EDISON

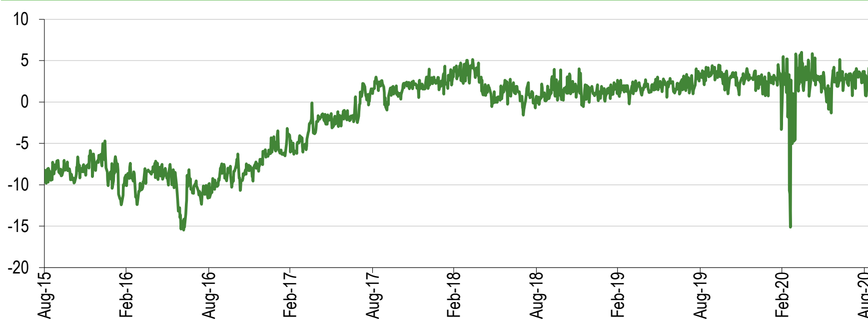
JPMorgan Global Growth & Income

Delivering 'best of both worlds' – growth & income

Investment trusts
Global equity income

JPMorgan Global Growth & Income (JGGI) aims to provide superior total returns and outperform its benchmark over the long term by investing in a portfolio of 50–90 companies from around the world. It has achieved this objective, delivering outright gains and outperforming its benchmark since the inception of its current strategy in 2008. JGGI makes quarterly distributions set at the beginning of the financial year, with the intention of paying at least 4% of NAV at the time of announcement. Dividend payments can be funded from reserves, which means the managers are not constrained by the need to purchase high-yielding stocks but are instead free to invest in non-dividend paying stocks for capital growth. The managers believe this gives investors 'the best of both worlds'.

Sustained re-rating since JGGI's 4% distribution policy introduced in 2016



Source: Refinitiv, Edison Investment Research. Note: Shows discount to cum-fair NAV.

The market opportunity

Global equity markets are subject to greater than usual uncertainties and there is a risk of renewed volatility in the coming months. However, the sharp sell-off at the start of the coronavirus crisis has created many opportunities to invest in high-quality companies unjustifiably left behind in the subsequent market recovery.

Why consider investing in JGGI?

- High conviction, bottom-up stock picking, driven by the expertise of J.P. Morgan Asset Management's (JPMAM) large global equity research team.
- A highly experienced portfolio management team delivering positive long-term performance and outperforming its benchmark since strategy inception.
- New dividend policy introduced in 2016 paying at least 4% of NAV, which provides clarity regarding dividends to shareholders over the year ahead.

High distribution policy underpins small premium

Despite a brief widening in the discount in late February and March at the beginning of the coronavirus pandemic, JGGI has traded mainly at a premium to cum-income NAV since the adoption of its higher distribution policy at the start of FY17. The trust is presently trading at a premium of 3.8%, compared to average premiums of 2.6% and 2.0% over one and three years respectively and average discounts of 1.6% and 3.6% over five and 10 years respectively. The trust's higher distribution yield, currently 3.7%, has been a major driver in this re-rating.

17 September 2020

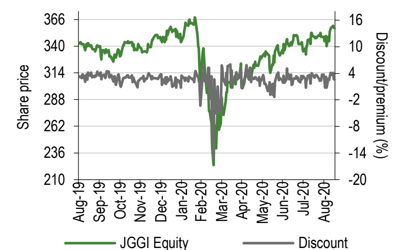
Price	**357.5p**
Market cap	**£509.6m**
AUM	**£520.7m**

NAV*	344.3p
Premium to NAV	3.8%

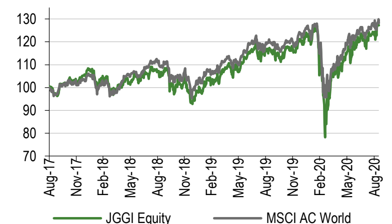
*Including income. As at 16 September 2020.

Yield	3.7%
Ordinary shares in issue	142.5m
Code	JGGI
Primary exchange	LSE
AIC sector	Global Equity Income
Benchmark	MSCI AC World

Share price/discount performance



Three-year performance vs index



52-week high/low	368.0p	224.0p
NAV* high/low	355.4p	253.2p

*Including income.

Gearing

Gross*	1.2%
Net*	1.2%

*As at 11 September 2020.

Analysts

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Edison profile page

JPMorgan Global Growth & Income is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

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.

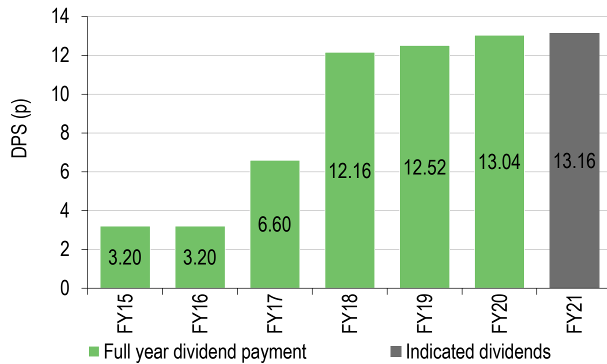
Recent developments

- 3 July 2020: Fourth interim dividend for FY20 of 3.26p paid.
- 1 July 2020: Board announced a FY21 dividend of 13.16p (4% of the unaudited NAV as at 30 June 2020 of 328.2p). The first interim dividend for FY21 of 3.29p will be paid on 1 October 2020.
- 3 April 2020: Third interim dividend for FY20 of 3.26p paid.

Forthcoming		Capital structure		Fund details	
AGM	November 2020	Ongoing charges	0.56%	Group	J.P. Morgan Asset Management
Annual results	September 2020	Net gearing	1.2% as at 11 Sept 2020	Manager	Helge Skibeli, Raj Tanna, Tim Woodhouse
Year end	30 June	Annual mgmt fee	0.40%	Address	60 Victoria Embankment,
Dividend paid	Quarterly	Performance fee	Yes (see page 12)		London, EC4Y 0JP
Launch date	1887	Trust life	Indefinite	Phone	+44 (0)20 7742 4000
Continuation vote	No	Loan facilities	£30m in loan notes	Website	www.jpmglobalgrowthandincome.co.uk

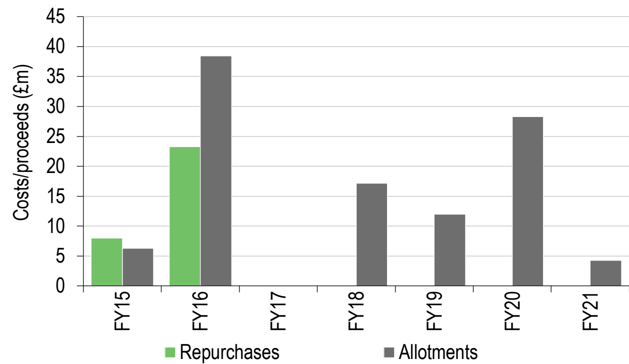
Dividend policy and history (financial years)

Under a policy announced in July 2016, quarterly distributions are paid in October, January, April and July, equal (in total) to at least 4% of the previous year-end NAV. FY17 was a transitional period. Chart adjusted for 2016 stock split.

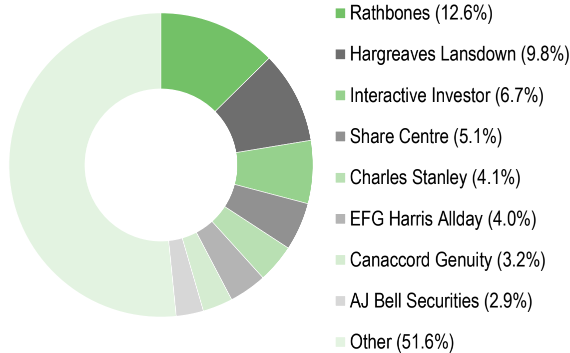


Share buyback policy and history (financial years)

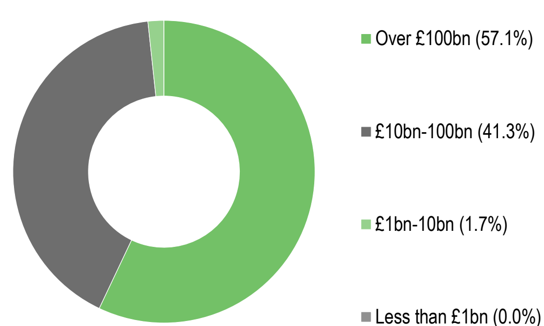
JGGI has the authority, renewed annually, to allot up to the equivalent of 10% of the share capital, and buy back up to 14.99% of shares, to manage a premium or a discount. Chart is adjusted for a stock split in January 2016 and allotments include subscription shares (final exercise in October 2015).



Shareholder base (as at 31 July 2020))



Portfolio exposure by market capitalisation (as at 31 July 2020)



Top 10 holdings (as at 31 August 2020)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 August 2020**	**31 August 2019***
Alphabet**	US	Media	4.5	3.1
Microsoft	US	Tech – software	4.1	3.8
Amazon	US	Media	4.0	2.6
Salesforce	US	Tech – software	2.4	N/A
Honeywell	US	Industrial cyclicals	2.4	1.9
Mastercard	US	Financials	2.3	N/A
Adidas	Germany	Consumer discretionary	2.2	N/A
Schneider Electric	France	Industrial cyclicals	2.2	N/A
Texas Instruments	US	Tech – semi & hardware	2.2	N/A
Zimmer Biomet	US	Pharma/medtech	2.2	N/A
Top 10 (% of portfolio)			**28.5**	**23.4**

Source: JPMorgan Global Growth & Income, Edison Investment Research, Bloomberg, Morningstar Note: *N/A where not in end-August 2019 top 10. **Parent of Google.

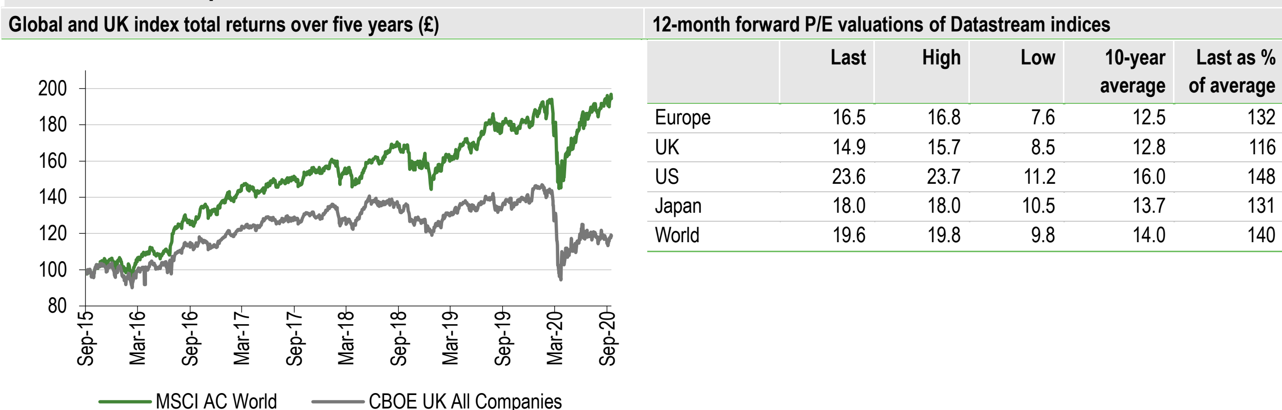
Market outlook: More uncertainties than usual

After March's sharp sell-off, triggered by the onset and rapid spread of the coronavirus outbreak, global stock markets spent the summer recovering some or all of this lost ground. JGGI's benchmark, the MSCI AC World Index, reached an all-time high in August 2020. Stock markets were supported by massive government fiscal and monetary support packages, the re-opening of most developed country economies and an associated improvement in economic indicators such as the purchasing manager indices (PMIs) and US employment figures. Consensus forecasts for 2021 earnings growth range between 10% and 16% in 2021 for the US, UK, Europe and emerging markets. Japanese earnings growth is expected to slow next year from around 13% to c 9%.

Market gains were led by the meteoric and widely discussed rise in a handful of US tech stocks, which have benefited most from structural changes necessitated or accelerated by lockdown – the popularity of working from home, the associated digitalisation of businesses and governments and the rapid adoption of online options for shopping, socialising, entertainment and exercise.

However, in early September 2020, a number of developments conspired to temper market exuberance and impose a more cautious tone. After becoming the first stock to be valued at $2tn in August, Apple's market valuation climbed to $2.3tn (£1.7tn) in September, generating more headlines when its value exceeded that of the entire FTSE 100 (£1.4tn) and giving investors pause for thought about the extent of the current disconnect between market valuations and intrinsic value. In addition, investors hoping Tesla would be included in the latest revision to the S&P 500 index were disappointed by its omission, while Warren Buffett's announcement of a $6bn investment in five Japanese trading companies was widely interpreted as a signal that the ascendancy of growth and momentum strategies had peaked.

Exhibit 2: Market performance and valuation



12-month forward P/E valuations of Datastream indices

	Last	High	Low	10-year average	Last as % of average
Europe	16.5	16.8	7.6	12.5	132
UK	14.9	15.7	8.5	12.8	116
US	23.6	23.7	11.2	16.0	148
Japan	18.0	18.0	10.5	13.7	131
World	19.6	19.8	9.8	14.0	140

Source: Refinitiv, Edison Investment Research. Note: Valuation data at 7 September 2020.

This more cautious tone has been reinforced by mounting fears of a second wave of COVID-19. Infections have been rising in the UK, Europe and the US as schools, universities and businesses re-open, and will likely rise further during the winter. While hopes for a vaccine are high, trials are still ongoing and a widespread vaccination programme is unlikely to be available for several months, if not longer.

Concerns of a resurgence in virus cases are compounding global economic uncertainty. While economic activity has picked up, the recovery is still very tenuous, hampered by widespread and ever-changing restrictions on travel, entertainment and social gatherings. The popularity of working from home has hollowed out town and city centres and threatens the existence of many businesses that supply the daily needs of office workers and commuters. Job losses, already at record levels, are likely to rise further as employment support schemes are wound down over the coming months.

In the UK, there is speculation about substantial tax rises to help finance the government's massive employment and business support packages.

On the political front, Brexit negotiations have recently taken a turn for the worse on news that the UK government is prepared to break the terms of its separation treaty with the EU. The chances of a no-deal Brexit appear to be increasing. In the US, the presidential election, less than two months away, is set to be one of the most divisive the country has ever seen, although both candidates are united in their anti-China rhetoric.

Concerns about a tech stock bubble, the ongoing health and economic threats posed by the coronavirus, and the risks implicit in the evolution of political events on both sides of the Atlantic have combined to ensure that the outlook for global equity markets is clouded by even greater uncertainties than usual. Renewed volatility is possible in the coming months, and there is some risk of a further, significant setback.

Fund profile: Research-focused fund with c 4% yield

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. These distributions can be paid out of reserves, which allows the fund managers to pursue a growth-orientated investment strategy without the pressure to generate portfolio income. The higher distribution policy has been welcomed by investors, and the trust has re-rated significantly, from a c 10% discount to NAV, to a small premium. As a result, this policy has been adopted by a number of other JPMAM-managed investment trusts, 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).

JGGI is the only retail investment product offering investors access to JPMAM's 'global focus' investment strategy, a research-driven approach backed by a large team of experienced sector specialist analysts (see the Investment process section below for details). This approach was adopted in 2008 under the previous manager, Jeroen Huysinga, who retired in early 2019. The trust is now managed by Helge Skibeli, Raj Tanna (head of the RDP international equity team) and Tim Woodhouse, who was previously co-manager with Huysinga. Between them, this team has more than 50 years' tenure at JPMAM. Their objective is to build a portfolio of 50–90 stocks to provide superior total returns to the trust's benchmark, the MSCI AC World Index. The managers can use gearing tactically to take advantage of available investment opportunities. Due to its high distribution policy, JGGI is a member of the Association of Investment Companies' (AIC) Global Equity Income sector.

The fund managers: Skibeli, Tanna and Woodhouse

The managers' view: Many opportunities despite uncertainties

The managers expect the severe contraction in global economic growth to persist in the near term, with a slow and bumpy path to eventual recovery. They expect surges in the incidence of the virus in particular areas to hamper the recovery until a vaccine is available. Co-manager Tim Woodhouse believes investors face significant and unusual uncertainties at the moment. 'With many companies reluctant to give earnings guidance, how can investors be confident of those companies' outlooks?' he asks. He and his colleagues foresee further market volatility in coming months.

Despite these uncertainties, JGGI's managers hold the view that while equity valuations may be looking stretched on some measures, especially in the US (Exhibit 2), the case for equities remains attractive even after the summer rally. They expect ongoing investor appetite for equities to be supported by the fact that returns from bonds and cash are likely to remain very poor as interest rates slowly normalise. In Woodhouse's view, the gains made by the tech mega-caps are justified. 'These companies have been able to take a step forward thanks to the virus,' he says. He cites the success of Amazon, a top three holding, in growing Amazon Prime and its grocery delivery business as one example, and the boom in demand for the video conferencing services provided by Microsoft Teams and Zoom as another (Microsoft is JGGI's second largest position after Alphabet, the parent of Google). 'These names are transforming the world. They are structural winners from the crisis and will continue to thrive,' Woodhouse says.

However, he argues that many other high-quality names have been left behind; companies with steady growth and high returns that face short term disruption and have been overlooked, even though they are unlikely to be challenged over the longer term. He and his colleagues see many opportunities, especially in the travel sector, and among consumer cyclicals and housebuilders. Woodhouse singles out American Express. Its revenues have been hit by the fall in spending on travel and entertainment and associated concerns about loan losses. However, American Express's loan book has always been high-quality and the manager is confident consumer spending will eventually recover and Amex will benefit when it does, regardless of whether the spending is done on UK staycations, the local high street or on holidays abroad. Mastercard, a top 10 holding, is also set to benefit from any resurgence in consumer spending.

JGGI's managers also see value in Lyft, a US ride-share company. This company had suffered a sharp drop in demand since the onset of the pandemic, and its share price declined accordingly. However, its balance sheet is very strong; it entered the crisis with $2.8bn in net cash and JGGI's managers estimate that even a 60% reduction in rides in 2020 and 2021 will still leave Lyft with $1.0bn in net cash and no leverage at the end of 2021. It also has duopoly power, as the US ride share market has already consolidated and is dominated by Lyft and Uber, so the managers expect Lyft's business model to prove very profitable in a few years' time. They recently acquired a position in the stock at a very attractive level. 'It's a great name for the long term,' says Woodhouse.

The managers also opened a position in UK housebuilder Taylor Wimpey in June and have added to it since, as its share price traded near its Brexit lows. As with Lyft, the managers have drawn comfort from Taylor Wimpey's strong balance sheet and Woodhouse says the company's management has made some good decisions since the onset of the crisis. It paused dividend payments and raised £500m, not to shore up its balance sheet, but to go on the offensive, by adding to its land bank at a time when land prices are low. It has so far spent £350m on land purchases. Taylor Wimpey also increased its prices by 1% in July and is expected to do the same again in September, and Woodhouse expects the company to reinstate its dividend next year.

JGGI is overweight the UK, which partly reflects the fact that the managers are not excessively concerned about the impact of Brexit. Although the UK's near-term political and economic outlook is uncertain, Woodhouse and his colleagues are confident in the long-term flexibility and resilience of the British economy and the UK companies they hold.

The managers' caution about the near-term market outlook is reflected in their attitude to the use of gearing. It is presently low, at just 1.2%, compared to its peers, whose average gearing currently stands at 10% (see Exhibit 9). Woodhouse says that while it is tempting to increase the portfolio's gearing to take advantage of the opportunities he and his colleagues see, they take a broad view of portfolio risk, which has risen recently via the acquisition of several cyclical names. Given their expectation of increased volatility over next few months, the managers believe that now is not the right time to 'double down' by also increasing gearing. Woodhouse stresses that they will, however,

consider adding gearing as and when the economic outlook improves and the risk of significant renewed volatility has subsided.

Asset allocation

Investment process: Research delivers information advantages

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 and is supported by a team of 81 experienced sector specialist analysts, who undertake intensive research into c 1,200 developed 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, Next Era Energy (a world leader in solar and wind power generation) and AIA (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. Second, 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 90 'best ideas' holdings.

Although the trust's portfolio construction is largely unconstrained, there are a number of parameters to ensure diversification and limit unintended risks:

- No more than the higher of 5% of the portfolio, or (from April 2020) 4% of the active position relative to the benchmark, each measured at the time of purchase, may be invested in a single stock.
- The aggregate of the top 10 holdings may not exceed 35% (30% prior to April 2020) of the total portfolio and the top 20 holdings must not exceed 55% (50% prior to April 2020).
- Unquoted investments may not be held without prior board approval.
- No more than 25% of the portfolio may be invested in non-OECD countries.
- A maximum of 75% of JGGI's assets may be invested (in aggregate) in the US, UK and Japan.
- Regional exposures will be no more than 30pp above or below the benchmark weight and sector allocations will be a maximum of 15pp over or under the benchmark weight.
- Where necessary, currency exposure is hedged so it broadly matches the exposure of the benchmark.
- Gearing is used tactically and will be in the range of 5% net cash to 20% geared.

Portfolio turnover has historically been between 60% and 80% a year, implying an average holding period of around 18 months. As JGGI only selects stocks from the first two valuation quintiles, a

significant revaluation would be likely to spark a sale, and the managers also have an active approach to topping up or trimming positions.

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. Analysts apply a proprietary ESG checklist to each company they cover. Consideration is given to many issues including how each company addresses climate change, pollution, labour relations and diversity issues. The quality of a company's corporate governance and management incentive structures is also taken into consideration.

The coronavirus crisis has not undermined JGGI's investment process. The strong collaboration between research analysts and the managers has continued virtually and, according to the managers, access to companies has actually improved as virtual meetings face fewer scheduling constraints.

Current portfolio positioning

The guideline changes implemented at 31 March 2020 (detailed above) are intended to increase the managers' flexibility to own and overweight the largest stocks in JGGI's benchmark, even in the face of rapidly rising valuations. In effect, the managers now have scope to increase the concentration of the portfolio, and they have used this flexibility to reduce the number of names. As at 31 July 2020, there were 63 stocks in the portfolio, compared to 68 at end-December 2019 (end-H120) and 82 at end-FY19 (30 June 2019). However, the additional flexibility has been utilised judiciously. The trust's top 10 holdings as at end-August 2020 still only amounted to 28.5% of the portfolio, below the revised guidelines' maximum of 35% (up from 30% previously). This degree of portfolio concentration is virtually unchanged from end-January 2020, but higher than the 23.4% weighting at end-August 2019 (Exhibit 1).

The rapid rise in valuations in a few US mega-caps has also had an impact on regional allocations. Exhibit 3 shows that the most marked recent shift in positioning has been the increased overweight exposure to North America (exclusively US companies). As at end-July 2020, exposure to this region stood at 65.4%, up from 54.8% at end-July 2019. Exposure to all other regions declined. Exposure to Europe and the Middle East ex-UK fell to 16.2% at end-July 2020 from 19.9% at the same time the previous year, which reduces the portfolio's overweight to this region. The managers have removed all exposure to developed Pacific ex-Japan markets and scaled back exposure to Japan to 1.7% at end-July 2020, down from 4.0% at end July 2019, thereby increasing the underweight to Japan. JGGI's overweight to the UK has also been reduced, with UK exposure falling to 4.5% at end-July 2020, from 5.7% at the same time last year.

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

	Portfolio end-July 2020	Portfolio end-July 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
North America	65.4	54.8	10.6	60.8	4.6	1.1
Europe & ME ex-UK	16.2	19.9	(3.7)	13.4	2.8	1.2
Emerging markets	6.3	8.4	(2.1)	12.5	(6.2)	0.5
United Kingdom	4.5	5.7	(1.2)	3.7	0.8	1.2
Japan	1.7	4.0	(2.3)	6.5	(4.8)	0.3
Pacific ex-Japan	0.0	3.3	(3.3)	3.1	(3.1)	0.0
Cash	5.9	3.9	2.0	0.0	5.9	N/A
	100.0	**100.0**		**100.0**		

Source: JPMorgan Global Growth & Income, Edison Investment Research

JGGI's benchmark includes emerging markets, yet its weightings to two of the largest emerging markets, China and India, appear low. However, when consideration is given to the source of a company's revenues, rather than simply the country where it is listed, JGGI is actually slightly overweight China, as its holdings in companies such as electrical equipment makers Schneider Electric and Honeywell (both top 10 holdings) and luxury goods group LVMH generate significant

revenues in China. On this basis, JGGI is, however, still underweight India, which the managers believe is particularly challenged at the moment by the coronavirus. The trust does hold HDFC, which the managers view as the best Indian bank, and they believe this market is rich with opportunities, which they consider regularly. Although for the moment they see more attractive opportunities elsewhere, they expect the underweight to India to be reduced over time.

In sector terms, Exhibit 4 shows that the most significant shifts over the 12 months to end-July 2020 were rises in exposure to retail (8.6% from 5.7% previously) and media (10.1% from 8.5%). Positions in pharmaceutical and medtech stocks rose more modestly (to 9.8% from 8.9% previously) and exposure to software also increased (to 6.7% from 6.0%). The most marked decline was in banks (5.6% at end-July 2020, from 9.0% at end-July 2019), although JGGI still holds a position in Morgan Stanley, which the managers favour due to its long-term vision, its capacity to keep building margins and the consistent performance of its wealth management business. Other declining exposures include industrial cyclicals (8.9% from 11.3% previously) and insurance (3.7%, down from 5.8%).

Notable recent acquisitions have included the US ride-share company Lyft and UK housebuilder Taylor Wimpey (both discussed above). The managers have recently scaled back the position in Amazon and sold the French aircraft manufacturer Airbus, which has struggled to deal with the decline in aircraft demand in the wake of travel restrictions. The proceeds of this sale were used to purchase Safran, a French manufacturer of aerospace and defence systems that has good margins and is not correlated to Airbus. Diamondback Energy was also sold after a period of poor performance.

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

	Portfolio end-July 2020	Portfolio end-July 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Media	10.1	8.5	1.6	11.0	(0.9)	0.9
Tech - semi & hardware	10.0	7.6	N/A	10.7	(0.7)	0.9
Pharma & medtech	9.8	8.9	0.9	10.8	(1.0)	0.9
Industrial cyclicals	8.9	11.3	(2.4)	6.6	2.3	1.3
Retail	8.6	5.7	2.9	5.6	3.0	1.5
Technology - software	6.7	6.0	0.7	7.8	(1.1)	0.9
Banks	5.6	9.0	(3.4)	7.0	(1.4)	0.8
Basic industries	4.8	0.0	N/A	4.9	N/A	N/A
Consumer staples	4.7	4.6	0.1	6.5	(1.8)	0.7
Insurance	3.7	5.8	(2.1)	3.1	0.6	1.2
Financial services	0.0	N/S	N/A	0.0	0.0	N/A
Energy	N/S	6.4	N/A	N/S	N/A	N/A
Others	21.2	22.3	(1.1)	26.0	(4.8)	0.8
Cash	5.9	3.9	2.0	0.0	5.9	N/A
	100.0	**100.0**		**100.0**		

Source: JPMorgan Global Growth & Income, Edison Investment Research. Note: N/S = not stated; may be included in 'other'

Performance: Solid absolute and relative returns

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI AC World (%)	MSCI World (%)	CBOE UK All Companies (%)
31/08/16	22.3	24.4	26.7	26.0	12.7
31/08/17	37.7	22.5	19.7	18.8	14.3
31/08/18	7.1	7.5	11.0	12.7	4.3
31/08/19	8.2	5.4	7.0	7.6	0.3
31/08/20	7.1	7.0	6.5	6.8	(13.5)

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

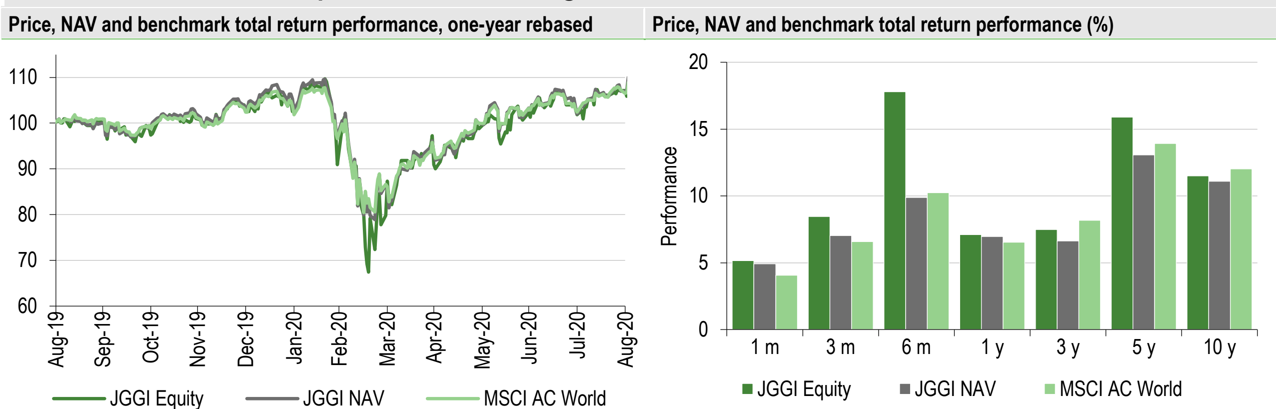
JGGI has recovered from the sharp sell-off it experienced at the beginning of the pandemic (see Exhibit 6, left-hand chart). It has delivered solid total returns in absolute terms over one, three and

six months, and one, three, five and 10 years. In the three months to end-August 2020, the trust returned 8.5% in share price terms and 7.0% in NAV terms, outperforming its benchmark, which returned 6.6%. As shown in Exhibit 6 (right hand chart), it also outperformed its benchmark over one month, three months and one year in both price and NAV terms, over five years on an annualised price basis, and it almost matched benchmark performance in price terms over 10 years. In addition, as shown in Exhibit 7, JGGI has outperformed the UK market, as represented by the CBOE UK All Companies Index, over all periods shown in both share price and NAV terms. This performance serves as a reminder of the diversification benefits available to UK investors who venture outside their home market. As shown in Exhibit 9, JGGI has also outstripped the returns of most of its peers in the AIC Global Equity Income sector.

The main contributor to performance during the 12 months to end-June 2020 (FY20) was an overweight to Schneider Electric, a French electrical equipment company focused 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. They expect it to be assisted further by the European Green Deal agreed in late 2019, which aims to make Europe climate neutral by 2050. The overweight to Morgan Stanley was another key contributor, along with the position in Amazon, despite some scaling back in this holding. Charter Communications, a US cable company that is benefiting from faster internet speeds, also enhanced performance over this period. More recently, performance has been boosted by an overweight to Salesforce.com, a US software company providing client relationship management services. This top five holding has seen a strong rise in revenues and margins, combined with a reduction in expenses, which has been well-received by the market. An overweight to Taiwan Semiconductor Manufacturing Company (TSMC), which is a leader in nanometre-scale chip production, also added to returns in recent months.

Exhibit 6: Investment trust performance to 31 August 2020

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.

The main detractors from performance over the 12 months to end-June included overweight positions in Airbus and Diamondback Energy, both of which have since been sold. The trust's underweight to Apple also detracted from returns in the year to end-June and since then, as its share price continued to climb. This has proved particularly 'painful' according to Woodhouse. He and his colleagues view Apple as 'a fantastic company' but one that is too expensive at 25x earnings. They are more comfortable with their position in Texas Instruments (a top 10 holding), which, at 17–18x earnings, is more realistically priced and also offers exposure to the growth in electric vehicles and automation.

At a sectoral level, positive contributors to performance in FY20 included the trust's underweight to banks and its overweight to retail. Detractors include an overweight to industrial cyclicals and an underweight to pharmaceuticals and medtech.

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	1.1	1.8	6.9	0.6	(1.9)	8.9	(4.5)
NAV relative to MSCI AC World	0.8	0.4	(0.3)	0.4	(4.2)	(3.7)	(8.0)
Price relative to MSCI World	0.5	2.3	6.4	0.3	(4.2)	7.8	(11.7)
NAV relative to MSCI World	0.3	0.9	(0.8)	0.2	(6.4)	(4.7)	(14.9)
Price relative to CBOE UK All Companies	3.2	8.5	28.4	23.8	37.3	79.3	68.3
NAV relative to CBOE UK All Companies	3.0	7.1	19.8	23.6	34.0	58.6	62.2

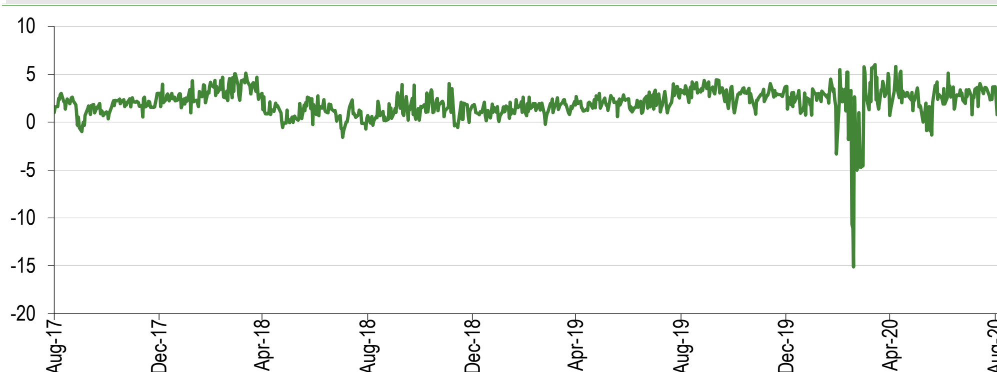
Source: Refinitiv, Edison Investment Research. Note: Data to end-August 2020. Geometric calculation.

Discount: Maintaining a small premium

JGGI's share price has traded mainly at a premium to cum-income NAV since the adoption of its higher distribution policy at the start of FY17. Prior to that time, the trust traded at a persistent discount of about 10% (see front page chart). On 19 March 2020, near the beginning of the coronavirus pandemic, the trust share price briefly traded at a discount of 15.1% to cum-income NAV, its widest level in nearly four years. JGGI's shares are presently trading at a premium of 3.8% (see Exhibit 8). This compares to a five-year high of 5.8% recorded on 7 May 2020 and average premiums of 2.6% and 2.0% over one and three years respectively. Over five and 10 years the shares have traded at average discounts of 1.6% and 3.6% respectively.

The stark re-rating since the introduction of the 4% distribution policy attests to this policy's popularity with investors, as it gives them confidence about dividend payment schedules. This has led to the reissuance of more than 15m shares from treasury since its introduction. As at 17 September 2020, the trust's share capital consisted of 142.5m shares and 12.4m shares in treasury. The board also has scope to repurchase shares with the aim of maintaining a maximum average discount of around 5%.

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



Source: Refinitiv, Edison Investment Research

Capital structure and fees

JGGI is a conventional investment trust with one share class. At 17 September 2020, there were 142.5m ordinary shares in issue. The board has scope to allot up to 10% of shares each year to manage the premium to NAV, and regularly does small issuances. During FY20, 8.5m shares (6.4% of the end-FY19 share count) were allotted and a further 1.2m 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 since the introduction of the higher distribution policy in FY17.

JGGI is geared via £30m of 30-year unsecured fixed rate loan notes, which pay an annualised coupon of 2.93% and mature in 2048. Based on current net assets, this represents available gearing of 8.8%, although the trust presently only has net gearing of 1.2%. This compares to a permitted range of 5% cash to 20% gearing under normal market conditions.

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 0.56%, up marginally from ongoing charges of 0.55% at end-H120 (31 December 2019) but unchanged compared to end-FY19.

Dividend policy and record

Since the beginning of FY17, JGGI has followed a higher distribution policy, with the intention to pay a dividend of at least 4% of the NAV per share at the end of the previous financial year. This is paid in four equal instalments, in October, January, April and July, and can be partly funded from capital and revenue reserves. While it is possible that in years when NAV returns are negative, the amount of the dividend may be lower than in the previous year, the dividend has grown in absolute terms in each year since the new distribution policy has been in effect (see Exhibit 1).

For FY19, the revenue return per share was 4.87p. Thus, the 13.04p per share dividend declared for FY20 (4.0% of the end-FY19 NAV per share) was largely funded from capital reserves, as there was no revenue in reserve at that time. The H120 (to 31 December 2019) revenue return of 1.77p per share was c 9.2% higher than in H119 (portfolio income tends to be higher in the second half of the financial year). As at end-H120 (31 December 2019) the trust had no revenue reserve and the capital reserve was £367.6m, which Woodhouse notes is large enough to fund JGGI's dividend payments for 'a couple of decades', even without capital growth.

The board views the partial funding of dividend payments 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-orientated investment strategy. 'It's the best of both worlds,' according to Woodhouse, as he and his colleagues are not constrained by the need to invest in companies that pay high dividends and can also invest in non-dividend paying companies such as Amazon, to benefit from their capital growth. The board considers the trust's reserves as shareholders' capital and believes that returning it to them in this manner is appropriate. JGGI's move from a discount to NAV to a premium since the introduction of the new distribution policy appears to confirm investor satisfaction with this approach.

Although the trust has experienced some dividend cuts since the onset of the crisis, including by Taylor Wimpey (as mentioned in the Managers' view section above), and European banks and industrial companies responding to regulatory pressures, these cuts will not have an impact on JGGI's FY21 dividend distribution. On 1 July 2020, the board declared an FY21 dividend of 13.16p (4% of 328.2p), an increase of 0.9% on the FY20 dividend, which equates to a prospective yield of 3.7% based on the current share price.

Peer group comparison

JGGI has been a member of the AIC's Global Equity Income sector since FY17, when it adopted its higher distribution policy. While this group of funds all invest globally and pay dividends, otherwise they differ substantially. For example, Henderson International Income (HINT) specifically excludes

investment in the UK, while Murray International (MYI) has a strong bias towards emerging markets. Exhibit 9 shows that JGGI is the third largest trust among its peers. JGGI's NAV total return outstripped the average of its peers over all periods, ranking second over all periods. These rankings are higher than in March 2020, marking a trend improvement in JGGI's performance relative to its peers, most of which have a more conventional equity income approach. It has the joint lowest ongoing charge in the sector, although it is one of two funds potentially liable to pay a performance fee. While most of its peers have slipped to a discount since the onset of the coronavirus crisis, JGGI has remained at a premium for most of this period, currently higher than that of Scottish American, the only other peer presently trading at a premium. With gearing of just 1.2%, JGGI presently uses much less gearing than any of its peers, which on average are 10% geared. Its dividend yield of 3.7% ranks fourth in the sector, although it should be noted that JGGI is the only trust in its sector to target a specific level of dividend yield that may be partially funded out of capital. JGGI's peers primarily pay dividends out of portfolio income.

Exhibit 9: AIC Global Equity Income sector as at 16 September 2020*

% 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	Premium (Discount)	Net gearing	Dividend yield
JPMorgan Global Growth & Income	509.6	10.2	31.9	100.9	177.7	0.6	Yes	3.8	101	3.7
Henderson International Income	291.0	(1.1)	11.2	62.1		0.8	No	(4.2)	111	4.0
Invesco Perp Select Glo Eq Inc	50.2	(3.8)	9.0	54.3	139.6	0.9	Yes	(3.8)	111	3.8
Murray International	1,261.5	(8.4)	(2.3)	55.6	93.6	0.6	No	(5.2)	113	5.5
Scottish American	688.2	11.5	40.9	117.3	194.0	0.8	No	2.4	112	2.7
Securities Trust of Scotland	191.4	3.4	28.0	79.2	164.1	0.9	No	(8.4)	109	3.5
Sector average	**498.7**	**2.0**	**19.8**	**78.2**	**153.8**	**0.8**		**(2.6)**	**110**	**3.9**
Trust rank in sector	**3**	**2**	**2**	**2**	**2**	**6**		**1**	**6**	**4**

Source: Morningstar, Edison Investment Research. Note: *Performance to 15 September 2020 based on cum-far NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

JGGI's board has five independent directors. Nigel Wightman became chairman in 2015, having served on the board since 2010. Jonathan Carey, who chairs the audit and management engagement and remuneration committees, was appointed in 2009. He will stand down at the AGM in November 2020. Gay Collins, who is the senior independent director, joined the board in 2012. Tristan Hillgarth was appointed in 2014. Sarah Whitney is the most recently appointed member. She will become chair of the audit and management engagement committee on Carey's retirement. The directors have professional backgrounds in investment management, corporate finance and PR/communications.

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