EDISON

Jupiter Primadona Growth Trust

‘Best ideas’ portfolio with nil-discount policy

Investment trusts

3 June 2015

Jupiter Primadona Growth Trust (JPG) is a global investment trust with a structural bias towards the UK (currently 61% of total assets). It blends direct holdings in UK shares with global funds to produce a portfolio that represents fund manager Jupiter’s ‘best ideas’. Over the past 18 months the trust has simplified its investment approach (removing a short-term trading subsidiary and some derivative exposure), moved to quarterly payment of dividends and adopted a nil-discount approach. With a composite benchmark of 75% FTSE All-Share and 25% FTSE World ex-UK, absolute and relative performance has been positive over most periods.

12 months ending	Share price (%)	NAV (%)	Composite benchmark (%)	FTSE All Share index (%)	FTSE World ex-UK index (%)
31/05/12	(11.8)	(7.3)	(7.2)	(8.0)	(5.2)
31/05/13	36.3	34.0	30.0	30.1	29.4
31/05/14	18.6	7.3	8.4	8.9	6.9
31/05/15	10.7	11.6	9.8	7.5	16.7

Source: Thomson Datastream. Note: Total return basis.

Investment strategy: UK equities and global funds

JPG blends a core portfolio of UK equities, selected by trust manager Richard Curling, with specialist funds to give overseas exposure. The overseas country allocation and fund choice are advised by Jupiter’s Independent Funds team, led by John Chatfeild-Roberts, and may include funds managed by Jupiter as well as third parties. The UK portfolio has four pillars – a large-cap allocation to strong dividend payers; secular growth stocks; cyclical/recovery plays; and ‘special situations’. Curling favours quality companies with strong cash flows, and chooses stocks on the basis of detailed research and company meetings, combined with extensive use of value screens. Gearing is used tactically and is currently 15%.

Market outlook: Focus on quality in uncertain times

After a period of strong performance from most major stock markets, valuation metrics that are in many cases ahead of long-term averages may spark some investor nervousness. Economic growth in most regions from 2015 to 2020 is set to outpace the rates seen in the past 10 years, which should provide support to exporters and domestic consumer stocks in growing economies. However, near-term volatility may arise as a result of divergent monetary policy, with the pace and timing of US interest rate rises an area of particular concern. A focus on conservatively financed, cash-generative businesses could stand longer-term investors in good stead in such an environment.

Valuation: Close to par as a result of buyback policy

Since adopting a zero-discount management policy in February 2014, JPG’s shares have traded close to par, and stood at a 1.6% discount to cum-income NAV at 1 June, a little above the one-year average of 1.1%. This compares with an average discount of 5.6% over three years, and 7.8% in the three years prior to the introduction of the new policy. Shares are bought back into treasury on a regular basis to manage the discount, and may be reissued at a premium. Since February 2014, JPG has bought back 2.7m shares (13.5% of the total) at a cost of £8.2m.

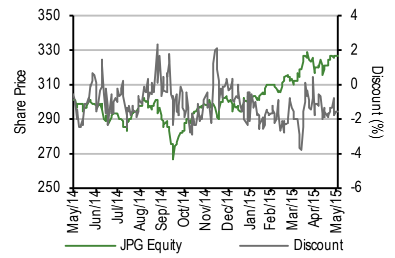
Price	**326.3p**
Market cap	**£56.5m**
AUM	**£66.8m**

NAV*	331.1p
Discount to NAV	1.5%
NAV**	331.5p
Discount to NAV	1.6%

*Excl income. **Incl income. Data at 1 June 2015.

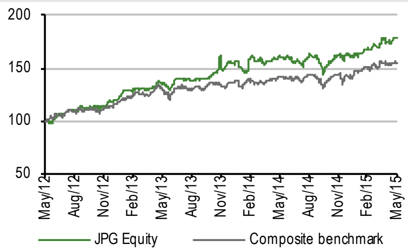
Yield	2.0%
Ordinary shares in issue	17.32m
Code	JPG
Primary exchange	LSE
AIC sector	Global

Share price/discount performance*



*Including income. Negative values indicate a discount; positive values indicate a premium.

Three-year cumulative perf. graph



52-week high/low	328.8p	266.0p
NAV* high/low	332.2p	272.5p

*Including income.

Gearing

Gross	15.0%
Net	15.0%

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Edison profile page

Jupiter Primadona Growth Trust is a research client of Edison Investment Research Limited

Exhibit 1: Jupiter Primadona Growth Trust at a glance

Investment objective and fund background

Jupiter Primadona Growth Trust aims to concentrate on capital appreciation for its shareholders from holding predominantly listed investments. It uses a composite benchmark made up of 75% FTSE All-Share index and 25% FTSE World ex-UK index (both on a total return basis). Holdings outside the UK are predominantly in funds. In FY14 the trust adopted a nil discount management policy.

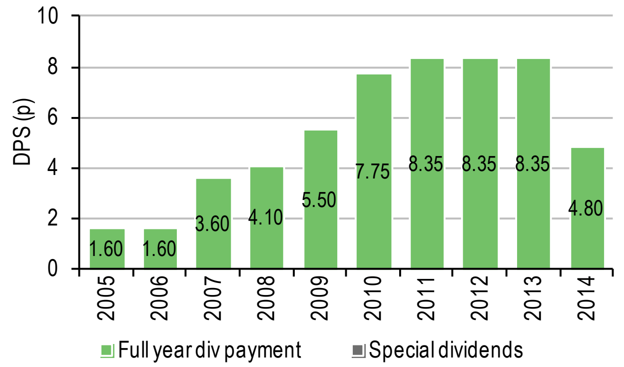
Recent developments

- 26 February 2015: half-year results for the six months ended 31 December. NAV TR +2.8% compared with +1.9% for composite benchmark.
- 24 February 2015: quarterly interim dividend of 1.6p per share announced.

Forthcoming		Capital structure		Fund details	
AGM	November 2015	Ongoing charges	1.4%	AIFM	Jupiter Unit Trust Managers
Annual results	October 2015	Net gearing	15%	Manager	Richard Curling
Year end	30 June	Annual mgmt fee	0.8% (see page 11)	Address	1 Grosvenor Place,
Dividend paid	Quarterly (see below)	Performance fee	Yes (see page 11)		London SW1X 7JJ
Launch date	June 1972	Trust life	Indefinite	Phone	020 3817 1000
Continuation vote	No	Loan facilities	£10m (see page 11)	Website	www.jupiteram.com/JPG

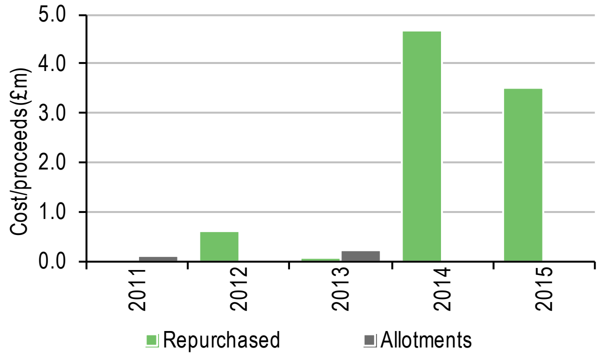
Dividend payments

Dividends paid quarterly in December, March, June and September. The dividend policy changed with effect from Q114 so only three dividends were paid in this period (FY15 dividend is expected to be 6.4p).

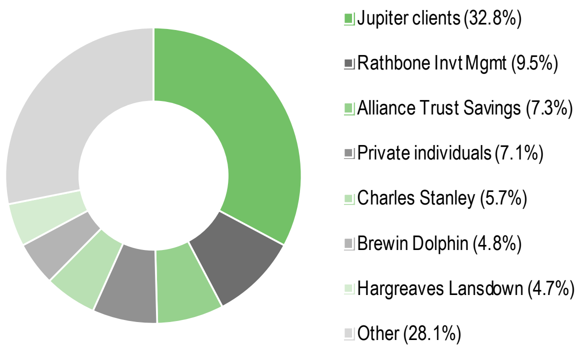


Share buyback policy and history

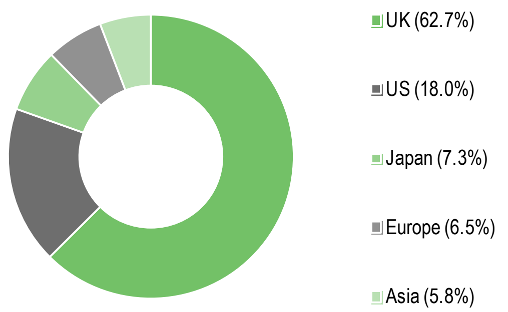
During FY14, JPG adopted a nil-discount policy, whereby it aims to remove discount risk and improve liquidity by maintaining the share price close to par through the use of regular share buybacks or allotments.



Shareholder base (as at 24 April 2015)



Geographical allocation of portfolio (as at 30 April 2015)



Top 10 holdings as at end March

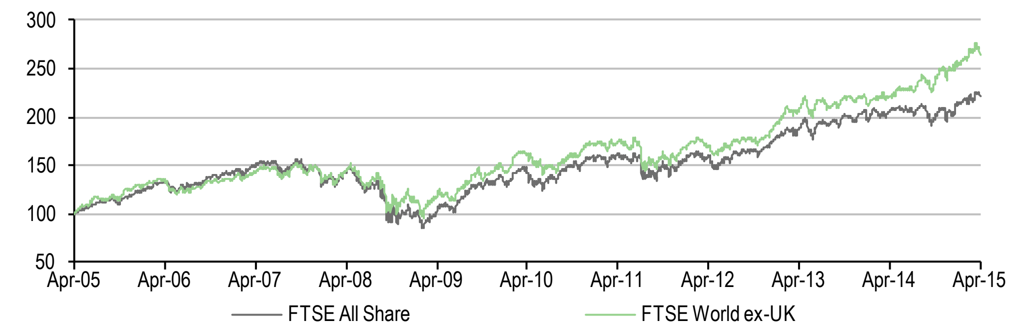
			Portfolio weight (incl gearing)%	
Company	**Country**	**Sector**	**30 April 2015**	**30 April 2014***
Findlay Park American Fund	Americas	Equity fund (OEIC)	9.9	8.0
Prusik Asian Equity Income	Asia ex Japan	Equity fund (OEIC)	6.8	5.2
Jupiter European Opportunities IT	Europe inc UK	Equity fund (IT)	5.7	5.1
PowerShares Buyback Achievers Portfolio	US	Equity fund (ETF)	5.6	4.5
Jupiter Japan Income	Japan	Equity/bond fund (OEIC)	3.8	2.8
M&G North American Value Fund	North America	Equity fund (OEIC)	3.7	N/A
BP	UK	Oil, gas & coal	3.1	4.1
Royal Dutch Shell	UK	Oil, gas & coal	2.9	3.4
British American Tobacco	UK	Consumer staples	2.8	N/A
Legal & General Group	UK	Insurance	2.7	N/A
Top 10 (% of portfolio)			**47.0**	**43.7**

Source: Jupiter Primadona Growth Trust, Edison Investment Research, Morningstar, Bloomberg. Note: *Top 10 – N/A where not in top 10 at end April 2014.

Global market outlook: Proceed with caution

Global equity markets have performed strongly since the beginning of the post-financial crisis period in March 2009, and particularly so since 2011 (Exhibit 2). While the UK market as measured by the FTSE All-Share index closely matched the performance of the rest of the world in the period leading up to the crisis, in the recovery phase the FTSE World ex-UK index has performed better, a trend that became more pronounced from 2013. This is in large part attributable to outperformance by the US, which makes up 57.5% of the World ex-UK index.

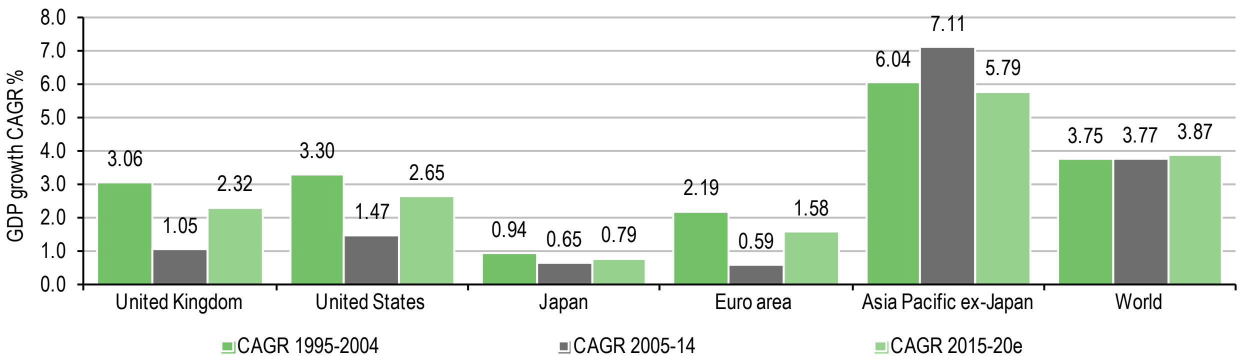
Exhibit 2: FTSE All-Share and FTSE World ex-UK indices over 10 years



Source: Thomson Datastream. Note: Sterling-adjusted, total return indices.

The strong performance of equities – particularly in developed markets – has been buoyed both by better economic conditions and by the ready liquidity supplied by quantitative easing measures in the US, UK, Japan and now Europe and China. The downward pressure that QE has exerted on deposit interest rates and bond yields has made the total return potential of equities, which can grow in capital as well as income terms, look more attractive.

Exhibit 3: World and regional GDP 1995 to 2020 – compound annual growth rates



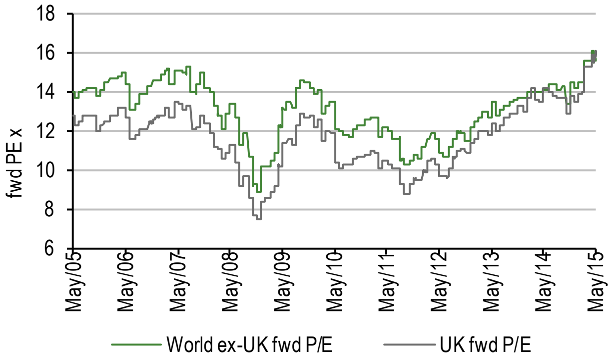
Source: IMF World Economic Outlook, April 2015, Edison Investment Research

Looking ahead, while GDP growth in the next five years is expected to surpass that seen in the period 2005-14 (with the exception of Asia Pacific ex-Japan, where the economic impact of the global financial crisis was less extreme), the latest figures from the International Monetary Fund show that for major regions, growth will be lower than in the years 1995-2004 (Exhibit 3). Economic growth does not read across directly to stock market performance, but it does have an impact on areas such consumer stock and exporters, which are geared to domestic and international growth respectively. In a lower-growth environment, it may be that less cyclically exposed companies will perform better for their shareholders.

A range of uncertainties may have an impact on near term equity market performance, from the pace and timing of US interest rate increases and the outlook for the oil price, to the possibility of Greece leaving the eurozone or the UK leaving the EU, and ongoing geopolitical tension in the

Middle East. Added to this, indices in many markets are at historically high levels – the US, UK and Europe have all breached all-time highs on more than one occasion in recent months – and while this is not necessarily an indicator that they are likely to fall back, some valuation metrics are also beginning to look stretched relative to history.

Exhibit 4: UK and rest of world prospective P/E



Source: Thomson Datastream. Note: Datastream indices.

Exhibit 5: Valuation metrics for Datastream indices

	World	US	Europe	Asia	UK
P/E (forward) (x)	15.6	17.6	15.1	13.7	15.8
10-year average forward P/E	13.0	14.1	11.7	13.4	11.7
Dividend yield (%)	2.4	2.0	2.9	2.1	3.2
10-year average dividend yield	2.6	2.0	3.2	2.2	3.4
Price/book (x)	2.2	3.0	1.8	1.7	1.9
10-year average price/book	1.9	2.3	1.7	1.5	1.9
Return on equity (%)	11.1	13.5	9.4	10.8	12.0
10Y average return on equity	12.3	13.5	11.8	10.7	12.8

Source: Thomson Datastream. Note: Data to 14 May 2015.

As can be seen in Exhibit 4, the forward price/earnings ratio for the UK (using the Datastream UK index) has converged with that of the rest of the world (Datastream World ex-UK) after trading at a discount for most of the past 10 years, and both now stand at multiples close to a 10-year high. All the regional Datastream indices shown in Exhibit 5 have P/E multiples in excess of 10-year averages at 14 May, with the US and UK looking most stretched (25% and 35% above average respectively). Price/book valuations are also at or above long-term averages across the board, and dividend yields below average. Conversely, the broadly below-average levels of return on equity do present the possibility of profits and earnings surprising on the upside.

All the indices contain a broad range of underlying companies, and stockpickers with a focus on conservatively financed, cash generative businesses at sensible valuations should be able to identify companies within these averages that can produce premium performance even in periods of lower aggregate returns.

Fund profile: 'Best ideas' portfolio with UK at the core

Jupiter Primadona Growth Trust (JPG) is a global investment trust, launched in 1972, which blends a core UK equity portfolio (currently 61% of total assets) with a selection of open and closed-ended overseas funds chosen by Jupiter's well-resourced fund of funds team. Manager Richard Curling (who also runs the open-ended Jupiter Fund of Investment Trusts and Monthly Income Fund, as well as institutional portfolios) has run the trust since August 2008. Until mid-2014 the management team also included Derek Pound, who ran a subsidiary short-term trading portfolio called Pitchwell, which was used to enhance the trust's yield.

With Pound's departure from Jupiter Asset Management, the Pitchwell portfolio is now in the final stages of liquidation, which should help to reduce portfolio volatility and is in line with the trust's overall move to a simpler structure. There has been a downward adjustment in the dividend (paid quarterly from the current financial year) to ensure its future sustainability.

Jupiter describes JPG as offering access to the firm's best ideas in UK equities and global funds. It uses a composite benchmark made up of 75% FTSE All-Share and 25% FTSE World ex-UK (both in total return terms). The trust is widely held by private investors, both through Jupiter's own savings scheme and via retail platforms. To provide liquidity and also to make the trust more attractive to independent financial advisers and wealth managers – who are obliged under the

Retail Distribution Review to consider closed-ended as well as open-ended funds when making recommendations – in February 2014 JPG adopted a nil-discount management policy.

Longer term performance has been strong, with 20-year NAV growth of 695% compared with an average of 464% for the AIC Global sector. The trust uses gearing tactically (currently 15% and likely to remain in use as long as financing rates are low) to enhance returns.

The fund manager: Richard Curling

The manager's view: Investing in businesses for the long term

Richard Curling stresses that he is a long-term investor in businesses, not a trader of shares. While he maintains a keen interest in valuation, the quality of a company is deemed more important than whether its shares are cheap. Curling argues that the market is full of value traps (companies where cheap valuations are justified by poor business fundamentals) and in the long run, quality outperforms.

The manager says cash flow is the key measure of performance, as it is harder to fudge and hence presents a clearer picture than earnings. "The ultimate equation is whether a business is generating a return higher than its cost of capital," he says, arguing that the market places too much emphasis on earnings growth and not enough on rate of return. Top-line growth is what is sustainable, he says; the bottom line can be distorted by short-term factors such as the lower oil price or one-off benefits of restructuring.

One of the reasons for the current underweighting of the UK portfolio (61% versus a benchmark weight of 75%) was uncertainty in the run-up to the general election, although Curling points out that there was more at play than simply the prospect of political change. It is significant that the UK's net debt has doubled in the last parliament and that the deficit stands at £90bn and the Conservative win means the potential for longer-term uncertainty over the UK's place in Europe.

With the UK having experienced an extended period of economic recovery since the global financial crisis, Curling says quality growth stocks are beginning to represent better value than cyclical/recovery stocks (see Investment process section, below), as their long-term higher returns will take the trust on the next leg up and also provide some protection on the downside if there is a market setback.

Asset allocation

Investment process: Blending UK shares and global funds

The JPG portfolio is divided into two parts, with the UK exposure (benchmarked at 75% but currently underweight) coming from direct holdings in shares, and the overseas exposure held through open and closed-ended funds. Manager Richard Curling selects the UK equities, and works with Jupiter's highly regarded Merlin fund of funds team, led by John Chatfeild-Roberts, for the overseas portfolio. The aim is to achieve an overall selection that represents Jupiter's best investment ideas both at home and abroad.

The investment process is bottom-up and research-driven, combined with extensive use of value screens. There are four pillars to the UK equity portfolio:

- A large-cap backbone of big, well-capitalised businesses that are trading at attractive valuations and have historically been a good source of income. Examples include Legal & General and WPP. These companies currently make up c 30% of the UK portfolio.

- High-quality, long-term structural growth companies that can grow throughout a business cycle. Examples include Rotork, Aveva and Booker. These companies currently make up c 35% of the UK portfolio although the manager says as much as 50% could be held in this area.
- Cyclical or value stocks – in contrast to the own forever stocks in the long-term structural growth segment, these are likely to be shorter-term holdings in companies that are very undervalued or where an upswing in the business cycle presents an opportunity. Examples include Crest Nicholson, Speedy Hire and Topps Tiles, which are geared into the recovery in consumer spending and the UK housing market. This area currently makes up c 25% of the UK portfolio, although the percentage could fall as the strength of the economic recovery means there is now less obvious value among these companies.
- Special situations, which may include backing new start-ups by proven management teams (such as LXB Property) or turnaround/recovery situations such as Mothercare or packaging firm DS Smith. These companies make up c 10% of the UK portfolio.

The manager stresses that what he is looking for across the UK portfolio is quality businesses, not cheap shares. Companies are screened for growth, balance sheet strength, return and liquidity, with the resulting refined stock list being further screened for quality, momentum and valuation. In terms of quality, Curling is looking for companies with best-in-class margins; the potential for high returns on invested capital, with cash flow being the key measure of performance; sound financials; a credible management and a good track record. Momentum factors include business and price momentum and the scope for sustainable growth, while in valuation terms the manager looks at value relative to peers and the presence of catalysts for rerating.

Holdings may be sold if there is a significant change, for example of management, or to make way for a better idea. Curling says that although he believes in both running winners and cutting losers, the latter is more important in terms of overall returns.

For the overseas portfolio, Curling is guided by the asset allocation of the Jupiter Independent Funds team, which runs the firm's Merlin funds of funds. The team combines top-down views on the world economic and market environment with a research-intensive approach to seeking out the best specialist funds and managers with proven track records for each geography or asset class. JPG can hold open or closed-ended funds from within the Jupiter stable or elsewhere. The size and pedigree of the Jupiter Independent Funds franchise (£9.5bn of assets under management at 31 March 2015) means JPG is able to access specialist funds and managers that would not normally be available to private investors.

The manager may choose to use hedged share classes on overseas funds to manage currency exposure, but at present all fund holdings are in unhedged share classes.

Current portfolio positioning

At 28 April 2015 JPG had 61 holdings: 10 funds in the overseas portfolio, 50 UK equities (including five closed-end funds such as real estate investment trusts), and the remainder of the Pitchwell trading subsidiary (1.9% of the total portfolio), which is in the process of realisation. This is below the 92-stock average for the AIC Global peer group, although the number of underlying holdings will be much larger owing to the use of funds in the overseas portfolio.

At 62.7% of total assets, the UK weighting is some way below the benchmark allocation of 75%. Financials (including investment companies) is the largest individual weighting, although at c 26% it is in line with the FTSE All-Share index weighting (Exhibit 6). The largest active weight is industrials (where Curling finds many of his favoured long-term growth stocks) and technology, while consumer services (a feature of the shorter-term cyclical/recovery pillar) is also slightly above the benchmark weight. All other areas are below the FTSE All-Share weighting, with the largest underweight being to consumer goods, where the manager says many stocks trade at high price/earnings ratios and may offer limited future value. Oil and gas and basic materials are now both underweight, having been reduced over the past year following a period of underperformance.

Exhibit 6: Equity portfolio sector allocations (% unless stated)

	Portfolio end April 2015 (% of equity portfolio)	FTSE All-Share index weight	Active weight vs index (% points)	Trust weight/index weight (x)
Industrials	18.0	10.1	7.9	1.8
Technology	5.1	1.6	3.6	3.3
Consumer services	13.7	11.6	2.0	1.2
Financials	26.1	25.9	0.2	1.0
Oil & gas	11.6	12.6	-1.0	0.9
Utilities	1.7	3.6	-1.8	0.5
Health care	6.6	8.5	-1.9	0.8
Basic materials	4.6	7.0	-2.3	0.7
Telecommunications	2.1	5.0	-2.9	0.4
Consumer goods	7.5	14.3	-6.8	0.5
Other	2.6	0.0	2.6	N/A
Cash	0.5	0.0	0.5	N/A
	100.0	**100.0**	**0.0**	

Source: Jupiter Primadona Growth Trust, Edison Investment Research, FTSE. Note: Ranked by active weight, excluding cash and other. Other refers to the Pitchwell portfolio, which is in the process of realisation.

The UK equity portfolio is multi-cap in nature and currently there is c 50% in FTSE 100 companies, 40% in mid-cap FTSE 250 stocks (including top 10 equity holding Crest Nicholson) and 10% in smaller companies. The top 10 equity holdings (Exhibit 7) make up 21.5% of the total portfolio, or around one-third of the equity portfolio. Recent additions include the small-cap drinks manufacturer Fevertree and Mothercare, bought as a continuing turnaround play owing to its expansion in non-UK markets.

Exhibit 7: Top 10 equity holdings at 28 April 2015

Company	Sector	Market capitalisation (at 13 May 2015)	% of total portfolio (including gearing)
BP	Oil & gas producers	£83.2bn	2.6
British American Tobacco	Tobacco	£66.3bn	2.5
Royal Dutch Shell	Oil & gas producers	£79.2bn	2.4
Legal & General Group	Life insurance	£15.6bn	2.4
Babcock International Group	Support services	£5.4bn	2.3
Lloyds Banking Group	Banks	£61.9bn	2.2
HSBC	Banks	£118.2bn	2.0
AstraZeneca	Pharmaceuticals & biotechnology	£55.5bn	1.7
BG Group	Oil & gas producers	£40.0bn	1.7
Crest Nicholson	Household goods & home construction	£1.2bn	1.7
Total			**21.5**

Source: Jupiter Primadona Growth Trust, Edison Investment Research, London Stock Exchange

All the overseas exposure is now through funds, a decision made when Curling took over the portfolio in 2008 at the height of the financial crisis, simplifying the portfolio structure and allowing JPG to make the best use of Curling's UK equity expertise and Jupiter's fund of funds resources. The geographical allocation (Exhibit 8) is guided by the views of the Jupiter Independent Funds team and relative to the composite benchmark JPG is currently overweight Japan and Asia, and broadly in line in Europe and the US. The trust has recently exited a holding in Latin America, meaning that broadly all emerging markets exposure is in Asia. Jupiter's fund of funds team may select funds managed by Jupiter as well as those run by third parties; where this is the case (currently three funds totalling 11.5% of the portfolio), Jupiter-managed funds will be excluded from total assets when calculating management fees.

As shown in Exhibit 9, JPG holds four US funds, three investing in Japan, two European funds (unusually, both including the UK, providing 1.8 percentage points of the trust's overall UK exposure) and one Asian fund (excluding Japan). The five largest fund holdings are described in more detail below.

Exhibit 8: Exposure by country/region (% unless stated)

	Portfolio end Apr 2015	Benchmark weight	Active weight v BM (% pts)	Trust weight/ BM weight (x)	Portfolio end Apr 2014	Change from 2014 (% pts)
UK	62.7	75.0	-12.3	0.8	67.5	-4.8
US	18.0	14.2	3.8	1.3	15.8	2.2
Japan	7.3	2.4	4.9	3.0	3.5	3.8
Europe	6.5	5.0	1.5	1.3	7.0	-0.5
Asia	5.8	2.3	3.5	2.5	4.4	1.4
Other	0.0	1.5	-1.5	0.0	1.8	-1.8
	100	**100**	**0**		**100**	**0**

Source: Jupiter Primadona Growth Trust, Edison Investment Research, FTSE, using composite benchmark (75% FTSE All-Share and 25% FTSE World ex-UK). Note: Ranked by active weight. Rounding errors mean some figures may not sum to 100.

Exhibit 9: JPG overseas funds portfolio at 28 April

Fund name	Fund type	Geographical focus	% of total assets
Findlay Park American Fund	OEIC	US	10.00
Prusik Asian Equity Income	OEIC	Asia ex Japan	6.91
Jupiter European Opportunities IT	Investment trust	Europe inc UK	5.76
PowerShares Buyback Achievers Portfolio	ETF	US	5.71
Jupiter Japan Income	OEIC	Japan	3.91
M&G North American Value Fund	OEIC	US	3.80
CF Morant Wright Japan	OEIC	Japan	2.51
Polar Capital Japan Alpha	OEIC	Japan	2.28
Waverton European	OEIC	Europe inc UK	1.90
Jupiter North American Income Fund	OEIC	US	1.80
Total			**44.58**

Source: Jupiter Primadona Growth Trust, Edison Investment Research

The Prusik Asian Equity Income fund was added in 2014, replacing a fund managed by First State, in order to boost the portfolio income. The fund currently yields 3.96%. Waverton European is another relatively recent addition, and the M&G North American Value fund has been added in place of a mid and small-cap US fund, in recognition of the high valuations of some areas of the US stock market.

Profiles of top five fund holdings

- **Findlay Park American Fund** – Findlay Park is a specialist or boutique investment manager set up in 1997. The Dublin-domiciled American fund is its flagship fund, launched in 1998, and has grown to £2.5bn. The investment objective of the fund is to achieve capital growth by investing in the shares of mid-cap companies in the US, Canada and Latin America. It aims to achieve a return above the performance of the Russell 1000 Net 30% Total Return Index. At 31 December 2014 it was 93% invested in the US, with its biggest weightings in financial services and industrials.
- **Prusik Asian Equity Income** – another Dublin-domiciled OEIC, this fund aims to outperform the MSCI Asia Pacific ex Japan index by 5-10% annually whilst growing its dividend over time. It invests in equities in the Asia Pacific ex Japan region with above-average dividend yields and dividend growth potential. It has a bias to developed (59%) over emerging Asia (38%), and its biggest sector exposures at 31 March 2015 were to industrials and real estate.
- **Jupiter European Opportunities IT** – this is Jupiter's flagship investment trust, managed by Alexander Darwall with total assets of £518.8m. It invests in the shares of European companies (including the UK, which makes up a quarter of the portfolio) with the aim of achieving capital growth, taking into account economic trends and business development. At 31 March 2015 its top three country weightings were the UK, Germany and Denmark (collectively 62% of total assets), and its biggest sector allocations were to support services and pharmaceuticals/biotechnology.
- **PowerShares Buyback Achievers Portfolio** – part of Invesco's range of exchange-traded funds (ETFs), this fund tracks the NASDAQ US BuyBack Achievers index, which is made up of companies that have effected a net reduction in their outstanding shares of at least 5% over 12

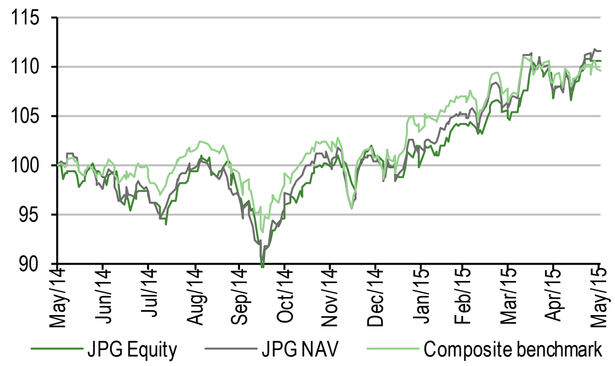
months (reconstituted annually). The index contains a diverse mix of large, mid-sized and smaller companies, including well-known names such as Apple, IBM, Boeing and Twenty-First Century Fox.

- **Jupiter Japan Income** – the objective of this UK-domiciled OEIC is to achieve long-term capital and income growth by investing in a combination of Japanese equities and convertible bonds as well as cash, deposits and money market instruments. Managed by Simon Somerville and Dan Carter, the fund was launched in 2005 and has £527m of assets under management. A concentrated portfolio of 46 holdings, its main sector exposures are to industrials, financials and consumer goods, which together make up three-quarters of the portfolio.

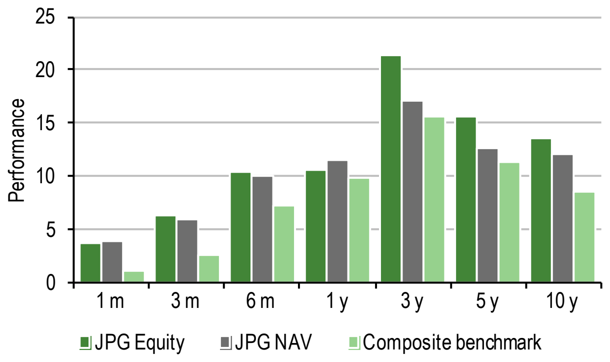
Performance: Strong absolute and relative record

Exhibit 10: Investment trust performance

Price, NAV and benchmark one-year total return performance



Price, NAV and benchmark total returns (%)*



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

Exhibit 11: 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 Composite benchmark	2.4	3.5	3.0	0.8	15.5	20.9	57.1
NAV relative to Composite benchmark	2.6	3.3	2.7	1.7	3.6	6.3	37.8
Price relative to FTSE All Share	2.3	3.5	2.7	3.0	17.5	22.4	65.5
NAV relative to FTSE All Share	2.5	3.3	2.4	3.9	5.4	7.6	45.2
Price relative to FTSE World	2.8	3.7	4.2	(4.4)	11.5	19.4	47.0
NAV relative to FTSE World	3.0	3.5	3.9	(3.6)	0.0	5.0	29.0

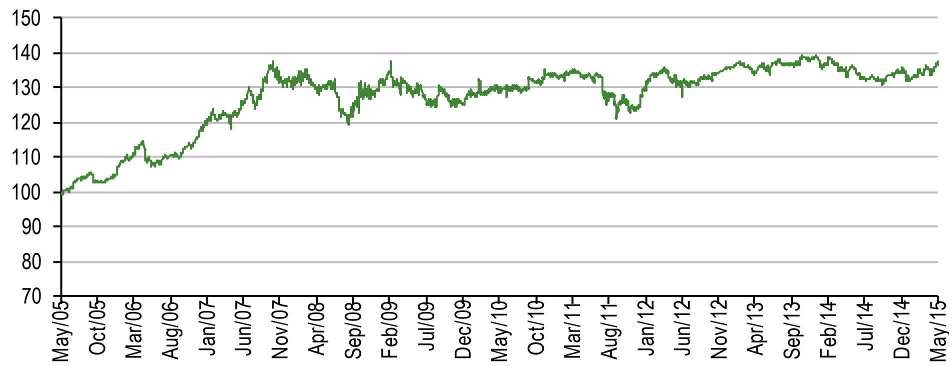
Source: Thomson Datastream, Edison Investment Research. Note: Data to end May 2015. Geometric calculation.

JPG has a solid performance record both in absolute terms and versus its composite benchmark (75% FTSE All-Share and 25% FTSE World ex-UK). Over three, five and 10 years it has produced annualised NAV and share price total returns of c 12-20% (Exhibit 10), compared with c 9-15% for the benchmark. Over one year returns have been broadly in line, while performance is also ahead of benchmark over shorter periods.

Splitting out the UK and World indices in Exhibit 11 to provide a means of comparison with a UK-only or fully global portfolio, relative performance has been positive over almost all periods, although over one year returns lag the FTSE World index, reflecting a period of strong performance for the US stock market, which makes up more than half the benchmark.

Relative performance over 10 years has been particularly strong. As shown in Exhibit 12, significant outperformance was achieved from 2005 to 2007, with another uptick during the financial crisis from August 2008 coinciding with Curling's arrival as manager. After a slight decline in 2014 (partly owing to holdings in resources stocks, which have since been reduced), relative performance has picked up again since the turn of the year.

Exhibit 12: NAV performance relative to composite benchmark over 10 years



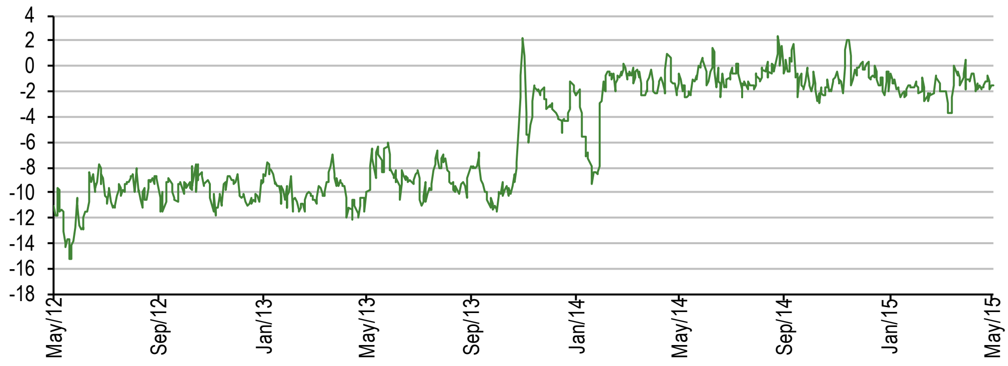
Source: Thomson Datastream, Edison Investment Research

Discount: Clear effect of new discount policy

In February 2014 JPG adopted a zero-discount management policy, both to enhance value and liquidity for existing shareholders and to make the trust more attractive to wealth managers and independent financial advisers, who are more used to buying open-ended funds where there is no discount. As shown in Exhibit 13 below, this was immediately successful in narrowing and stabilising the discount, which now averages 1.1% over one year, compared with 5.6% over three years. At 1 June JPG's shares traded at a 1.6% discount to cum-income NAV.

The discount is managed by buying back shares into treasury, from where they can be reissued at a premium in case of excess demand. Since the adoption of the policy, 2.7m shares or 13.5% of the total have been bought back at a cost of £8.2m.

Exhibit 13: Discount over three years (to cum-income NAV with debt at fair value)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

JPG is a conventional investment trust with one class of share. At 1 June there were 17.32m shares in issue. A five-for-one stock split was undertaken in November 2013 in order to increase liquidity, although the adoption of a zero discount policy (see above) in February 2014 has seen 2.7m shares transferred to treasury since then.

The trust has a £10m borrowing facility with Scotiabank, £9.5m of which was drawn at 30 April 2015, representing net gearing of 15%. The facility can be drawn and repaid at any time, but the manager has tended to draw it on a one- or three-month basis in order to add or subtract gearing tactically in response to opportunities. The maximum permitted level of gearing is 20% of total assets.

Jupiter Unit Trust Managers (JUTM) is JPG's Alternative Investment Fund Manager (AIFM) under the AIFM Directive (AIFMD), with Jupiter Asset Management acting as investment adviser. JUTM is paid a management fee of 0.8% of net assets after deducting the value of any Jupiter-managed fund holdings. Fees are charged half to income and half to capital. A performance fee of 15% of any outperformance of the benchmark is payable subject to the cum-income NAV per share at the end of an accounting period exceeding the greater of three high water marks: a) the NAV per share at the end of the last accounting period; b) the NAV per share at the end of the last period in which a performance fee was paid; or c) 176.8p. This ensures that only cumulative and positive outperformance is rewarded. A performance fee was last paid in respect of FY13.

Dividend policy and record

During FY14, JPG moved to quarterly payment of dividends, which are now paid in equal instalments in December, March, June and September. The Pitchwell trading subsidiary had been used partly to boost portfolio income, and the winding-up of the subsidiary has meant a fall in the dividend to a level the board feels is sustainable for the core JPG strategy. In the 2014 annual report, JPG's chairman commented that the board expects to maintain quarterly payments at the 1.6p level set in FY14 (a transitional period where, exceptionally, three payments were made). This would equate to a 6.4p annual dividend in FY15 (23% lower than in FY13 when the Pitchwell portfolio was still running), representing a yield of 2.0% based on the 1 June share price of 326.3p. Net income per share in FY14 was 6.03p and in H115 was 2.51p, a 13.5% increase on the 2.21p achieved in H114. Should income for the full year show a similar increase on the prior year, the 6.4p dividend would be fully covered in FY15.

Peer group comparison

JPG is a member of the AIC Global sector, which has 38 constituents. The group is diverse and contains many funds whose geographical allocations are more in line with global indices than JPG's UK-centric portfolio; Exhibit 14 below shows a selection of those with substantial UK holdings (40%+ compared with global index weightings of c 7-8%). Of the 10 funds listed, three (Law Debenture, Lindsell Train and Majedie) have broadly similar UK weightings to JPG, at between 60% and 70%. There is no direct comparator to JPG's UK shares/global funds mandate, although Caledonia, Henderson Value Trust, JPMorgan Elect Managed Growth and Witan all adopt a fund of funds approach to a greater or lesser extent.

JPG's NAV total return has beaten both the close peer group below and the whole global sector average over five years, although it lags the average slightly over three years, and slightly more over one year. The recently adopted zero-discount policy places the trust in mid-table with a discount of 1.6%; several of the peers are trading at a premium. JPG is the smallest fund in the group and has the highest ongoing charge, perhaps reflecting the greater impact of fixed costs on smaller portfolios. It also has the second-highest level of gearing. The dividend yield, at 2.0%, is close to the average for the close peer group, while risk-adjusted performance as measured by the Sharpe ratio is somewhat below average over one and three years.

Exhibit 14: Global investment trusts with more than 40% exposure to the UK

% unless stated	Market cap £m	TR one year	TR three years	TR five years	Ongoing charge	Perf. fee	Discount (-) /premium	Net gearing	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
Jupiter Primadona Growth	**56.5**	**13.3**	**58.0**	**84.8**	**1.4**	**Yes**	**-1.6**	**119.0**	**2.0**	**1.2**	**1.0**
Brunner	246.7	13.9	56.1	75.9	0.8	No	-14.0	113.0	2.6	1.5	1.3
Caledonia Investments	1319.8	17.0	68.4	62.3	1.0	No	-19.1	95.0	2.1	2.3	2.0
Henderson Value Trust	99.9	0.0	-9.6	-7.2	0.9	No	-18.9	95.0	1.3	0.0	-0.5
Independent IT	179.6	21.0	64.5	98.2	0.4	No	-8.7	94.0	1.6	2.0	1.4
JPMorgan Elect Managed Growth	222.4	17.5	74.1	90.0	0.5	No	-4.2	99.0	1.2	2.2	1.6
Law Debenture Corporation	618.7	10.1	69.0	113.8	0.5	No	3.8	105.0	3.0	1.1	1.6
Lindsell Train	96.5	27.9	83.3	120.9	1.1	Yes	18.9	100.0	1.4	2.5	2.0
Majedie Investments	146.6	20.2	48.7	52.6	1.3	No	3.9	122.0	2.7	1.3	1.1
Witan	1599.7	17.5	73.2	82.6	0.8	Yes	0.4	112.0	1.9	2.1	1.5
Weighted average (10 funds)		**16.1**	**67.5**	**79.5**	**0.8**	**0.0**	**-6.0**	**104.7**	**2.1**	**1.9**	**1.6**
Whole sector average		**18.4**	**59.8**	**75.3**	**0.8**		**-5.2**	**106.7**	**1.7**	**2.1**	**1.4**
JPG rank out of 10	**10**	**8**	**7**	**5**	**1**		**5**	**2**	**5**	**8**	**9**

Source: Morningstar, 26 May 2015, Edison Investment Research. Note: TR = NAV total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show 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 shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds.

The board

JPG currently has four non-executive directors. Tom Bartlam joined the board in July 2013 and has been chairman since November of the same year. Lorna Tilbian is the longest-serving director, having been appointed in 2001. Jonathan Davis joined the board in 2011, while Graham Fuller was appointed in 2013. Frances Heaton, who had served as a director since 2005, retired from the board with effect from the November 2014 AGM. The board keeps the strategy and future of JPG under continual review. The directors all have finance backgrounds, variously in fund management, corporate finance, financial journalism and corporate broking/banking.