EDISON

JPMorgan Global Growth & Income

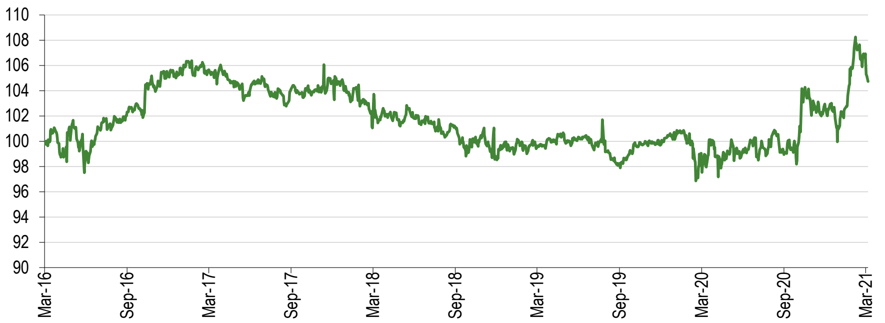
Leaning into the recovery and outperforming peers

Investment trusts
Global equity income

6 April 2021

JPMorgan Global Growth & Income (JGGI) seeks to provide superior total returns and outperform its benchmark, the MSCI AC World Index, over the long term by investing in international equities. JGGI's managers, Helge Skibeli, Raj Tanna and Tim Woodhouse believe the market is under-estimating the extent of pent-up consumer demand generated by a year in lockdown. In their view, this has created many 'exceptional opportunities' among economically-sensitive stocks that will benefit from the ensuing economic rebound. The managers have therefore taken some profits on the pandemic's structural winners and are using the proceeds to 'lean into' attractively priced value and cyclical stocks. These decisions are already starting to pay off. The trust has made solid positive returns and outperformed its benchmark and peers over both the short term and longer periods.

NAV performance relative to benchmark over five years



Source: Refinitiv, Edison Investment Research. Total returns in sterling.

Why invest in global equity income now?

Global equity markets have welcomed the improvement in the economic outlook heralded by the arrival of viable coronavirus vaccines. However, JGGI's managers believe persistent scepticism about the prospects of many economically sensitive stocks has generated opportunities to invest in recovering businesses at attractive valuations.

The analyst's view

Investors will be drawn to this trust by the managers' well-proven stock selection skills. JGGI's new dividend policy, which pays out at least 4% of NAV at the end of the previous financial year, part-funded from reserves if necessary, should appeal to investors seeking a competitive and globally diversified income, and also to those wanting certainty regarding dividend payments in the coming year. The trust's global focus is attractive to investors seeking diversification away from the UK market.

Premium underpinned by high distribution policy

JGGI's share price has traded at a small premium to cum-income NAV for several years, supported by its new distribution policy and by strong and improving performance. The trust currently offers a yield of 3.2% (based on the current share price and prospective dividend payments for FY21).

NOT INTENDED FOR PERSONS IN THE EEA

Price		**414.0p**
Market cap		**£611.5m**
AUM		**£638.0m**
NAV*		398.4p
Discount to NAV		3.9%
*Including income. As at 1 April 2021.		
Yield		3.2%
Ordinary shares in issue		147.7m
Code/ISIN		JGGI
Primary exchange		LSE
AIC sector		Global Equity Income
52-week high/low	414.0p	287.0p
NAV* high/low	403.5p	283.3p
*Including income		
Gross gearing*		5.9%
Net gearing*		5.9%
*As at 26 March 2021		

Fund objective

JPMorgan Global Growth & Income aims to provide superior total returns and outperform the MSCI AC World index (in sterling terms) over the long term by investing in companies based around the world, drawing on an investment process underpinned by fundamental research. JGGI makes quarterly distributions, set at the beginning of each financial year, with the intention of paying a dividend equal to at least 4% of NAV at the time of announcement.

Bull points

- Offers a high dividend which can be part-funded from reserves, freeing the managers from the need to invest solely in high income stocks.
- Outperformance over the short and longer term.
- The strategy is supported by the significant research resources and expertise of JPMorgan Asset Management's large global equity team.

Bear points

- Performance is now more reliant on a continued rotation into value and cyclical stocks.
- The portfolio is underweight key emerging markets, when measured according to country of listing.
- Portfolio concentration is increasing.

Analysts

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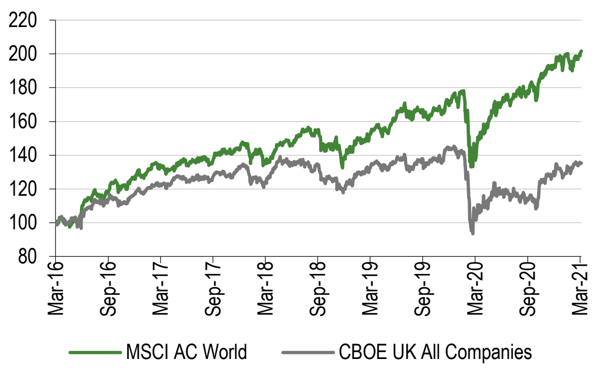
Market outlook: Many cyclical stocks slow to recover

The outlook for the global economy improved significantly in November 2020 when the arrival of several viable COVID-19 vaccines cleared the way for the resumption of commercial and social activity. This was particularly good news for value and cyclical stocks in the sectors most affected by the pandemic – banks struggling with ultra-low interest rates, oil companies hit by the plunge in demand, especially for aviation fuel, traditional retailers, and the travel and hospitality industries. Governments and central banks appear determined to support the recovery with aggressive fiscal stimulus, prolonged periods of low interest rates, loan programmes and asset purchases to limit the rise in bond yields.

Global equity markets responded positively to the brightening economic prospects and the associated improvement in the outlook for corporate earnings. Investor sentiment was boosted further in March 2021 when the US Congress approved President Biden's enormous fiscal stimulus package. Since the beginning of November 2020, the MSCI AC World Index has risen by more than 20% and many markets have surpassed their pre-pandemic highs. Yet investors still seem sceptical about the prospects for many of the value and cyclical stocks set to benefit most as economies re-open, and the recovery gathers momentum. The performance of such stocks has lagged the rise in the overall market accordingly and generated many opportunities to invest in recovering businesses at attractive valuations.

Exhibit 1: Market performance and valuation

Global and UK index total returns over five years (£)



12-month forward P/E valuations of Datastream indices (at 5 April 2021)

	Last	High	Low	10-year average	Last as % of average
Europe	14.8	17.0	8.2	12.8	116
UK	14.4	15.7	8.5	13.0	110
US	23.2	24.0	11.2	16.5	141
Japan	17.6	18.6	10.5	13.9	127
World	19.6	19.8	10.0	14.3	137

Source: Refinitiv, Edison Investment Research

The fund managers: Skibeli, Tanna and Woodhouse

The managers' view: Now 'leaning into value names'

JGGI's managers believe that the arrival of proven vaccines, combined with massive economic support from governments and central banks, heralds the start of a new cycle of global economic expansion set to last several years. They expect the economic rebound to be especially vigorous in the US, where President Biden's recent fiscal package will put significant amounts of additional cash in the pockets of all lower-income households, which have the greatest marginal propensity to spend. Yet in the managers' view, the market is underestimating the extent of pent-up consumer demand for shopping, eating out, entertainment and travel. This has created what Tim Woodhouse, JGGI's co-manager, views as many 'exceptional opportunities', especially among the value and cyclical stocks that will benefit most from a significant and sustained economic rebound.

JGGI's performance was boosted in the early stages of the pandemic by its holdings in the stocks that benefited most from the pandemic – technology companies and digital service providers that saw demand for their products soar as work, schooling, shopping and socialising all moved online. 'These are great businesses, which will continue to thrive' according to Woodhouse, and he and his colleagues believe they have scope to grow further in the medium term, thanks to ongoing structural change. Amazon's move into 'just walk out' grocery stores is one example. These stocks therefore remain a key component of JGGI's portfolio (Exhibit 2). However, in the managers' view, demand for these products and services has probably peaked in the near term. Meanwhile, the prospect of a multi-year recovery in real world activity has inspired JGGI's managers to begin 'recycling' some of the trust's exposure to these companies into the opportunities they see among stocks set to gain most from the economic recovery. In Woodhouse's words, they are now 'leaning into value names' among banks, oil producers, restaurant chains and travel companies.

In addition to their efforts to take advantage of the economic rebound, JGGI's managers remain focused on identifying and capitalising on structural change. Foremost on the list of trends they are monitoring is the 'new energy revolution' and the associated move towards electrification, which is driving growth in many sectors, especially wind and solar power generation and semi-conductor production. The trust's managers believe these developments will be given fresh impetus under the Biden administration, as renewable energy and climate change mitigation are at the top of the US president's political agenda. Companies' commitments to reduce or eliminate their carbon footprints are forcing widespread innovation and change, even among sectors such as coal and oil companies and car manufacturers, formerly viewed as the root of environmental concerns, rather than part of the solution.

An example of how these trends affect investment decisions within JGGI's portfolio is the managers' view on electric vehicles: they expect the market for electric vehicles to grow significantly in future. However, the trust does not own electric vehicle manufacturer Tesla, due to what the managers believe is its excessive valuation, but has invested in this sector via stocks where expectations and valuations are lower. Holdings include Volkswagen, which had problems developing its electric vehicle, but is now close to marketing what the managers believe to be 'a compelling alternative to Tesla'.

The many long-term investment opportunities in emerging markets are another thematic focus for Woodhouse and his co-managers. With China set to become the world's largest economy and India 'only 15 years behind', according to Woodhouse, he feels these massive and growing markets will prove lucrative for many companies, especially those providing financial and insurance services. He cites Ping An as an example of a Chinese insurance company with a sizable opportunity, especially considering the technology-focused businesses that they have grown alongside their core business. JGGI owns Ping An.

The managers believe that the emerging recovery, fuelled by sustained fiscal and monetary stimulus, is likely to trigger inflationary pressures. So, when assessing the portfolio's current and potential holdings, they are now particularly focused on finding companies that have the pricing power to mitigate raw material price rises, wage inflation and other cost pressures and thus protect their profit margins.

For Woodhouse, equities are 'a great place to be as the global economy pulls out of recession. We have never been more convinced of the merits of investing globally'. For him, 'the sheer size of the worldwide opportunity set gives the trust the best chance to generate superior total returns by identifying the most compelling investments, regardless of their location'. At the same time, JGGI's new dividend policy offers investors 'a great yield in a low yield world', he concludes.

Asset allocation

Current portfolio positioning

The managers' decision to take some profits on the trust's holdings in the pandemic's structural winners and 'recycle' the proceeds into stocks set to gain from the economic recovery has led them to trim exposure to several technology companies such Dutch semiconductor manufacturers NXP Semiconductors (still a top 10 company, see Exhibit 2), ASML and Taiwan Semiconductor Manufacturing Company (TSMC), the leader in nanoscale chip production. The managers also reduced exposure to Amazon (still a top 10 holding), Honeywell, the US specialist machinery manufacturer, and the Chinese internet retail giant, Alibaba, due to uncertainties about Chinese government policies in relation to the mega-cap fintech companies.

The proceeds of these sales have funded what the managers refer to as 'more compelling ideas among cyclical companies with positive, stock-specific stories'. They have increased exposure to Lyft, the US's second largest ride share company after Uber, which the managers expect to remain an important player in this market, with scope to expand as it begins to use autonomous cars. The trust has also acquired a new position in Yum Brands, the owner of restaurant chains KFC, Taco Bell and Pizza Hut, all of which are expected to benefit from President Biden's cash payments to lower income households. To capitalise on the expected surge in pent-up demand for leisure travel, the managers have opened a position in Ryanair, which they favour due to its strong financing position and cost advantage, and increased exposure to Mastercard (now a top 10 holding) which, like the trust's position in American Express, will benefit from the rebound in travel spending regardless of the destination. The portfolio also has large overweights to Airbus and to the holiday accommodation platform Booking.com.

JGGI's managers began increasing exposure to financials last autumn, including adding a new position in Wells Fargo. Woodhouse and his colleagues believe this bank is at an inflection point, with its new management team set to turn the business around after the 2016 mis-selling scandal. The new team is buying back shares and rationalising the bank's operations – it is expected to shed its asset management arm in the coming years. The trust has also acquired a position in BNP Paribas. Among industrial companies, the managers added to their holding in Schneider Electric, a French electrical equipment company that focuses on energy management and automation. This is a long-term holding that JGGI's managers believe is still in the early stages of realising its growth potential.

Exhibit 2: Top 10 holdings (at 28 February 2021)

			Portfolio weight %	
Company	**Country**	**Sector**	**28 February 2021**	**29 February 2020***
Alphabet**	US	Media	5.0	3.7
Microsoft	US	Tech – software	4.6	4.0
Amazon	US	Media	4.2	3.6
NXP	Netherlands	Tech – Semi & Hardware	2.9	N/A
Analog Devices	US	Tech – Semi & Hardware	2.8	1.9
Samsung Electronics	South Korea	Tech – Semi & Hardware	2.8	N/A
Coca-Cola	US	Consumer Staples	2.7	2.8
Adidas	Germany	Consumer discretionary	2.6	N/A
Mastercard	US	Financials	2.5	N/A
ConocoPhillips	US	Energy	2.5	N/A
Top 10 (% of portfolio)			**32.6**	**28.1**

Source: JPMorgan Growth & Income, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-February 2020 top 10. **Parent of Google.

JGGI's move towards value and cyclical stocks is reflected in its top 10 holdings. The big tech companies – Alphabet (Google's parent), Microsoft and Amazon – still occupy the top three places, while semiconductor producers NXP and Analog Devices are also in the top five. As discussed above, the managers believe these companies have scope for further significant growth over the medium term. However, cyclical names with positive near-term prospects now comprise the other half of the list. Exhibit 2 also shows that JGGI's portfolio has become more concentrated over the past year. This follows a change in the investment guidelines implemented in April 2020, which were intended to increase the managers' flexibility to own and overweight the largest stocks in the trust's benchmark, even in the face of rising valuations. From 1 April 2020, the aggregate of the top 10 holdings may not exceed 35% (30% prior to April 2020) of the total portfolio. At the end of February 2021, the trust's top 10 holdings comprised 32.6% of the portfolio, up from 28.1% a year earlier, while the number of holdings declined to 59, compared to 63 in July 2020. Annual portfolio turnover also increased during 2020 to close to 90%, higher than the long-term average of between 60% and 80%.

Exhibit 3: Portfolio geographic exposure vs MSCI AC World index (% unless stated)

	Portfolio end-Feb 2021	Portfolio end-Feb 2020	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
North America	66.9	56.3	10.6	59.9	7.0	1.1
Europe & ME ex-UK	25.1	22.9	2.2	12.9	12.2	1.9
Emerging markets	4.3	7.6	(3.3)	13.5	(9.2)	0.3
United Kingdom	2.3	4.6	(2.3)	3.8	(1.5)	0.6
Japan	1.8	3.2	(1.4)	6.7	(4.9)	0.3
Pacific ex-Japan	0.0	0.0	0.0	3.2	(3.2)	0.0
Cash	(0.4)	5.4	(5.8)	0.0	(0.4)	N/A
	100.0	**100.0**		**100.0**		

Source: JPMorgan Global Growth & Income, Edison Investment Research

Seven of JGGI's top 10 holdings are US-listed companies, which span several sectors – not just tech and media, but also consumer staples, financials and energy – and the portfolio as a whole is overweight the US (Exhibit 3). In addition to investments in stocks such as Lyft, with very positive prospects, this overweight is also in part a reflection of the managers' view, discussed above, that the US economic rebound will be stronger than the recovery in other regions, thanks to the additional impetus provided by President Biden's massive recovery package. This view has, for example, motivated the acquisition of several restaurant chains, Conversely, the trust's largest overweight, to Europe, is driven more by stock-specific factors attracting the managers to companies such as NXP, Schneider Electric, Volkswagen and Airbus. Another notable aspect of the trust's geographical exposure (illustrated in Exhibit 3) is its apparently increasing underweight to emerging markets, despite the managers' confidence in the long-term investment opportunities available in countries such as China and India (discussed above). However, the managers stress that basing market exposure simply on country of listing does not show the true extent of the portfolio's exposure to these markets. Once account is taken of the revenue exposures of the trust's holdings, the portfolio is closer to neutral on emerging markets. The trust's small underweight to the UK is simply due the fact that the managers see more compelling opportunities in other regions.

Exhibit 4: Portfolio sector exposure vs MSCI AC World index (% unless stated)

	Portfolio end-Feb 2021	Portfolio end-Feb 2020	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Tech – semi & hardware	12.2	7.0	5.2	11.6	0.6	1.1
Media	11.5	8.6	2.9	11.0	0.5	1.0
Pharma & medtech	10.5	9.8	0.7	9.6	0.9	1.1
Industrial cyclicals	10.5	11.1	(0.6)	7.0	3.5	1.5
Banks	9.1	6.5	2.6	8.4	0.7	1.1
Retail	5.6	8.4	(2.8)	5.4	0.2	1.0
Automobiles & auto parts	4.9	N/S	N/A	2.9	2.0	1.7
Consumer staples	4.7	4.1	0.6	5.4	(0.7)	0.9
Technology – software	4.6	8.6	(4.0)	7.5	(2.9)	0.6
Consumer cyclical & services	4.5	N/S	N/A	2.6	1.9	1.7
Others	22.3	30.5	(8.2)	28.6	(6.3)	0.8
Cash	(0.4)	5.4	(5.8)	0.0	(0.4)	N/A
	100.0	**100.0**		**100.0**		

Source: JPMorgan Global Growth & Income, Edison Investment Research

Performance: Stock selection is driving strong returns

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI AC World (%)	MSCI World (%)	CBOE UK All Cos (%)
31/03/17	47.7	40.5	33.0	32.7	22.6
31/03/18	9.2	(1.6)	2.9	1.8	1.2
31/03/19	5.1	9.3	11.1	12.6	6.2
31/03/20	(3.0)	(7.3)	(6.2)	(5.3)	(19.1)
31/03/21	47.6	50.9	39.6	39.1	26.6

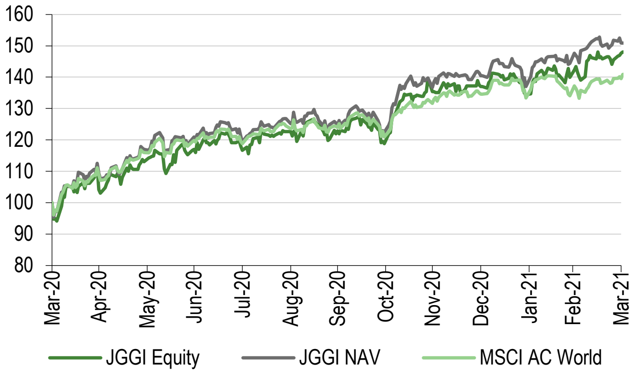
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

In the six months to end-March 2021, JGGI returned 20.2% on a share price basis and 20.9% in NAV terms, outperforming its benchmark, the MSCI AC World Index, which returned 12.6%. Exhibit 6 shows that the trust has also produced solidly positive gains and outperformed its benchmark in share price and NAV terms over one, three and five years, and over 10 years on a share price basis. It has outperformed the UK market, as represented by the CBOE UK All Companies Index, more decisively over all periods shown in Exhibit 7, while Exhibit 8 shows that JGGI outperformed all its peers in the AIC Global Equity sector over all periods shown. This is an improvement on its number two ranking against its peers over one, three, five and 10 years, in September 2020.

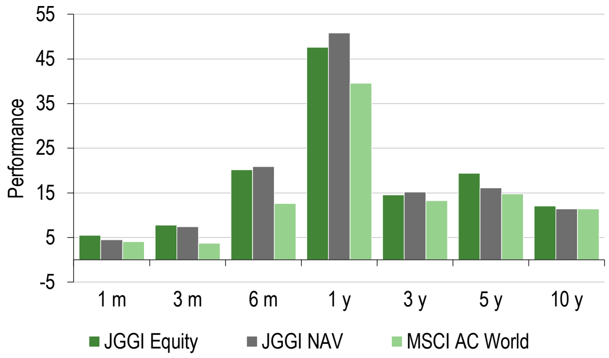
The managers' superior stock selection skills across a number of sectors have contributed to the recent strong and improving performance. Their decision to begin increasing exposure to financials benefited performance in September and October, and these stocks did even better into the year-end, outperforming the market in the wake of November's positive vaccine news. The trust's overweight to Morgan Stanley led the contribution from this sector. Stock selection in the technology sector (notably Amazon) and among the semiconductor producers, especially TSMC, also supported returns. Within the technology software sector, the trust's overweight to the ride company Lyft has been the main contributor to the trust's returns, thanks in part to a very strong performance on the back of increased demand from customers keen to avoid public transport and better than expected Q420 results. Exposure to the pharmaceutical and medtech sector also enhanced returns, thanks to strong rebounds in several holdings including Zimmer Biomet, a leading manufacturer of orthopaedic implants, which gained as elective procedures resumed in H220. Alexion Pharmaceuticals, an innovative biotech company that develops drugs for rare blood disorders, also contributed to performance, driven by an acquisition bid by AstraZeneca, which the company accepted.

Exhibit 6: Investment trust performance to 31 March 2021

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



Price, NAV and benchmark total return performance (%)



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

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI AC World	1.3	3.9	6.7	5.8	3.5	22.0	6.2
NAV relative to MSCI AC World	0.4	3.6	7.4	8.1	5.1	6.2	(0.0)
Price relative to MSCI World	0.7	3.5	7.0	6.1	1.4	21.1	(1.0)
NAV relative to MSCI World	(0.3)	3.2	7.7	8.5	3.0	5.5	(6.7)
Price relative to CBOE UK All Companies	1.0	2.0	0.8	16.6	38.3	79.8	74.6
NAV relative to CBOE UK All Companies	(0.0)	1.7	1.4	19.2	40.5	56.6	64.4

Source: Refinitiv, Edison Investment Research. Note: Data to end-March 2021. Geometric calculation.

These gains were only partly offset by the adverse impact of not owning Tesla and being underweight Apple, combined with poor performances from some holdings, notably the portfolio's energy exposure, which detracted from returns despite a bounce in the oil price. However, the trust continues to own BP and ConocoPhillips (a top 10 holding) on the expectation that the market will eventually reward these energy companies for their good cash flow generation and capital discipline and give greater credence to their efforts to address environmental concerns. Overweights to Volkswagen, Airbus and ADP (a US employment services company) detracted, but the managers continue to hold these names on the view that Volkswagen's electric car is about to win favour among investors, while the recovery will eventually support Airbus and ADP.

Peer group comparison

JGGI became a member of the AIC's Global Equity sector in FY17 when it adopted its higher distribution policy. All these funds invest globally and pay dividends, but their investment approaches differ significantly. For instance, Murray International (MYI) has a strong bias towards emerging markets, while Henderson International Income (HINT) specifically excludes investment in the UK. JGGI is the third largest among its peers and its recent performance has been sufficiently strong to ensure that it is now the top performer on a NAV total return basis over all periods shown in Exhibit 8. This compares with a second-place ranking for all periods in September 2020. It has the joint lowest ongoing charge in the sector, although it is one of two funds potentially liable to pay a performance fee. The trust's premium compares with an average discount of 1.4% within the peer group, while its gearing is lower than average. JGGI's prospective dividend yield of 3.2% ranks fourth among its peers, although it is the only trust in the sector to target a specific level of dividend yield (of at least 4% of NAV per share at the end of the previous financial year) that may be partially funded out of capital. Its peers primarily pay dividends out of portfolio income.

Exhibit 8: Selected peer group at 1 April 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
JPMorgan Global Growth & Income	611.5	56.8	51.1	114.6	192.4	0.6	Yes	3.9	106	3.2
Henderson International Income	314.1	37.5	23.5	62.8		0.8	No	(7.2)	111	3.7
Invesco Select Glo Eq Inc	50.2	55.4	26.7	74.5	163.6	0.9	Yes	(8.3)	111	3.3
Murray International	1,535.3	36.9	16.9	57.8	102.3	0.6	No	3.4	113	4.6
Scottish American	768.8	37.4	43.0	103.5	165.4	0.7	No	2.8	112	2.6
Securities Trust of Scotland	204.9	31.8	29.2	63.0	139.4	0.9	No	(0.8)	109	2.8
Simple average (six funds)	**580.8**	**42.6**	**31.7**	**79.3**	**152.6**	**0.8**		**(1.0)**	**110**	**3.4**
PMGR rank in peer group	**3**	**1**	**1**	**1**	**1**	**6**		**1**	**6**	**4**

Source: Morningstar, Edison Investment Research. Note: *Performance as at 1 April 2021 based on ex-par NAV. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends

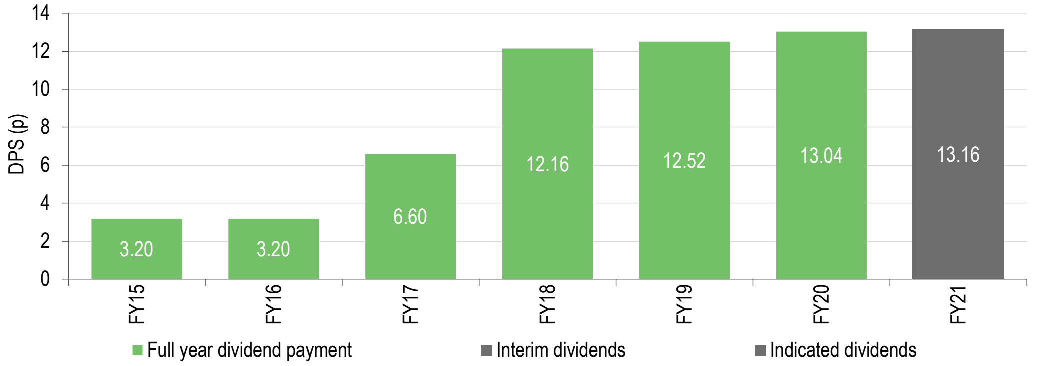
JGGI's new dividend policy pays a dividend of at least 4% of NAV at the end of the previous financial year. The dividend is paid in four equal instalments in October, January, April and July and can be part-funded from capital and revenue reserves. The dividend has grown in absolute terms each year since the higher distribution policy took effect in FY17 (see Exhibit 9).

The board views the option to part-fund dividends from reserves as a way of meeting investors' desire for income and clarity over dividend payments for the coming year, while still pursuing JGGI's growth-oriented investment strategy, as it means that the trust's managers are not constrained by the need to invest in high dividend-paying companies. This leaves them free to invest in non-dividend paying companies, to benefit from their capital growth. JGGI's move from trading at a discount to NAV to trading at a small premium since the introduction of the new distribution policy appears to confirm investors' satisfaction with this approach.

The trust experienced some dividend cuts during FY20 as a result of the pandemic, but this did not affect dividend distribution for FY20 and it is not expected to have an effect on FY21 dividends either. In FY20, the trust still paid a dividend of 13.04p per share, up from 12.52p in FY19 and on 1 July 2020, the board declared a FY21 dividend of 13.16p, which equates to a prospective yield of 3.2% at the current share price.

The FY20 dividend of 13.04p per share was mainly funded from reserves, as the FY19 revenue return per share was 4.87p. In FY20, the revenue return declined to 4.00p, so the FY21 dividend of 13.16p will also be funded largely from reserves. However, JGGI's reserves are substantial. As at end December 2020, the trust had no revenue reserve, but the capital reserve stood at £444.9m, up 19.6% from £372.0m at the end of June 2020 - sufficient to fund years of dividend payments if required, even without any additional capital growth.

Exhibit 9: Dividend history since FY15

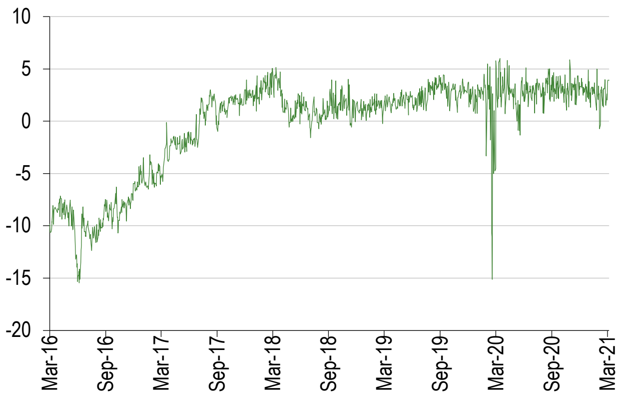


Source: JPMorgan Global Growth & Income, Edison Investment Research

Discount: Small premium proving persistent

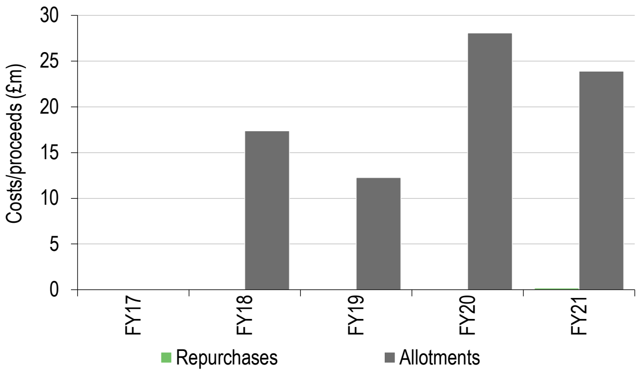
Aside from a sharp and short-lived foray into discount territory in March 2020, at the start of the coronavirus crisis, JGGI's share price has traded at a premium to cum-income NAV for most of the time since it adopted its higher distribution policy at the start of FY17 (Exhibit 10). JGGI's shares are presently trading at a premium of 3.9%, within a well-established range around a premium of 3%, compared to an average discount of 3.4% over the past 10 years. As discussed above, this significant re-rating attests to the popularity of the new dividend policy with investors and has seen the trust re-issue over 20m shares from treasury since the introduction of the higher dividend policy (Exhibit 11). The trust's strong and improving performance has further supported the share price. The board also has scope to repurchase shares with the aim of maintaining a maximum average discount of around 5%.

Exhibit 10: Discount over five years



Source: Refinitiv, Edison Investment Research

Exhibit 11: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Above-average income

JGGI was launched in 1887 and is listed on the London and New Zealand stock exchanges. It changed its name from JPMorgan Overseas in July 2016 at the same time as it adopted a higher distribution policy. This policy aims to pay a dividend of at least 4% of the previous year-end NAV, announced at the start of the financial year and paid in four quarterly instalments. This gives investors certainty over their dividends for the coming year. The new distribution policy has been welcomed by investors and the trust has re-rated significantly, from a discount to NAV to a small premium. As a result, this policy has been adopted by a number of other investment trusts managed by JPMorgan Asset Management (JPMAM), and in February 2020, JGGI changed its ticker from JPGI to enable investors to recognise it more readily as part of this suite of products, which also includes JCGI (China Growth and Income) and JAGI (Asian Growth and Income).

Investment process: A focus on structural change

JGGI is managed using JPMAM's 'global focus' investment strategy, a research-driven approach based on an in-house dividend discount pricing model, which uses cash flow projections to forecast the long-term expected returns of a company's shares. The process was adopted in September 2008 under the previous manager, Jeroen Huysinga, who retired in early 2019. The trust is now managed by Helge Skibeli, Raj Tanna and Tim Woodhouse, who was previously co-manager with Huysinga. Between them, the managers have more than 50 years' tenure at JPMAM. They are supported by a team of 97 experienced sector specialist analysts, who undertake intensive research into c 2,500 developed and emerging market companies. At the core of the process is the conviction that deep research will deliver an information advantage that allows analysts to identify the long-term winners and losers arising from structural changes. Analysts seek investment insights by considering structural change related to various themes, such as the changing consumer habits of millennials, the new energy revolution, electric and self-driving vehicles and the growing demand for financial products in Asia. Research of this kind underpins the trust's investments in companies such as Coca-Cola, Infineon (one of the top three global auto and industrial semiconductor companies), auto manufacturer Volkswagen, NextEra Energy (a world leader in solar and wind power generation) and Ping An (a pan-Asian life insurer with an unrivalled franchise and scale).

For each potential holding, analysts forecast earnings and cash flows over a range of timescales, with a particular focus on the longer term. The projected future value of each company is compared to its current value and ranked into valuation quintiles ranging from 1 (undervalued) to 5 (overvalued). JGGI's investment universe is drawn largely from stocks in the first two quintiles. To be considered for inclusion in JGGI's portfolio, stocks must pass a further three tests (in addition to being in the first two valuation quintiles). Firstly, they must have 'significant profit potential', with at least 25% earnings upside. Secondly, there must be an identifiable catalyst for revaluation, such as management change, corporate restructuring or expansion into new markets, which has the potential to change market perception of the company. Finally, the catalyst must be expected to occur within the next six to 18 months. This selection process leads to the creation of a portfolio of between 50 and 70 'best ideas' holdings.

JGGI's approach to ESG

JPMAM has over 20 years' experience of corporate engagement and governance oversight, and environmental, social and governance (ESG) factors inform and influence JGGI's longer-term forecasting. A dedicated team of ESG analysts applies a proprietary ESG checklist to each company it covers. Consideration is given to many issues including how each company addresses climate change, pollution, labour relations and diversity issues. In environmentally sensitive sectors such as energy, the managers also consider the sustainability of businesses. The quality of a company's corporate governance and management incentive structures is another consideration. In all these areas, JGGI's managers are looking for companies that may not necessarily have perfect historical ESG records but are making efforts to improve their credentials. For example, Woodhouse and his colleagues did not own Wells Fargo for several years due to its involvement in a mis-selling scandal, but they are now comfortable buying this company due to the new management team's efforts to improve the company culture. JPMAM maintains a constant dialogue with companies held in all portfolios, with the intention of holding them to account on their ESG commitments, as on other key elements of corporate strategy.

Gearing: Increase a reflection of managers' confidence

JGGI has a gearing range between 5% net cash and 20% geared in normal market conditions. The trust began 2020 with zero gearing due to the managers' concerns about excessive valuations. They began gradually increasing gearing during the summer, as market conditions stabilised and opportunities began to emerge, and at 26 March 2021, gearing stood at 5.9%. This reflects the managers' confidence in the sustainability of the economic recovery and they have indicated their willingness to increase gearing further if markets experience a pullback or if they see additional compelling opportunities. JGGI is geared via £50m of borrowings. It has £30m of 30-year unsecured fixed rate loan notes, issued in 2018, which pay an annualised coupon of 2.93% and mature in 2048, and in March 2021, the trust issued an additional £20m in fixed-rate, 15-year unsecured notes at an annualised coupon of 2.36%. The board agreed to issue the new notes to allow the managers to take advantage of current funding conditions, which they believe offer long-term borrowing at an attractive level.

Fees and charges

JGGI's Alternative Investment Fund Manager (AIFM) under the AIFM Directive is JP Morgan Funds, which receives an annual management fee of 0.4% of gross assets. The trust is liable to pay a performance fee totalling 15% of outperformance to the AIFM if the NAV total return is more than 0.5pp ahead of the benchmark in any financial year. This performance fee is paid out over the four subsequent years and may be written back in the event of future underperformance. Ongoing charges are currently 0.55% (31 December 2020).

Capital structure

JGGI is a conventional investment trust with one share class. At 1 April 2021, there were 147.7m shares in issue, with 7.2m shares held in treasury. The board has scope to allot up to 10% of shares each year to manage the premium to NAV, and regularly makes small issuances. During FY20, 8.5m shares (6.4% of the end-FY19 share count) were allotted and a further 10.6m shares have been issued so far in FY21. The board can also buy back up to 14.99% of shares annually to manage a discount to NAV. However, no shares have been repurchased in recent years.

The board

Exhibit 12: JPMorgan Global Growth & Income's board of directors

Board member	Date of appointment	Fee in FY20	Shareholdings at end-FY20
Nigel Wightman, chairman	September 2010	£42,000	80,000
Jonathan Carey	September 2009	£34,500	16,500
Tristan Hillgarth	November 2014	£30,500	15,000
Gay Collins	February 2012	£30,500	16,523
Sarah Whitney	January 2020	£30,500	Nil

Source: JPMorgan Global Growth & Income.

Nigel Wightman will retire as chairman at the end of the AGM in October this year. He will be replaced as chairman by Tristan Hillgarth. James Macpherson will join the board from 1 April 2021.

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