmark, and also ahead of the FTSE World index. As shown in Exhibit 6, performance relative to the benchmark had been broadly positive but unremarkable under the old strategy over the past five years. With a concentrated portfolio that differs significantly from benchmark weightings, combined with the active use of gearing, the new JUKG strategy offers the potential to achieve more differentiated future performance versus the FTSE All-Share.

Exhibit 4: Investment trust performance to 31 May 2016

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



Price, NAV and benchmark total return performance (%)



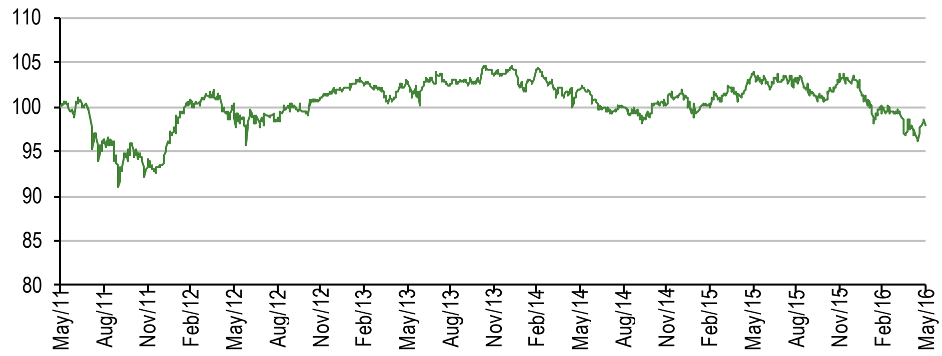
Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. Note: Blended benchmark is 75% FTSE All-Share and 25% FTSE World ex-UK until 17 April 2016 and FTSE All-Share thereafter. *SI = since JUKG strategy inception, 18 April 2016.

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

	One month	Three months	Six months	One year	Three years	Five years	SI*
Price relative to Blended benchmark	(0.8)	(0.1)	(2.3)	(3.7)	6.2	5.6	0.0
NAV relative to Blended benchmark	1.2	(1.5)	(4.3)	(4.8)	(4.3)	(1.5)	0.8
Price relative to FTSE All-Share	(0.8)	0.6	(0.9)	(1.2)	10.8	11.2	0.0
NAV relative to FTSE All-Share	1.2	(0.9)	(2.9)	(2.4)	(0.1)	3.7	0.8
Price relative to FTSE World	(1.1)	(0.3)	(4.5)	(8.0)	(2.6)	(4.3)	1.1
NAV relative to FTSE World	0.9	(1.7)	(6.4)	(9.1)	(12.1)	(10.8)	1.9

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2016. Geometric calculation.

Exhibit 6: NAV performance relative to blended benchmark over five years



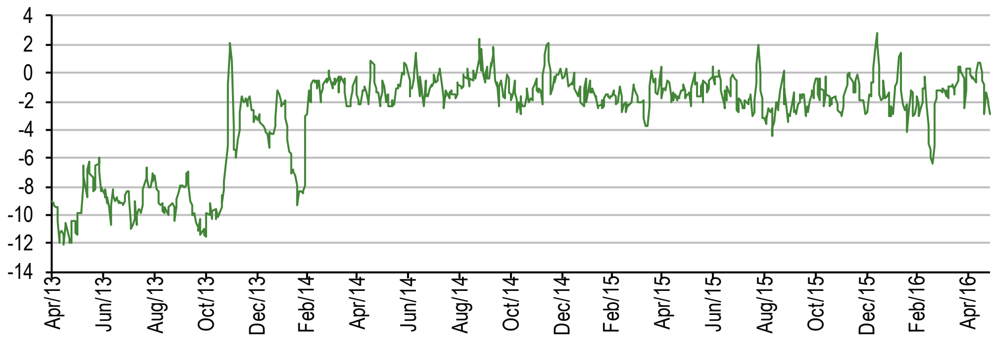
Source: Thomson Datastream, Edison Investment Research

Discount: Kept in tight range by active buyback policy

Exhibit 7 below shows the immediate impact of the zero-discount management policy introduced by JPG in February 2014, which has kept the shares trading largely in a range from a 2% discount to a 2% premium. The discount to cum-income NAV now averages 1.5% over one year, 2.7% over three years and 4.9% over five years. At 10 June, JUKG's shares were trading at a 0.9% premium to cum-income NAV.

The board will buy back or issue shares to keep JUKG's discount or premium close to zero. This commitment has been adhered to throughout the restructuring process, and since the proposal was published to transform JPG into JUKG, 728k shares have been bought back at a cost of £2.13m. In time, the board hopes that the broader appeal of the focused UK equity strategy will lead to natural demand for the shares, thus keeping the discount to a minimum without the need for a high level of repurchase activity.

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



Source: Thomson Datastream, Edison Investment Research.

Capital structure and fees

JUKG is a conventional investment trust with one class of share. As Jupiter Primadona Growth Trust it underwent a five-for-one stock split in November 2013, and at 2 June 2016 there were 14.9m ordinary shares in issue. The nil-discount management policy adopted in February 2014 means the trust has been active in buying back its shares, with 5m shares repurchased under the policy to date. So far in FY16, 2.3m shares have been bought back at a cost of £6.8m. While the board remains committed to the nil-discount policy, one of the aims of the adoption of the new investment strategy is to make JUKG more attractive to a wider range of buyers; if successful in this regard then increased demand for the shares should naturally keep the share price closer to par.

The trust has a £10m borrowing facility with Scotiabank, £9.5m of which was drawn down at 31 May 2016, equating to gross gearing of 22%. The manager can deploy the gearing in a range of 10% net cash to 20% net geared. While Davies's Jupiter UK Growth unit trust does not have the ability to gear, the manager takes an active approach to the use of cash, running with high levels of liquidity in times such as the onset of the global financial crisis in 2008, and the Arab Spring of 2011. The board of JUKG sees the ability to gear as well as to manage cash as a clear differentiator for the trust. However, in this transitional phase for the portfolio, there is currently a small net cash balance of 2.9% (as at 31 May).

Jupiter Unit Trust Managers (JUTM) is JUKG's Alternative Investment Fund Manager (AIFM) under the AIFM Directive, with Jupiter Asset Management acting as investment adviser. Previously JUTM was paid an annual management fee of 0.8% of total assets for JPG, but this has been revised as part of the change to the new mandate. Under the new agreement, JUTM receives 0.5% of adjusted net assets up to £150m, reducing to 0.45% between £150m and £250m, and 0.4% thereafter. This is designed to make the trust more competitive with peers, both open and closed-ended. The performance fee arrangements have also been revised (previously 15% of outperformance of the composite benchmark, with a high water mark). A new 2% hurdle over the FTSE All-Share index total return has been put in place, above which JUKG may earn a performance fee of 15% of outperformance. The high water mark will also be reset to a level equivalent to JUKG's NAV per share at the 30 June 2016 year-end. This will set an absolute floor below which no performance fee may be earned, and the intention is that it will be revised upwards each time a performance fee is paid.

Total fees (management plus performance fees) are now capped at 2% of year-end adjusted net assets in any financial year (previously 4.99%).

Dividend policy and record

JUKG has historically (since FY14, previously twice yearly) paid quarterly dividends, and will continue to do so until the end of the current financial year (ending 30 June 2016). Dividends are paid in December, March, June and September and for FY15 amounted to 6.4p per share, a level the board has indicated is likely to be maintained for FY16. Based on the 10 June share price of 288.8p, this equates to a dividend yield of 2.2%.

Under the new strategy, JUKG will have more of a focus on capital growth, and it is the board's intention that from the 2017 financial year (beginning on 1 July), there will be a single annual dividend. This is likely to be at a lower level; the board reports that the Jupiter UK Growth unit trust has a yield of 1.5% (based on its institutional income share class).

Peer group comparison

JUKG is a member of the Association of Investment Companies' UK All Companies sector, having moved from the Global sector when it adopted its new investment approach. However, given the switch only occurred in April 2016, it is important to note that the majority of the performance data for JUKG in Exhibit 8 below reflects its old, global mandate. With this in mind, we have also included data for the Jupiter UK Growth unit trust, which is in most respects similar to JUKG under its new strategy, although again the comparison is imperfect because of JUKG's ability to gear.

In performance terms, both JUKG and the unit trust are behind the weighted average NAV total return for the sector over one, three and five years. Because the largest trust (Mercantile) is a mid-cap and smaller company specialist, however, this has skewed the weighted average, given the strong performance of UK mid-caps in recent years. Jupiter UK Growth UT's NAV total return is in line with the simple average over three years and well ahead of the five-year simple average of 45.5%. In terms of risk-adjusted performance as measured by the Sharpe ratio, the unit trust is behind the weighted average over one year but ahead over three years.

JUKG currently has an above-median dividend yield, although this is likely to fall to a level more in line with the unit trust. Thanks to the trust's nil-discount management policy its discount is at the smaller end for the peer group. Because of a relatively high cash balance offsetting the 22% gross gearing, JUKG is effectively ungeared, a position it shares with half of its peers. Ongoing charges are somewhat above average but are set to fall following the cut in the base management fee (see above). Unusually, three-quarters of the trusts in the peer group levy a performance fee; JUKG is one of the 12 (out of 18) to do so.

Exhibit 8: UK All Companies investment trusts as at 13 June 2016

% unless stated	Market cap £m	TR 1 Year	TR 3 Year	TR 5 Year	Ongoing Charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)	Sharpe 1y (NAV)	Sharpe 3y (NAV)
Jupiter UK Growth	**42.0**	**(12.1)**	**8.8**	**31.0**	**1.5**	**Yes**	**2.2**	**100.0**	**2.3**	**(0.8)**	**0.3**
Jupiter UK Growth fund	**1,615.5**	**(16.7)**	**19.7**	**60.1**	**1.8**	**No**	**N/A**	**N/A**	**0.8**	**(1.2)**	**0.5**
Aberdeen UK Tracker	281.0	(7.1)	9.8	28.8	0.3	No	(6.3)	100.0	3.9	(0.6)	0.2
Artemis Alpha Trust	95.2	(11.1)	0.3	(2.9)	1.0	Yes	(23.1)	104.0	2.2	(1.7)	(0.2)
Aurora	31.7	(10.3)	2.3	(33.7)	2.3	Yes	7.1	100.0	2.3	(0.7)	0.1
Crystal Amber	158.2	2.4	27.3	56.8	2.1	Yes	0.5	100.0	1.6	(0.1)	0.5
Damille Investments II	41.6	(10.8)	(6.5)	--	2.3	Yes	(10.1)	100.0	--	(1.8)	(0.6)
Fidelity Special Values	505.4	(3.0)	31.8	77.1	1.1	No	(6.5)	122.0	1.8	(0.4)	0.7
Henderson Opportunities	65.2	(13.6)	32.5	66.5	1.0	Yes	(12.6)	118.0	1.7	(1.4)	0.7
Invesco Perp Select UK Equity	63.9	(1.5)	36.2	88.6	1.0	Yes	1.4	112.0	3.9	(0.3)	0.8
JPMorgan Mid Cap	225.1	(0.2)	53.9	110.8	1.0	No	(2.5)	100.0	2.6	(0.1)	1.0
Keystone	217.3	(4.4)	25.3	64.2	0.9	Yes	(10.2)	108.0	3.9	(0.6)	0.6
Manchester & London	51.7	5.6	(1.9)	(19.0)	0.8	No	(21.7)	101.0	1.6	0.1	(0.1)
Mercantile	1,518.2	(0.3)	40.6	78.6	0.5	No	(14.2)	101.0	2.9	(0.1)	0.9
Sanditon Investment Trust	53.9	(1.0)	--	--	1.2	Yes	6.0	100.0	--	(0.5)	(0.5)
Schroder UK Growth	233.1	(6.7)	5.1	37.4	0.5	No	(10.9)	100.0	4.1	(0.6)	0.1
Schroder UK Mid Cap	151.8	(4.9)	30.5	74.5	1.0	Yes	(14.7)	100.0	2.2	(0.6)	0.7
Threadneedle UK Select Trust	36.8	(4.7)	20.1	23.5	1.7	Yes	(8.6)	102.0	2.7	(0.5)	0.4
Woodford Patient Capital Trust	781.1	(8.9)	--	--		Yes	0.5	100.0	--	(1.6)	(0.8)
Sector weighted average (ITs)		**(3.8)**	**30.5**	**66.4**	**0.8**		**(8.3)**	**103.7**	**2.8**	**(0.6)**	**0.4**
JUKG rank in sector	**15**	**17**	**11**	**10**	**5**		**3**	**9**	**9**	**14**	**10**

Source: Morningstar, Edison Investment Research. Note: TR=NAV 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

JUKG has four independent non-executive directors; the board remains unchanged from that of Jupiter Global Trust and Jupiter Primadona Growth Trust. Chairman Tom Bartlam was appointed to the board in 2013. He is a co-founder and former managing director of Intermediate Capital Group, a specialist asset manager. Lorna Tilbian, the longest-serving director, joined the board in 2001. She is an executive director of institutional stockbroker and corporate advisory group Numis Corporation. Jonathan Davis, a financial journalist, writer and investment professional, became a director in 2011, while Graham Fuller, a former pension fund manager and a founding partner of PSigma Asset Management, was appointed in 2013.

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