

Jupiter Merlin Income and Growth Select

JUPITER INDEPENDENT FUNDS TEAM

Jupiter Merlin investment outlook

Global economy: 2023 was characterized by a significant stand-off between investors and central banks as to who really determines monetary policy. The situation in 2021 has reversed today: then investors were pushing up government bond¹ yields² as the perceived inflationary risk grew, while the central banks denied there was a problem and refused to raise interest rates from rock bottom; in the final quarter of 2023, however, investors were driving yields down while central banks were reluctant to reduce interest rates from current highs. In effect markets were telling them, and the US Federal Reserve in particular, that if they were not cautious enough two years ago, they are being far too conservative now. Apart from the US economy which remains buoyant despite the most aggressive policy tightening programme in history, most others including the UK are flatlining and flirting with recession.

Back in September and early October markets were spooked by the combination of the political stalemate in the US Congress over government spending and breaching its borrowing limits and the outbreak of a new conflict in the Middle East. If investors were later determined not to be deflected from having a happy Christmas, those underlying problems have still not gone away.

As 2024 begins, it is already obvious that it is going to be a year of consequences. Two billion people worldwide will go to the polls over the next 12 months in countries as diverse and sensitive as the UK and the US, India, Indonesia, Russia (and Taiwan has already gone to the polls). Domestically, the UK election will naturally be of great interest to all of us. But much the most significant geopolitically (assuming Putin is returned unopposed in Russia) is the US Presidential election, appropriately on November 5th. The starting gun has already been fired, even before the nomination primaries formally begin in Iowa on January 15th, with state courts in Colorado and Maine banning Donald Trump from standing as a candidate because of his inciting “insurrection and rebellion” in the wake of his defeat by Joe Biden in the 2020 election. Leaving aside changes in direction in economic and social policy which might emerge from any of these elections, a significant consideration is the potential geopolitical ramifications as the West struggles to establish a consensus to confront the strategic threats posed by Russia, China, Iran and North Korea, as well as dealing with the competitive recognition and representation challenges laid down by India’s Prime Minister Modi on behalf of the developing economies and the Global South.

It was an adviser to aspiring president Bill Clinton who famously said when distilling down the 1992 Presidential election strategy to its bare essentials, “it’s the economy, stupid!”. He wasn’t wrong. But in 2024, arguably the world is a more complex, dynamic and dangerous place than three decades ago. For investors, the economy is still the central focus but those contextual political and security elements need to be borne in mind just in case they decide to force themselves to centre stage.

Equities (commonly known as shares): 2023 ended with markets in euphoric mood. Having been propelled for much of the year by the colloquial ‘Magnificent Seven’ (the world’s biggest Artificial Intelligence and technology-related companies comprising Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla) but also helped by old-world luminaries such as Berkshire Hathaway and Exxon Mobile, during Christmas Week the broad-based US S&P 500 equity index equalled its all-time high recorded in 2021. It rose 22.4% in US dollar terms over the year. In contrast, and with rather less razzamatazz, the UK FTSE 100 Index rose 4.7% for the year, although it too is close to its all-time high seen in February 2023 when, blink and you missed it, for the briefest of moments it broke out of the 7000-8000 band in which it has traded for most of the past three years.

Fixed Income (commonly known as ‘bonds’): In fixed income, convinced that they have forced a change of narrative among the principal central banks to lower interest rates in 2024, much sooner than the authorities’ natural instincts tell themselves is right, investors continued to drive government bond yields down and thereby push prices in the opposite direction. The strong price recovery in the final quarter of the year helped recoup some of the significant losses recorded between early

¹ Government bonds are issued by governments. Bonds are a type of fixed interest investment, in which a company, government or other institution borrows money and, in most cases, pays a fixed level of interest until the date when the loan is due to be repaid.

² The rate of interest or income on an investment, usually expressed as a percentage.

2022 and October 2023. Supporting the markets' thesis, generally weak reported economic data and sentiment indicators for the end of 2023 across most western economies pointed not only to interest rates having peaked, but also that the case was growing to cut interest rates sooner than previously anticipated.

This has been an epic battle of wills between investors and policymakers. While the Bank of England and the European Central Bank are still resolutely defending their line that inflation is far from beaten, the US Federal Reserve has given ground. With the Fed having been smoked out of its own defensive position, the anticipation is that the British and European authorities will cave in too and be forced to concede to interest rate cuts sooner rather than later.

Jupiter Merlin Income and Growth Select review

	3 months	1 year	3 years	5 years	10 years	Since FM inception*
Jupiter Merlin Income and Growth Select	5.0	10.5	12.5	12.9	27.9	13.3
IA Mixed Investment 40-85% Shares	5.8	8.1	8.0	32.1	67.0	10.6
ARC Steady Growth Private Client Index	5.3	7.3	6.1	27.6	57.3	9.0
Quartile	4	1	2	4	4	1
Sector Ranking	170/216	47/209	58/193	160/164	101/104	32/209

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 and Growth Select I Inc, to 31.12.23. *Since FM inception: 01.11.2022.

Comparators: IA Mixed Investment 40-85% Shares sector average and ARC Steady Growth Private Client Index. Jupiter Multi-Asset Income and Growth changed name to Jupiter Merlin Income and Growth Select on 05.04.23.

	01 Jan '19 to 31 Dec '19	01 Jan '20 to 31 Dec '20	01 Jan '21 to 31 Dec '21	01 Jan '22 to 31 Dec '22	01 Jan '23 to 31 Dec '23
Jupiter Merlin Income and Growth Select	13.2	-11.4	15.9	-12.1	10.5
IA Mixed Investment 40-85% Shares	15.9	5.5	11.2	-10.2	8.1
ARC Steady Growth Private Client Index	15.0	4.6	10.2	-10.2	7.3

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 and Growth Select I Inc, to 31.12.23. *Since FM inception: 01.11.2022.

Comparators: IA Mixed Investment 40-85% Shares sector average and ARC Steady Growth Private Client Index. Jupiter Multi-Asset Income and Growth changed name to Jupiter Merlin Income and Growth Select on 05.04.23.

Over the 12 months to 31 December 2023, your Portfolio returned 10.5% net of all fees and charges compared with 8.1% from the average of the IA Mixed Investment 40-85% Shares sector; it ranked 47th of 209 competitors, top quartile. The Jupiter Independent Funds team assumed responsibility for managing the former Jupiter Merlin Income & Growth Portfolio in November 2022, since when it has returned 13.3% net of fees compared with 10.6% for the IA Mixed Investment 40-85% Shares Sector, ranking 32 of 209 competing funds, top quartile.

When this fund was transferred to the Jupiter Merlin team at the beginning of November 2022, we looked to align it with our asset allocation views and strip back much of the complexity by selling the derivative overlay employed by the previous manager. A mandate change in April, making the Portfolio a fully multi-manager solution, brought the Portfolio fully in line with the remainder of the Jupiter Merlin Portfolios, albeit with a greater focus on cost and a higher weighting to internal funds dictating some of the fund selection.

In the UK, we allocated towards long-standing Jupiter Merlin holdings in Evenlode Income, Man GLG Income and Jupiter Income. We added in BlackRock World Energy and BlueBox Global Technology as our specialist exposures, both of which are held elsewhere in the Jupiter Merlin Portfolios.

In terms of new equity holdings, we introduced M&G Japan into the Portfolio, a value³-biased approach which prides itself on its engagement approach in a market where this is often the key to unlocking shareholder value. We also added in Royal London Global Equity Income which takes a differentiated view on diversification, spreading its allocation across the corporate lifecycle, whilst applying a strong valuation discipline. The final new equity addition was Evenlode Global Equity, a fund we have added to the existing Jupiter Merlin range, which applies the same, successful investment process as Evenlode Income to the global universe, populating its portfolio with high quality companies priced at what they deem to be reasonable valuations. We decided to retain the internally managed sleeve run by Brian McCormick, who is an investment manager in the Jupiter Value team, responsible for Jupiter Income. We hold this team in very high regard and the Jupiter Merlin Portfolios have a significant weighting to this team's strategies. The mandate which Brian runs for this Portfolio is similar to his team's Global Value strategies but with a higher income target and greater emerging market exposure.

Elsewhere, we made a few like-for-like changes such as switching Invesco Physical Gold into WisdomTree Core Physical Gold. We switched Vikram Aggarwal's sovereign bond sleeve into his Jupiter Global Sovereign Opportunities fund, which takes an active approach across developed and emerging markets. We redeemed Hilary Blandy's two sleeves, moving some of the proceeds into her Jupiter Monthly Income Bond fund, which invests around half its assets in investment grade bonds⁴ and half in high yield bonds⁵. We introduced Adam Darling's Jupiter Global High Yield Bond fund which invests only in high yield bonds, as the fund name suggests. We also added Mike Riddell's Allianz Strategic Bond and Jupiter Corporate Bond run by Adam Darling and Harry Richards, both of which are held elsewhere in the Jupiter Merlin Portfolios.

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.

³ 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.

⁴ A corporate bond is a bond issued by a company. 'Investment grade' simply refers to its credit rating, indicating that there is a relatively low risk of the companies defaulting on their financial obligations to bondholders.

⁵ High yield bonds are bonds issued by companies that are deemed by credit rating agencies to be relatively less likely to meet their payment obligations to bond holders than 'investment grade' bonds. Bonds issued by such companies have a higher yield (income paid to bondholders) to compensate for this higher risk.

Important Information: This document is for informational purposes only and is not investment advice. Market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than originally invested. We recommend you discuss any investment decisions with a financial adviser, particularly if you are unsure whether an investment is suitable. Jupiter is unable to provide investment advice. For definitions please see the glossary at jupiteram.com. The views expressed are those of the Fund Managers at the time of writing, are not necessarily those of Jupiter as a whole and may be subject to change. This is particularly true during periods of rapidly changing market circumstances. Every effort is made to ensure the accuracy of any information provided but no assurances or warranties are given. Jupiter Unit Trust Managers Limited (JUTM) and Jupiter Asset Management Limited (JAM), registered address: The Zig Zag Building, 70 Victoria Street, London, SW1E 6SQ are authorised and regulated by the Financial Conduct Authority. No part of this document may be reproduced in any manner without the prior permission of JUTM or JAM.