EDISON

JPMorgan Global Growth & Income

Initiation of coverage

Long-term growth, now with higher distributions

Investment trusts

JPMorgan Global Growth & Income (JPGI), previously JPMorgan Overseas IT, uses a disciplined and research-intensive approach to identifying 50-90 'best ideas' from around the world, with the aim of achieving capital appreciation in excess of the MSCI AC World index. It has recently adopted a new distribution policy whereby at the start of each year it will announce a dividend equivalent to at least 4% of NAV, to be paid in quarterly instalments. The board and management see this level of distribution – which may come from capital or income returns – as sustainable, and the predictability of the income stream as well as the higher yield should increase the attraction of the trust from investors who seek income as well as growth, potentially leading to a narrowing in the discount.

12 months ending	Share price (%)	NAV (%)	MSCI AC World (%)	MSCI World (%)	FTSE All Share (%)
31/08/12	6.7	7.1	9.5	11.5	10.2
31/08/13	20.1	20.5	19.2	21.5	18.9
31/08/14	11.1	13.1	13.3	13.4	10.3
31/08/15	3.4	4.3	1.7	4.1	(2.3)
31/08/16	22.3	24.3	26.7	26.0	11.7

Note: Total returns, sterling adjusted.

Investment strategy: Disciplined and research-driven

JPGI has a research-driven investment process, with manager Jeroen Huysinga drawing on the expertise of a 70-strong analyst team. Using J.P. Morgan Asset Management's dividend discount model approach, the analysts assess stocks' long-term earnings growth potential. Companies are ranked into valuation quintiles for each sector and the initial universe of c 2,500 stocks is narrowed down to c 500 by focusing on stocks in the cheapest two quintiles that have at least 25% profit growth potential. Catalysts for revaluation should be present within the next six to 18 months. The final portfolio contains 50-90 stocks from around the world.

Market outlook: Longer-term value potential?

The result of the UK's EU referendum may have delayed the expected normalisation in global monetary policy, meaning outperformance by stocks seen as bond proxies could continue in the near term. With such companies now at valuations that are not supported by earnings growth, there is potential for longer-term investors to benefit by focusing on more lowly-rated stocks with better growth prospects. However, more volatility is likely given the uncertain outlook, so a patient approach could be needed.

Valuation: Higher yield could narrow discount

JPGI's discount to cum-income net asset value stood at 9.4% at 23 September, in line with or wider than the averages over one, three, five and 10 years, but well below the five-year high of 15.5% seen at the start of July following the result of the UK's EU referendum. Peers in the AIC Global Equity Income sector tend to trade closer to par, and it is reasonable to assume that once the effects of JPGI's new, higher distribution policy begin to be felt, demand from income-seeking investors could drive a rerating to a level closer to that of the peer-group average. The board has set a maximum discount target of 5%.

27 September 2016

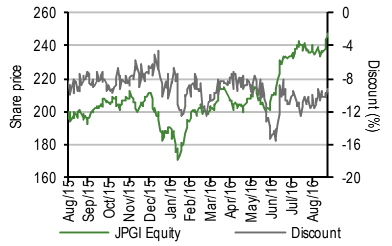
Price	**247.0p**
	NZ$4.40
Market cap	**£305.4m**
AUM	**£357.9m**

NAV*	269.9p
Discount to NAV	8.5%
NAV**	272.8p
Discount to NAV	9.4%

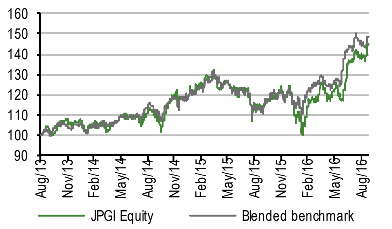
*Excluding income. **Including income. Data at 23 Sept 2016

Yield (historical)	1.3%
Ordinary shares in issue	123.7m
Code	JPGI
Primary exchange	LSE
AIC sector	Global Equity Income

Share price/discount performance



Three-year cumulative perf. Graph



52-week high/low	247.0p	170.5p
NAV** high/low	275.0p	188.5p

**Including income.

Gearing

Gross (potential)*	7.5%
Net*	1.0%

*As at 31 August 2016.

Analysts

Sarah Godfrey +44 (0)20 3681 2519

Mel Jenner +44 (0)20 3077 5720

investmenttrusts@edisongroup.com

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 (JPGI, formerly JPMorgan Overseas IT) aims to achieve capital growth from world stock markets, by holding a diversified portfolio of investments in which the portfolio manager has a high degree of conviction. Following a change in its distribution policy in July 2016, it also aims to pay a dividend equivalent to at least 4% of NAV at the preceding year-end, announced at the start of the year to give visibility of income.

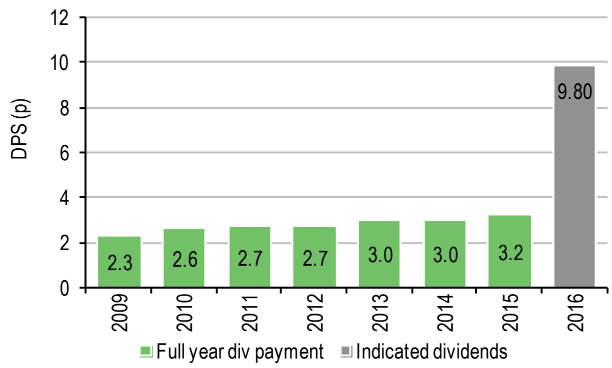
Recent developments

- 22 September 2016: Results for the year ended 30 June. NAV TR +8.2% compared with +13.3% for MSCI AC World index (in £). Share price TR -0.6%.
- 11 July 2016: Change of name and new distribution policy. Dividends equal to at least 4% of NAV at the preceding year-end will be announced at the start of the year. Name changed from JPMorgan Overseas IT to JPMorgan Global Growth & Income; moved from AIC Global to AIC Global Equity Income sector.

Forthcoming		Capital structure		Fund details	
AGM	November 2016	Ongoing charges	0.64% (30 June 2016)	Group	J.P. Morgan Asset Management
Interim results	February 2017	Net gearing	1.0% (31 August)	Manager	Jeroen Huysinga
Year end	30 June	Annual mgmt fee	0.4%	Address	60 Victoria Embankment, London EC4Y 0JP
Dividend paid	Quarterly	Performance fee	Yes – see page 9/10		
Launch date	1887	Trust life	Indefinite	Phone	020 7742 4000
Continuation vote	No	Loan facilities	£25m	Website	www.jpmglobalgrowthandincome.co.uk

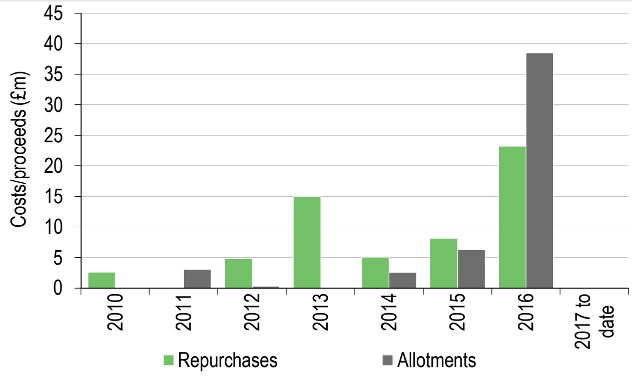
Dividend policy and history

Dividends paid annually in December for periods up to FY15. Under new distribution policy, four dividends will be paid (in October, January, April and July), amounting to at least 4% of the previous year-end's NAV. FY17 is a transitional period (see page 9). To facilitate comparison, the chart has been adjusted for a five-for-one stock split that took place in January 2016.

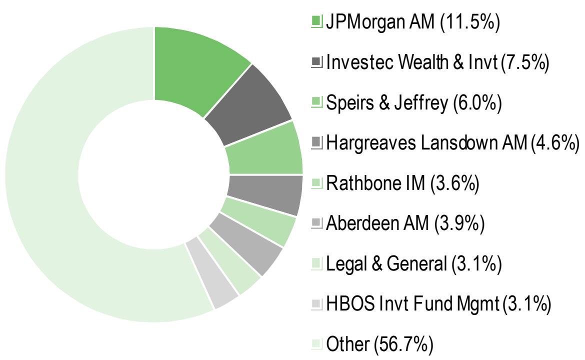


Share buyback policy and history

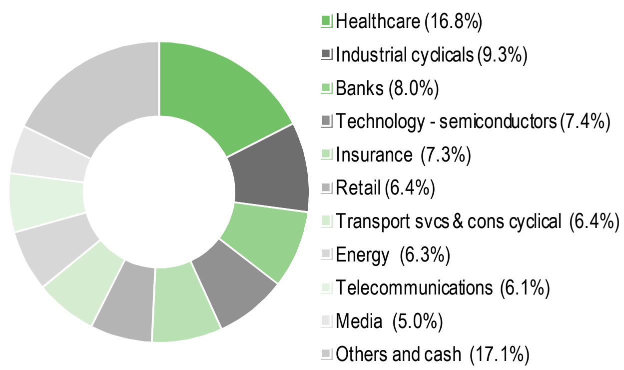
JPGI has the authority, renewed annually, to allot shares up to the equivalent of 10% of the trust's share capital, and buy back up to 14.99% of shares. Allotments in the chart below include the exercise of subscription shares (final exercise date was 30 October 2015). The chart has been adjusted for a five-for-one stock split that took place in FY16.



Shareholder base (at 4 August 2016)



Portfolio exposure by sector (at 31 July 2016)



Top 10 holdings (at 31 August 2016)

			Portfolio weight %		
Company	**Country of listing**	**Sector**	**31 Aug 2016**	**31 Aug 2015***	**Change (% pts)**
Alphabet***	US	Software & services	2.9	2.7	0.2
Outokumpu	Finland	Materials	2.6	1.9**	0.7
InterOil	Singapore	Energy	2.5	2.0	0.5
Bayer	Germany	Healthcare	2.4	2.4	0.0
Prudential	UK	Insurance	2.1	1.3**	0.8
Suzuki Motor	Japan	Automobiles & components	2.1	N/A	N/A
Shire	UK	Healthcare	1.9	2.2	-0.3
Broadcom	US	Semiconductors & equipment	1.9	N/A	N/A
ASML	Netherlands	Semiconductors & equipment	1.9	1.4**	0.5
Chubb****	US	Insurance	1.8	1.0**	0.8
Top 10			**22.1**	**21.7**	

Source: JPMorgan Global Growth & Income, Edison Investment Research, Morningstar, Bloomberg. Note: *N/A where not in August 2015 portfolio. ** Not in August 2015 top 10. ***Google at 31 August 2015. ****Previously ACE.

Market outlook: Pockets of value?

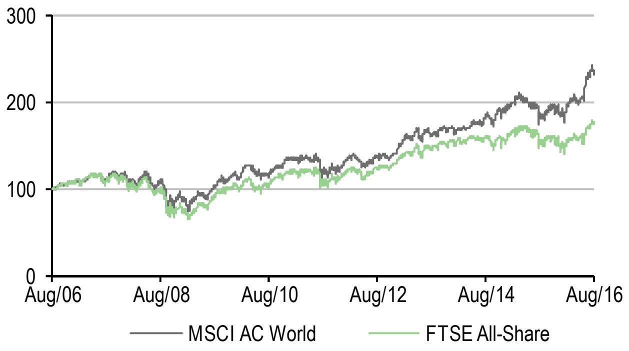
The past 12 months have been volatile in world stock markets, beginning with a sharp sell-off at the end of August 2015 that accelerated into September, before recovering. Another leg down occurred in the early weeks of 2016, followed by further volatility after the UK's referendum on EU membership in June. The surprise outcome of the latter, with its attendant fears of recession and contagion, has put expectations of a normalisation in monetary policy on hold, with the Bank of England cutting the base rate to a record low in August and implementing a new tranche of quantitative easing.

In spite of all these factors, stock markets have had a buoyant summer, with returns for UK investors in overseas stocks boosted by the weakness of sterling. This effect can be seen below in Exhibit 2 (left-hand chart), with the MSCI AC World index spiking up sharply in sterling terms since the Brexit vote. The longer-term performance of the global versus the UK market underlines the opportunity for investors who are prepared to look beyond the home market, although it is important to note that the size of the US equity market relative to others means the performance of the 'global' index is largely dependent on returns in the US.

The prolonged period of low interest rates and the continued risk of macroeconomic disappointment has led to a pronounced investor preference for 'defensive' stocks perceived to have bond-like characteristics. Such stocks include those in the areas of consumer staples (supermarkets, personal care, food producers and tobacco), which may offer stability but have limited growth potential and now trade at high valuations relative to their earnings. Looking at valuations in general (right-hand chart), the world and the major developed regions, with the exception of Japan, all trade at forward P/E valuations above their 10-year average. However, with the 'expensive defensives' forming an ever greater component of market cap-weighted indices as their share prices inflate, it is important for investors to note that a more discerning and valuation-focused approach to global equity investment could uncover cheaper stocks with superior growth potential.

Exhibit 2: Indices and valuation metrics

MSCI AC World and FTSE All-Share indices (total return) over last 10 years



Datastream World index 10-year valuation metrics (at 19 August 2016)

	Forward P/E	P/E as % of 10 Yr Ave.	Price/Book	Yield (%)
Europe	14.3	122	1.6	3.3
UK	16.0	133	2.0	3.4
US	17.6	123	3.0	2.1
Japan	13.7	93	1.2	2.1
World	15.3	118	2.0	2.6

Source: Thomson Datastream, Edison Investment Research

Fund profile: Globally focused with higher distributions

JPGI began life in 1887 and underwent several changes of identity (most recently as JPMorgan Overseas Investment Trust) before taking on its current name in July 2016. The trust invests globally and has a relatively concentrated portfolio of 50-90 stocks in both developed and emerging markets. Managed by Jeroen Huysinga at J.P. Morgan Asset Management (JPMAM) since 2008, it is the only UK retail fund to offer access to JPMAM's global focus investment strategy, developed in 2003 as a higher-conviction way of managing global equity portfolios. The strategy draws heavily on the expertise of JPMAM's large analyst team, who use a proprietary system based on the dividend discount model (see below), to assess and rank stocks.

While its principal objective is to achieve capital growth, JPGI has historically paid a small dividend, which has been maintained or increased in each of the last 10 financial years. It has recently adopted a new distribution policy under which it aims to pay distributions equivalent to at least 4% of the year-end NAV (see Dividend policy and record). This will not alter the investment approach but the board feels it will increase the trust's appeal to investors, which should in turn decrease the discount to NAV. The board aims to keep the discount below 5%.

JPGI aims to beat the return from the benchmark MSCI AC World index. The portfolio has a high active share (a measure of its difference from the benchmark) and may include stocks from outside the index. While not completely unconstrained, the trust's investment guidelines and restrictions allow the manager a considerable degree of freedom. Positions are limited to 5% above or below index weightings (in practice the largest stock makes up just over 1.5% of the index), regional weightings (North America, Europe ex-UK, UK, Asia ex-Japan, Japan, emerging markets) may not exceed 30% above or below the benchmark weight, and sector exposure should be within 15% either side of the index weight. The combined weighting of UK, US and Japanese stocks must not exceed 75% of the portfolio, and no more than 25% of assets may be held in non-OECD countries. Individual stock positions must not exceed 5% at the time of acquisition, and the top 10 holdings should not account for more than 30% of the portfolio (50% for the top 20). Gearing is permitted in a range of 5% net cash to 20% geared, and currency exposure is hedged to match the benchmark.

JPMAM's dividend discount model

JPMAM's dividend discount model is a cash flow-based valuation approach used by the firm's analysts to assess the long-term expected returns from a stock. There are more than 70 analysts covering global equity markets, based in the US, Europe, Asia and emerging markets and organised by sector. Between them they monitor a universe of c 2,500 stocks, analysing financial statements, meeting and speaking with different levels of company management, suppliers, competitors and consultants to gain a solid understanding of the businesses.

The analysts construct a detailed model for each of the stocks they cover, generating earnings and cash flow estimates over a range of time horizons. A short-term earnings estimate is produced for each of the next two years, with a 'normalised' (mid-cycle or sustainable) earnings forecast for the third year. The normalised earnings number is used as the basis for an estimate of intermediate earnings growth in years four to eight, with longer-term growth forecasts based on convergence to the market average. Normalised and intermediate forecasts are key outputs of the process and form the basis for the valuation. The variables considered in forecasting the intermediate growth rate include such factors as the quality of a company's management and products, its competitive positioning and use of cash. Focusing on normalised and intermediate earnings allows the analysts to look past any short-term company-specific or market issues that could mean current-year earnings are at a peak or trough, and facilitates like-for-like comparison within sectors. JPMAM argues it also gives its analysts an advantage in identifying attractively valued companies, as other market participants may have a shorter-term focus and thus fail to spot the emerging value opportunity. Estimated earnings and cash flows serve as inputs into a valuation model which, in turn, uses them to synthesise a projected dividend stream for each company. Equating the present value of that dividend stream to the current share price enables the analysts to calculate each stock's Dividend Discount Rate (DDR), a measure the internal rate of return. The higher a company's DDR, the more attractively valued the stock is considered to be. Huysinga describes the approach as similar to the way a company might value a potential takeover, focusing on long-term cash flows.

The fund manager: Jeroen Huysinga

The manager's view: Powerful valuation signals emerging

Manager Jeroen Huysinga notes that a challenging recent period for JPGI's investment process means that there is considerable potential for the strategy to outperform in a more 'risk on' environment. Expensive stocks have outperformed their cheaper counterparts over the past three years, suggesting investors' 'safety-first' approach has led them into investments where earnings growth potential is increasingly limited. Huysinga notes that the valuation signals coming from the trust's investment process have seldom been so powerful, backed by the conviction of JPMAM's large analyst team and their deep knowledge of the companies they cover. "They are companies that we know and have thought a lot about, and that gives us conviction that it is a good time to persevere and hang in there, and put on more risk as the signals are so extreme," he adds.

Certain areas of the market have proved a particular challenge over the volatile past 12 months, such as banks. While JPGI is underweight banks versus the benchmark, the names in the portfolio, such as Mitsubishi UFJ, Bank of America, Morgan Stanley and Citigroup, are higher-beta names that were sold off as investors worried about capital markets and the slower pace of M&A transactions. However, in a less fearful environment, it is exposure to these areas that can drive earnings growth for banks, while those focused more on retail banking may continue to struggle in a low interest rate and increasingly regulated environment.

Healthcare also detracted over the period as the impending US presidential election brought political pressure to bear on drug pricing; Huysinga notes that much of the trust's exposure is to healthcare companies that are focused on innovation, which have the longer-term potential to grow strongly, despite these companies lagging more defensive peers this year.

The manager explains that JPGI's contrarian focus means progress within the portfolio may not always be smooth, but long-term annualised returns of c 10% suggest that bumps in the road tend to even out. The focus on earnings growth should translate into positive operating performance for the companies in the portfolio, while the addition of identifiable and time-specific catalysts may ensure that out-of-favour stocks will eventually benefit from a reappraisal by the market.

Asset allocation

Investment process: Research-driven and growth-focused

JPGI manager Jeroen Huysinga, who joined JPMAM in 1997, is a member of the global focus fund investment team, which has six portfolio managers as well as the large team of analysts. Huysinga also manages the firm's Global Focus SICAV, which follows the same strategy as JPGI.

Using the dividend discount model described above, JPMAM is able to rank companies by their long-term value as measured by the DDR. On a sector-by-sector basis (to allow for like-for-like comparisons), stocks in the global equity universe are split into quintiles, from the cheapest to the most expensive. There are 17 sectors, grouped under the broad headings of financials, healthcare, consumer, TMT (telecom, media and technology) and industrials. For the JPGI portfolio Huysinga focuses on stocks in the cheapest two quintiles, although because the analysts cover the whole universe, the manager may also look at companies in more expensive quintiles that could become candidates for investment should their valuations change.

The portfolio is constructed on the basis of four variables: valuation; significant profit potential; catalysts; and time horizon. As well as a valuation in the top two cheapest quintiles, a company must be assessed as having at least 25% profit growth potential from current to normalised earnings per share. Applying these two tests filters the universe of 2,500 stocks down to c 500.

The next step is to define an identifiable trigger for a reappraisal of a company's earnings potential, which would bring the consensus market view more into line with JPMAM's assessment and thus lead to a rise in the share price. Catalysts are company-specific factors that may include restructuring, a new management team or a company expanding into new markets. Such a catalyst should occur within the next six to 18 months, although given that stocks are assessed on their long-term earnings potential, they may stay in the portfolio for much longer than this. Applying these two criteria brings the universe down to c 50-90 stocks, which form the basis of the JPGI portfolio. All stocks must tick all four boxes to be included.

Initial positions are sized at c 0.5-1.5 percentage points above their index weight. The size of a position is based not just on the strength of the valuation signal but also the number of catalysts, the timeline for their achievement, perceived risk and liquidity.

The manager aims for a broad spread of country and sector exposures, although sector-specific factors may affect the number of stocks that make it through the screens. For example, utilities (a sector where JPGI has no exposure) is a low-growth area, so it is hard to find companies with 25% upside to normalised earnings. On the other hand, the trust is overweight the index in industrial cyclicals, where there is more unpredictability in earnings potential. The portfolio contains both bigger and smaller stocks, although the manager notes that mega-cap exposure tends to be below the index level, given there is better earnings growth potential among mid-cap stocks.

With the universe of potential investments being reassessed constantly by the analyst team, there is a strong sell discipline, and the manager will revisit the entire investment case for a stock when one price driver is no longer valid. Where a stock has performed well and its valuation is no longer in the two cheapest quintiles, the manager notes that he will normally sell and switch into something cheaper.

Current portfolio positioning

At 31 July 2016 (the latest date for which full portfolio information was available), JPGI had 77 holdings, with c 24% of assets invested in the top 10 holdings. This was both a longer stock list and a lower concentration in the top 10 than the majority of peers in the AIC Global Equity Income sector. However, it is worth noting that trusts in the AIC Global sector, of which JPGI was a member until the recent change in its distribution policy, have more than 100 holdings on average.

Sector exposure (Exhibit 3) is broad, although certain sectors are absent. Overweight areas include industrials and healthcare, while consumer staples – an area that has done well and where many stocks are now seen as expensive – is largely absent.

Exhibit 3: Portfolio sector exposure vs benchmark (%)

	Portfolio end-July 2016	Portfolio end-July 2015	Change (pts)	Index weight	Active weight vs index (pts)	Trust weight/ index weight
Healthcare	16.8	14.1	2.7	12.6	4.2	1.3
Industrial cyclicals	9.3	9.5	-0.2	7.4	2.0	1.3
Banks	8.0	12.8	-4.8	12.6	-4.7	0.6
Technology - semiconductors	7.4	4.4	3.0	3.0	4.4	2.4
Insurance	7.3	5.4	1.9	3.7	3.6	2.0
Retail	6.4	7.5	-1.2	6.0	0.4	1.1
Transport & cons cyclical	6.4	7.9	-1.5	4.5	1.9	1.4
Energy	6.3	N/A	N/A	6.4	-0.1	1.0
Telecommunications	6.1	3.6	2.5	4.7	1.4	1.3
Media	5.0	8.3	-3.3	5.8	-0.8	0.9
Consumer non-durable	4.0	N/A	N/A	8.6	-4.6	0.5
Others and cash	17.1	26.5	-9.4	24.7	-7.6	0.7
	100.0	**100.0**		**100.0**		

Source: JPMorgan Global Growth & Income, Edison Investment Research

On a geographical basis (Exhibit 4), the trust is overweight the UK, continental Europe and Japan, where the manager sees better opportunities than in North America, emerging markets and developed Asia. Because the investment process is bottom-up, country weightings are incidental, although geography may have an impact on valuation. Huysinga comments that Japan's decades of misery have caused investors to underestimate the upside potential of stocks in the market's periodic recoveries. Currency exposure is hedged back to the benchmark (excluding emerging markets) using passive hedges, so for example, given the underweight to the US, the trust buys US dollars and sells currencies where the portfolio is overweight to achieve a neutral currency allocation.

Exhibit 4: Portfolio geographic exposure vs benchmark (%)

	Portfolio end-July 2016	Index weight	Active weight vs index (pts)	Trust weight/ index weight
North America**	47.6	56.5	-8.9	0.8
Continental Europe**	21.8	14.8	7.0	1.5
United Kingdom	15.9	6.3	9.6	2.5
Emerging Markets	5.0	10.2	-5.2	0.5
Japan	9.7	7.8	2.0	1.3
Developed Asia	0.0	4.5	-4.5	0.0
	100.0	**100.0**		

Source: JPMorgan Global Growth & Income, Edison Investment Research. Note: *NXP Semiconductors has been reclassified to Continental Europe from North America at 31 December 2015.

The portfolio includes some stocks that are monitored by the analyst team in spite of being outside the benchmark. The manager highlights Finnish stainless steel company Outokumpu as an example of this, commenting that as a European cyclical stock in the steel sector that has had balance sheet issues in the past, it is the antithesis of many of the trends that have been driving markets in recent years, where the focus has been on quality defensive stocks. The company has an impressive new CEO, who has been focusing the company and divesting or streamlining operations, leading to a more than 100% increase in the share price so far this year.

Other large active positions include Shire Pharmaceutical, an innovative company with a focus on rare diseases. Its recent acquisition of Baxalta was viewed with suspicion by many investors, but JPMAM healthcare analyst Anne Marden views the transaction as offering significant synergies, creating a global leader in its field with an excellent management team. While the stock has risen by c 50% since Huysinga added to it earlier this year, he notes that it still looks quite cheap relative to companies such as Johnson & Johnson and Amgen.

Bayer is another component of the healthcare overweight; Huysinga argues that weak sentiment towards Germany has led to an unjustified derating in the stock, where he still sees growth potential, boosted by the acquisition of a portfolio of over-the-counter consumer care products from US-listed Merck.

Performance: Scope for outperformance to resume

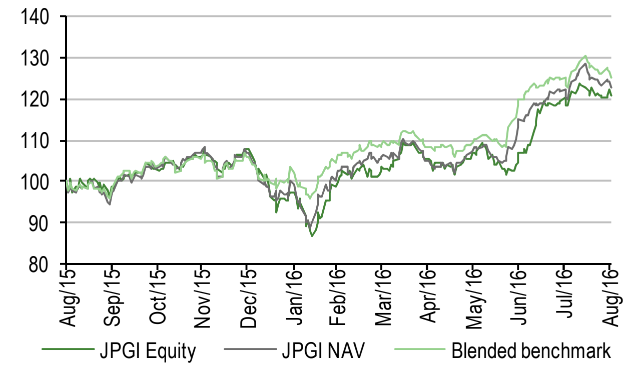
As a largely overseas portfolio, JPGI's performance rebounded strongly following the EU referendum in June, which caused sterling to weaken, boosting returns on overseas assets for UK investors. Because the trust hedges its currency exposure to match the benchmark, this effect has been amplified, as the UK made up 6.3% of the MSCI AC World index at the end of July, compared with 15.7% of the JPGI portfolio.

Returns under manager Jeroen Huysinga since 2008 have been strong in absolute terms (Exhibit 5, right-hand chart) but over one, three and five years portfolio performance has struggled to beat the benchmark. This is principally as a result of the trust's focus on valuation against a market backdrop where highly rated 'bond proxy' type stocks have continued to outperform. Because of the focus on valuation, the manager tends to buy higher-beta, more cyclical stocks trading on below-average P/Es, and sell stocks when valuations begin to look stretched. Huysinga points out that the 12 months to mid-2016 have seen one of the highest degrees of outperformance of expensive versus cheap stocks in the last 20 years.

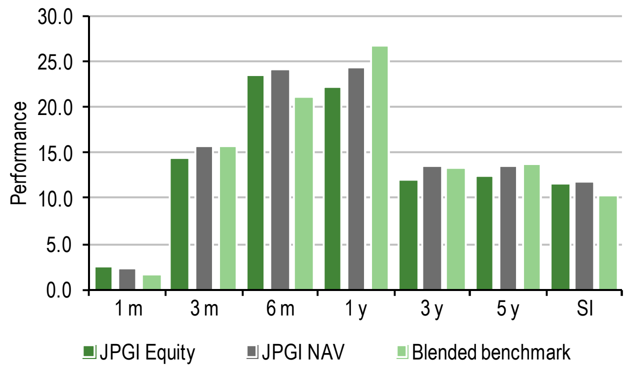
Huysinga comments that since the financial crisis in 2008, emerging markets have slowed and cyclical stocks have underperformed defensive names. This trend accelerated from mid-2015 to mid-2016 amid heightened market volatility, with sell-offs in September 2015, early 2016 and around the Brexit vote. While this did not favour the JPGI portfolio, the manager points out that the sell-off in lower-rated stocks has led to extremely strong valuation signals, meaning that in a more normalised environment there is scope for outperformance.

Exhibit 5: Investment trust performance to 31 August 2016

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



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. The benchmark changed from MSCI World to MSCI AC World in July 2008 (SI). Manager Jeroen Huysinga has been in place since then.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to MSCI AC World	0.8	(1.2)	1.9	(3.5)	(3.8)	(5.5)	10.2
NAV relative to MSCI AC World	0.5	0.0	2.3	(1.8)	0.5	(0.7)	12.5
Price relative to MSCI World	1.0	(0.3)	2.8	(3.0)	(5.6)	(10.7)	5.4
NAV relative to MSCI World	0.7	0.9	3.3	(1.3)	(1.4)	(6.1)	7.6
Price relative to FTSE All-Share	(0.1)	6.2	7.2	13.4	21.2	20.8	27.8
NAV relative to FTSE All-Share	1.8	15.8	21.2	26.7	46.0	90.5	122.0

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-August 2016. Geometric calculation.

Exhibit 6 includes a comparison of JPGI's performance with the FTSE All-Share index, included for its broad relevance to UK investors. This underlines the value of having taken a more internationally diversified approach to investment, with NAV and share price outperformance over almost all periods shown.

Longer-term performance relative to the benchmark (MSCI World index until July 2008 and MSCI AC World index thereafter) is shown in Exhibit 7. The strong rebound following the global financial crisis was partly reversed in the market volatility of mid-2011, followed by a period of more benchmark-like performance until the first of the three sell-offs of the 2015/16 period.

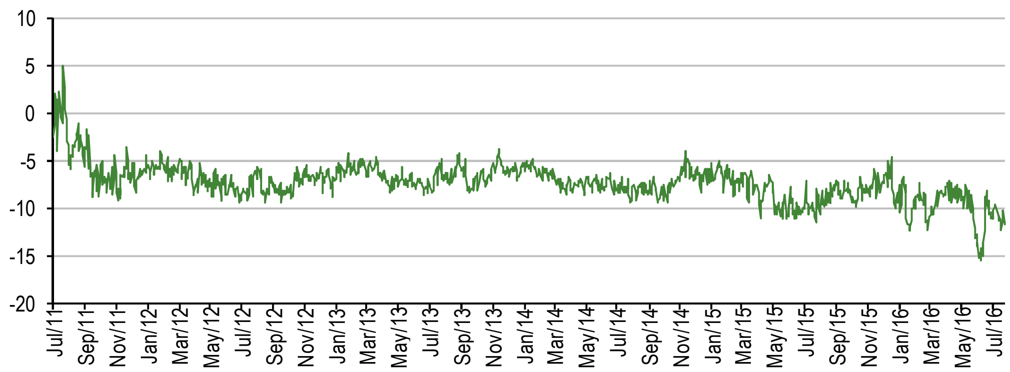
Exhibit 7: NAV performance relative to blended benchmark over 10 years

Source: Thomson Datastream, Edison Investment Research

Discount: Close to average with scope to narrow

Over the past five years JPGI's shares have broadly traded between a 5% and a 10% discount to cum-income NAV, with a longer-term average of 6-8% (Exhibit 8). The more volatile markets in 2016 have seen discounts widen across the investment trust sector, and the average for JPGI over the past 12 months is 9.2%. The discount of 9.4% at 23 September is wider than longer-term averages, but narrower than the five-year high of 15.5% reached in early July 2016 in the aftermath of the UK's referendum on EU membership. Following the announcement of JPGI's new distribution policy on 8 July, the discount narrowed to c 8% before drifting a little wider again during August. Once the new policy is fully in place JPGI's board expects the higher yield to increase the appeal of the trust, and higher investor demand could see the discount narrow once again. The board targets a maximum discount of 5%. Several of the AIC Global Equity Income peer group (see Exhibit 9) trade at a premium to NAV and it would be reasonable to assume that with a higher dividend yield, JPGI's discount could move closer to the sector average of c 1%, given its favourable performance record. The board has the authority to use buybacks to manage the discount (see Capital structure and fees), but has not done so since shortly before the referendum in June 2016.

Exhibit 8: Share price discount to NAV (including income) over five years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

Structured as a conventional investment trust, JPGI has 123.7m ordinary shares in issue. Following the final exercise of its subscription shares in November 2015, the trust undertook a five-for-one subdivision of shares in January 2016, a measure that should increase liquidity and facilitate regular saving and dividend reinvestment.

The board of JPGI has the authority, renewed annually, to allot up to 10% and buy back up to 14.99% of the share capital, in order to manage a discount or a premium. Buybacks may be employed with the long-term aim of keeping the discount to NAV to a maximum of c 5% in normal market conditions, although this is a non-binding target. In the past 12 months, 11.3m shares (adjusted for the share split in January 2016) have been bought back at a cost of £22.9m.

JPGI has a £25m flexible borrowing facility that is available for the manager to use to take advantage of low valuations or on a short-term basis to finance investment decisions. Gearing is permitted in a range of 5% net cash to 20% geared. At the 30 June 2016 year-end, the facility was fully drawn. Based on 23 September 2016 net assets, the maximum achievable gearing is c 7.5%; the actual net gearing at 31 August was 1.0%.

JPMorgan Funds is paid an annual management fee of 0.4% of assets (excluding those invested in funds where J.P. Morgan also earns a management fee) less current liabilities. A performance fee structure is also in place, with a fee of 15% of NAV outperformance paid above a hurdle of 0.5% over the benchmark total return. Payment of performance fees earned is spread equally over four years, with fees accrued but not paid reduced by any underperformance in subsequent years. The amount of performance fee payable in any one year is capped at 0.8% of net assets. No performance fee was paid for FY16, but performance fees were paid in FY15 and FY14. Ongoing charges at 30 June 2016 stood at 0.64%.

Dividend policy and record

JPGI has adopted a new distribution policy with effect from FY17, whereby distributions equal to at least 4.0% of year-end NAV will be made in four instalments (in October, January, April and July). The previous policy was to pay a single annual dividend in November that broadly reflected revenue returns from the portfolio. By declaring the distribution at the start of the financial year, investors will benefit from certainty of income. At the November 2016 AGM, shareholders will vote on a resolution to allow distributions to be made out of capital if necessary; however, the trust also has a sizeable revenue reserve (£13.3m at FY16) that could be deployed to cover any shortfall in portfolio income. The board believes that JPGI's investment approach should outperform over the long term, and that by not making a distinction between revenue and capital returns, it will be possible to fund the higher distribution sustainably.

The current financial year will be a transitional period, with a final dividend for 2016 of 3.2p to be paid in November under the old policy. Adjusting for the five-for-one share split that took place in January 2016, the FY16 dividend is unchanged from the 16p (3.2p on a pro rata basis) paid in FY15.

The first distribution of 2.2p per share under the new policy will be in January 2017 and will be followed by two further quarterly payments of the same amount in April and July. The 9.8p total distribution equates to 4.04% of JPGI's NAV per share of 242.6p (cum-income, with debt at fair value) at 30 June 2016. This gives the trust a prospective yield of 4.0% based on the 23 September share price.

Peer group comparison

Following the change in its distribution policy in July 2016, JPGI has moved from the AIC Global sector to the Global Equity Income peer group. Exhibit 9 below shows the trust in its new peer group, but we have also included sector averages for the Global sector for comparison purposes.

JPGI is the third-largest trust in the AIC Global Equity Income peer group. While its NAV total return is below the weighted average for the sector over 12 months, longer-term performance has been strong, and the trust ranks first in the peer group over three years and close to the top over five years. Risk-adjusted performance as measured by the Sharpe ratio is below average over one year and above average over three years. Ongoing charges are the lowest in the group, although JPGI is one of four peers to levy a performance fee. The dividend yield is currently the lowest in the sector; this is because dividends do not yet reflect the new policy to distribute 4% of year-end NAV. Applying a 4.0% dividend yield would bring the trust into line with the average for the peer group.

Because of their focus on income, which is attractive to investors in a low interest rate environment, many trusts in the peer group trade close to NAV or at a small premium. JPGI's discount is currently at the wider end of the peer group; it would be reasonable to expect this to narrow once the dividend yield begins to reflect the new distribution policy. The trust's modest gearing is below the sector weighted average.

Exhibit 9: AIC Global Equity Income sector at 14 September 2016

% unless stated	Market cap £m	TR 1 Year	TR 3 Year	TR 5 Year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)	Sharpe 1y (NAV)	Sharpe 3y (NAV)
JPMorgan Global Growth & Income	**293.1**	**24.1**	**40.2**	**91.2**	**0.7**	**Yes**	**(8.4)**	**103**	**1.4**	**0.5**	**0.5**
Blue Planet Investment Trust	17.6	13.9	20.2	--	3.9	No	(28.9)	139	8.5	(0.0)	0.1
F&C Managed Portfolio Income	50.7	10.2	18.1	67.6	1.1	Yes	1.6	103	4.4	(0.5)	(0.1)
Henderson International Income	220.1	25.8	38.2	93.5	1.1	No	3.3	100	3.2	0.7	0.5
Invesco Perp Select Glo Eq Inc	56.9	20.0	34.8	95.6	1.0	Yes	0.8	106	3.4	0.2	0.3
London & St Lawrence	99.3	9.3	22.1	69.8	0.7	Yes	(9.2)	100	4.3	(0.6)	0.0
Murray International	1,417.8	36.7	21.1	59.4	0.8	No	5.9	113	4.2	1.4	0.1
Scottish American	394.7	28.2	34.1	69.8	0.9	No	(1.9)	122	3.7	0.8	0.4
Securities Trust of Scotland	170.2	23.8	25.5	76.1	1.0	No	(3.2)	108	3.8	0.6	0.2
Seneca Global Income & Growth Trust	62.1	11.3	21.4	60.0	1.6	No	2.1	110	3.9	(0.3)	0.0
Sector weighted average		**30.0**	**26.9**	**69.3**	**0.9**		**1.5**	**111**	**3.7**	**0.9**	**0.2**
JPGI rank in sector	**3**	**4**	**1**	**3**	**10**		**8**	**7**	**10**	**5**	**2**
AIC Global sector average		**21.2**	**40.5**	**90.2**	**0.7**		**(6.9)**	**106**	**1.8**	**0.3**	**0.5**

Source: Morningstar, Edison Investment Research. Note: TR=NAV total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

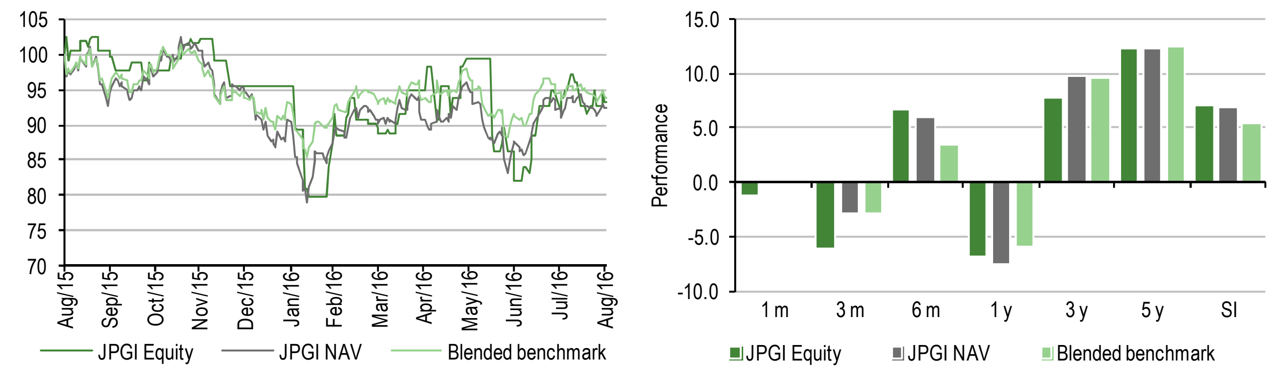
The board

JPGI has four independent, non-executive directors. Nigel Wightman joined the board in 2010 and became chairman at the November 2015 AGM, following the retirement of Simon Davies (chairman since 2010). Gay Collins, the senior independent director, was appointed to the board in 2012. Jonathan Carey became a director in 2009 and chairs the audit & management engagement and remuneration committees. Tristan Hillgarth has served on the board since November 2014. Messrs Wightman, Carey and Hillgarth all have backgrounds in investment management, while Ms Collins is a PR and communications professional.

Performance tables in New Zealand dollar terms

Exhibit 10: Investment trust performance – in New Zealand dollar terms to 31 August 2016

Price, NAV and FTSE All-Share total return performance, one-year rebased | **Price, NAV and FTSE All-Share total return (%)**



Source: Thomson Datastream, Edison Investment Research

Exhibits 10 and 11 show JPGI's performance in New Zealand dollar terms. Recent relative strength in the currency has translated into negative returns for investors, in contrast to the strong gains experienced by sterling-based investors following the Brexit-induced decline in the pound. However, over three and five years and under the current manager since 2008, New Zealand-based investors have received annualised share price and NAV returns of c 7-12%, similar to the c 10-13% annualised returns enjoyed by UK investors.

Exhibit 11: JPGI discrete annual performance in NZ$

12 months ending	Share price (%)	NAV (%)	MSCI AC World (%)	MSCI World (%)	FTSE All-Share (%)
31/08/12	15.8	11.1	13.5	15.6	14.2
31/08/13	22.9	21.8	20.6	22.9	20.3
31/08/14	7.2	12.2	12.4	12.5	9.5
31/08/15	25.2	27.6	24.5	27.4	19.6
31/08/16	(6.8)	(7.6)	(5.9)	(6.3)	(17.0)

Source: Thomson Datastream. Note: Total return basis, in NZ$ terms.