

Jupiter UK Growth Investment Trust

High-conviction investment in UK equities

Jupiter UK Growth Investment Trust (JUKG) aims to generate long-term capital growth from a concentrated portfolio of predominantly UK equities. Manager Steve Davies runs the portfolio with the same contrarian, high-conviction approach as the much larger, well-established Jupiter UK Growth unit trust. He is “genuinely excited” about JUKG’s current portfolio, which he believes gives him the opportunity to make good the relative underperformance versus the FTSE All-Share benchmark following the Brexit vote. Davies is unconstrained by the benchmark; he currently has zero weightings in the oil & gas and utilities sectors.

12 months ending	Jupiter UK Growth UT (%)	JPG/JUKG share price (%)	JPG/JUKG NAV (%)	Blended benchmark* (%)	FTSE All-Share (%)	FTSE World (%)
28/02/13	25.4	13.3	17.6	14.8	14.1	16.2
28/02/14	26.8	23.5	13.6	12.1	13.3	8.6
28/02/15	10.1	5.7	4.5	8.7	5.6	17.1
29/02/16	(7.3)	(5.8)	(5.7)	(5.6)	(7.3)	(1.5)
28/02/17	7.8	12.8	12.0	23.7	22.8	37.4

Source: Thomson Datastream. Note: All % on a total return basis in GBP. *Benchmark is 75% FTSE All-Share and 25% FTSE World ex-UK until 17 April 2016, and FTSE All-Share thereafter. JUKG track record is for Jupiter Primadonna Growth/Jupiter Global Trust until 18 April 2016.

Investment strategy: Bottom-up stock selection

Davies has a sell-side analyst background and uses this experience to build detailed financial models, aiming to select companies trading on reasonable valuations that have the potential to generate meaningful long-term capital growth. The portfolio is concentrated, typically containing c 35 stocks with either recovery potential or secular growth. JUKG is broadly invested in five themes: financials; UK domestic economy; the connected world; brands, travel & leisure; and tomorrow’s world. Up to 20% may be invested in overseas equities (currently less than 10%) and gearing of up to 20% of net assets is permitted.

Market outlook: Valuations looking more full

In 2016, shareholders enjoyed meaningful total returns from both UK and overseas equities. In the UK, share prices more than recovered from the knee-jerk move down following the result of the European referendum, as focus turned to the positive effects of sterling weakness on companies with overseas earnings. As a result, the forward P/E valuation of UK companies is now above the 10-year average. For investors wishing to gain exposure to UK equities a fund with an unconstrained approach, including a focus on value stocks, may be of interest.

Valuation: Nil-discount control policy

JUKG’s current 2.1% share price discount to cum-income NAV compares to the average 1.6% over the last 12 months (range of a 6.7% premium to a 6.4% discount). The trust has a nil-discount control policy, aiming to maintain the share price at close to NAV. Following the change in mandate in April 2016 and the focus on capital growth, in the current financial year, JUKG will move to paying a single annual dividend, which is likely to be lower than the dividend paid in FY16.

Investment trusts

6 March 2017

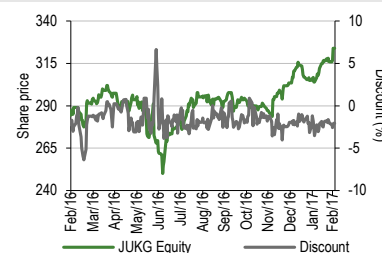
Price 324.0p
Market cap £45m
AUM £55.0m

NAV* 325.6p
Discount to NAV 0.5%
NAV** 330.8p
Discount to NAV 2.1%

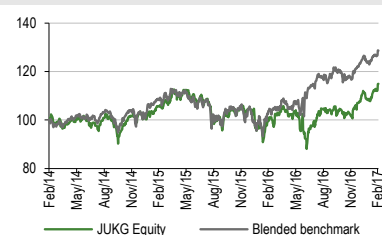
*Excluding income. **Including income. As at 2 March 2017.

Yield 2.2%
Ordinary shares in issue 14.0m
Code JUKG
Primary exchange LSE
AIC sector UK All Companies
Benchmark FTSE All-Share

Share price/discount performance



Three-year performance vs index



52-week high/low 324.0p 250.0p
NAV** high/low 331.6p 251.3p

**Including income.

Gearing

Gross* 17.0%
Net* 9.0%

*As at 31 January 2017.

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Exhibit 1: Trust at a glance
Investment objective and fund background

Jupiter UK Growth Investment Trust aims to achieve capital appreciation by holding predominantly listed investments. It invests in a concentrated portfolio made up of the manager's best ideas from any sector, with typically a bias towards FTSE 100 stocks. The trust was known as Jupiter Global Trust from November 2015 until April 2016 and was previously Jupiter Primadonna Growth Trust. It adopted its new name, fund manager, investment strategy and FTSE All-Share benchmark on 18 April 2016.

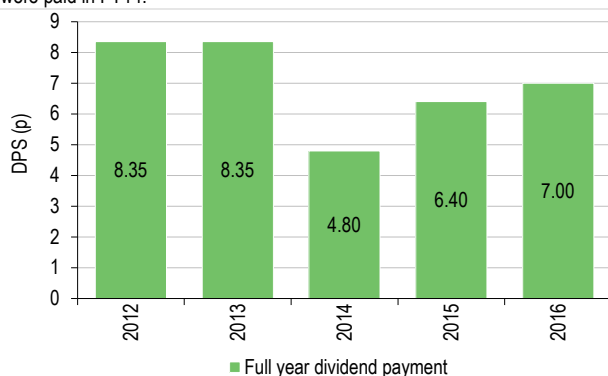
Recent developments

- 22 September 2016: Annual report for 12 months ending 30 June 2016. NAV TR -13.1% versus composite benchmark +5.5%.
- 20 September 2016: Declaration of fifth interim dividend of 0.6p per share.
- 15 July 2016: Declaration of fourth interim dividend of 1.6p per share.

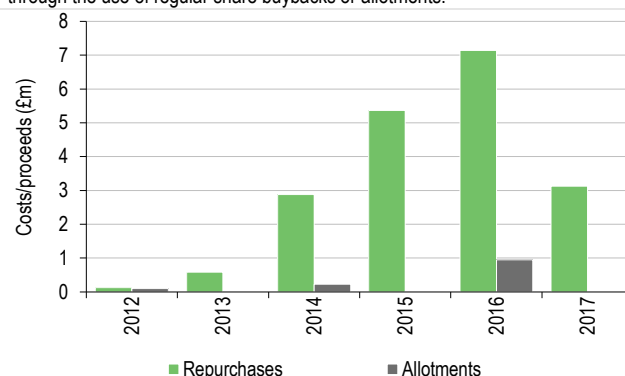
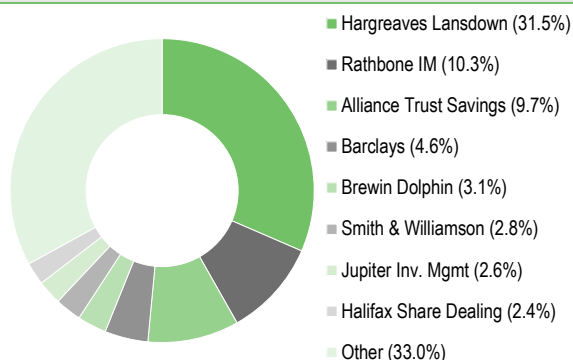
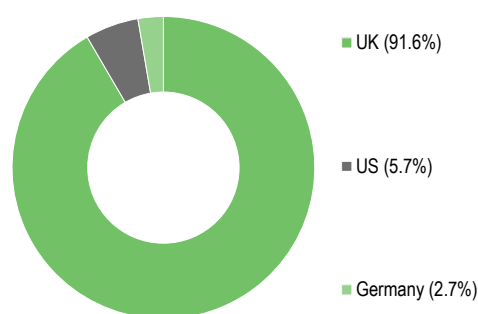
Forthcoming		Capital structure		Fund details	
AGM	November 2017	Ongoing charges	1.13%	Group	Jupiter Unit Trust Managers
Interim results	March 2017	Net gearing	9.0%	Manager	Steve Davies
Year end	30 June	Annual mgmt fee	0.5% (see page 7)	Address	The Zig Zag Building, 70 Victoria St, London SW1E 6SQ
Dividend paid	Annually	Performance fee	Yes (see page 7)	Phone	+44 (0) 20 3817 1000
Launch date	June 1972 (April 2016 for new strategy)	Trust life	Indefinite		
Continuation vote	No	Loan facilities	£10m with Scotiabank	Website	www.jupiteram.com/JUKG

Dividend policy and history (financial years)

Dividends were historically paid quarterly, but moved to a single annual dividend from FY17. Owing to a change in dividend policy in Q114, only three dividends were paid in FY14.


Share buyback policy and history (financial years)

A nil-discount management policy was adopted in FY14 and has been retained under the new strategy. The board aims to maintain the share price close to par through the use of regular share buybacks or allotments.


Shareholder base (as at 11 December 2016)

Portfolio exposure by geography, adjusted for net gearing (as at 31 January 2017)

Top 10 holdings (as at 31 January 2017)

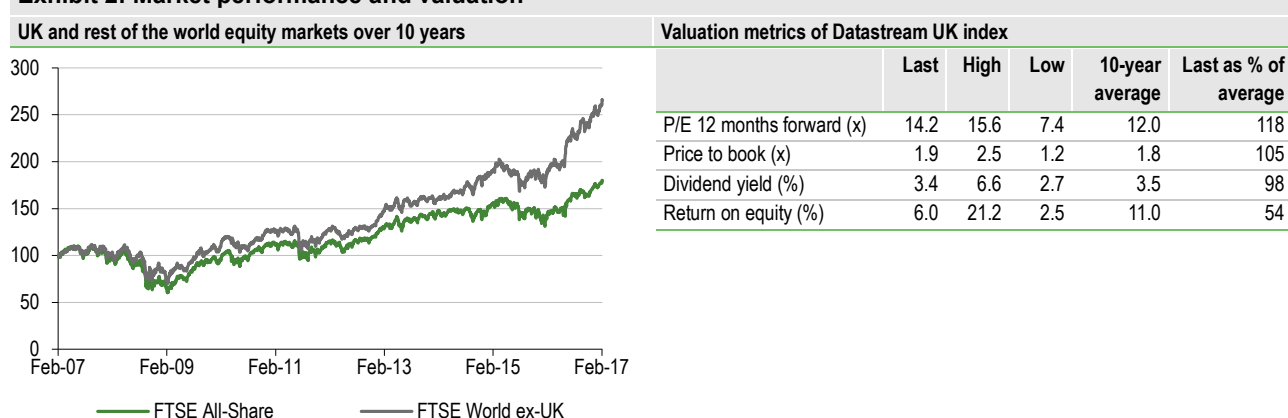
Company	Sector	Portfolio weight %	
		31 January 2017	31 July 2016
Barclays	Financials	7.5	5.0
Lloyds Banking Group	Financials	7.2	5.9
Legal & General	Financials	6.1	5.6
Dixons Carphone	Consumer services	6.1	6.2
Taylor Wimpey	Consumer goods	4.5	4.1
Apple	Technology	4.2	3.4
Thomas Cook	Consumer services	4.1	N/A
International Consolidated Airlines	Consumer services	4.0	N/A
Sirius Minerals	Basic materials	3.8	N/A
ITV	Consumer services	3.7	3.6
Top 10		51.2	44.8

Source: Jupiter UK Growth IT, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in July 2016 top 10.

Market outlook: More modest index returns likely

Having shaken off volatility early in 2016 following concerns about Chinese economic growth and weak commodity prices, and a period of heightened investor risk aversion, both UK and global equities delivered significant returns for shareholders during the year (Exhibit 2, left-hand side); this performance seems unlikely to be repeated in 2017. In the UK, investors shrugged off the outcome of the UK's European referendum, focusing on the benefits of a weaker sterling to companies with overseas earnings. As a result, the valuations of UK equities now look less appealing in aggregate – as shown in Exhibit 2 (right-hand side) the forward P/E ratio of the Datastream UK index is towards the high end of its range, and c 20% above its 10-year average; price-to-book ratio is also 5% above its average of the last 10 years. For investors wanting exposure to UK equities, a high-conviction fund with a long-term, value-aware investment approach, may be of interest.

Exhibit 2: Market performance and valuation



Source: Thomson Datastream, Edison Investment Research, Bloomberg. Note: Index valuations at 27 February 2017.

Fund profile: Actively managed, concentrated portfolio

JUKG was originally launched in 1972 as the Jupiter Primadona Growth Trust (JPG); it was renamed the Jupiter Global Trust between November 2015 and April 2016. In April 2016, the mandate changed, moving from a portfolio of UK equities and global funds to a concentrated portfolio of c 35 mainly UK equities that mirrors the strategy of the £1.4bn Jupiter UK Growth unit trust. Both funds are managed for long-term capital growth by Steve Davies, Jupiter's Head of Strategy, UK Growth. Since the change in mandate, JUKG is benchmarked against the FTSE All-Share index, although the manager follows a high-conviction, unconstrained investment approach. Stocks are broadly split between companies with recovery potential (currently 56%) and those with secular growth (44%). Up to 20% may be held in non-UK stocks; currently this is c 10% comprising investments in Apple, BMW and Manchester United. Gearing of up to 20% of net assets is permitted. JUKG has continued with the nil-discount policy that was adopted by JPG in 2014.

The fund manager: Steve Davies

The manager's view: Finding opportunities

When selecting stocks, the manager looks to distinguish between stocks where likely developments are already priced in and those whose share prices are anomalous, and therefore provide potential upside opportunity. While he adopted a mild recession outlook, which feeds into his company models and target prices, following the outcome of the UK's European referendum, he notes that so

far, the UK economy has held up better than generally expected. However, Davies comments that a lot of UK domestic companies (as opposed to those with overseas earnings), are pricing in a gloomy economic outlook, which offers a favourable risk/reward profile for active stock pickers.

Consumer disposable income, measured by the Asda Income Tracker, suggests that growth is slowing as higher food and fuel prices are feeding through; however, the manager does not expect a negative growth number, as occurred in 2011. He notes that the UK job market is strong – employment is at an all-time high and wage growth is running around 2.5% pa – and mortgage costs are declining, funded by lower rates on bank deposits. As a result, the manager retains several UK domestic companies in the portfolio such as Dixons Carphone and Taylor Wimpey.

Dixons made a c £450m profit in FY16. The manager suggests that if electrical sales were to decline by 10%, there would be a £70m hit to profits. However, he believes the company could reduce marketing spend by c £30m and could generate c £40m in merger synergies through its programme of combining Currys, PC World and Carphone Warehouse stores (leading to lower rent costs), which would keep profits flat. In addition, Dixon's Nordic business could contribute more, due to the fall in value of sterling in a declining sales environment. Davies suggests that Taylor Wimpey's shares are pricing in a dividend cut. The company has committed to a 14p dividend in FY17 and the shares are currently yielding c 8%. The manager has stress-tested his Taylor Wimpey model, factoring in a 20% decline in prices and 30% fewer sales – profits would halve, but the company would likely stop spending money on new land, which would enable cash flow to build, thus supporting the dividend. He believes that the dividend would only be at risk if the housing market collapsed and there was no industry recovery for two to three years.

Asset allocation

Investment process: Investment in recovery and growth

Manager Steve Davies splits the JUKG portfolio into two 'buckets' – recovery and growth. Recovery stocks are companies that are viewed as unattractive by investors, but which the manager believes have a potential catalyst such as cyclical recovery or a change in management or strategy. At the time of purchase, recovery stocks typically trade on a forward P/E multiple of less than 10x with a free cash flow yield of more than 10% (for financials, they typically trade below book value). Growth stocks are selected for their sustainable income and predictable business models, while being attractively valued. For these companies, a mixture of sales growth and operating leverage should lead to 12-15% annual total shareholder returns. At end-December 2016, JUKG was split broadly 56%/44% between recovery and growth stocks. This is markedly different from the 35%/65% split respectively in our June 2016 [initiation report](#), due to the Brexit vote; however, rather than indicating a wholesale change in the portfolio make-up, the manager comments that some of the UK domestic companies have been recategorised as recovery rather than growth.

JUKG currently has five broad themes within its portfolio: financials; UK domestic economy; the connected world; brands, travel & leisure; and tomorrow's world. Financials has been broadened from UK banks to include other companies such as Legal & General, which has a large and growing dividend and is a beneficiary of higher interest rates. The largest position in JUKG's portfolio is Barclays, which Davies says is a self-help situation; it has strong UK operations generating a high return on equity, its investment banking operations are improving, helped by competition leaving the industry, and Barclays is exiting its underperforming non-core businesses. UK domestic economy comprises companies that are more cyclically exposed, such as furniture retailer DFS and estate agent Countrywide, alongside companies with more resilient business models such as ITV and WHSmith, where strong results from its travel locations and benefits from cost reductions more than outweigh a tough sales environment on the high street. The connected world focuses on the key growth areas of devices, connection, content & data and e-commerce –

holdings include Apple and online portal Zoopla. Brands, travel & leisure encompasses companies with structural growth characteristics, such as Merlin Entertainment, Manchester United and cruise ship operator Carnival. The fifth portfolio theme, tomorrow's world, is a relatively new addition and is essentially 'patient capital' where the manager has a three- to five-year time horizon rather than a more typical two- to three-year view. Holdings include Angle, which is a specialist diagnostics company. Its proprietary Parsortix cell separation platform can be used for detecting and harvesting very rare circulating tumour cells from blood samples – the resulting liquid biopsy enables the analysis of these cells for precision cancer care.

The manager builds detailed financial models for potential investee companies, aiming to highlight stocks which are selling at a significant discount to the estimated intrinsic value of their underlying businesses. Jupiter has a keen focus on corporate governance, and the manager suggests that meeting with board members may provide a different perspective than can be achieved by meeting a company's chief executive or finance director.

Current portfolio positioning

As shown in Exhibit 3, JUKG is heavily overweight consumer services versus the FTSE All-Share index and as a further illustration of his unconstrained investment approach Davies retains zero exposure to oil & gas and utilities. He expects the oil price to remain in a range of \$40-60, suggesting that OPEC has a difficult decision to make given that efficient North American shale producers are coming back onstream very quickly; if Saudi Arabia does not roll forward its production cuts in the summer, the oil price could fall to the bottom of this range. Davies also does not hold any consumer staples companies as he considers them expensive. In a rising interest rate environment, these stocks should underperform the broader market, while financial stocks should be well positioned; this sector comprises more than a quarter of JUKG's portfolio.

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-January 2017	Portfolio end-July 2016	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Consumer services	39.3	39.7	-0.4	11.4	27.9	3.4
Financials	27.8	25.1	2.8	25.9	1.9	1.1
Consumer goods	9.9	8.8	1.1	14.8	-4.9	0.7
Industrials	7.5	8.7	-1.2	10.7	-3.2	0.7
Telecommunications	5.9	7.7	-1.8	3.7	2.2	1.6
Technology	3.8	3.3	0.5	0.8	3.0	4.6
Basic materials	3.4	2.6	0.8	7.7	-4.3	0.4
Healthcare	1.9	1.3	0.6	8.8	-6.9	0.2
Other	0.5	2.9	-2.4	16.2	-15.7	0.0
	100.0	100.0		100.0		

Source: Jupiter UK Growth Investment Trust, Edison Investment Research. Note: Adjusted for net gearing.

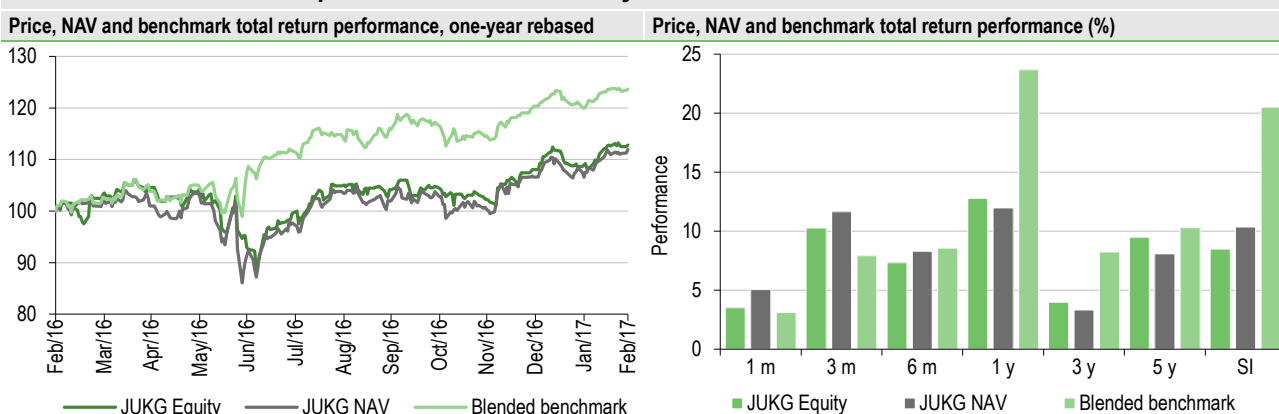
Davies suggests that mergers and acquisitions could be a key theme in the markets during 2017. JUKG has had two recent takeover approaches for portfolio holdings; following 21st Century Fox's bid for Sky at a c 25% premium, the Sky position was sold. In February 2016, Tesco made a bid for JUKG's Booker holding – the manager says he can see the strategic logic of the deal and will assess the outlook for Tesco to determine its upside potential. If he decides not to accept the Tesco offer, he suggests that there are plenty of other holdings in the portfolio that he can add to.

The manager considers top 10 holding, Sirius Minerals, the most exciting stock in the portfolio. Its stock price was very weak in November 2016, following the announcement of a \$1.2bn fund raise (JUKG participated in the offering, which was successfully completed in a volatile week prior to the US election). Davies believes that although some future debt funding may be required, sufficient equity has now been raised to enable the construction phase of the project to be completed, which has further de-risked the investment case for Sirius. The manager suggests that Sirius is well suited for a long-term investor, such as an investment trust – he believes that when running at full capacity, annual profits could reach £1bn compared to Sirius's current market cap of c £750m.

Performance: Improved near-term performance

Given JUKG's change in strategy in April 2016, the relevant performance periods highlighted below are one, three and six months and since inception. In Exhibit 4 (right-hand side), since inception JUKG's share price and NAV total returns of 8.5% and 10.4% respectively are meaningfully behind the FTSE All-Share index total return of 20.5%. A significant period of relative underperformance followed the Brexit vote in June 2016; this is highlighted starkly in Exhibit 6. A number of JUKG's UK domestic holdings fell by 30-50% – the largest negative contributors to performance included Dixons Carphone, Thomas Cook and the UK bank holdings. However, as shown in Exhibit 5, near-term relative performance is improving. JUKG has outperformed the FTSE All-Share benchmark over one and three months in both share price and NAV total return terms. Bank stocks have been significant contributors to better relative performance, due to rising bond yields, higher investment banking activity and self-help initiatives. Davies also comments that JUKG has benefited in relative terms from not holding companies that have issued large profit warnings, such as BT and Pearson.

Exhibit 4: Investment trust performance to 28 February 2017



Source: Thomson Datastream, Edison Investment Research. Note: Three and five-year performance figures annualised. Note: Blended benchmark is 75% FTSE All-Share and 25% FTSE World ex-UK until 17 April 2016 and FTSE All-Share thereafter. *SI = since JUKG strategy inception, 18 April 2016.

Exhibit 5: 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 blended benchmark	0.4	2.2	(1.2)	(8.8)	(11.4)	(3.6)	(8.7)
NAV relative to blended benchmark	1.9	3.5	(0.3)	(9.5)	(13.1)	(9.7)	(7.3)
Price relative to FTSE All-Share	0.4	2.2	(1.2)	(8.2)	(6.5)	1.3	(8.7)
NAV relative to FTSE All-Share	1.9	3.5	(0.3)	(8.8)	(8.2)	(5.1)	(7.3)
Price relative to FTSE World	(0.5)	1.6	(5.6)	(17.9)	(29.1)	(21.4)	(16.7)
NAV relative to FTSE World	1.0	2.8	(4.8)	(18.5)	(30.4)	(26.3)	(15.5)

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

Exhibit 6: NAV total return performance relative to blended benchmark over one year

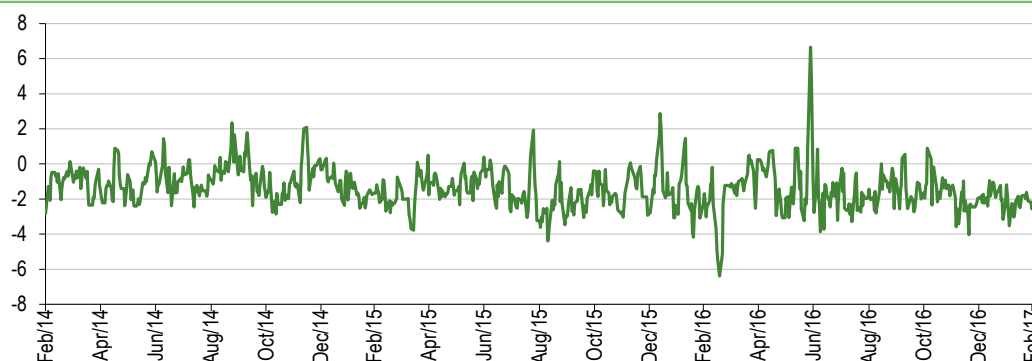


Source: Thomson Datastream, Edison Investment Research

Discount: Shares continue to trade in a narrow range

Following on from the adoption of a nil-discount control policy by JPG in February 2014, the shares have traded in a narrow range, typically between a 2% premium and a 2% discount. The current 2.1% share price discount to cum-income NAV compares to the average of 1.6% over the last 12 months and the averages of the last three, five and 10 years of 1.4%, 4.3% and 7.0% respectively. As shown in Exhibit 1, during FY17 there have been active share repurchases; in the financial year to date, 1.1m shares have been bought back at a cost of £3.1m.

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



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

JUKG is a conventional investment trust with one class of share; there are currently 14.0m ordinary shares in issue. The trust has a £10m borrowing facility with Scotiabank of which £9.5m was drawn at end-January 2017 (gross gearing of 17.0%).

From 18 April 2016, the annual management fee was reduced from 0.80% to 0.50% of net assets up to £150m, falling to 0.45% between £150m and £250m of net assets and 0.40% above £250m. This was designed to make JUKG's fees more competitive with both open- and closed-ended peers. A performance fee is payable subject to a high watermark (the NAV at the end of the prior financial year). There is a 2% hurdle over the FTSE All-Share index total return performance, of which JUKG may earn a performance fee of 15% of outperformance. Total fees (management and performance fees) are capped at 2% of year-end adjusted net assets. At end-January 2017, Jupiter estimated the total expense ratio at 1.13%; this is 41bp lower than six months before.

Dividend policy and record

Having paid quarterly dividends since FY14, JUKG will pay annual dividends from FY17. Given there is now more of a focus on capital growth, the FY17 dividend is likely to be lower than in prior years. Based on the 7p total dividends paid in FY16, the dividend yield is currently 2.2%.

Peer group comparison

Exhibit 8 shows the members of the AIC UK All Companies sector. We have also included Jupiter UK Growth UT as a comparator. It is important to remember that the majority of JUKG's performance data relates to the old global mandate. Both JUKG and Jupiter UK Growth UT NAV

total returns lag the investment trust weighted averages over the periods shown. In terms of risk-adjusted returns, as measured by the Sharpe ratio, JUKG is modestly behind the investment trust weighted average over one and three years. Its discount is narrower than average, ranking third out of 18 funds, and its gearing is the highest in the sector. JUKG's dividend yield is above the sector weighted average, ranking eighth out of 18 funds.

Exhibit 8: AIC UK All Companies investment trusts as at 23 February 2017

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Jupiter UK Growth Trust	44.3	13.8	10.3	44.5	82.3	(0.1)	(0.4)	(0.8)	1.1	Yes	117	2.2
Jupiter UK Growth UT	1,387.6	8.9	7.7	68.8	68.3	(0.2)	(0.4)	N/A	1.8	No	N/A	1.1
Aberdeen UK Tracker	337.5	25.7	20.1	52.5	69.2	0.5	(0.2)	(3.7)	0.3	No	100	3.2
Artemis Alpha Trust	112.5	20.8	7.2	25.4	64.8	0.2	(0.7)	(20.3)	0.9	Yes	104	1.6
Aurora	56.8	15.8	2.5	(6.1)	(13.6)	0.0	(0.5)	1.7	2.4	Yes	100	0.5
Crystal Amber	224.8	58.0	51.4	126.9		2.1	0.2	(0.9)	2.2	Yes	100	2.2
Damille Investments II	42.5	30.7	23.6	32.3		1.0	(0.4)	(7.9)	2.4	Yes	100	0.0
Fidelity Special Values	620.8	29.6	27.1	116.8	137.3	0.5	(0.2)	(1.0)	1.1	No	109	1.6
Henderson Opportunities	74.2	23.7	23.0	111.7	65.2	0.4	(0.2)	(15.7)	0.9	Yes	115	2.1
Invesco Perp Select UK Equity	69.3	17.0	33.1	110.2	155.6	0.0	(0.1)	(1.5)	1.0	Yes	100	3.4
JPMorgan Mid Cap	231.4	13.5	28.6	133.6	77.3	(0.0)	(0.1)	(8.0)	0.9	No	104	2.2
Keystone	226.4	7.7	15.3	73.6	110.5	(0.4)	(0.4)	(12.6)	0.7	Yes	107	3.2
Manchester & London	65.8	37.1	41.1	19.0	35.9	0.8	0.1	(21.9)	0.9	No	111	2.0
Mercantile	1,555.7	12.3	21.6	94.8	89.5	(0.1)	(0.2)	(11.8)	0.5	No	104	2.4
Sanditon Investment Trust	51.8	2.2				(0.8)	(0.9)	0.5	1.3	Yes	100	1.1
Schroder UK Growth	266.2	21.8	6.1	60.1	75.4	0.3	(0.5)	(11.6)	0.3	No	100	3.2
Schroder UK Mid Cap	168.8	16.9	12.9	94.3	137.2	0.1	(0.4)	(16.3)	1.0	No	100	2.5
Threadneedle UK Select Trust	43.5	20.2	22.3	55.9	74.4	0.2	(0.2)	(8.0)	1.9	Yes	103	2.3
Woodford Patient Capital Trust	767.0	10.8				(0.3)	(0.9)	(5.1)	0.2	Yes	100	0.3
Sector weighted average (ITs)		18.7	22.4	89.6	94.3	0.1	(0.3)	(8.2)	0.7		104	2.0
JUKG rank in sector	16	13	13	12	6	14	12	3	6		1	8

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

The board

There are four directors on the board of JUKG; all are non-executive and independent of the manager. The board remains unchanged from that of Jupiter Global Trust and Jupiter Primadona Growth Trust. Chairman Tom Bartlam was elected in July 2013 and assumed his current role in November of that year. The other board members and their dates of appointment are: Lorna Tilbani (2001), Jonathan Davis (2011) and Graham Fuller (2013).

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