EDISON

JPMorgan Global Convertibles Income Fund

Low-volatility, income-tilted convertibles portfolio

Investment companies

JPMorgan Global Convertibles Income Fund (JGCI) is the only UK-listed closed-end fund focusing on convertible bonds. While its primary aim is to provide investors with an income, the fund has recently moved to a more total return-orientated approach to meeting its objective, taking advantage of attractive risk/reward opportunities in the balanced segment of the market. Although fundamentally a bond portfolio, the equity participation offered by convertibles could prove defensive for JGCI investors if the recent fixed income sell-off becomes protracted. The NAV performance of the sterling-hedged fund has been steady while funds with unhedged overseas portfolios have seen material gains post-Brexit; JGCI's managers note that currency volatility is a two-edged sword.

12 months ending	Share price (%)	NAV (%)	Barclays Glbl Credit Rate Sensitive (%)	MSCI World (%)	FTSE All-Share (%)
31/10/12	--	--	7.3	10.3	9.8
31/10/13	--	--	7.1	26.8	22.8
31/10/14	1.9	5.3	4.0	9.7	1.0
31/10/15	(6.1)	0.1	1.7	6.0	3.0
31/10/16	3.7	6.6	4.2	28.8	12.2

Source: Thomson Datastream, Bloomberg. Note: All % on a total return basis in GBP.

Investment strategy: Globally diversified approach

JGCI aims to generate income for investors, with potential for some capital appreciation, by investing in the bond-like to balanced segments of the global convertible bond market (see diagram, Exhibit 2). The fund is run by the convertible bond team at J.P. Morgan Asset Management, led by Antony Vallée, which manages more than $4bn of assets invested across the convertibles universe. The team combines strategic market views with bottom-up security analysis to build a portfolio diversified by geography, industry sector and issuer size.

Market outlook: Near-term volatility likely

Donald Trump's surprise US presidential election win has caused a sell-off in global bond markets, as investors focus on the inflationary aspects of a move to fiscal rather than monetary stimulus. Long-dated US treasuries and emerging markets have borne the brunt of the decline; historically, more credit-sensitive areas such as convertibles have performed better in a higher interest rate environment. However, with further geopolitical catalysts (Italian referendum, French and German elections) on the horizon, conditions in all asset markets could remain volatile for some time.

Valuation: Higher discount pushes up yield

At 18 November, JGCI's shares stood at an 8.2% discount to cum-income NAV. This is a little higher than the 6.8% average over 12 months, and well above the longer-term averages (1.4% over three years and 0.7% since launch). The discount control policy states that share buybacks may be used in normal market conditions if the discount is above 5% for a prolonged period, but there have been no buybacks since the UK's EU referendum. The current level of discount has pushed the dividend yield up to 5.0%.

22 November 2016

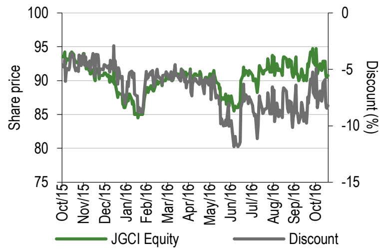
Price	**90.8p**
Market cap	**£177.1m**
AUM	**£216.5m**

NAV*	98.9p
Discount to NAV	8.2%

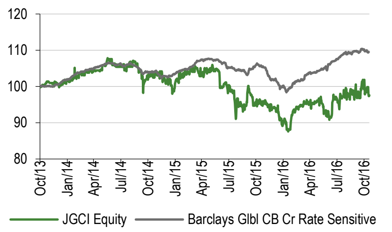
*Including income. Data at 18 November 2016.

Yield	5.0%
Ordinary shares in issue	195.2m
Code	JGCI
Primary exchange	LSE
AIC sector	Sector Specialist: Debt

Share price/discount performance



Three-year performance vs index



52-week high/low	94.8p	84.5p
NAV* high/low	101.0p	91.3p

*Including income.

Gearing

Gross*	8.3%
Net*	3.2%

*As at 18 November 2016.

Analysts

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

investmenttrusts@edisongroup.com

Edison profile page

Exhibit 1: Fund 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.

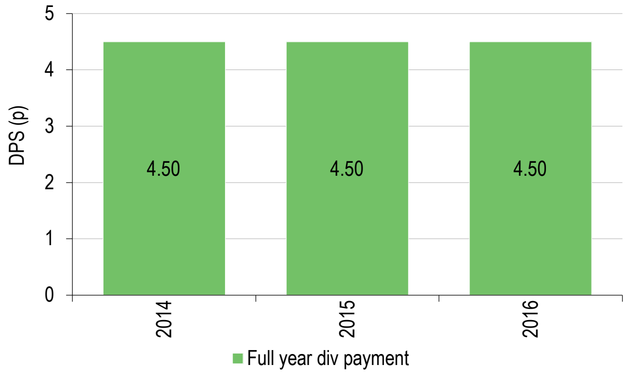
Recent developments

- 7 November 2016: All resolutions passed at AGM.
- 18 October 2016: Results for the 12 months to 30 June 2016. NAV total return of 0.0% and share price total return of -9.5%.
- 22 September 2016: Fourth quarterly dividend of 1.125p per share declared, bringing the total for FY16 to 4.5p (FY15: 4.5p).

Forthcoming		Capital structure		Fund details	
AGM	November 2017	Ongoing charges	1.02%	Group	J.P. Morgan Asset Management
Interim results	March 2017	Net gearing	3.2%	Manager	Team led by Antony Vallée
Year end	30 June	Annual mgmt fee	0.75% of net assets	Address	60 Victoria Embankment,
Dividend paid	Quarterly	Performance fee	None		London EC4Y 0JP
Launch date	11 June 2013	Trust life	Indefinite	Phone	+44(0)20 7742 9995
Continuation vote	Three-yearly, next 2018	Loan facilities	$32m multicurrency	Website	www.jpmconvertiblesincome.co.uk

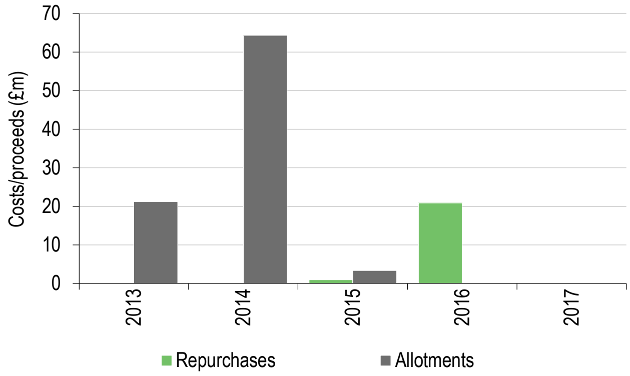
Dividend policy and history

In the first year dividends were paid half-yearly, but moved to quarterly thereafter. The launch target for a gross dividend yield of 4.5% on the issue price (100p) was delivered in the first three financial years.

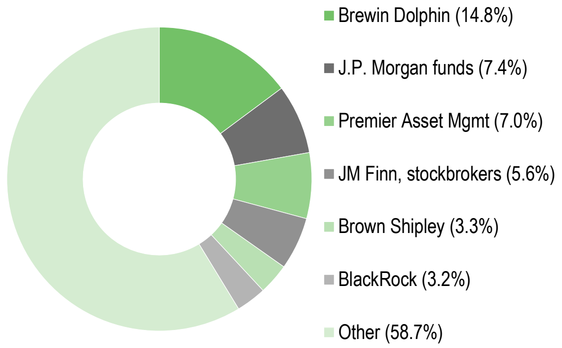


Share buyback policy and history

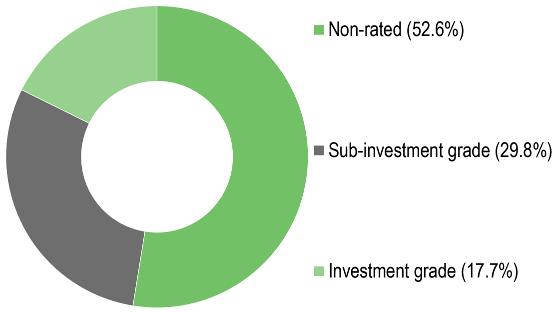
JGCI may buy back up to 14.99% of its issued share capital annually. New shares may be issued under a placing programme. Buybacks may be employed if the discount to NAV exceeds 5% for a significant period in normal market conditions.



Shareholder base (as at 9 September 2016)



Portfolio breakdown by official credit quality (as at 30 September 2016)



Portfolio characteristics (as at 30 September 2016)

Portfolio yield to best*	4.24%
Equity sensitivity (delta)	19.1%
Duration (to put)	3.3 years
Number of securities	98
Available cash	3.6%
Bond quality (JPMAM assessment at 31 August 2016, includes gearing)	
Internally rated high yield	43.0%
Officially rated high yield	34.0%
Officially rated investment grade	17.0%
Internally rated investment grade	9.0%
	103.0%

Portfolio allocation (%, as at 30 September 2016)

Communications	21.9
Real estate	21.0
Consumer cyclicals	13.7
Industrial	7.2
Energy	6.8
Technology	6.5
Banks	6.0
Other financials	4.8
Basic materials	4.3
Consumer non-cyclical	4.0
Utilities	3.8

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: Income-focused convertible bond fund

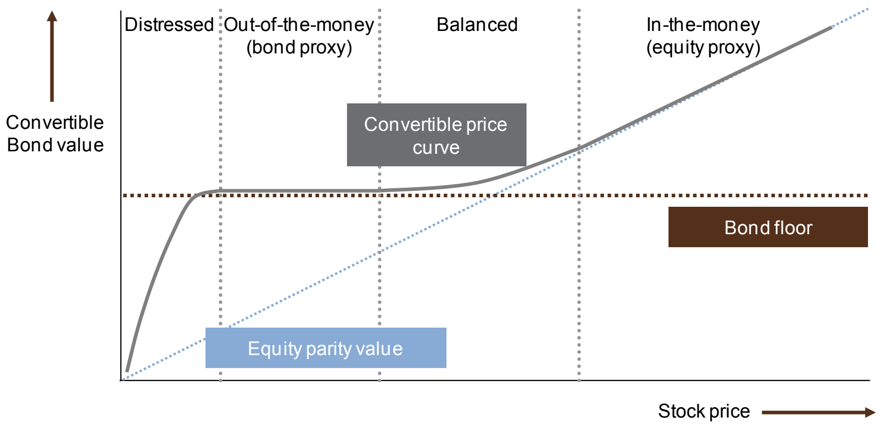
JPMorgan Global Convertibles Income Fund (JGCI) was launched in June 2013 as the first (and still the only) UK-listed closed-end fund specialising in convertible bonds. Incorporated in Guernsey, it focuses more on income generation than the other mandates run by the specialist convertibles team at J.P. Morgan Asset Management (JPMAM). However, the fact that the team covers the whole of the global convertibles market gives JGCI the investment flexibility to allocate away from the more credit-sensitive end of the spectrum in response to opportunities. The fund invests globally, with a primary aim of generating income as well as the possibility of capital growth.

JPMAM's convertible bonds team is led by Antony Vallée, who co-manages JGCI with Robin Dunmall and Natalia Bucci. There are four analysts on the team, three of whom have specific sector responsibilities, while Paul Levene focuses more broadly on opportunities in credit-sensitive and distressed convertibles. The team also has its own dedicated trading desk, and access to the JPMAM global research platform.

Background to convertible bond investment

- Convertible bonds combine characteristics of bonds and equities.
- They typically pay a fixed income (coupon) with the option of redemption at face value or conversion into the underlying equity at a predetermined rate at or by a particular date.
- They are issued as bonds, and the holder has the option to convert into the equity, normally at a premium to the share price at the time of issue.
- At the time of issue, the yield is usually below the level of an equivalent straight bond but above the equity yield of the issuer.
- Convertibles participate in the upside of the underlying equity.
- As bonds, there is a level of downside protection if the underlying equity price falls.
- The option to convert becomes more valuable if the equity volatility increases.
- The equity component reduces a bond's sensitivity to interest rate changes.
- Like corporate bonds they are exposed to default risk.
- As with corporate bonds, liquidity can be limited, adding the risk of exposure to crowded trades.

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



Source: JPMorgan Global Convertibles Income Fund

The different segments of the convertible bond market are illustrated in Exhibit 2. This shows the interaction of the bond and equity components of a convertible bond at different share price levels. In the out-of-the-money segment, the convertible is most bond-like as the equity price is below the par value of the convertible, meaning there is no incentive to convert; thus the return comes principally from the coupon. As the underlying equity price rises, the value of the convertible also rises, meaning there is more of a balance between income and capital returns. An in-the-money convertible, where the price is above the par value of the bond, will behave more like an equity.

The fund managers: Vallée, Bucci and Dunmall

The managers' view: Cautious blend of return drivers

JGCI's managers see achieving an appropriate blend of risk and reward potential as key to maintaining the fund's low-volatility profile. Because of this, they have diversified the portfolio over the past year, increasing exposure in the balanced segment while maintaining a high weighting in the more credit-sensitive area of the market, where yields are higher. The team comments that valuations are also generally more favourable at the bond-like end, and returns are not reliant on positive equity markets. However, when – as currently – capital values of bonds come under pressure, exposure to shorter-dated and more balanced convertibles can limit losses.

Because convertible bond returns are driven by underlying equity prices as well as the coupon on the bond, the managers do not have to chase yield in order to secure a return. They point to the low allocation since inception to energy, which has been the highest-yielding area but where the level of credit risk makes many issuers unattractive. However, energy and materials exposure has risen over the past year, as the team sees issuers adapting to the realities of lower oil and commodity prices. Robin Dunmall notes that companies have acknowledged that oil prices will be 'lower for longer', and are taking steps to address balance sheet concerns through a combination of new convertible bond issuance and refinancing, which enables issuers to extend the maturities of their debt. Energy exposure is selective and tilted towards higher-quality large companies such as Total and ENI, which previously would have been too low yielding to be considered for the fund; the move to a more total return focus gives the team greater flexibility to take advantage of such opportunities.

With some of the world's major stock market indices close to all-time highs, the managers are cognisant of the risk of a correction in both equity and credit markets, focusing on convertibles that have clear and non-market reliant drivers for credit spreads to tighten, while taking profits in areas that have done well but lack specific catalysts. Dunmall notes that with a December US rate rise likely, an increase in volatility is probable and the team is seeking short-dated investments trading close to the bond floor, in order to limit downside.

Market dislocations were a focus for the team coming into 2016, leading to cautious positioning ahead of events such as the UK's EU referendum and the US presidential election. The managers were positioned defensively for a 'remain' vote in the referendum, owning convertibles in areas such as UK real estate, where fears over the outcome meant there was significant upside potential in the equity but limited downside in bonds that were already trading below par. While the Brexit vote meant the equity upside did not materialise, Dunmall notes UK REITs such as British Land are in a better financial position than in the 2008 crisis, underpinning the attractive yields offered by the convertibles, which the fund will now hold for longer as a source of income rather than capital appreciation.

Asset allocation

Investment process: Diversified convertible portfolio

JGCI's managers see the convertible bond market as splitting broadly into three segments – bond-like, balanced and equity-like – as shown in Exhibit 2 (page 3). JGCI's primarily income focus means it tends to concentrate in the bond-like space, although more recently it has found attractive total return opportunities in the balanced area. By focusing mainly on the credit-sensitive area, which they say is overlooked by the majority of investors, the team can buy bonds cheaply versus the theoretical value of the credit plus the equity optionality.

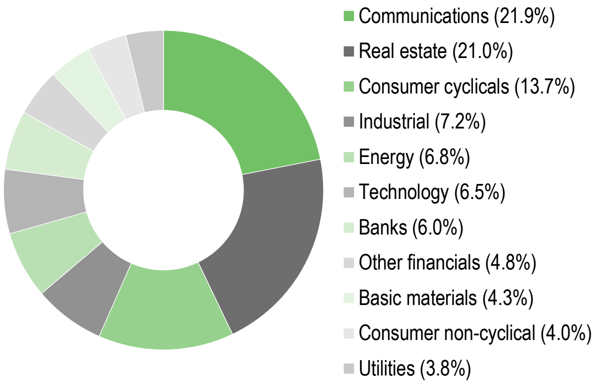
The strategic allocation between sectors is based on the managers' assessment of prospects for yields and overall convertible bond market valuations. The team only buys convertibles with positive yields and rarely converts them at maturity, preferring to sell them on as they approach parity with equity values, and rotate into higher-yielding names. Detailed analysis of the issuer and the industry sector outlook are undertaken before investments are made. The portfolio is broadly diversified by geography, industry sector and issuer size, as well as by credit quality. More than half the portfolio is in unrated securities, although all these are assigned an internal credit rating by the team. Overall the credit quality profile is tilted towards high-yield. Portfolio turnover can be higher than for a traditional bond fund, as it links directly to performance: in a positive market, convertible bonds approach parity with equity values more quickly, although in weak markets the majority of the return is likely to come from yield. The JGCI portfolio is fully hedged back to sterling, and derivatives may also be used to reduce equity and interest rate risk.

Current portfolio positioning

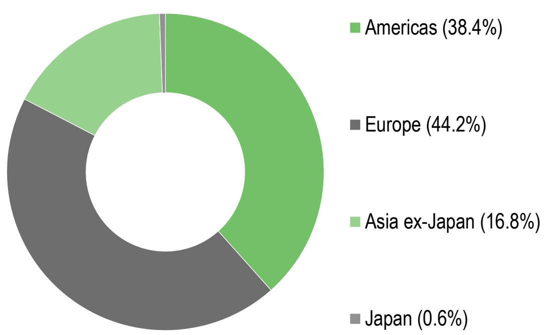
Over the past year the average number of securities in JGCI's portfolio has been increased from 60-80 to 100-120. This was in reaction to a period of strong convertible bond market performance in the first half of 2015, which led to tighter spreads, lower yields and thus higher risk of a reversal, meaning diversification was necessary to reduce idiosyncratic risk. JGCI's managers note that equity exposure was reduced at the same time as increasing the number of names, while higher-yield opportunities were taken selectively, rather than loading up on riskier but high-yield energy and materials stocks. A shift into more balanced exposure has allowed the team to take a more total return focus and should provide an element of protection in the event of another high-yield sell-off.

Exhibit 3: Sectoral and geographic portfolio analysis as at 30 September 2016

Portfolio analysis by sector



Portfolio by region



Source: JPMorgan Global Convertibles Income Fund, Edison Investment Research

The largest sector exposures (Exhibit 3, left-hand chart) are now to communications (principally internet) and real estate companies. The rising communications weighting – which includes convertibles issued by Twitter and Yahoo! – goes hand-in-hand with an increase in the Americas (right-hand chart), which in turn is connected to a rise in the weighting to large-cap issuers and a fall in the proportion of the portfolio in unrated securities (Exhibit 1), as US convertibles tend to be issued by bigger companies and almost invariably have an official credit rating. Asia ex-Japan exposure has also risen, partly as a result of new analyst Paul Levene's expertise in the region.

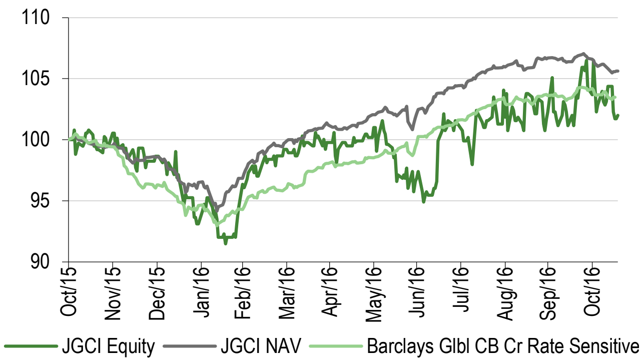
The managers have taken profits on some longer-dated US names and report that they are finding opportunities in new issues. A sell-off in credit at the end of 2015, following the closure of some US distressed credit hedge funds, provided a further opportunity to add exposure, as the managers saw the correction as technically driven and believed that fundamentals remained attractive.

Performance: Low-volatility NAV returns

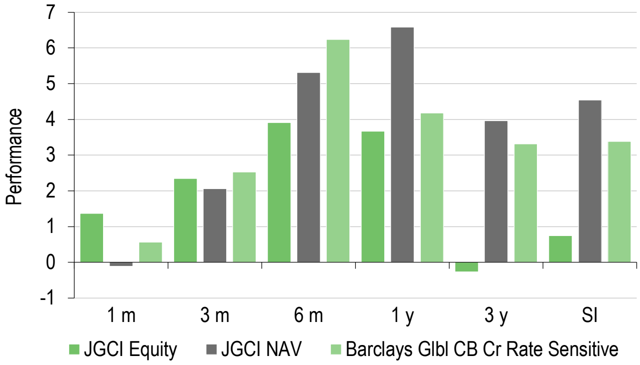
JGCI has recently changed its performance benchmark from the MSCI World index to the Barclays Global Convertible Credit Rate Sensitive index (sterling hedged). As a convertible bond index with a bias to the more bond-like end of the market, this was seen as a more appropriate measure than the broad global equity index. As shown in Exhibit 4 below, JGCI's NAV has broadly followed the same trajectory as the Barclays index over the past 12 months, although it recovered more strongly from the market dip in late 2015/early 2016. Over three years, NAV performance is ahead of the index (Exhibit 6). JGCI's share price and consequently the discount to NAV have been more volatile.

Exhibit 4: Investment trust performance to 31 October 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 year and since inception (SI, 11 June 2013) performance figures annualised.

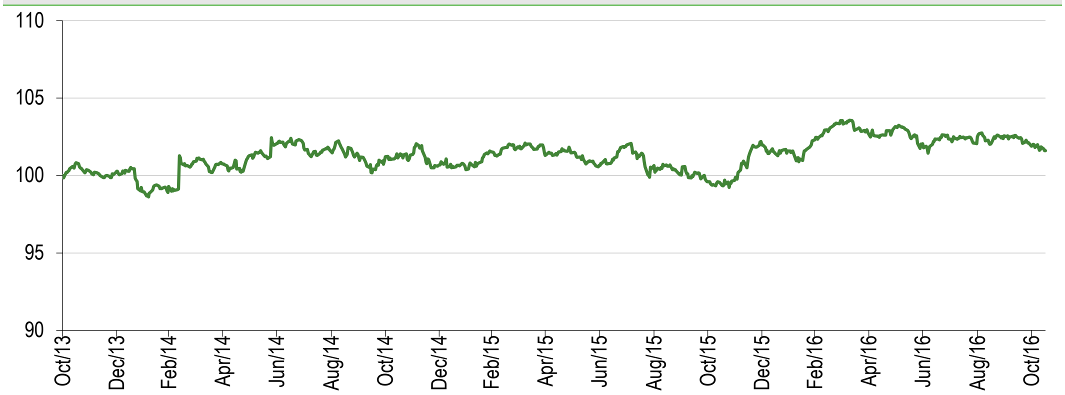
Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	SI
Price relative to Barclays Glbl CB Cr Rate Sensitive	0.8	(0.2)	(2.2)	(0.5)	(10.1)	(8.4)
NAV relative to Barclays Glbl CB Cr Rate Sensitive	(0.7)	(0.5)	(0.9)	2.3	1.9	3.8
Price relative to MSCI World Index	(2.9)	(4.7)	(15.5)	(19.5)	(33.8)	(36.1)
NAV relative to MSCI World Index	(4.3)	(5.0)	(14.4)	(17.2)	(25.0)	(27.6)
Price relative to FTSE All-Share	0.8	(1.8)	(7.4)	(7.6)	(15.1)	(19.1)
NAV relative to FTSE All-Share	(0.7)	(2.1)	(6.1)	(5.0)	(3.8)	(8.3)

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

As shown in Exhibit 5, performance has lagged equity indices on both a share price and NAV basis. In particular, the underperformance versus the unhedged MSCI World index has been exacerbated by the weakness of sterling, which has boosted returns from overseas assets for UK investors. While the JGCI portfolio is majority ex-UK, the currency exposure is hedged back to sterling, as the managers take the view that it is undesirable to add short-term currency volatility to an asset class that should, over the longer term, deliver low-volatility returns.

Exhibit 6: NAV relative to Barclays Global Credit Rate Sensitive over three years

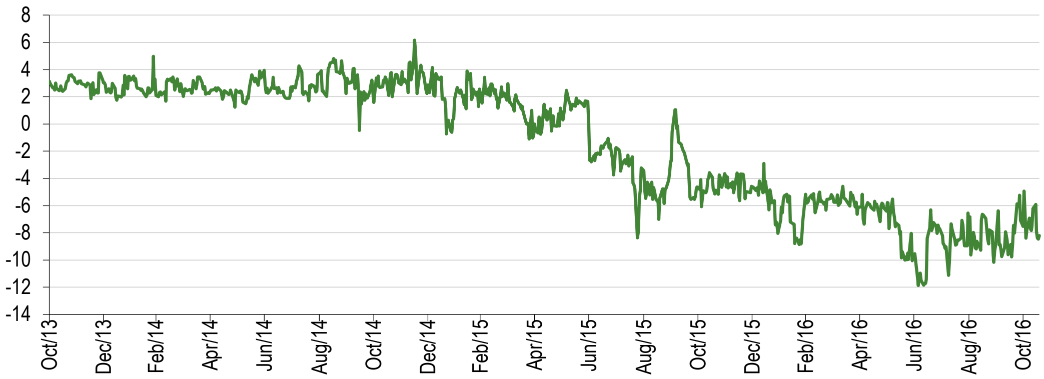


Source: Thomson Datastream, Edison Investment Research

Discount: Wider in more recent volatility

Having traded at a premium to cum-income net asset value since launch, JGCI shares moved to a discount in mid-2015 amid more difficult market conditions for convertibles. The discount has persisted in the volatile markets of 2016 and stood at 8.2% at 18 November, a little wider than the 12-month average of 6.8%. The fund's discount management policy states that buybacks may be used if the discount exceeds 5% for an extended period in normal market conditions; while some 23m shares were bought back between January and June 2016, no buybacks have been made since the UK's vote to leave the European Union on 23 June.

Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

A closed-end investment company incorporated in Guernsey, JGCI is listed on the London Stock Exchange. At 18 November 2016 it had 195.2m shares in issue, compared with 136.0m at launch.

The fund has a borrowing facility of $32m, of which $20m was drawn at 30 June 2016. This equates to gross gearing of 8.3% based on 15 November net assets and exchange rates, while net gearing was 3.2%. The managers see a neutral net gearing position as c 4%; daily gearing levels (released to the London Stock Exchange) may fluctuate significantly from this level given changes in the cash balance as the result of trades with differing settlement dates. The maximum permitted gearing is 20%, although the maximum achievable under the borrowing facility is c 13% (based on current exchange rates).

JPMorgan Funds is paid an annual management fee of 0.75% of net assets, with no performance fee. Ongoing charges at FY16 were 1.02%.

Dividend policy and record

JGCI launched in 2013 with the stated intention of paying a 4.5p dividend in its first year, a target that was achieved and has been maintained in the two subsequent years. Dividends have been paid quarterly in equal instalments since FY15, in December, March, June and September. So far dividends have been slightly uncovered by revenue income (4.33p in FY14, 4.06p in FY15 and 4.13p in FY16). However, the move to a more total return focus within the portfolio (taking advantage of lower valuations on balanced convertibles) means that the income objective may increasingly be met through capital appreciation as well as revenue income. At end-FY16 JGCI had revenue reserves amounting to £64,000. The yield on the fund at 18 November was 5.0%.

Peer group comparison

As the only UK-listed closed-end fund with a specific focus on convertible bonds, it is difficult to present JGCI in the context of a peer group. However, Exhibit 8 draws together a group of open- and closed-end funds that invest to a greater or lesser extent in convertible bonds with an income focus. The Advent Claymore fund is a US closed-end fund; the Polar Capital and Salar funds are Irish-domiciled open-ended funds; CQS New City High Yield, while also a UK-listed closed-end fund, has only c 20% of its assets in convertibles.

Over one, two and three years JGCI ranks second, second and third in the group for NAV total returns. The first-placed fund, Advent Claymore, is US dollar denominated and is not hedged to sterling, meaning its returns for a UK investor have been boosted by the weak pound. JGCI's risk-adjusted performance as measured by the Sharpe ratio is in line with the average over one and two years. JGCI has the lowest ongoing charge in the group and does not incur a performance fee. Its dividend yield is above the weighted average, gearing is relatively modest and the shares trade at the second-widest discount of the three closed-end funds.

Exhibit 8: Selected peer group as at 7 November 2016

% unless stated	Market cap £m	TR 1 yr	TR 2 yr	TR 3 yr	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)	Sharpe 1y (NAV)	Sharpe 2y (NAV)
JPMorgan Global Convertibles Income	**180.7**	**8.1**	**8.5**	**12.8**	**1.0**	**No**	**(8.0)**	**114**	**4.9**	**(1.2)**	**(1.0)**
Advent Claymore Cnvt Secs&Inc II	173.9	19.9	26.7	28.7	2.0	No	(15.1)	282	8.0	(0.1)	0.0
Polar Capital Global Convert £ hedged*	391.0	(1.7)	0.8	--	1.2	Yes	N/A	N/A	4.5	(1.6)	(1.0)
Salar Fund £ hedged*	872.3	0.6	6.7	9.7	1.4	Yes	N/A	N/A	1.0	(1.5)	(0.9)
CQS New City High Yield	211.8	8.0	8.2	15.0	1.3	No	3.7	110	7.5	(1.2)	(1.0)
Peer group weighted average		**3.5**	**7.7**	**13.2**	**1.3**		**(5.8)**	**164**	**3.5**	**(1.3)**	**(0.9)**
JGCI rank in peer group	**4**	**2**	**2**	**3**	**5**		**2**	**2**	**3**	**3**	**3**

Source: Morningstar, Edison Investment Research, at 7 November 2016. Note: TR=NAV total return. *Open-ended funds: market cap refers to assets under management; discounts and gearing are not applicable to open-ended funds. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 24-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

JGCI's four non-executive directors have all served on the board since the fund's launch in 2013. Chairman Simon Miller is also the chairman of Dunedin LLP and the North American Income Trust. The other directors are Philip Taylor, Charlotte Valeur and Paul Meader, all of whom are resident in the Channel Islands. The directors have backgrounds in accountancy and investment management.

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