EDISON

Jupiter UK Growth Investment Trust

Rigorous, long-term approach to stock-picking

Investment trusts

Jupiter UK Growth Investment Trust (JUKG) aims to generate long-term capital growth, primarily through investing in UK-listed equities. With few investment constraints, the manager, Steve Davies focuses on fundamental stock selection to build a concentrated portfolio of around 35 investments. Active engagement with companies' chairmen and non-executive directors is a key part of the investment process, and contributes significantly towards the manager's level of conviction. Davies believes stock-market drivers are changing as several big investment themes come to an end. He expects stock-picking to come back into focus and JUKG should be well-placed in this environment. On 30 November, the rollover of Jupiter Dividend & Growth Trust (JDG) into JUKG resulted in an increase in assets of £24.6m and the issue of 7.8m new shares.

12 months ending	JUKG* share price (%)	JUKG* NAV (%)	Blended benchmark^ (%)	FTSE All-Share (%)	FTSE All-World (%)
30/04/14	19.0	9.8	9.6	10.5	6.8
30/04/15	10.5	10.6	10.4	7.5	18.0
30/04/16	(3.9)	(5.9)	(3.4)	(5.7)	0.5
30/04/17	14.4	17.2	20.1	20.1	31.0
30/04/18	(4.6)	(1.7)	8.2	8.2	7.5

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, active engagement

The manager's investment approach is rigorous, involving detailed fundamental analysis of financial statements, as well as spending time with companies' management teams and engaging with their board members. A relatively concentrated portfolio of c 35 stocks allows this labour-intensive approach. A new analyst, James Moir, dedicated to the UK growth strategy, adds significant research capacity for JUKG.

Market outlook: Opportunities for contrarians

UK equities have performed strongly since the beginning of 2016 before peaking in January 2018. However, compared with global equities, the UK performance has lagged meaningfully, while a recent Bank of America Merrill Lynch (BAML) Global Fund Manager Survey shows allocations to UK equities are at a post-global financial crisis low. Following a modest retreat in UK indices, and strong earnings momentum, company valuations are looking less stretched compared with a few months ago. This environment could present interesting opportunities for contrarian, long-term investors.

Valuation: Nil-discount policy

JUKG consistently trades close to its NAV; at 11 May its discount to cum-income NAV was 2.7%. It is one of just two trusts in its sector to follow a nil-discount policy, introduced in 2014. The dividend yield of 2.0% is average among peers.

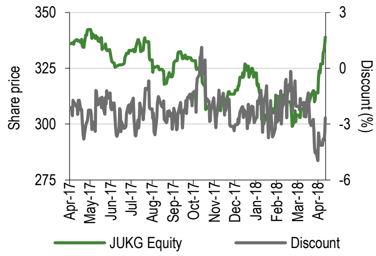
14 May 2018

Price	**339.0p**
Market cap	**£65.9m**
AUM	**£84.4m**
NAV*	341.0p
Discount to NAV	0.6%
NAV**	348.3p
Discount to NAV	2.7%

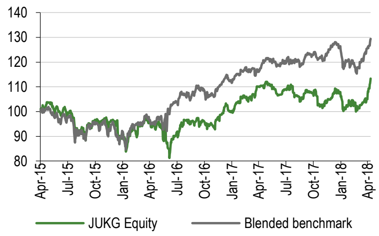
*Excluding income. **Including income. As at 11 May 2018.

Yield	2.1%
Ordinary shares in issue	19.4m
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	299.0p
NAV** high/low	352.0p	305.5p

**Including income.

Gearing

Gross*	12.5%
Net*	12.0%

*As at 30 April 2018.

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Edison profile page

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

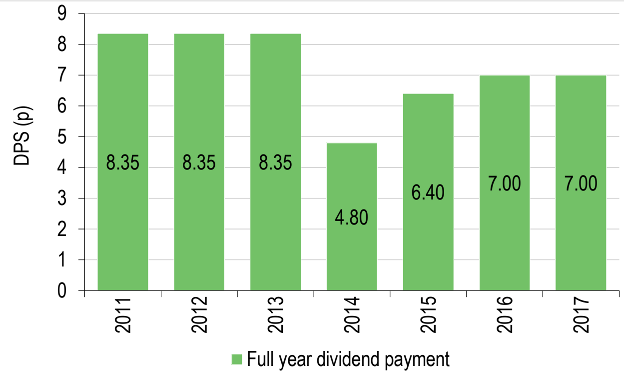
Exhibit 1: Trust at a glance

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.	■ 29 March 2018: Interim report for six months ending 31 December 2017. NAV TR-0.7% versus benchmark FTSE All-Share index TR +7.2%. ■ 30 November 2017: Announcement that JUKG will acquire £24.6m of assets from Jupiter Dividend and Growth Trust, and issue 7.8m new shares in consideration. ■ 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%.

Forthcoming		Capital structure		Fund details	
AGM	November 2018	Ongoing charges	1.26%	Group	Jupiter Unit Trust Managers
Annual results	September 2018	Net gearing	12.0%	Manager	Steve Davies
Year end	30 June	Annual mgmt fee	0.5% (see page 7)	Address	The Zig Zag Building, 70 Victoria St, London SW1E 6SQ
Dividend paid	Annually	Performance fee	Yes (see page 7)		
Launch date	June 1972 (April 2016 for new strategy	Trust life	Indefinite	Phone	+44 (0) 20 3817 1000
Continuation vote	No	Loan facilities	£17m with Scotiabank	Website	www.jupiteram.com/JUKG

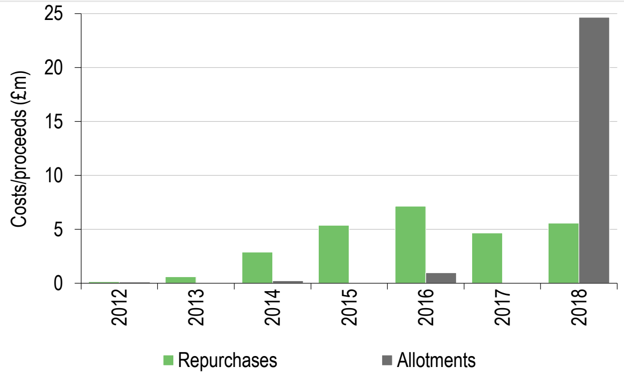
Dividend policy and history (financial years)

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.

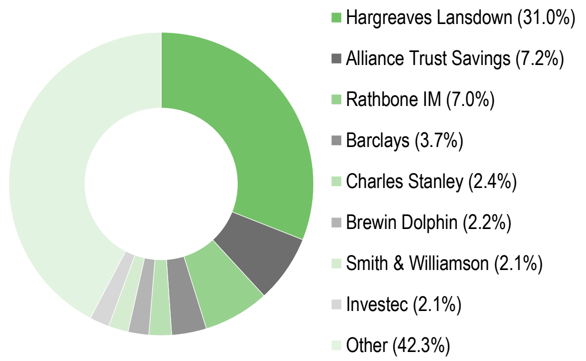


Share buyback policy and history (financial years)

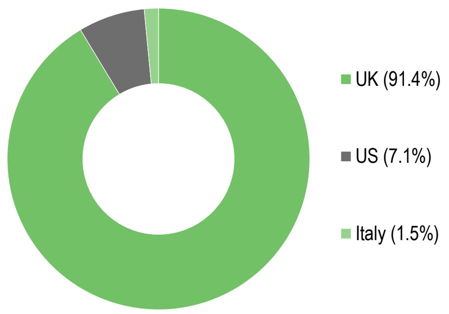
The board aims to maintain the share price close to NAV through the use of share buybacks and allotments. Allotments in 2018 include 7.8m new shares issued from the rollover of JDG into JUKG.



Shareholder base (as at 11 May 2018)



Portfolio exposure by geography, adjusted for net gearing (as at 30 April 2018)



Top 10 holdings (as at 30 April 2018)

		Portfolio weight %	
Company	**Sector**	**30 April 2018**	**30 April 2017***
Legal & General	Financials	7.5	6.1
Lloyds Banking Group	Financials	7.4	7.1
Sirius Minerals	Basic materials	7.2	5.1
Barclays	Financials	6.5	6.6
International Consolidated Airlines	Consumer services	4.6	4.2
Taylor Wimpey	Consumer goods	4.6	4.5
Dixons Carphone	Consumer services	4.3	5.8
Experian	Industrials	4.2	3.6
Melrose Industries	Industrials	4.2	N/A
Talktalk Telecom	Telecommunications	4.1	3.7
Top 10 holdings		**54.6**	**51.4**

Source: JUKG, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-April 2017 top 10.

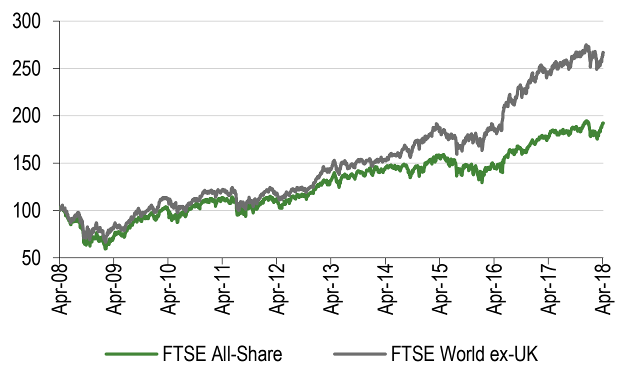
Market outlook: Low consensus expectations

Equity markets globally performed strongly since the beginning of 2016, and peaked in January 2018. As shown in Exhibit 2, although UK equities also appreciated meaningfully during this period, the FTSE All-Share index significantly lagged the FTSE World ex-UK index. A slight pullback in UK equities, combined with positive earnings momentum has helped moderate valuations. The UK index's PE multiples are around 12% above its 10-year average, but on a price-to-book measure, valuations are only 85% of the 10-year average. Meanwhile, returns on equity have improved materially to 132% of the 10-year average, having become very depressed during the global financial crisis.

The significant divergence in performance between global and UK equities is reflected in very low asset allocations to UK equities. According to the proprietary BAML Global Fund Manager Survey (which surveys active investment managers globally), allocations to UK equities fell sharply following the announcement of the EU referendum and have continued to fall, currently at a post-global financial crisis low. This suggests global fund managers have very limited expectations for Brexit outcomes and the UK domestic economy. Such an environment could present interesting opportunities for investors with a contrarian, long-term approach.

Exhibit 2: Market performance and valuation

UK and rest of the world equity markets over 10 years (in GBP)



Valuation metrics of Datastream UK index

	Last	High	Low	10-year average	Last as % of average
P/E 12 months forward (x)	13.8	15.7	7.4	12.2	112
Price to book (x)	1.4	2.5	1.2	1.7	85
Dividend yield (%)	3.7	6.6	2.7	3.5	104
Return on equity (%)	13.0	18.2	2.5	9.9	132

Source: Thomson Datastream, Edison Investment Research. Note: Index valuations at 7 May 2018.

Fund profile: Concentrated, high conviction

JUKG was launched in 1972 as the Jupiter Primadona Growth Trust (JPG) and was renamed the Jupiter Growth Trust in November 2015. In April 2016, the trust's mandate changed from a UK and global growth to a UK growth strategy, and the trust was renamed to Jupiter UK Growth Investment Trust, and Steve Davies was appointed its new manager. JUKG largely mirrors the strategy of the £1.4bn Jupiter UK Growth Unit Trust, which has been managed by Davies since 2015 (he was deputy manager between 2009 and 2015).

The trust's objective is to generate capital growth, primarily from investing in UK-listed equities. Its approach is bottom-up, seeking to build a concentrated portfolio of around 35 high-conviction stocks. There are relatively few investment constraints and the portfolio can diverge significantly from the FTSE All-Share index benchmark. In December 2017, James Moir joined as an analyst dedicated to the UK growth strategy. Moir brings considerable equities analysis experience and knowledge of the financials sector, having previously worked at UK Financial Investments, helping to oversee the UK government's holdings in Royal Bank of Scotland, Lloyds and UK Asset Resolution.

The fund manager: Steve Davies

The manager's view: Environment is well-suited to JUKG

Davies believes the stock-market environment is changing. Over the past few years, UK equity performance has been driven by several big macroeconomic and political themes. Interest rates and stock market volatility (as measured by the US VIX index), have been unprecedentedly low for an extended period, and have started to rise. A weak sterling has been a benefit to large-cap multinationals and a reversal could present headwinds; and the manager expects China's growth to slow, removing some of the upward pressures on commodity prices. This environment is "less forgiving" for UK equities, while politics may continue to be erratic. However, this is an environment well-suited to stock-picking, which is the essence of Davies' investment approach.

As well as rigorous bottom-up analysis with a long-term view, active engagement with companies' boards is also important. In addition to meeting the senior management teams of companies, Davies undertakes a continuous programme of engagement with chairmen and other board members to enhance his understanding of a company as well as add value through constructive two-way conversations. Davies cites GKN as an example of successful engagement helping an improved investment outcome. JUKG has held GKN for almost a decade, but more recently, its performance had been disappointing. Since early 2017, Davies has engaged with board members and the chairman, sharing his views on a number of issues including weak areas of management and a need to radically improve the group structure to drive profitability and cash flow. The manager believed the GKN stock price materially undervalued the company. A continued dialogue with the chairman, allowed for a better-informed view of the firm, supporting the decision to retain the GKN position despite a profit warning, and a difficult transition to a new CEO. This conviction has been rewarded as the takeover proposal by Melrose represents a significant uplift in GKN's valuation.

Davies believes his approach to management engagement differentiates JUKG from many funds, and notes many chairmen have commented that it is rare to meet a fund manager, rather than a corporate governance specialist. The manager undertakes the engagements himself and addresses issues relevant for each particular company, aiming to meet the chairmen of all portfolio companies at least once a year, as well as other board members. This approach is a core part of the investment process and is possible because of the relatively small number of holdings on the portfolio, most of which are located in the UK.

Asset allocation

Investment process: Fundamental, defined criteria

The investment objective of the fund is to generate long-term capital growth. There are few constraints on sector, size and geography, allowing the manager to focus on a stock's individual merit. An analyst by background, Davies undertakes detailed fundamental analysis of companies, and has a long investment horizon.

The manager looks for two broad categories of investments, recovery and growth (currently around 46% and 53% of the portfolio, respectively). Recovery stocks are those that have been 'written-off' or deemed 'uninvestible' by the market, but have catalysts (such as new management or industry restructuring) that could trigger a rerating. These companies typically trade at very attractive valuations, on P/E ratios below 10x (or below book value for banks) and free cash flow yields above 10%, with substantial upside potential. Growth stocks are companies that can deliver consistently strong growth over the medium term. Their earnings prospects are predictable, not speculative, and the companies are cash-generative, typically with free cash flow yields above 5%. The manager currently identifies five investment themes, which are reflected in the portfolio: UK domestics;

financials; brands, leisure and travel; the connected world; and tomorrow's world. The first two categories are relatively out-of-favour sectors, reflecting the manager's contrarian bias. Tomorrow's world is effectively 'patient capital'. Fibre-optic network provider, City Fibre is one of these companies, held for nearly three years. It has recently agreed a takeover bid at a 93% premium to the pre-bid price.

Current portfolio positioning

As JUKG's investment mandate is relatively unconstrained, seeking a concentrated number of high-conviction stocks, the portfolio typically diverges considerably from the index. As shown in Exhibit 3, the largest sector exposures in JUKG are to consumer services (39.0%) and financials (31.9%). Consumer services encompasses a broad range of companies, with the largest positions being British Airways owner, International Consolidated Airlines; Dixons Carphone; and Thomas Cook. The manager believes the squeeze on UK real wages over the past several years is coming to an end, which will support domestic consumption. However, he does not favour consumer goods, where multinationals and food manufacturers feature prominently. Davies regards these as bond proxies that have also benefited from a weak sterling, and could be adversely affected by rising interest rates.

UK banks are 'self-help' stories, as multi-year restructuring efforts start to bear fruit, while the worst of the pain from rising capital requirements and settlement for misconduct has passed. Lloyds is the largest bank stock in the portfolio (7.4%, Exhibit 1). It has returned to profit and a recent announcement of an increased dividend and share buyback suggests management's confidence in its prospects. Barclays is also a top 10 holding and the manager believes its target for double-digit returns on tangible equity is achievable (and US tax changes are helpful). At which point, the stock could rerate meaningfully to trade at a premium to book value. Cyclically, financials are also natural beneficiaries of rising interest rates, which help improve net interest margins and boost profitability.

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

	Portfolio end-April 2018	Portfolio end-April 2017	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Consumer services	39.0	40.1	(1.1)	11.5	27.5	3.4
Financials	31.9	30.4	1.5	26.8	5.1	1.2
Industrials	13.4	8.6	4.8	11.0	2.4	1.2
Telecommunications	8.5	7.8	0.7	3.4	5.2	2.5
Basic materials	7.2	5.1	2.1	7.6	(0.4)	0.9
Consumer goods	6.4	8.1	(1.7)	13.9	(7.5)	0.5
Healthcare	3.5	1.8	1.7	8.6	(5.1)	0.4
Technology	2.7	4.3	(1.6)	0.9	1.8	2.9
Others, cash & gearing	(12.5)	(6.4)	(6.1)	16.4	(28.9)	(0.8)
	100.0	**100.0**		**100.0**		

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

Although JUKG primarily invests in UK equities, it is permitted to own up to 10% in overseas equities. Following the purchases of three new positions, the international component of the portfolio was 9.7% as at end-March 2018. US-listed Yum China owns and operates KFC and Pizza Hut restaurants in China, and is a play on rising consumer spending and volume growth. The company currently has around 8,000 restaurants and plans to double this number by rolling out 500–600 additional outlets pa. The business is highly cash-generative and generates a free cash flow yield above 5%. Italy-listed Ferrari is also a volume growth story, targeting a doubling of profits by 2022 and a significantly improved cash flow. It currently sells around 8,000 cars pa, but has the capacity to produce 14–15,000, and its strong brand is well-placed to benefit from a growing number of high net worth individuals globally. Ferrari plans to broaden the range of its models; for example, introducing a four-seater, which could potentially appeal to the Chinese market where buyers of luxury cars prefer to be driven and sit in the back. The manager's extensive research into Ferrari brought F1 (Formula 1) on to its radar screen. He views F1 as a highly profitable, yet poorly managed sport and, through the knowledge and insight gained from owning Manchester United, sees huge opportunities under new management (Liberty Media) to leverage off sponsorship and social media.

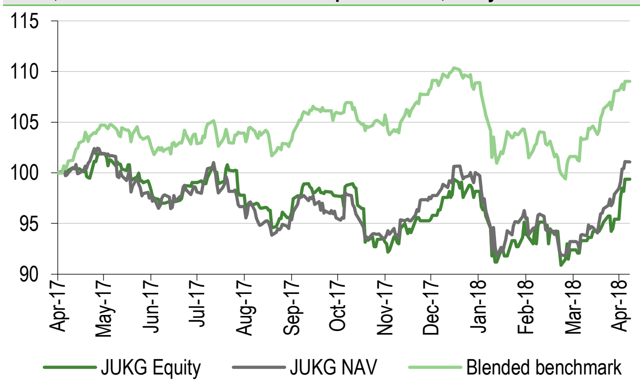
JUKG has not held oil & gas nor utility stocks for some time, as the portfolio consists of a concentrated number of stocks in which the manager has high conviction. The manager has been a longstanding bear on the price of oil, based on structural supply-side disruption as shale production rises, and weak discipline within OPEC to adhere to agreed quotas. A rapid adoption of electric cars and change in consumer habits to own fewer cars could also present demand-side disruption.

Performance: Shorter periods more relevant

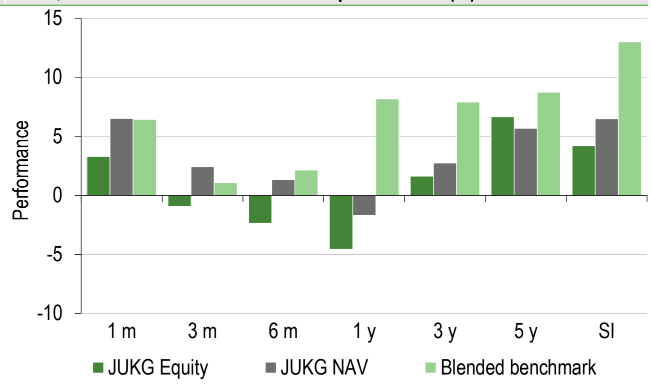
As the current JUKG mandate was adopted in April 2016, the most useful performance periods to consider are one, three and six months, and one year. The trust's total return NAV has lagged the benchmark over one year. Over the shorter periods of one, three and six months, performance has broadly mirrored its benchmark.

Exhibit 4: Investment trust performance to 30 April 2018

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
Price relative to FTSE All-Share	(2.9)	(2.0)	(4.4)	(11.8)	(14.4)	(5.2)
NAV relative to FTSE All-Share	0.1	1.3	(0.8)	(9.1)	(11.6)	(9.5)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-April 2018. Geometric calculation.

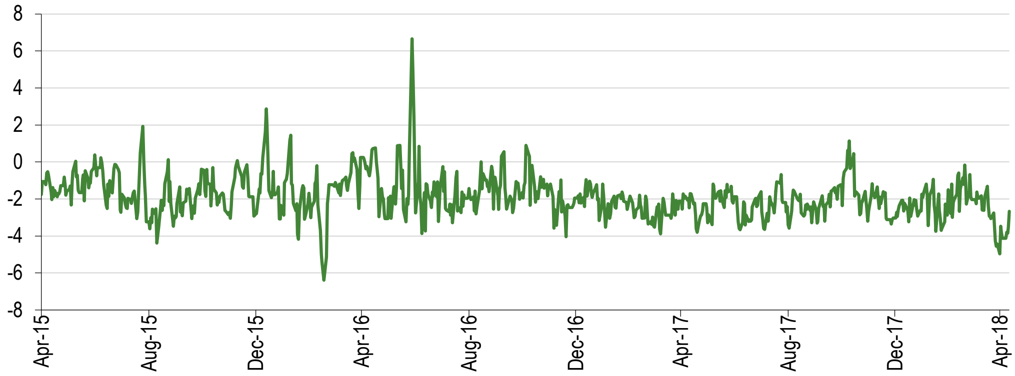
Exhibit 6: NAV total return performance relative to benchmark over three years

Source: Thomson Datastream, Edison Investment Research

Discount: Nil-discount policy

The board introduced a nil-discount policy in February 2014, and as shown in Exhibit 7, this has been effective at maintaining the share price close to the trust's cum-income NAV. The company aims to control the supply and demand for shares through new share issuance and share repurchases (subject to annual shareholder approval). During the first six months of FY18, 0.8m shares were repurchased at a cost of £2.7m.

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 in issue. The reconstruction of Jupiter Dividend & Growth Trust on 30 November 2017 permitted its shareholders to roll over into JUKG, resulting in the issue of 7.8m new shares at 315p per share, increasing assets by £24.6m. There are currently 19.5m shares in issue.

The management fee consists of a base fee and a performance fee. The annual base fee is 0.50% of net assets up to £150m, reducing to 0.45% between £150m to £250m of net assets, and 0.40% above £250m. A performance fee is subject to a 2% hurdle over the FTSE All-Share index total return, above which JUKG is entitled to 15% of the outperformance, with a high watermark of the NAV at the end of the prior year. The combined total fee is capped at 2% of year-end adjusted net assets. As at end-December 2017, the ongoing charges ratio (excluding finance costs) was 1.26%. The trust has as £17m loan facility with Scotia Bank, which was fully drawn down as at end-April 2018 and net gearing was 12.0%.

Dividend policy and record

In April 2016, the board changed the dividend policy from paying quarterly dividends to one annual payment. The FY17 dividend of 7.0p per share maintained the aggregrate level of dividends paid in FY16 and represents a yield of 2.0%.

Peer group comparison

Exhibit 8 shows the 16 members of the AIC UK All Companies sector, with the addition of Jupiter UK Growth unit trust as a comparator. As the current JUKG mandate came into place in April 2016, the most relevant NAV total return performance period is one year, where it ranks 10th. It is one of the smallest trusts by market capitalisation, which contributes towards a relatively high ongoing charge compared with the group. As one of just two trusts in this sector that operates a zero-discount policy, JUKG has one of narrowest discounts to ex-par NAV among peers, while its dividend yield is around average.

Exhibit 8: AIC UK All Companies investment trusts as at 11 May 2018

% 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 IT	**65.9**	**3.0**	**10.9**	**29.8**	**87.8**	**(0.4)**	**1.2**	**No**	**112**	**2.0**
Jupiter UK Growth UT	**1,287.5**	**2.9**	**3.1**	**39.8**	**94.9**	**N/A**	**1.8**	**No**	**N/A**	**1.1**
Artemis Alpha Trust	138.1	12.9	26.9	29.7	77.3	(15.7)	0.9	No	106	1.3
Aurora	103.1	8.5	24.4	35.6	23.8	1.1	0.5	Yes	100	1.3
Crystal Amber	213.4	2.7	65.3	97.9		(8.5)	2.0	Yes	100	2.3
Damille Investments II	5.6	(20.2)	(14.6)	(13.0)		(46.5)	2.4	Yes	100	0.0
Fidelity Special Values	715.4	11.4	37.8	85.7	184.0	(1.3)	1.1	No	107	1.7
Henderson Opportunities	83.8	11.6	24.6	82.3	152.8	(16.7)	0.9	Yes	114	1.9
Invesco Perp Select UK Equity	67.4	2.8	24.3	70.0	184.7	(2.8)	1.0	Yes	117	3.5
JPMorgan Mid Cap	301.8	13.8	40.8	106.7	175.1	(2.9)	0.9	No	105	1.8
Keystone	242.3	2.7	12.6	46.2	140.7	(12.0)	0.6	Yes	111	3.1
Manchester & London	113.8	27.4	78.2	57.6	77.8	(5.0)	1.0	No	100	0.7
Mercantile	1,779.6	12.7	38.2	82.3	186.3	(10.9)	0.5	No	103	2.4
Sanditon Investment Trust	43.1	(3.6)	(3.4)			(10.5)	1.2	Yes	100	1.0
Schroder UK Growth	297.3	7.9	22.0	36.8	90.9	(5.0)	0.6	No	102	3.0
Schroder UK Mid Cap	204.4	9.8	31.1	73.2	212.2	(12.8)	0.9	No	102	2.3
Woodford Patient Capital Trust	621.9	(15.7)	(16.6)			(9.2)	0.2	Yes	118	0.0
Sector weighted average (ITs)		**7.5**	**29.3**	**75.2**	**163.8**	**(8.1)**	**0.7**		**106**	**2.2**
JUKG rank in sector	**14**	**10**	**13**	**12**	**9**	**2**	**4**		**4**	**7**

Source: Morningstar, Edison Investment Research. Note: *Performance to 10 May 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

Following the appointment of Keith Bray as a director of JUKG on 28 March 2018, the board has five independent non-executive directors. Bray was a former director of Jupiter Dividend and Growth Investment Trust. Chairman Tom Bartlam was appointed in July 2013 and assumed his current role in November of that year. The other board members and their years of appointment are Lorna Tilbian (2001), Jonathan Davis (2011) and Graham Fuller (2013).

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