Jupiter Merlin Moderate Select

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 Moderate Select review[2]

Upon launching the strategy in April 2023, we sought to replicate the allocations elsewhere in 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 UK Special Situations. We added in BlackRock World Energy and BlueBox Global Technology as our specialist exposures. We also allocated to Jupiter Global Value Equity, run by a team we hold in very high regard and have had significant assets with across the Jupiter Merlin range for some time. In terms of new equity holdings, we introduced M&G Japan into the Portfolio, a value[3]-biased approach which prides itself on its engagement 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 the investment managers deem to be reasonable valuations.

Elsewhere, we invested in WisdomTree Core Physical Gold, consistent with the other Jupiter Merlin Portfolios. We allocated to Vikram Aggarwal's Jupiter Global Sovereign Opportunities fund, which takes an active approach across developed and emerging markets. We invested in Jupiter Monthly Income Bond fund, run by Hilary Blandy, who invests around half the assets in investment grade bonds[4] and half in high yield bonds[5] whilst focusing more on individual credit selection than macroeconomic forecasting. We introduced Adam Darling's Jupiter Global High Yield Bond fund which takes a similar approach regarding credit selection, but only within high yield bonds, as the fund name suggests. We also added Mike Riddell's Allianz Strategic Bond, Ben Lord's M&G Global Corporate Bond and Jupiter Corporate Bond, run by Adam Darling and Harry Richards, all of which are held elsewhere in the Jupiter Merlin Portfolios.

"When the facts change, we reserve the right to change our minds". Actively managing the Portfolio, we later completed two disposals. First, in January, 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 became 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. We took the opportunity to switch the proceeds into two of our existing equity holdings, Evenlode Global Equity and Royal London Global Equity Income. Second, in February, Allianz Strategic Bond which had struggled even during the more benign conditions in fixed income in late 2023; we reinvested the proceeds of the sale into the existing fixed income holdings in M&G Global Corporate Bond and Jupiter Global High Yield Bond, a combined switch that has benefited unit holders already.

At the period-end, conscious that our 'value' style equity exposure was high relative to 'growth[6]', we sold the holding in MAN GLG UK Equity Income in favour of BlueBox Global Technology, bringing the two styles more into balance. We also added to M&G Japan supporting our long-running theme that Japan is successfully getting to grips forcing structural corporate change. Overall, the two equity investment styles are now more in balance.

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.

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[2] *Please note that this section contains no performance figures, for regulatory reasons, since it has been fewer than a year since the fund launched. Our next review, for the twelve month period ending 30 June 2024, will be able to quote performance figures.*
[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.*
[6] *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

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.

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