

JPMorgan Global Convertibles Income Fund

Steady NAV progression and a 4.5% yield

JPMorgan Global Convertibles Income Fund (JGCI) is the only UK-listed closed-end fund specialising in convertible bonds, aiming to generate income along with the possibility of capital growth. Increased investment flexibility granted to the managers in late 2015 means the fund can now invest more in the balanced to equity-like segments of the convertible bond market. NAV performance since launch in 2013 has been fairly steady, in spite of an environment of falling yields and tighter spreads on high-yield bonds. However, share price performance has been volatile at times, so the board has introduced a new discount control policy and has stepped up the pace of share buybacks. There has been a recovery in the share price since the policy was put in place in May 2017, yet JGCI still offers an attractive yield of 4.5%.

12 months ending	Share price (%)	NAV (%)	Barclays Global Credit Rate Sensitive (%)	MSCI World (%)	FTSE All-Share (%)
30/06/14	12.2	14.2	9.0	10.6	13.1
30/06/15	(4.8)	(0.9)	0.5	10.9	2.6
30/06/16	(9.5)	0.0	(1.3)	15.1	2.2
30/06/17	19.1	9.2	10.8	22.3	18.1

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

Investment strategy: Income-tilted convertibles fund

JGCI is managed by J.P. Morgan Asset Management's dedicated convertible bonds team, who run a range of mandates and thus have broad coverage of the whole convertible bond market. The fund invests mainly in the bond-like and balanced parts of the market (see Exhibit 2). Security selection is largely bottom-up, but the process also allows for an assessment of industry dynamics and more top-down factors such as economic strength. The portfolio is diversified by geography, sector, credit quality and issuer size, and is currently spread across c 80 issuers. Gearing may be used tactically, and currency exposure is hedged back to sterling.

Market outlook: Close to a turning point?

Equity markets have continued to gain ground in 2017 against a benign economic backdrop and arguably lower political risk, in spite of growing calls from central bank policymakers to end the extraordinary monetary conditions that have underpinned demand for risk assets since the global financial crisis. Higher interest rates may increase investor appetite for bonds rather than equities, but with uncertainty over the pace and timing of rate rises, an asset that combines features of both equities and bonds could find favour with investors.

Valuation: New discount policy stabilises shares

At 27 July 2017, JGCI's shares traded at a 2.4% discount to cum-income NAV. This is significantly narrower than the one-year average discount of 6.8% (range of 0.3% to 11.9%), and is also narrower than the three-year average of 3.3%. The discount has come in substantially since the introduction of a new policy in May 2017 targeting a maximum discount of 2.0% in normal market conditions. The yield remains attractive relative to both cash and equity markets at 4.5%.

Investment companies

28 July 2017

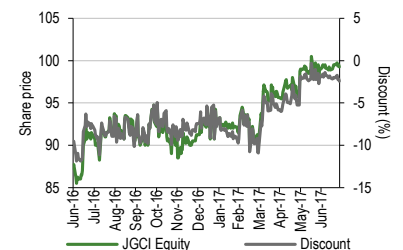
Price 99.3p
Market cap £178.2m
AUM £196.7m

NAV* 101.7p
Discount to NAV 2.4%

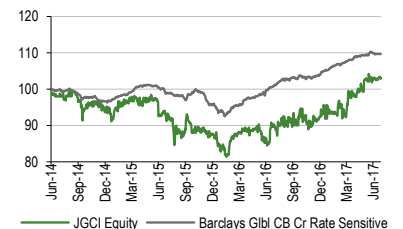
*Including income. NAV as at 25 July 2017.

Yield 4.5%
Ordinary shares in issue 179.5m
Code JGCI
Primary exchange LSE
AIC sector Sector Specialist: Debt
Benchmark Barclays Global Credit Rate Sensitive

Share price/discount performance



Three-year performance vs index



52-week high/low 100.5p 88.3p
NAV* high/low 102.2p 97.7p

*Including income.

Gearing

Gross* 8.4%
Net* 5.5%

*As at 21 July 2017.

Analysts

Sarah Godfrey +44 (0)20 3681 2519
Gavin Wood +44 (0)20 3681 2503

investmenttrusts@edisongroup.com

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Income Fund is a research client of
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Exhibit 1: Company at a glance

Investment objective and fund background

JPMorgan Global Convertibles Income Fund (JGCI) seeks to generate dividend income combined with the potential for long-term capital growth by investing in a globally diversified portfolio of convertible securities and other suitable instruments exhibiting convertible or exchangeable characteristics. The dedicated convertibles team at J.P. Morgan Asset Management follows a well-developed process that combines equity and credit selection techniques. Currency exposures for capital and income are hedged.

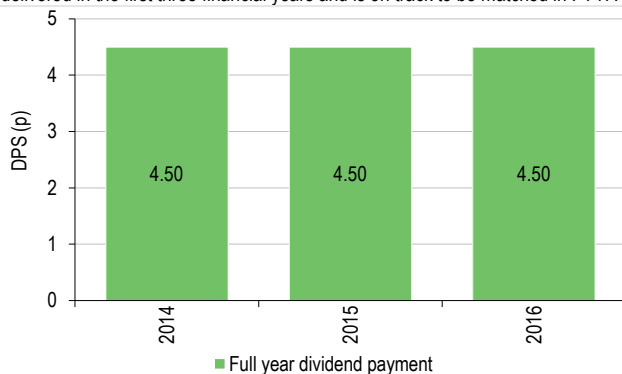
Recent developments

- 19 July 2017: Appointment of Gailina J Liew as non-executive director.
- 30 May 2017: Introduction of revised discount control policy. Share buybacks and issuance to be used to maintain a discount/premium range of -2.0% to +2.0% in normal market conditions.
- 10 May 2017: Third quarterly dividend of 1.125p declared, paid on 14 June 2017.
- 17 March 2017: Half-year results for the period ended 31 December 2016. NAV TR +4.4% and share price TR +7.2% versus +4.9% for the Barclays Global Credit Rate Sensitive Corporate Bond Index.

Forthcoming		Capital structure		Fund details	
AGM	November 2017	Ongoing charges	0.91%	Group	J.P. Morgan Asset Management
Annual results	October 2017	Net gearing	5.5%	Manager	Team led by Antony Vallée
Year end	30 June	Annual mgmt fee	0.75% of net assets	Address	60 Victoria Embankment, London EC4Y 0JP
Dividend paid	Quarterly	Performance fee	None	Phone	+44(0)20 7742 9995
Launch date	11 June 2013	Company life	Indefinite	Website	www.jpconvertiblesincome.co.uk
Continuation vote	Three-yearly, next 2018	Loan facilities	\$32m multi-currency		

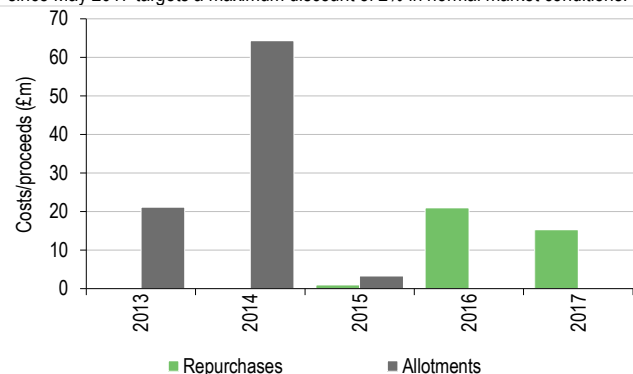
Dividend policy and history (financial years)

In the first year dividends were paid half-yearly, but moved to quarterly thereafter. The launch target for a gross dividend of 4.5% of the issue price (100p) has been delivered in the first three financial years and is on track to be matched in FY17.

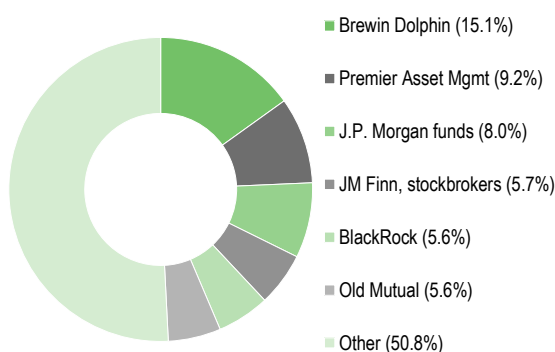


Share buyback policy and history (calendar years)

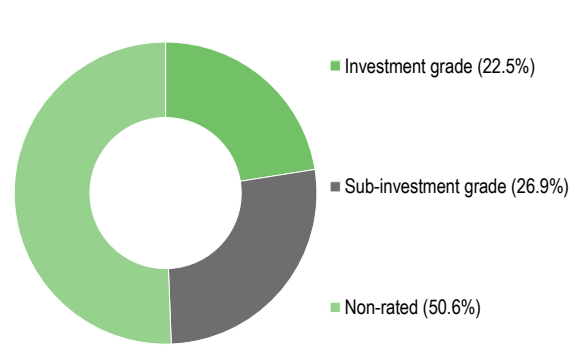
JGCI may buy back up to 14.99% of its issued share capital annually and new shares may be issued under a placing programme. A new discount control policy since May 2017 targets a maximum discount of 2% in normal market conditions.



Shareholder base (as at 30 April 2017)



Portfolio breakdown by official credit quality (as at 30 June 2017)



Portfolio characteristics (as at 30 June 2017)

Portfolio yield to best*	4.4%
Equity sensitivity (delta)	29.5%
Duration (to put)	3.2 years
Number of securities	83
Available cash	-9.3%
Bond quality (JPAM assessment 30 June 2017, includes gearing)	
Internally rated high yield	44.0%
Officially rated high yield	27.0%
Officially rated investment grade	23.0%
Internally rated investment grade	16.0%

Top 10 holdings (% as at 30 June 2017)

Issuer	% of portfolio
Brait 2.75% 18-Sep-2020	3.02
Zhen Ding Technology 0.0% 26-Jun-2019	2.29
TPK Holding 0.0% 08-Apr-2020	2.29
Helical Bar 4.0% 17-Jun-2019	2.28
Sacyr Vallehermoso 4.0% 08-May-2019	2.23
OCI 3.875% 25-Sep-2018	2.20
Weatherford 5.875% 01-Jul-2021	2.11
Ensco 3.0% 31-Jan-2024	2.02
Carillion 2.5% 19-Dec-2019	2.00
Larsen & Toubro 0.675% 22-Oct-2019	1.96
Total	22.40

Source: JPMorgan Global Convertibles Income Fund, Edison Investment Research, Bloomberg, Morningstar. Note: *Yield to best: highest yield for each bond with all future put dates treated as possible maturity dates and a yield-to-maturity calculation performed for each date.

Fund profile: Unique UK-listed convertibles fund

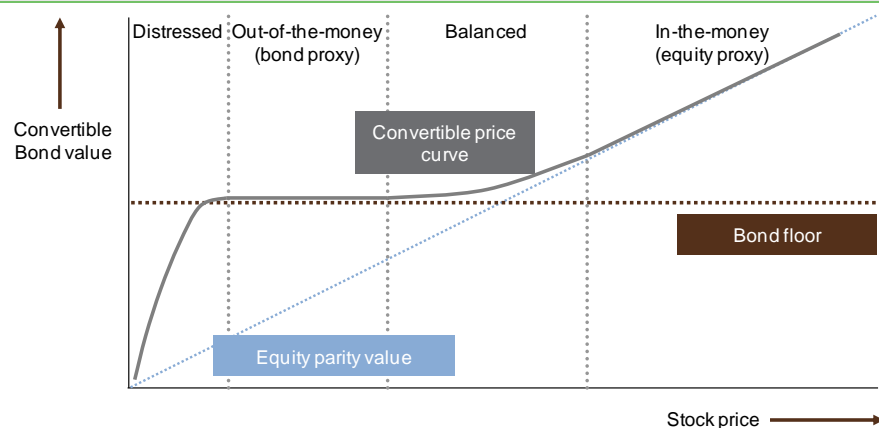
JPMorgan Global Convertibles Income Fund (JGCI), launched in June 2013, is the only UK-listed closed-end investment company specialising in convertible bonds. It is incorporated in Guernsey and run by the convertible bonds team at J.P. Morgan Asset Management in London, with portfolio management responsibility shared between team head Antony Vallée, Robin Dunmall and Natalia Bucci. JGCI principally has an income focus, while the SICAV managed by the same team concentrates on balanced convertibles. There are three analysts on the team, providing global coverage across industry sectors, as well as a dedicated trading desk. The team's broad market focus gives JGCI the flexibility to invest in the less bond-like segment in response to opportunities.

JGCI's principal aim is to pay a regular quarterly income, although this may be sourced through income or capital returns. Gearing may be used tactically and the board has recently revised its discount control policy with the intention of reducing share price volatility.

Background to convertible bond investment

Convertible bonds are essentially bonds with an embedded option allowing them to be converted into the underlying equity at a predetermined rate or by a particular date, normally at a premium to the share price at the time of issue. They typically pay a fixed income and can be redeemed at their par value if they are not converted. Convertibles are issued as bonds, typically with a yield lower than that available on 'straight' corporate bonds from the same issuer, but higher than the dividend yield on the underlying equity. Convertibles participate in the upside of the underlying equity, increasing in value as the share price rises, but also offer downside protection from the 'bond floor' (through the ability to redeem at par) if the share price goes down. Like a corporate bond, a convertible is exposed to default risk, and liquidity may be limited. However, the equity component reduces the sensitivity to interest rate movements.

Exhibit 2: Interaction of bond and equity components of a convertible bond



Source: JPMorgan Global Convertibles Income Fund

Exhibit 2 illustrates the different segments of the convertible bond market, and shows the interaction of the bond and equity components at different share price levels. In the distressed segment, the convertible is trading below the bond floor, leading to a higher yield albeit with an increased risk of default. In the out-of-the-money segment, the convertible is most bond-like as the par value is above the price of the underlying equity, meaning there is no incentive to convert as the equity could be bought more cheaply in the open market. As the underlying share price rises, the value of the convertible also rises, meaning the yield goes down and there is more of a balance of capital and income returns. An in-the-money convertible is one where the price is above the par value of the bond, and will behave more like an equity.

The fund managers: Vallée, Bucci and Dunmall

The managers' view: Positive on economy; cautious on duration

JGCI Portfolio Manager Robin Dunmall comments that the team retains a positive view of the global economy, with limited near-term risk of a US recession and the European economy recovering strongly. Politically – while US President Trump does face some struggles implementing his reform agenda – a lot of the bigger risks have begun to resolve, with favourable outcomes in recent European elections, and Brexit negotiations looking increasingly like a domestic problem rather than an existential threat to the EU. This benign scenario provides support for equity markets even against a backdrop of generally high valuations, with bigger risks arguably coming from tight spreads on high-yield credit, and from longer-duration bonds given the possibility of further rate rises in the US and the beginning of monetary policy normalisation in Europe and the UK. These factors are feeding into JGCI's current higher exposure to more equity-sensitive but short-dated securities, although Dunmall stresses that the yield focus remains the 'heart and soul' of the fund.

While security selection is bottom-up, Dunmall says the team is cognisant of how industry dynamics can affect issuers. He gives the example of real estate, where portfolio exposure has fallen because the sector looks less attractive in a rising interest rate environment. The team has reduced the allocation to bigger names in the sector, but retained exposure to issuers with specific catalysts, as well as UK real estate firms where yields have risen on fears over Brexit. Conversely, the stronger economic backdrop favours increased exposure to industrial and materials companies, although again the actual portfolio holdings are driven by bottom-up opportunities. Exposure to the oil sector has also increased, but Dunmall says this is in oil services companies – which benefit from any increase in production as oil prices rise – rather than the producers, whose upside is more limited.

Dunmall says the shift towards the balanced part of the market has also led the team to focus more on primary issuance. Convertibles held for yield are usually bought below par value in the secondary market. Year-to-date, there has been a strong primary market in the US, and the team has been active in participating where previously they would have considered the coupons on new issues too low.

Asset allocation

Investment process: Bottom-up, diversified global portfolio

As shown in Exhibit 2, the managers of JGCI view the convertible bond market as having three main segments, with the fund's income focus meaning it tends to be more concentrated in the bond-like part of the market. Although the team is looking more at balanced convertibles in light of the greater focus on total returns, the managers say they are unlikely to buy non-yielding convertibles, except in cases where they redeem above par. The credit-sensitive (bond-like) part of the market is less favoured by the majority of convertible bond investors, and the team says this means they can buy selected bonds cheaply versus the theoretical value of the credit plus the equity optionality.

The global portfolio is constructed largely on a bottom-up basis, with sector allocation based partly on where the managers find the most compelling stock-specific opportunities, and partly on their assessment of prospects for yields and overall convertible bond market valuations. As well as evaluating the industry outlook, the managers undertake a detailed analysis of each issuer before investing. Securities are rarely held until maturity, with the team preferring to sell as convertibles approach parity with equity values, and reinvest the proceeds in higher-yielding names.

JGCI's portfolio is broadly diversified by geography, industry, issuer size and credit quality. While many convertible bonds lack an official credit rating, all unrated securities are assessed and rated by the team, and the portfolio is tilted towards high-yield (BB and below) issuers. All currency

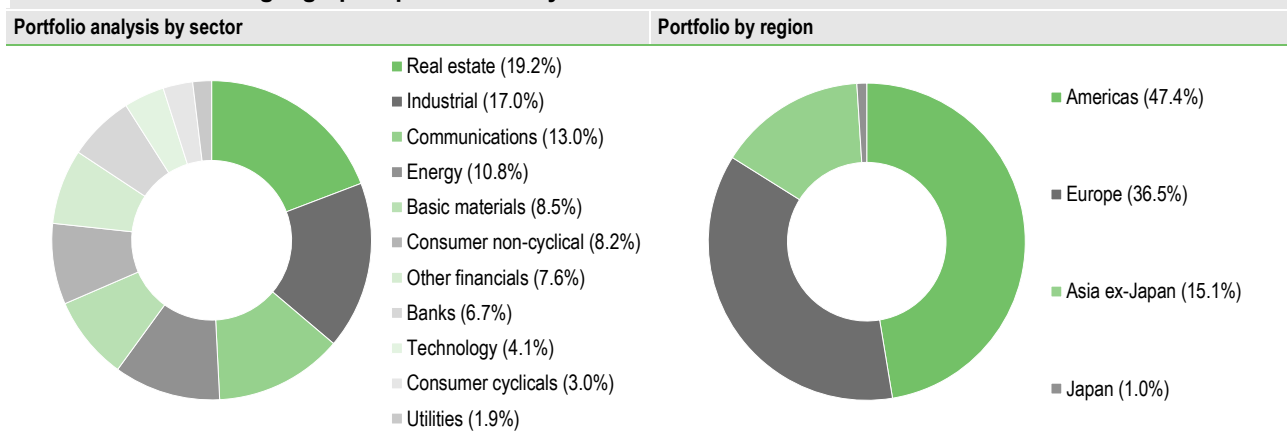
exposures are hedged back to sterling, and derivatives may be used to reduce equity and duration risk. Portfolio turnover may be higher than for a conventional bond fund, particularly in rising stock markets, where convertible bonds may approach parity with equity valuations more quickly.

Current portfolio positioning

At 30 June 2017, there were 83 convertible bonds in the JGCI portfolio, a decrease from 106 a year previously. The top 30 positions made up 57% of the total portfolio by value. As shown in Exhibit 3 below, the portfolio is well spread by sector and geography. Over the past year, the sector breakdown has changed significantly, with a c 9pp increase in industrials exposure and c 5-6pp increases in energy and materials, while consumer cyclicals, communications, technology and real estate have fallen by between 2pp and 8pp.

Portfolio Manager Robin Dunmall says the portfolio has evolved in response to the opportunity set, as already low bond yields have fallen even further. At launch in 2013, it was possible to build a portfolio of bond-like convertibles with good yields, and more equity-sensitive (balanced) mid-cap issues with attractive coupons. However, falling yields made the balanced space less attractive for yield-focused investors, so the JGCI portfolio became increasingly bond-like. While the team was given additional flexibility to invest in lower-yielding securities in late 2015, a market dislocation meant there were good opportunities in the higher-yielding bond-like segment at that time, and Dunmall says the decision to remain invested in this area throughout 2016 was vindicated by JGCI's performance versus the team's SICAV fund, which focuses on the balanced part of the market.

Exhibit 3: Sector and geographic portfolio analysis as at 30 June 2017



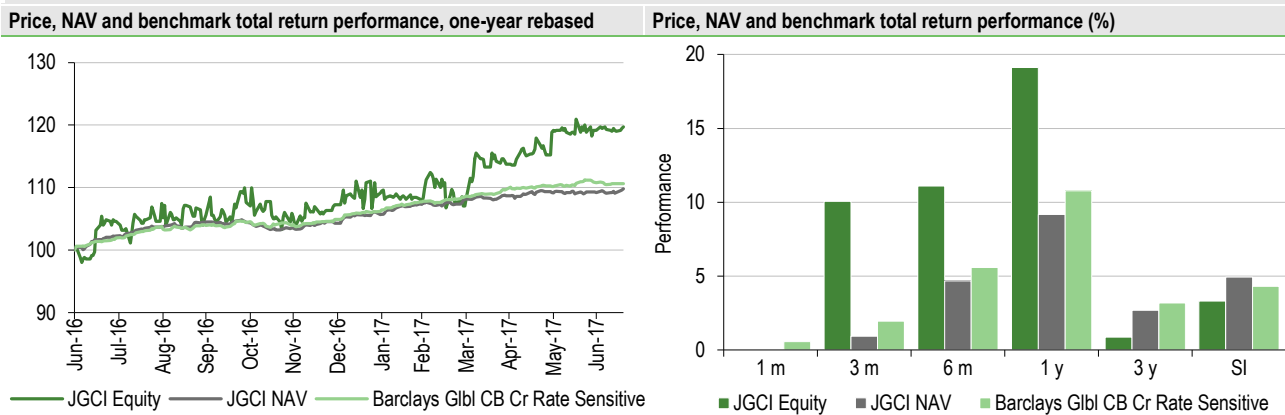
Source: JPMorgan Global Convertibles Income Fund, Edison Investment Research

Towards the end of 2016, the managers began to take advantage of the greater investment flexibility, taking positions in high-quality balanced convertibles trading close to the bond floor, which are short-dated so they have less duration risk, but are exposed to equity upside. The portfolio was defensively positioned as the managers felt equity markets were fully valued and yield spreads over corporate bonds were tight. Dunmall says there were conflicting arguments in the market at the time, with a supportive economic environment but high equity valuations meaning stock markets looked vulnerable to a correction. However, the election of Donald Trump as US president, bringing the possibility of fiscal stimulus to justify the market's growth expectations, was a 'shot of adrenaline' that delayed any potential wobble or sell-off, and shielded markets from a period of high political risk due to factors such as the French elections and the UK's Brexit negotiations. In light of this, the team adjusted the portfolio to bring in more balanced, equity-sensitive exposure, making the overall positioning of the fund more similar to how it was in its first two years.

All positions are added to the fund at positive yields. However, with greater equity sensitivity in the JGCI portfolio, Dunmall says that fixed income factors will be less significant this year than last, although yield will still be the fundamental driver of return.

Performance: Steady record of NAV returns continues

Exhibit 4: Investment company performance to 30 June 2017



Source: Thomson Datastream, Edison Investment Research. Note: Three year and since inception (SI, 11 June 2013) annualised.

JGCI has performed strongly in absolute terms over 12 months to 30 June 2017 (Exhibit 4). Notably for a global fund, this has not been boosted by the weak pound, because JGCI hedges its currency exposure back to sterling. Share price total returns have benefited from the introduction of a new approach to discount control in May 2017. NAV total returns are largely in line with the benchmark¹ over most periods since inception, with a period of outperformance in late 2015/early 2016 as a result of the fund's more conservative stance against an uncertain market backdrop.

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	SI
Price relative to Barclays Gbl CB Cr Rate Sensitive	(0.6)	8.0	5.2	7.5	(6.6)	(3.8)
NAV relative to Barclays Gbl CB Cr Rate Sensitive	(0.5)	(1.0)	(0.9)	(1.4)	(1.4)	2.5
Price relative to MSCI World Index	0.2	9.7	5.2	(2.6)	(34.2)	(34.4)
NAV relative to MSCI World Index	0.2	0.6	(0.9)	(10.7)	(30.6)	(30.2)
Price relative to FTSE All-Share	2.5	8.5	5.3	0.9	(17.2)	(17.4)
NAV relative to FTSE All-Share	2.6	(0.5)	(0.8)	(7.6)	(12.6)	(12.0)

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

As JGCI is essentially a bond fund, longer-term returns unsurprisingly look lacklustre versus the MSCI World Index (Exhibit 5). The managers point out that the underlying equity performance of the universe of convertible bonds with positive yields has also lagged the equity index over the period since JGCI's launch, largely a result of equity index performance having been led by defensive mega-caps, rather than the growth-focused mid-caps that account for most convertible bond issuance. JGCI's underlying equity performance has actually been ahead of the yielding convertibles universe.

Given JGCI's short duration focus and mix of high-yield and investment-grade credits, there is no appropriate 'straight' bond index to compare it with; however, an analysis by the managers versus a composite of 75% short-dated high-yield and 25% three- to five-year investment grade corporate bonds shows the equity exposure of convertibles has provided a superior return over JGCI's life.

¹ JGCI changed its performance benchmark during FY16 from the MSCI World Index to the Barclays Global Convertible Credit Rate Sensitive Index (sterling hedged). As a convertible bond index with a bias to the more bond-like end of the market, this was seen as a more appropriate measure than the broad global equity index.

Discount: Narrowing under new buyback policy

JGCI traded at a premium to NAV for most of its first two years of life, but moved to a discount amid a sell-off in credit markets in the latter half of 2015. It remained at an appreciable discount throughout 2016 and into 2017, but since the new discount policy was put in place at the end of May, the discount has narrowed, and stood at 2.4% (based on cum-income NAV) at 27 July 2017. This is significantly narrower than the 6.8% average discount over one year, and also narrower than the 3.3% three-year average discount. Since launch in June 2013 the discount has averaged 1.6%.

Exhibit 6: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

JGCI is a closed-end investment company incorporated in Guernsey and listed on the London Stock Exchange. At 27 July 2017 it had 179.5m shares in issue, compared with 136.0m at launch in June 2013. Under the new discount policy, the fund will buy back or issue shares with the aim of maintaining the share price between a 2% discount and a 2% premium to NAV in normal market conditions. In the past 12 months, 15.7m shares (8.0% of shares outstanding at the start of the period) have been bought back at a cost of £15.4m, the vast majority in the two months since the new policy was announced in May 2017. The fund has a \$32m borrowing facility with Scotiabank, recently renewed until 2 July 2018, of which \$20m is currently drawn at an annual interest rate of 0.8% over Libor (FY16: \$20m). The managers use gearing tactically and at 21 July 2017, net gearing stood at 5.5%. This was the same level as at end-H117, although in the intervening period it has been as high as 8.6% and as low as -2.2%. The maximum permitted level is 20% of net assets.

JPMorgan Funds receives an annual management fee of 0.75% of net assets, and there is no performance fee. At end-H117, ongoing charges were 0.91%.

Dividend policy and record

When JGCI was launched in 2013, it was with the stated intention of paying a dividend of 4.5p per share (a 4.5% yield). This has been maintained in each subsequent year so far. Since FY15, dividends have been paid quarterly, in December, March, June and September. While the dividend was fully covered by income in the six months to 31 December 2016, the fund has the flexibility to fund the payout from capital as well as income, which may be necessary given the move to a more total return focus with a greater exposure to balanced convertibles. Three interim dividends of 1.125p have so far been paid for FY17, the same rate as in FY16. Revenue reserves increased from £64,000 at end-FY16 to £89,000 at end-H117. Based on the current share price, JGCI has a dividend yield (both historic and prospective) of 4.53%.

Peer group comparison

JGCI is the only UK-listed closed-end convertibles fund, and as such there is no directly comparable peer group. Exhibit 7 below draws together a group of funds that have an income focus and invest to some extent in convertibles. The Advent Claymore fund is a highly geared US-listed closed-end fund, while the Polar Capital and Salar funds are Irish-domiciled open-ended funds.

Within the group, JGCI has the second-highest NAV total return over both one and two years, and ranks third over three years. Over one and two years, NAV total returns are ahead of the two open-ended funds, which are more similar to JGCI from an investment perspective than the Advent Claymore fund. Ongoing charges are the lowest in the group, and there is no performance fee.

The very low level of gearing is again largely in line with the open-ended funds, which do not have the ability to gear. JGCI's shares are trading close to NAV and its 4.5% dividend yield is in line with the median.

Exhibit 7: Selected peer group as at 25 July 2017*

% unless stated	Market cap/ fund size £m	NAV TR 1 year	NAV TR 2 year	NAV TR 3 year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)
JPMorgan Global Convertibles Income	178.2	7.5	9.7	9.9	0.9	No	(1.3)	101	4.5
Advent Claymore Cnvt Secs&Inc II	167.6	12.3	29.8	38.9	2.2	No	(5.4)	273	4.4
Polar Capital Global Convert £ Hedged**	485.56	6.2	2.4	--	1.2	Yes	--	--	4.5
Salar Fund £ hedged**	1,037.25	5.5	4.0	9.9	1.3	Yes	--	--	1.0
Peer group weighted average		6.5	6.4	13.4	1.4		(3.3)	184	2.6
JGCI rank in peer group	3	2	2	3	4		1	2	1

Source: Morningstar, Edison Investment Research. Note: *Performance data to 24 July 2017. TR=total return. **Open-ended funds: market cap refers to assets under management; discounts and gearing are not applicable to open-ended funds. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

There are five non-executive directors on the board of JGCI, four of whom have been in place since the fund's launch in 2013. Chairman Simon Miller is also the chairman of Brewin Dolphin Holdings and the North American Income Trust, and a director of STV Group. In line with JGCI's constitutional commitment to have a majority of the board resident offshore, the other directors – Philip Taylor, Charlotte Valeur and Paul Meader – are based in the Channel Islands, as is Gailina J Liew, who was appointed in July 2017 having served as a board apprentice since November 2016. The directors' professional backgrounds are in investment management, accountancy and business.

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