

JPMorgan European Smaller Cos

Very strong performance track record

JPMorgan European Smaller Companies Trust (JESC) was launched in 1990 and aims to generate long-term capital growth from a diversified portfolio of small-cap European equities. The investment process involves screening the c 1,500 company universe to construct a relatively concentrated portfolio of 50-75 positions in firms with positive fundamentals and reasonable valuations. JESC has a very good investment track record, outperforming its benchmark over one, three, five and 10 years. It has also performed strongly versus the average of its four peers, ranking second over one, three and five years and first over the last 10 years, where its NAV total return is 23.6pp higher than its closest peer.

12 months ending	Share price (%)	NAV (%)	EMIX Smaller Europe ex-UK (%)	FTSE World Europe ex-UK (%)	FTSE All-Share (%)
30/11/13	62.5	48.5	41.6	26.9	19.8
30/11/14	(10.0)	(3.1)	2.2	5.7	4.7
30/11/15	33.5	25.1	10.0	0.2	0.6
30/11/16	7.1	16.1	19.9	12.1	9.8
30/11/17	52.5	32.6	28.4	25.0	13.4

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

Investment strategy: Bottom-up stock selection

JESC's three managers, Jim Campbell, Francesco Conte and Edward Greaves, are able to draw on the broad resources of J.P. Morgan Asset Management's European equity team to construct a portfolio of 50-75 holdings in European small cap-equities. They seek long-term capital growth, selecting quality companies with positive earnings and share price momentum, that are trading on reasonable valuations. JESC is benchmarked against the EMIX (formerly Euromoney) Smaller Europe ex-UK Index. Liquidity and gearing is actively managed, with a range of 20% net cash to 20% gearing permitted. At end-October, net gearing was 5.2%.

Market outlook: European economic momentum

While the European economy was relatively slower to recover following the global financial crisis, there is now positive momentum; evidence includes strength in the European Union Economic Sentiment Indicator. There is increased investor demand for European equities as a result of a more positive macro backdrop and an improvement in corporate earnings. While the performance of small-cap equities can be more volatile than large-caps, over the long-term total returns are demonstrably higher. For investors seeking exposure to European small-cap companies, a fund with a strong relative performance track record may appeal.

Valuation: Discount continues to narrow

JESC's discount has been in a narrowing range since mid-November 2016. The current 5.6% share price discount to cum-income NAV is narrower than the averages of the last one, three, five and 10 years (range of 11.6% to 14.6%). While JESC aims to generate long-term capital growth, it pays out the majority of net revenue income, which will fluctuate year-to-year. Based on the FY17 total annual dividend of 4.7p, the trust has a dividend yield of 1.1%.

Investment trusts

4 December 2017

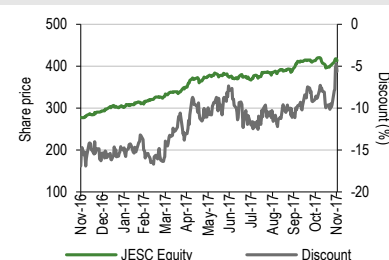
Price 413.5p
Market cap £662m
AUM £747m

NAV* 431.9p
Discount to NAV 4.3%
NAV** 438.2p
Discount to NAV 5.6%

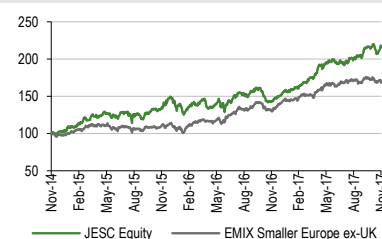
*Excluding income. **Including income. As at 30 November 2017.

Yield 1.1%
Ordinary shares in issue 160.0m
Code JESC
Primary exchange LSE
AIC sector European Smaller Companies
Benchmark EMIX Smaller Europe ex-UK

Share price/discount performance



Three-year performance vs index



52-week high/low 421.0p 277.0p
NAV* high/low 460.6p 324.8p

*Including income.

Gearing

Net gearing* 5.2%

*As at 31 October 2017.

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JPMorgan European Smaller Companies Trust is a research client of Edison Investment Research

Exhibit 1: Trust at a glance

Investment objective and fund background

JPMorgan European Smaller Companies Trust (JESC) aims to achieve capital growth from a diversified portfolio of shares in smaller European companies (excluding the UK). Liquidity and borrowings are actively managed (investments 80-120% of net assets) with a view to enhancing returns to shareholders. As JESC's investment policy emphasises capital growth, rather than income, the dividend is expected to vary from year to year. JESC is benchmarked against the EMIX (formerly Euromoney) Smaller Europe ex-UK total return index in sterling terms.

Recent developments

- 2 June 2017: Final results to 31 March 2017. NAV TR +26.7% versus benchmark TR +29.0%. Share price TR +22.4%. Declaration of 3.5p final dividend.
- 21 March 2017: Announcement that co-portfolio manager Jim Campbell is currently on personal leave.
- 23 February 2017: Change to investment management fee: 1.0% on first £400m of net assets and 0.85% of net assets in excess of £400m.

Forthcoming

AGM	July 2018
Interim results	December 2017

Capital structure

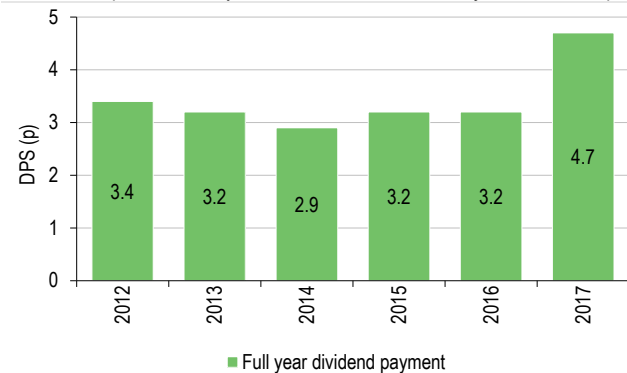
Ongoing charges	1.13%
Net gearing	5.2%
Annual mgmt fee	Tiered (see above)
Performance fee	None
Trust life	Indefinite
Loan facilities	€95m

Fund details

Group	JPMorgan Asset Management (UK) Ltd
Manager	Jim Campbell, Francesco Conte, Edward Greaves
Address	60 Victoria Embankment, London EC4Y 0JP
Phone	+44 (0)800 731 1111
Website	www.jpmeuropeansmallercompanies.co.uk

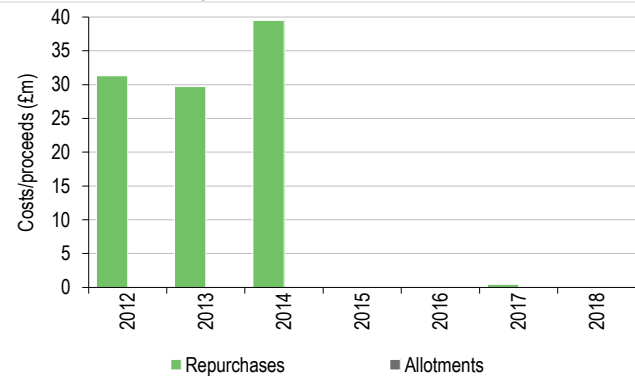
Dividend policy and history (financial years)

Between zero and two dividends annually. Interims, when paid, are in January. Finals, when paid, are in July. Numbers below have been adjusted for stock split.

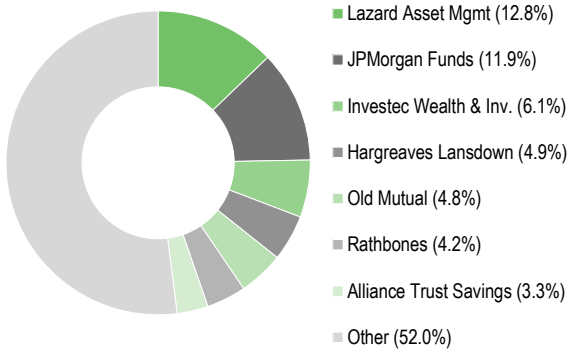


Share buyback policy and history (financial years)

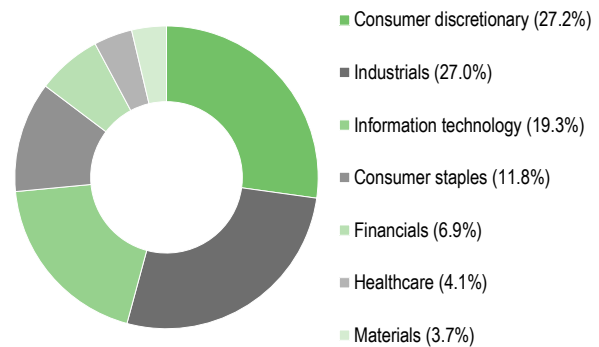
Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 5% of issued share capital.



Shareholder base (as at 31 October 2017)



Portfolio exposure by sector (excluding cash, as at 31 October 2017)



Top 10 holdings (as at 31 October 2017)

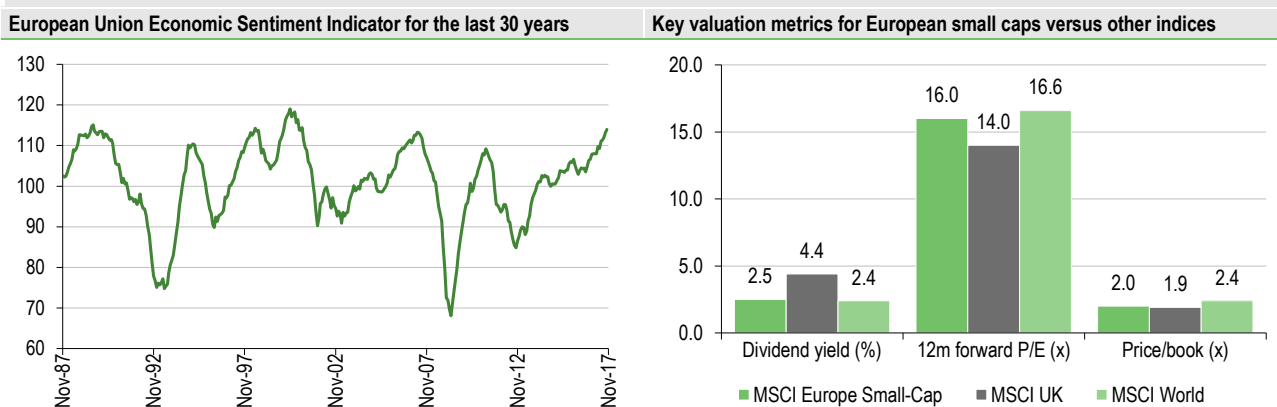
Company	Country	Sector	Portfolio weight %	
			31 October 2017	31 October 2016
TKH	Netherlands	Industrials	2.9	N/A
ams	Austria	Information technology	2.8	N/A
Amplifon	Italy	Healthcare	2.6	2.1
Rémy Cointreau	France	Consumer staples	2.5	N/A
IMCD	Netherlands	Industrials	2.5	N/A
Sopra Steria	France	Information technology	2.4	N/A
Trigano	France	Consumer discretionary	2.4	2.0
Sbanken	Sweden	Financials	2.4	N/A
Huhtamäki	Finland	Materials	2.3	N/A
Husqvarna	Sweden	Consumer discretionary	2.3	N/A
Top 10			25.1	20.0

Source: JPMorgan European Smaller Companies Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in October 2016 top 10.

Market outlook: European economy looking brighter

Coming out of the global financial crisis, the European economy was much slower to recover versus other developed markets such as the US. However, as evidenced by the European Union Economic Sentiment Indicator (Exhibit 2, left-hand side), economic conditions in the region are now looking much more favourable. A series of political elections have had market-friendly outcomes, which, along with an improvement in corporate earnings, has led to improved investor sentiment towards the region. In terms of valuations, European small-cap equities are trading at a modest forward P/E discount to world equities, are cheaper on a price-to-book multiple basis and offer a modestly higher dividend yield. While investment in small-cap stocks may be inherently more risky than large-caps, data from J.P. Morgan Asset Management shows that since end-1992 to date, the total return of the EMIX Smaller Europe Companies ex-UK Index has outpaced the total returns of developed and emerging market major indices by quite some margin.

Exhibit 2: European economic sentiment indicator and valuation



Source: Thomson Datastream, Bloomberg, Edison Investment Research. Note: Valuation data as at 1 December 2017.

Fund profile: European small-cap specialist

JESC was launched in April 1990, and aims to generate long-term capital growth from a diversified portfolio of European ex-UK small-cap equities. The trust has three managers, who are able to draw on the broad resources of J.P. Morgan Asset Management's European equity team, which numbers more than 50. Jim Campbell has been JESC's manager since 1995 (he is currently on personal leave), Francesco Conte since 1998 and Edward Greaves since 2016. JESC is benchmarked against the EMIX Smaller Europe ex-UK Index. No more than 5% of the portfolio may be invested in a single stock, and no more than 15% may be invested outside of the benchmark. The trust is permitted to hedge foreign currency exposure, but does not in practice. The gearing policy is for JESC to be positioned between 20% net cash and 20% geared; at end-October 2017, the trust had net gearing of 5.2%. JESC has a long-term track record of outperformance versus the benchmark; over the last 20 years to end-October 2017, its NAV total return (net of fees) of 15.0% pa is 4.7pp above the benchmark's annual total return.

The fund managers: Campbell, Conte and Greaves

The managers' view: Still constructive on European outlook

The managers say that the macro backdrop over the last six months has been supportive for equity markets. There has been a synchronised global economic expansion following an uptick in regional

purchasing manager indices (PMIs), which started at the end of 2016. They comment that in a global context, European PMIs have been particularly strong and small-cap European companies in aggregate are beating earnings estimates to a larger degree than larger-cap firms.

Looking at valuation, European small-caps are trading at a price-to-book ratio of c 2.0x, which is modestly higher than the 1.8x long-term average; however, the managers believe that company valuations are supported by robust earnings growth in 2017, which is also anticipated in 2018. In addition, they believe the ECB will remain supportive, keeping interest rates low while quantitative easing is tapered, and the political environment is viewed as benign. Hence, the managers remain constructive on the outlook for European small-cap equities. However, they are mindful that there has been no meaningful correction in the global stock market since late 2016, and selected markets such as the US are now looking unattractively valued.

JESC's managers highlight the trust's global exposure, with less than 50% of the revenues generated by portfolio companies originating from Europe, and less than 20% in North America, which is eclipsed by a c 25% exposure to emerging markets. They add they are continuing to find quality companies that they are able to buy during periods of temporary share price weakness.

The managers highlight top 10 holding Huhtamäki, a Finnish company that is a world leader in food and drink packaging. Around 40% of its business is in emerging markets, where demand is being driven by an expanding middle class, and the company is benefiting from a shift towards more environmentally friendly packaging materials, such as wood and paper rather than plastic. Huhtamäki's stock price declined due to its exposure to India, where operations were affected by the government's demonetisation policy and a change in value added tax, which meant the company had to reprint packaging with different prices. The managers undertook detailed fundamental analysis and met Huhtamäki's management before investing. They believed that the Indian issues were temporary factors and initiated a position at an attractive valuation; recent newsflow regarding India has been supportive of this thesis.

Asset allocation

Investment process: Quality, momentum and valuation

JESC's managers aim to generate long-term capital growth from a relatively concentrated portfolio of 50-75 stocks, diversified by geography and sector. They seek high-quality companies, with positive earnings and share price momentum that are attractively valued. Portfolio holdings tend to fall into one of three 'buckets': compounders that generate organic growth regardless of the stage of the economic cycle; secular growth companies that provide a product or service that addresses a specific need; or out-of-favour turnaround situations. There is a broad investment universe of c 1,500 stocks and the trust is benchmarked against the EMIX (formerly Euromoney) Smaller Europe ex-UK Index, which at end-March 2017 had c 1,000 companies with market caps between £22m and £4.4bn, spread across 14 countries.

The universe is screened using a proprietary multi-factor model; companies passing the screen undergo rigorous fundamental analysis. Position sizes are determined by the managers' level of conviction and the level of trading liquidity in a company's shares. A holding may be sold if there is a deterioration in a company's business outlook, if its market cap has significantly outgrown the benchmark index, on valuation grounds, or if there is a better investment opportunity available.

Current portfolio positioning

At end-October 2017, JESC's top 10 positions made up 25.1% of the portfolio, which was a higher concentration than 20.0% 12 months earlier; just two companies were common to both periods. In

terms of geographic exposure (Exhibit 3), as at end-October 2017, the largest country overweight is Italy (+7.9pp), while the largest underweight is Spain (-7.7pp).

Exhibit 3: Portfolio geographic exposure vs benchmark (% unless stated)				
	Portfolio end-Oct 2017	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Italy	20.2	12.3	7.9	1.6
France	17.6	11.7	5.9	1.5
Germany	13.3	16.3	(3.0)	0.8
Switzerland	11.0	9.6	1.4	1.1
Sweden	9.5	13.7	(4.2)	0.7
Netherlands	9.0	5.4	3.6	1.7
Norway	9.0	4.6	4.4	1.9
Denmark	5.2	4.4	0.8	1.2
Finland	3.6	4.3	(0.7)	0.8
Belgium	1.6	4.1	(2.5)	0.4
Austria	0.0	3.4	(3.4)	0.0
Ireland	0.0	0.9	(0.9)	0.0
Portugal	0.0	1.4	(1.4)	0.0
Spain	0.0	7.7	(7.7)	0.0
UK	0.0	0.2	(0.2)	0.0
	100.0	100.0		

Source: JPMorgan European Smaller Companies Trust, Edison Investment Research. Note: Excludes cash. Companies categorised by country of listing.

JESC's sector exposure is shown in Exhibit 4. Over the last 12 months to end-October, there is higher exposure to consumer discretionary stocks (+6.1pp), which are now nearly double the benchmark's weight, and there is lower exposure to the diverse industrial sector (-6.8pp), although the trust remains marginally overweight versus the index.

Exhibit 4: Portfolio sector exposure vs benchmark (% unless stated)						
	Portfolio end-October 2017	Portfolio end-October 2016	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Consumer discretionary	27.2	21.1	6.1	14.2	13.0	1.9
Industrials	27.0	33.8	(6.8)	25.4	1.6	1.1
Information technology	19.3	14.5	4.8	9.4	9.9	2.1
Consumer staples	11.8	10.1	1.6	6.4	5.4	1.8
Financials	6.9	3.5	3.5	12.6	(5.7)	0.5
Healthcare	4.1	7.9	(3.8)	7.6	(3.5)	0.5
Materials	3.7	6.0	(2.3)	7.3	(3.6)	0.5
Energy	0.0	0.0	0.0	2.8	(2.8)	0.0
Real estate	0.0	1.3	(1.3)	7.6	(7.6)	0.0
Telecommunications	0.0	1.8	(1.8)	3.4	(3.4)	0.0
Utilities	0.0	0.0	0.0	3.3	(3.3)	0.0
	100.0	100.0		100.0		

Source: JPMorgan European Smaller Companies Trust, Edison Investment Research. Note: Excludes cash.

JESC is continuing to invest in companies that are embracing technological change. The largest holding is in Dutch company TKH, which has evolved over the years. Founded in 1930, it was originally a cable manufacturer. Several years ago the then-new CEO decided that this business had limited potential, and that it was necessary to focus on providing value-added products. TKH is now a high-tech industrial company focusing on four technologies: vision and security, communication, connectivity and manufacturing systems. The core technologies are combined with software and system integration tools, providing products and services via three business segments: telecom solutions (13% of H117 revenues), building solutions (43%), and industrial solutions (44%). One of TKH's key growth markets is machine vision, where demand is increasing due to the trend towards industrial automation and the use of robotics; a major development is a breakthrough technology for 3D inspection. TKH is a leading supplier of high-tech manufacturing systems to the major global tyre makers, with a current market share greater than 20%, and a target to achieve a greater than 50% share. Over 70% of existing tyre manufacturing systems are more than 15 years old; the benefits of TKH's high-tech systems include higher levels of productivity and efficiency, an improvement in product quality and reduced waste. JESC's

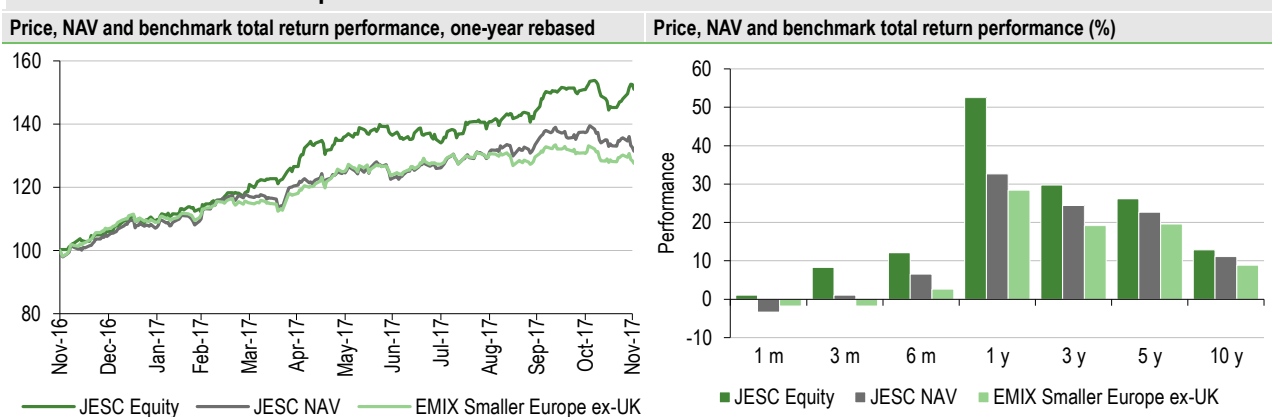
managers are impressed with the quality of TKH's management team, and note that the company has a strong new product pipeline.

One of JESC's relatively new holdings is ForFarmers, a Dutch company providing total feed solutions for conventional and organic livestock farmers in the Netherlands (46% of H117 volumes), UK (32%) and Germany/Belgium (22%). The company is the European market leader selling c 9.3m tonnes of feed annually. JESC's managers believe that ForFarmers is a high-quality business that is generally overlooked by investors; the company generates a high level of free cash flow, which is used to make accretive acquisitions. ForFarmers aims to improve returns for farmers, delivering sustainable feed solutions and advice, which lead to a healthier herd and higher yields. A recent new product introduction is NOVA for swine farmers; benefits include higher milk production per sow and more piglets per litter. Earlier in 2017, the company announced that it expected feed volumes in the dairy sector to fall, due to the introduction of phosphate emission limits on Dutch dairy farmers beginning 1 March 2017. After the resulting enforced decrease in the number of animals, dairy farmers are focusing on increasing milk yields, which has actually led to higher demand for performance feeds. ForFarmers' Q317 results were strong across all geographies, driven by organic growth, and as a result of acquisitions, such as Vleuten-Steijn, which is one of nine deals completed since 2012.

Performance: Strong relative performance record

Looking at Exhibit 5 (right-hand side), JESC's absolute returns have been very strong; over the last 12 months, its NAV and share price total returns of 32.6% and 52.5%, respectively, are meaningfully ahead of the benchmark's 28.4% total return. The managers comment that they are very pleased with JESC's performance, which has been driven by bottom-up stock selection of companies across a broad range of sectors, such as German machinery company Aumann and French motor home manufacturer Trigano.

Exhibit 5: Investment trust performance to 30 November 2017



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

Exhibit 6: 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 EMIX Smaller Europe ex-UK	2.9	10.3	9.3	18.8	28.9	30.3	43.0
NAV relative to EMIX Smaller Europe ex-UK	(1.6)	2.9	3.8	3.3	13.8	13.2	22.9
Price relative to FTSE World Europe ex-UK	2.7	9.6	9.7	22.0	55.3	69.4	82.9
NAV relative to FTSE World Europe ex-UK	(1.8)	2.3	4.3	6.1	37.1	47.2	57.1
Price relative to FTSE All-Share	2.7	8.6	12.3	34.6	74.2	103.2	89.3
NAV relative to FTSE All-Share	(1.8)	1.3	6.7	17.0	53.8	76.5	62.6

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

JESC's positive relative investment track record is illustrated in Exhibit 6; the trust has outperformed the benchmark in both NAV and share price terms over the majority of periods

shown. It has also outpaced the performance of the FTSE World Europe ex-UK and FTSE All-Share indices over the short, medium and long term.

Exhibit 7: NAV total return performance relative to benchmark over three years



Source: Thomson Datastream, Edison Investment Research

Discount: The narrowing trend continues

JESC's current 5.6% share price discount to cum-income NAV is towards the low end of the 4.7% to 16.9% range of the last 12 months. It is lower than the averages of the last one, three, five and 10 years (11.9%, 11.6%, 12.2% and 14.6%, respectively). The discount has been in a narrowing trend since mid-November 2016, with scope for further narrowing if JESC continues to build on its long-term positive performance record.

Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

JESC is a conventional investment trust with one class of share; there are currently 160.0m ordinary shares in issue. The trust has a €95m unsecured loan facility with Scotiabank that expires on 19 January 2018. The board permits JESC to hold between a 20% geared and a 20% net cash position; at end-October net gearing was 5.2%.

The trust has introduced another reduction in its fee structure. Effective from 1 April 2017, the annual management fee is 1.0% on the first £400m of net assets and 0.85% on net assets above £400m (previously a flat 1.0% fee, and 1.3% prior to 1 April 2015). In FY17, ongoing charges of 1.13% were 5bp lower than the prior financial year.

Dividend policy and record

JESC aims to generate long-term capital growth rather than income; therefore investors should expect the level of annual dividend to vary. Between zero and two dividends are paid each financial year; interims when paid are in January, and finals, when paid, are in July. In FY17, the net revenue return of £7.8m was more than a third higher than £5.7m in FY16. The total annual dividend of 4.7p was more than covered by income, and was nearly 50% higher than the 3.2p total dividend paid in FY16. Revenue reserves of £4.0m following the FY17 final dividend are equivalent to c 50% of the latest annual dividend. Based on the current share price, JESC has a 1.1% dividend yield.

Peer group comparison

There are just four trusts in the AIC European Smaller Companies sector, of which JESC is the largest. Its NAV total returns are above average over all periods shown: ahead by 0.5pp, 10.1pp, 21.2pp and 29.0pp over one, three, five and 10 years, respectively. Despite this strong performance record, JESC trades at one of the widest discounts. Its ongoing charge is in line with the average and no performance fee is payable. JESC's level of gearing is broadly average and its dividend yield is higher than the three trusts that have a traditional dividend policy (European Assets Trust pays out an annual distribution equivalent to 6% of year-end NAV).

Exhibit 9: AIC European Smaller Companies sector peer group as at 1 December 2017*

% unless stated	Market cap £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 (%)
JPMorgan European Smaller Cos	661.5	32.6	92.7	177.3	189.2	(3.3)	1.1	No	107	1.1
European Assets	442.8	26.0	53.3	135.2	140.8	1.8	1.2	No	100	5.0
Montanaro European Smaller	135.5	30.7	79.2	102.9	145.2	(8.8)	1.3	No	103	1.0
TR European Growth	585.8	39.2	105.3	209.1	165.6	0.4	0.8	Yes	114	1.0
Average	456.4	32.1	82.6	156.1	160.2	(2.5)	1.1		106	2.0
JESC's rank in sector	1	2	2	2	1	3	3		2	2

Source: Morningstar, Edison Investment Research. Note: *Performance to 30 November 2017. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

JESC's board has five non-executive, independent directors. Carolan Dobson was appointed in September 2010 and took on the role of chairman in 2013. The chairman of the audit committee is Nicholas Smith; he was appointed in May 2015. Stephen White was appointed in April 2012, Ashok Gupta in January 2013, and Marc Van Gelder in August 2016.

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