Jupiter Merlin Income Portfolio

JUPITER INDEPENDENT FUNDS TEAM

Jupiter Merlin investment outlook

Global economy: Early in the twelve months under review, with developed market inflation rapidly abating after the significant spike created by the exogenous shocks of the pandemic and Putin's invasion of Ukraine, markets were speculating about not only *when* interest rates would peak but then *how quickly* they would begin to subside. Sentiment was heavily polarised in what remains a battle of wills between investors, as the providers of capital, and the central banks who set the benchmark price (through the interest rate) as to who determines monetary policy.

Collectively investors climbed a wall of worry in the immediate aftermath of the Hamas attack on the Israeli Kibbutzim in October. However, swiftly recovering their poise, they rapidly returned to their absorbing preoccupation of trying to call the turn in central bank interest rates. While fixed income markets have remained volatile and hypersensitive to macro-economic data and reading the policy smoke signals emanating from the Federal Reserve, the European Central Bank and the Bank of England, equities have been more preoccupied with the microenvironment of corporate earnings and prospects against a backdrop of strong US economic resilience but most European economies, including the UK, flatlining or flirting with recession.

Three years into a major war in Europe and with growing instability in the Middle East, the world is its least stable geopolitically for nearly two generations. Not knowing quite what to make of it, markets prefer to keep their principal focus on things they can count, measure, quantify and compare. Almost inevitably their energies remain preoccupied with inflation, economic growth prospects, changes in monetary policy and the future trajectory of interest rates, as well as the risks and opportunities presented by the climate change and technological revolutions.

While the forthcoming UK general election will be of natural interest to the domestic audience, for global investors it is the November 5th US Presidential election which is of greater relevance, particularly in the event that Donald Trump were to return for a second term with all its potential for disruption. In such binary situations we seldom pre-empt the outcome; rather than bet everything on black or red and spinning the wheel, we generally prefer to consider the potential ramifications and weigh up the options and then take the appropriate action, if any is needed, after the result is known.

Equities (commonly known as shares): Standout equity performances were seen in Japan as the corporate reforms initiated by former Prime Minister Abe from 2015 gain momentum. Meanwhile, in the US, investors remain fascinated by the 'Magnificent Seven' global technology and Artificial Intelligence related companies which so dominate the S&P 500 equity index and which were behind its 28% appreciation over the 12 months. The UK FTSE 100 index, largely dominated by financials, energy and mining companies, spent most of 2023 tracking sideways but at the time of going to press is testing its previous all-time high when it briefly broke through 8000 in February last year.

Fixed Income (commonly known as 'bonds'): In the battle of wills described above, investors were determined to recoup some of the significant paper losses incurred since the start of 2022 when interest rates and bond yields[1] started rising and bond prices fell in the opposite direction. In the final quarter of 2023, investors probed for every shred of economic evidence that suggested interest rates should be lowered quickly and, using that data, forced yields down (and prices up) in anticipation. However, when market opinions and those of the central bank authorities significantly part company, both points of view cannot be simultaneously and enduringly correct. As it was, the economic data this year indicated that markets had got ahead of themselves, US inflation stubbornly refuses to drop below 3% (the target is 2%) and to date more than half the gains made in fixed income at the end of 2023 have been given back in 2024.

[1] *The rate of interest or income on an investment, usually expressed as a percentage.*

Jupiter Merlin Income Portfolio review

	3 months	1 year	3 years	5 years	10 years	Since FM inception*
Jupiter Merlin Income Portfolio	2.0	6.2	10.2	23.1	55.6	309.5
IA Mixed Investment 20-60% Shares	2.5	7.8	4.2	16.2	45.1	160.1
Quartile	3	4	1	1	2	1
Sector Ranking	126/181	136/173	24/164	32/142	29/101	2/13

Past performance is no guide to the future. Returns may increase or decrease as a result of currency fluctuations.
Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, Jupiter Merlin Income Portfolio I Acc, to 31.03.24. **Since FM inception: 30.09.1999.
Comparator: IA Mixed Investment 20-60% Shares.

	01 Apr '19 to 31 Mar '20	01 Apr '20 to 31 Mar '21	01 Apr '21 to 31 Mar '22	01 Apr '22 to 31 Mar '23	01 Apr '23 to 31 Mar '24
Jupiter Merlin Income Portfolio	-4.3	16.7	6.2	-2.3	6.2
IA Mixed Investment 20-60% Shares	-7.1	20.1	1.8	-5.0	7.8

Past performance is no guide to the future. Returns may increase or decrease as a result of currency fluctuations.
Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, Jupiter Merlin Income Portfolio I Acc, to 31.03.24.
Comparator: IA Mixed Investment 20-60% Shares.

Over the 12 months to 31 March 2024, your Portfolio returned 6.2% net of all fees and charges compared with the IA Mixed Investment 20-60% Shares sector average of 7.8%. It ranked 136 of 173 competitors in the group. Over three years it ranked 24th of 164, over five years 32nd of 142 and over 10 years 29th of 101. Over 15 years it ranked 19th of 59, and over 20 years 5th of 26. Since inception in 1999 it has returned 309.5% net of all fees and charges against 160.1% for the average of the sector, ranking 2nd of 13 in the group. It ranked top quartile over three, five, 20 years and since inception, second quartile over 10 and 15 years and fourth quartile over the period under review.

Activity early in the period was light.

Royal London Global Equity Income was a fund already familiar through the holding in the Jupiter Merlin Select range of Portfolios. We introduced it to Jupiter Merlin Income in October, initially using proceeds from trimming M&G Global Dividend. Later we added more when we sold BlackRock World Energy; compared with the strong reaction in the oil price in 2021/2 when the global economy was reopening after the pandemic and then Putin invaded Ukraine, we were concerned that the relatively muted price reaction to the growing conflict in the Middle East and the Red Sea, combined with Trump's intention to open the oil taps should he be President, were indicating underlying weakness in the sector.

At the period-end, conscious that our 'value'[2] style equity exposure was high relative to 'growth'[3], we sold our remaining M&G Global Dividend and trimmed the holdings in Jupiter Income Trust and Jupiter UK Special Situations in favour of BlueBox Global Technology and added further to Morant Wright Nippon Yield, supporting our long-running theme that Japan is successfully getting to grips with forcing structural corporate change. Overall, the two equity investment styles are now more in balance.

In fixed income, in February we disposed of the Allianz Strategic Bond fund which had been struggling for some time; we reinvested the proceeds of the sale into the existing fixed income holdings in Aegon High Yield and M&G Global Corporate Bond, a switch that has benefited unit holders already in a short period.

---

[2] Value investing is based on the idea that a major factor in determining if an investment will be successful is whether the price paid to buy the shares is high or low relative to the company's long-term earnings history.
[3] Growth is an investment style that focuses on companies with the potential to grow their earnings significantly over time. Such companies typically reinvest earnings into the business to fund future expansion.

JUPITER ASSET MANAGEMENT

The Jupiter Merlin Portfolios are long-term investments; they are certainly not immune from market volatility, but they are expected to be less volatile over time, commensurate with the risk tolerance of each. With liquidity uppermost in our mind, we seek to invest in funds run by experienced managers with a blend of styles but who share our core philosophy of trying to capture good performance in buoyant markets while minimising as far as possible the risk of losses in more challenging conditions.

Fund-specific risks

Currency (FX) Risk - The Fund can be exposed to different currencies and movements in foreign exchange rates can cause the value of investments to fall as well as rise.

Interest Rate Risk - The Fund can invest in assets whose value is sensitive to changes in interest rates (for example bonds) meaning that the value of these investments may fluctuate significantly with movement in interest rates, e.g. the value of a bond tends to decrease when interest rates rise.

Pricing Risk - Price movements in financial assets mean the value of assets can fall as well as rise, with this risk typically amplified in more volatile market conditions.

Credit Risk - The issuer of a bond or a similar investment within the Fund may not pay income or repay capital to the Fund when due.

Derivative Risk - the Fund may use derivatives to reduce costs and/or the overall risk of the Fund (this is also known as Efficient Portfolio Management or "EPM"). Derivatives involve a level of risk, however, for EPM they should not increase the overall riskiness of the Fund.

Counterparty Risk - the risk of losses due to the default of a counterparty e.g. on a derivatives contract or a custodian that is safeguarding the Fund's assets.

Charges from capital - Some or all of the Fund's charges are taken from capital. Should there not be sufficient capital growth in the Fund this may cause capital erosion.

For a more detailed explanation of risk factors, please refer to the **"Risk Factors"** section of the Scheme Particulars.