Jupiter Merlin Worldwide 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 Worldwide Portfolio review

	3 months	1 year	3 years	5 years	10 years	Since FM inception*
Jupiter Merlin Worldwide Portfolio	6.5	16.7	23.7	48.7	139.0	544.6
ARC Sterling Equity Risk PCI Index	5.0	11.1	11.1	30.8	77.3	-
IA Global	7.9	16.8	22.7	61.6	159.7	360.5
Quartile	3	3	3	4	3	2
Sector Ranking	320/458	243/447	200/384	245/320	156/213	13/46

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 Worldwide Portfolio I Acc, to 31.03.24. *Since FM inception: 30.09.1999.
Comparators: IA Global and ARC Sterling Equity Risk Index.

	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 Worldwide Portfolio	-7.1	29.4	7.9	-1.8	16.7
ARC Sterling Equity Risk PCI Index	-9.6	30.4	4.8	-4.6	11.1
IA Global	-6.3	40.6	8.1	-2.8	16.8

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 Worldwide Portfolio I Acc, to 31.03.24. Since inception: 24.06.1993.
Comparator: IA Global and ARC Sterling Equity Risk Index.

Over the 12 months to 31 March 2024, your Portfolio returned 16.7% net of all fees and charges compared to the IA Global Sector average of 16.8%. It ranked 243 of 447 competitors in the group. Over three years it ranked 200 of 384, over five years 245 of 320 and over 10 years 156 of 213. Over 15 years it ranked 119 of 144 and over 20 years 52 of 89. Since FM inception in 1999 it has returned 544.6% net of all fees and charges against 360.5% for the average of the sector, ranking 13th of 46. In a sector in which many of the constituent funds can take significantly greater risk than we feel appropriate with Merlin Worldwide, it ranks second quartile since FM inception, third quartile over one, three, 10 and 20 years and fourth quartile over five and 15 years.

Early in 2023 we had already started seeking ways of taking advantage of alternative means of accessing attractive opportunities in the US. Using proceeds from our existing holding in Findlay Park, we opened four new positions. First, the Prevatt Global Master Fund, managed by Jonathan Tepper, a fund with an impressive track record focusing on a limited number of quality growth companies with leading market positions or which are oligopolies; second, the Long Walk Master Fund, managed by James Zimmerman, another concentrated portfolio this time biased towards technology but in an alignment with shareholder interests focusing very much on companies in which management teams have a substantial equity interest in their own business. Third, the confusingly named Pacific North American Opportunities fund managed by Chris Fidyk, with an emphasis on quality US small/medium-sized companies and healthcare in particular. Finally, TB Evenlode Global Equity, co-managed by Chris Elliott and James Knoedler, this is the global version of Evenlode's tried and tested UK Income fund held for a long time in other Jupiter Merlin Portfolios.

Royal London Global Equity Income was a fund already familiar through the holdings in the Jupiter Merlin Select range of Portfolios. We introduced it to Jupiter Merlin Worldwide 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.

Finding the Pacific North American Opportunities fund unexpectedly struggling, we halved the weighting and reinvested in the existing Morant Wright Japan fund and Evenlode Global Equity.

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 holding in Jupiter Global Value in favour of BlueBox Global Technology and added further to Morant Wright Japan, supporting our long-running theme that Japan is successfully getting to grips with forcing structural corporate change. Overall, and taking in to account the earlier disposal of Jupiter Global Equity Growth Unconstrained, 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.

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.

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.

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.

[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.*