Jupiter UK Growth Investment Trust

Concentrated UK growth portfolio

Investment trusts

Jupiter UK Growth Investment Trust (JUKG) aims to deliver long-term capital growth from investing predominantly in UK equities. Its approach is bottom-up, long-term and contrarian, with relatively few constraints against the benchmark. The result is a concentrated portfolio of c 35 high-conviction stocks that is significantly different from the index. JUKG is notably overweight UK domestically-focused companies and holds no stocks in the oil & gas and utilities sectors. JUKG's manager believes there are many mispriced opportunities in the current uncertain macro environment, which is well-suited to his contrarian style.

12 months ending	JUKG* share price (%)	JUKG* NAV (%)	Blended benchmark^ (%)	FTSE All-Share (%)	FTSE All-World (%)
30/09/13	24.8	22.6	19.1	18.9	19.0
30/09/14	11.9	4.0	7.7	6.1	11.9
30/09/15	(1.1)	0.6	(1.3)	(2.3)	0.8
30/09/16	6.6	3.8	19.4	16.8	31.2
30/09/17	12.0	10.6	11.9	11.9	15.4

Source: Thomson Datastream, Jupiter UK Growth Trust. Note: All % on a total return basis in GBP. *JUKG track record is for Jupiter Primadona Growth (JPG)/Jupiter Global Trust until 18 April 2016. ^Blended benchmark is 75% FTSE All-Share and 25% FTSE World ex-UK until 17 April 2016, and FTSE All-Share thereafter.

Investment strategy: Bottom-up, high-conviction

JUKG focuses on long-term capital growth through investing in predominantly UK-listed growth stocks. With c 35 holdings and few constraints against the benchmark, bottom-up stock-picking drives portfolio construction. The fund is a blend of 'recovery' stocks, which are value oriented and well-placed to benefit from a specific catalyst, and 'growth' stocks that have free cash flow visibility, yet still trade on reasonable valuations. Corporate governance is a key part of the investment process and JUKG's relatively small number of holdings affords capacity to engage with boards as well as senior executives.

Market outlook: Opportunities for contrarians

Most conventional asset classes are now at stretched valuations; however, UK domestically-focused stocks have remained firmly out of favour since the Brexit vote in June 2016. Fund allocations to this segment of the market are at decade lows and valuations are at a deep discount relative to the FTSE All-Share index. Expectations for Brexit outcomes appear excessively low, thus presenting good opportunities for a contrarian investor should negotiations make progress, and sentiment improve for the domestic UK economy.

Valuation: Consistently close to NAV

JUKG trades at a narrow 2.9% discount to cum-income NAV and consistently trades close to its NAV due to a nil-discount management policy, which has been in effect since 2014. The trust has an above peer group average dividend yield, currently 2.1%.

13 October 2017

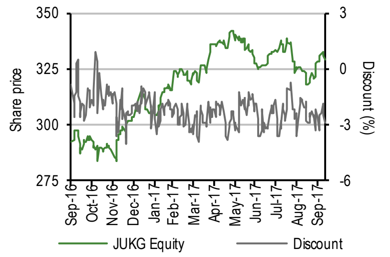
Price	**329.4p**
Market cap	**£44m**
AUM	**£52.9m**

NAV*	326.8p
Premium to NAV	0.8%
NAV**	339.2p
Discount to NAV	2.9%

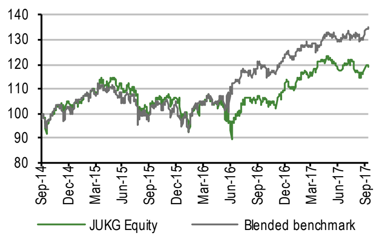
*Excluding income. **Including income. As at 11 October 2017.

Yield	2.1%
Ordinary shares in issue	13.2m
Code	JUKG
Primary exchange	LSE
AIC sector	UK All Companies
Benchmark	FTSE All-Share

Share price/discount performance



Three-year performance vs index



52-week high/low	342.5p	283.8p
NAV** high/low	352.0p	286.1p

**Including income.

Gearing

Gross*	21.1%
Net*	6.4%

*As at 31 August 2017.

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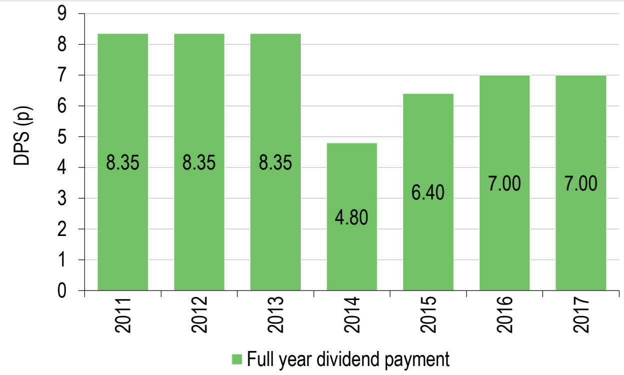
Jupiter UK Growth Investment Trust is a research client of Edison Investment Research Limited

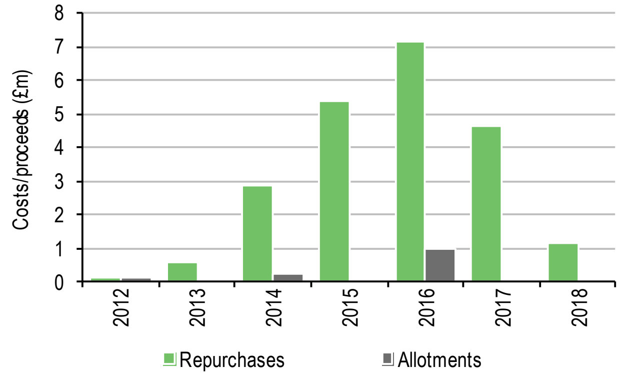
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Jupiter 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.	■ 20 September 2017: Annual report for 12 months ending 30 June 2017. NAV TR +26.7% versus benchmark FTSE All-Share index TR +18.1%. Share price TR +25.5%. ■ 20 September 2017: Declaration of annual dividend of 7.0p per share. ■ 13 September 2017:Announcement of reconstruction of Jupiter Dividend & Growth Trust and JUKG as the optional rollover investment vehicle.

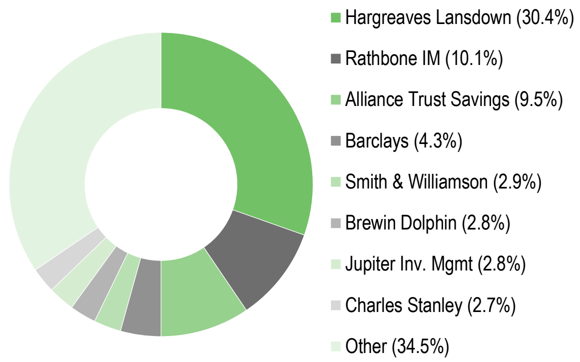
Forthcoming		Capital structure		Fund details	
AGM	November 2017	Ongoing charges	1.13%	Group	Jupiter Unit Trust Managers
Interim results	March 2018	Net gearing	6.4%	Manager	Steve Davies
Year end	30 June	Annual mgmt fee	0.5% (see page 7)	Address	The Zig Zag Building, 70 Victoria St,
Dividend paid	Annually	Performance fee	Yes (see page 7)		London SW1E 6SQ
Launch date	June 1972 (April 2016 for new strategy	Trust life	Indefinite	Phone	+44 (0) 20 3817 1000
Continuation vote	No	Loan facilities	£12m with Scotiabank	Website	www.jupiteram.com/JUKG

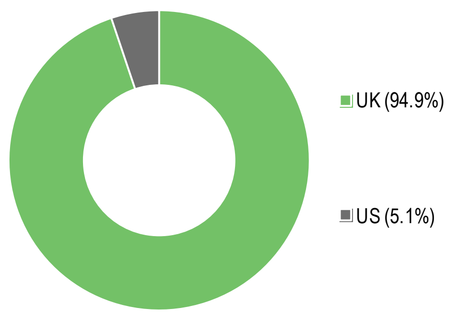
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
Dividends, historically paid quarterly, have moved to a single annual dividend from FY17. Only three dividends were paid in 2014 owing to a change in dividend policy that year. FY17 dividend has been declared but not paid.	A nil-discount management policy was adopted in FY14 and has been retained under the new strategy. The board aims to maintain the share price close to NAV through the use of share buybacks and allotments.





Shareholder base (as at 14 September 2017)	Portfolio exposure by geography, adjusted for net gearing (as at 30 September 2017)





Top 10 holdings (as at 30 September 2017)

		Portfolio weight %	
Company	**Sector**	**30 September 2017**	**30 September 2016***
Lloyds Banking Group	Financials	7.3	5.9
Legal & General	Financials	6.6	5.6
Barclays	Financials	6.4	5.8
Sirius Minerals	Basic materials	4.9	3.3
Taylor Wimpey	Consumer goods	4.8	4.1
Talk Talk	Telecommunications	4.5	3.6
Thomas Cook	Consumer services	4.4	N/A
WH Smith	Consumer services	4.2	N/A
International Consolidated Airlines	Consumer services	4.2	N/A
Inchcape	Consumer services	3.8	N/A
Top 10 (% of holdings)		**51.1**	**45.4**

Source: JUKG, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end September 2016 top 10.

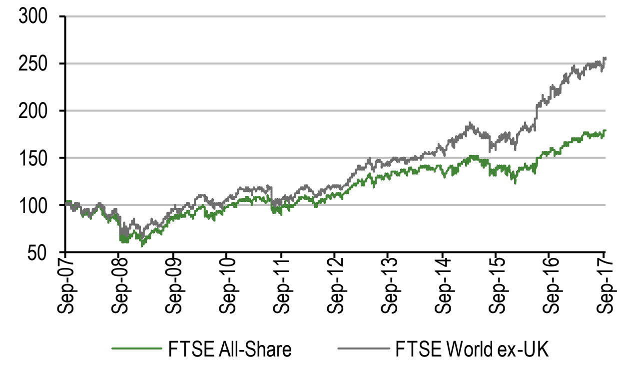
Market outlook: Increased uncertainty

The recent UK election returned a weakened prime minister and the loss of a Conservative party majority in parliament. This has created increased uncertainty over the government's negotiating strategy for Brexit and kept UK equities out of favour with investors. According to the proprietary Merrill Lynch investment managers index (which surveys active managers globally), asset allocation to UK equities fell precipitously after the Brexit vote, and remains at decade lows. Meanwhile, valuations are stretched for almost all other asset classes, in particular bonds and US equities.

As shown in Exhibit 2 (left-hand side), UK equities have underperformed global equities following the Brexit vote, however, valuations are not cheap relative to history. The forward P/E of the market is 120% of the 10-year average, while average returns on equity are lower. The price to book multiple and dividend yield are roughly average. Domestically-focused stocks, however, appear to be pricing in a severe recession and have traded at a significant discount relative to the FTSE All-Share index since the Brexit vote. The market seems to have very limited expectations for Brexit negotiation outcomes and the domestic UK economy. This environment could present interesting opportunities for a contrarian and disciplined long-term investment approach.

Exhibit 2: Market performance and valuation

UK and rest of the world equity markets over 10 years



Valuation metrics of Datastream UK index

	Last	High	Low	10-year average	Last as % of average
P/E 12 months forward (x)	14.5	15.7	7.4	12.1	120
Price to book (x)	1.6	2.5	1.2	1.7	95
Dividend yield (%)	3.5	6.6	2.7	3.5	101
Return on equity (%)	8.6	21.3	2.5	10.3	84

Source: Thomson Datastream, Edison Investment Research. Note: Index valuations at 29 September 2017.

Fund profile: Concentrated, contrarian, unconstrained

JUKG was launched in 1972 as the Jupiter Primadona Growth Trust (JPG); it was renamed the Jupiter Growth Trust between November 2015 and April 2016. The mandate changed in April 2016 to focus on a growth strategy in UK equities (from a mixed UK and global growth strategy) and Steve Davies was appointed its new manager. JUKG now largely mirrors the strategy of the £1.4bn Jupiter UK Growth Unit Trust, which is also managed by Davies (appointed deputy manager in 2009 and manager in 2015). Although JUKG is benchmarked against the FTSE All-Share index, there are few investment constraints and the fund can diverge considerably from the index. The trust can invest up to 20% in non-UK listed stocks (currently 5.1% comprising Apple and Manchester United). Gearing is also permitted to 20% of total assets at time of drawdown.

The fund manager: Steve Davies

The manager's view: Good environment for contrarians

Steve Davies believes "the prospect for the UK economy is less bad than feared". Following the Brexit vote, UK domestically-focused stocks have become unloved and are priced for a severe recession, yet almost all other asset classes' valuations are stretched. The manager says that this is a favourable environment for a contrarian investor. Good stock picking, however, is seen as very important as many domestic companies are structurally challenged (for example, many traditional retailers). The manager believes the key is to identify companies with resilience, which can adapt businesses models in challenging environments. Examples include WHSmith and ITV. Books and newspaper retailing has been in decline for the past decade, and yet WHSmith's share price has increased fivefold over the same period. The company has evolved its product range to higher-margin categories such as stationery, and built a profitable and growing travel stores franchise. ITV was in a precarious position in 2008/09 when it was very exposed to a rapidly shrinking TV advertising market, and had a weak financial position. It has since developed a sizeable content business with bright international prospects, and repaired its balance sheet.

Meanwhile, the manager says there are a number of catalysts that could turnaround investor sentiment on UK domestic stocks including:

- Progress on Brexit negotiations. Domestically focused stocks are priced as if there is "no chance of anything good" coming from negotiations with the EU.
- A pick-up in merger and acquisition activity. Davies notes cash flow valuations are at levels which should attract private equity or foreign buyers if there is more clarity surrounding Brexit terms. Two portfolio stocks, Booker and Sky have already been subject to bids.
- The UK domestic economy improves and pressures on real wage growth ease. Davies observes household disposable income (as measured by the Asda Income Tracker) has stopped falling. Wage growth, seemingly stuck at a nominal 2.0-2.5% in spite of strong employment, could get a boost if long-standing public-sector pay caps are lifted.

Davies's long-held negative view on the oil price has become even more bearish. He was an early contrarian in 2013, calling a US$40-60 price range for oil (when the price was over US$100) based on structural supply-side disruption from the shale industry, as well as weak discipline within OPEC regarding production quotas. Davies now also sees demand-side pressures looming. The adoption of electric cars and changing consumer habits to own fewer or no cars could happen more quickly than expected. The rapid adoption of the smartphone, once viewed with scepticism and now ubiquitous, is an apt comparison as Apple marks the tenth anniversary of the iPhone this year.

Asset allocation

Investment process: Analysis and engagement

Steve Davies is a sell-side analyst by background and has a rigorous, bottom-up investment process. He favours two broad types of investment opportunities: 'recovery' stocks and 'growth' stocks. Recovery stocks are companies that the market appears to have 'written-off' or deemed 'un-investible' but can perform well with specific catalysts, such as new management, a cyclical recovery or industry restructuring. Davies looks for stocks with substantial potential for appreciation, typically trading below 10x P/E (or below book value for banks), and generating free cash flow yields in excess of 10%. Growth stocks are companies that can generate sustainable, above-average growth through the combination of organic sales growth and operating leverage. They must be cash generative and a strict cash flow screen is applied to ensure portfolio companies are reasonably valued. The investment process involves meeting company managements and building detailed models to allow him to determine price targets for every stock, on a two-year view.

JUKG's portfolio currently has five broad investment themes: UK domestic economy; financials; brands, leisure & travel; the connected world; and tomorrow's world. These are not discrete 'buckets' and stocks can often straddle multiple themes. For example, ITV falls under the UK domestic economy as well as the connected world themes, while Apple belongs in brands, leisure & travel as well as the connected world. Tomorrow's world is a relatively new theme and is effectively 'patient capital', with an investment horizon of three to five years. Within this theme sits potash miner, Sirius Minerals, which the manager views as one of the portfolio's most exciting stocks as it progresses towards its production phase, following multiple years of investment. The stock was promoted to the FTSE 250 index in June 2017 and has been a strong performer within the portfolio.

Corporate governance is an important part of the manager's investment process and Davies believes his approach distinguishes JUKG from many peers. Davies regularly engages with chairmen and non-executive directors of portfolio companies to discuss strategic issues, including succession planning. The insight gained from this approach is accretive to his discussions with senior executives, and is viable because he holds relatively few stocks. So far this year, Davies has engaged with around 75% of his portfolio companies' boards.

Current portfolio positioning

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-Sept 2017	Portfolio end-Sept 2016	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Consumer services	39.2	42.5	(3.3)	11.0	28.2	3.6
Financials	31.2	27.0	4.2	26.4	4.8	1.2
Telecommunications	8.7	7.2	1.5	3.6	5.2	2.5
Industrials	8.5	7.8	0.7	11.3	(2.8)	0.8
Consumer goods	8.4	11.9	(3.5)	15.7	(7.3)	0.5
Basic materials	4.9	3.3	1.6	7.2	(2.3)	0.7
Technology	2.9	3.7	(0.8)	1.1	1.8	2.5
Healthcare	2.6	1.3	1.3	8.5	(5.9)	0.3
Others, cash and/or gearing	(6.4)	(4.7)	(1.7)	15.2	(21.6)	(0.4)
	100.0	**100.0**		**100.0**		

Source: Jupiter UK Growth Investment Trust, FTSE Russell, Edison Investment Research

The portfolio reflects the manager's bottom-up driven, high-conviction stock picks with few benchmark constraints. The result, as shown in Exhibit 3, means the portfolio differs significantly from the FTSE All-Share index. The most notable overweight is the consumer services sector at 39.2% compared to 11.0% for the index. Significant holdings include International Consolidated Airlines (IAG) and Thomas Cook; and also the two US-listed stocks held in the portfolio, Apple and Manchester United. The portfolio is also overweight telecommunications, technology and financials. Financials is the portfolio's second-largest sector exposure and the three biggest positions are: Lloyds, Legal & General and Barclays respectively. Davies believes UK banks are in a 'self-help' situation, now reaping the benefits from recent restructurings, while also having passed the worst of misconduct-related fines. Returning to profitability has improved prospects for dividends, and balance sheets have become stronger, yet valuations are still below book value.

Reflecting Davies's negative outlook on oil prices, JUKG's most notable underweight remains the absence of oil & gas stocks. It also holds no utilities and is also underweight consumer goods and healthcare. Constituents of these sectors include some of the index's largest companies; however, the manager does not hold lower-conviction positions for the sake of reducing the fund's tracking error against the index. For the quarter to end-August, significant performance contributions to the portfolio came from not holding a number of mega-caps including BAT, AstraZeneca and GSK.

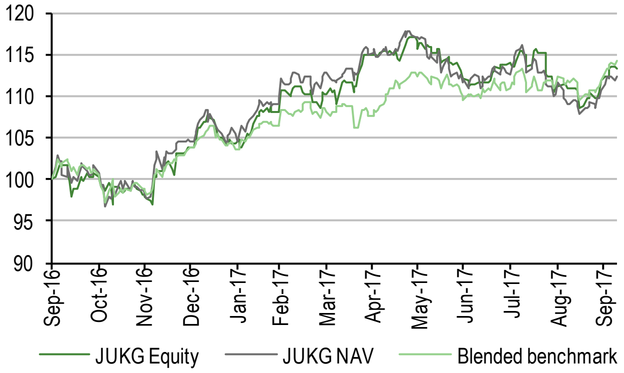
Recent portfolio activity has been light, and low turnover is a result of the long-term investment horizon. Davies has taken some profits from outperforming stocks, notably Sirius, Thomas Cook, IAG and Arrow Global. The fund still has sizable holdings in these names as substantial upside remains to reach his price targets. Dixons Carphone is under scrutiny following a profit warning in August, which pushed the share price down sharply. Davies has since engaged with the chairman of the company and re-assessed the investment case in detail. He believes the current valuation is very appealing though, "all options remain very much on the table". Overall, the manager believes the portfolio is well-placed to benefit from potential appreciation in sterling; oil prices falling or remaining at current low levels; and an increase in bond yields.

Performance: A challenging start to new strategy

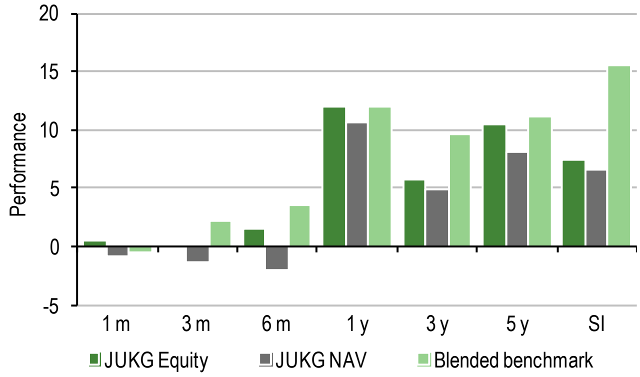
JUKG changed its strategy in April 2016; therefore, the relevant performance periods are one, three and six months, one year and since inception. The fund's NAV has lagged behind the benchmark for all these periods. The fund was poorly positioned for the Brexit vote, which took place soon after Steve Davies became manager. As shown in Exhibit 6, the underperformance was severe in the immediate aftermath and has started to improve over time. More recent underperformance is largely attributed to the sharp fall in Dixons Carphone's share price in August 2017.

Exhibit 4: Investment trust performance to 30 September 2017

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



Price, NAV and benchmark total return performance (%)



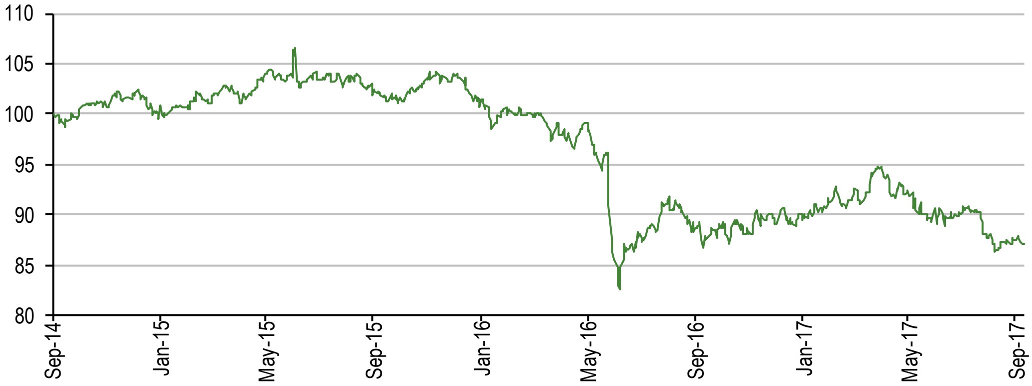
Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. Blended benchmark is 75% FTSE All-Share and 25% FTSE World ex-UK until 17 April 2016 and FTSE All-Share thereafter. SI = since JUKG strategy inception, 18 April 2016.

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

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to blended benchmark	1.0	(2.2)	(2.0)	0.0	(10.5)	(2.6)	(8.0)
NAV relative to blended benchmark	(0.5)	(3.4)	(5.4)	(1.2)	(12.5)	(13.0)	(12.5)
Price relative to FTSE All-Share	1.0	(2.2)	(2.0)	0.0	(7.6)	2.3	0.2
NAV relative to FTSE All-Share	(0.5)	(3.4)	(5.4)	(1.2)	(9.6)	(8.7)	(4.8)
Price relative to FTSE World	2.5	(1.8)	(0.7)	(3.0)	(22.7)	(19.0)	(26.7)
NAV relative to FTSE World	1.1	(3.0)	(4.2)	(4.2)	(24.4)	(27.6)	(30.3)

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

Exhibit 6: NAV total return performance relative to benchmark over three years

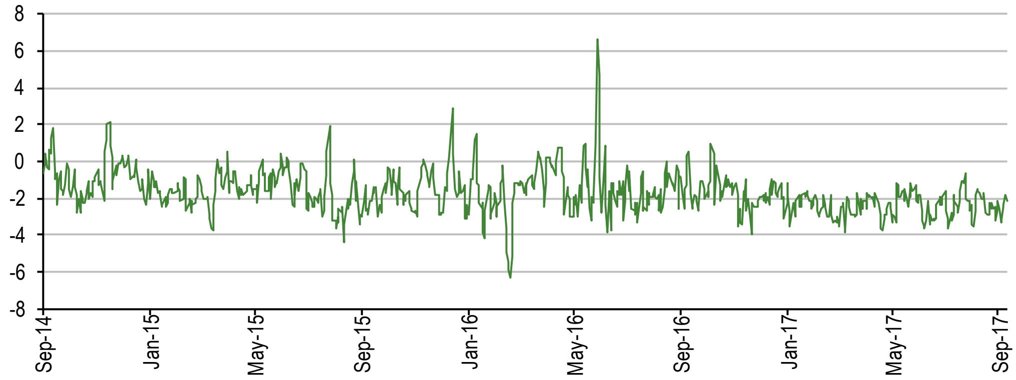


Source: Thomson Datastream, Edison Investment Research

Discount and record

JUKG trades at a narrow 2.9% discount to cum-income NAV and, as shown in Exhibit 7, the trust has traded close to NAV over the past three years. This is a reflection of a nil-discount management policy introduced by the board in February 2014. The company is able to use share buybacks and issue new shares to help control the discount and improve liquidity for investors. In FY17, 1.6m shares representing 7.1% of total Ordinary shares in issue at 30 June 2017 were repurchased.

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. There are currently 13.2m shares in issue. Under the proposals for the reconstruction of Jupiter Dividend & Growth Trust (JDT), its shareholders will have the option of rolling over their holdings into JUKG. This may result in an expansion of JUKG's assets and shares in issue with effect from 1 December 2017.

The management fee consists of a base fee and a performance fee. The annual base fee is 0.50% of net assets of up to £150m, falling to 0.45% between £150m and £250m of net assets and 0.40% above £250m. A performance fee may be payable subject to a high watermark (the NAV at the end of the prior year). There is a 2% hurdle over the FTSE All-Share index total return performance, of which JUKG is entitled to 15% of outperformance. The combined total fees are capped at 2% of year-end adjusted net assets. As at end-August 2017, the total expense ratio was 1.13%. However, this could decline if capital increases following the JDT reconstruction, as costs would be spread across a wider asset base. JUKG has a £12m borrowing facility with Scotiabank, of which £9.5m has been drawn down as at end-August. Gross gearing was 21.1% and net gearing, 6.4%.

Dividend policy and record

JUKG changed its investment strategy in April 2016 and the board replaced its previous quarterly dividends with an annual dividend. It has declared 7.0p per share for FY17, equivalent to the aggregate dividends paid for FY16, and is payable on 23 November 2017. This equates to a yield of 2.1%. The board intends to at least maintain this dividend level, looking to grow it over time.

Peer group comparison

Exhibit 8 shows the members of the AIC UK All Companies sector. Davies's tenure at JUKG commenced in April 2016, thus the most relevant period for comparison of NAV total return is one year, which has lagged the sector-weighted average. Reflecting its active nil-discount management policy, JUKG has one of the narrowest cum-income discounts amongst peers. The trust has the median dividend yield. In market cap terms, it is the smallest amongst its peers; however, as the rollover vehicle for the restructuring of JDT, JUKG's asset size could increase by the end of the year.

Exhibit 8: AIC UK All Companies investment trusts as at 12 October 2017

% unless stated	Market cap/ fund size £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Jupiter UK Growth IT	43.4	10.5	22.1	47.7	62.7	0.7	1.1	Yes	106	2.1
Artemis Alpha Trust	122.1	19.0	16.7	22.5	83.9	(18.8)	0.9	Yes	103	1.4
Aurora	84.1	26.2	31.8	24.8	4.6	0.7	1.8	Yes	100	1.0
Crystal Amber	191.7	3.6	50.0	101.0		(3.2)	2.0	Yes	100	2.6
Damille Investments II	31.0	(16.3)	(3.6)	(4.1)		(12.7)	2.4	Yes	100	0.0
Fidelity Special Values	655.3	17.9	56.1	123.8	150.1	(3.7)	1.1	No	110	1.8
Henderson Opportunities	81.4	24.1	48.7	122.9	98.8	(17.0)	0.9	Yes	114	1.9
Invesco Perp Select UK Equity	69.6	14.3	43.9	107.5	158.7	(1.6)	1.0	Yes	115	3.4
JPMorgan Mid Cap	267.9	26.1	73.2	157.9	119.2	(9.4)	0.9	No	103	2.0
Keystone	240.6	8.6	27.1	76.2	115.9	(12.3)	0.7	Yes	107	3.2
Manchester & London	86.7	24.8	72.3	54.5	59.5	(13.9)	0.9	No	109	0.9
Mercantile	1,725.0	23.9	61.6	112.2	128.5	(12.5)	0.5	No	103	2.3
Sanditon Investment Trust	45.3	(7.5)	(4.3)			(5.5)	1.2	Yes	100	1.0
Schroder UK Growth	270.1	7.6	31.5	58.4	61.6	(10.4)	0.6	No	100	3.1
Schroder UK Mid Cap	191.8	22.5	50.2	114.4	170.1	(15.4)	1.0	No	100	2.2
Woodford Patient Capital Trust	755.1	1.0				(7.8)	0.2	Yes	117	0.3
Sector weighted average (ITs)		**16.3**	**52.5**	**103.8**	**121.6**	**(9.7)**	**0.7**		**106**	**1.9**
JUKG rank in sector	**15**	**10**	**12**	**11**	**9**	**1**	**5**		**2**	**7**

Source: Morningstar, Edison Investment Research. Note: *Performance to 11 October 2017. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

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 in 2013. He is a co-founder and former managing director of Intermediate Capital Group, a specialist asset manager. Lorna Tilbian was appointed in 2001 and is also an executive director of Numis Corporation. Jonathan Davis, a financial journalist, writer and investment professional, became a director in 2011. Graham Fuller is the most recent appointment in 2013. He is a former pension fund manager and a founding partner of PSigma Asset Management.

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