Winterflood

Fund Insight

JPMorgan Global Growth & Income (JGGI)

Positioned For Resilience

30 September 2024 | Winterflood Research | researchcontact@winterflood.com

Dashboard

Team & Strategy

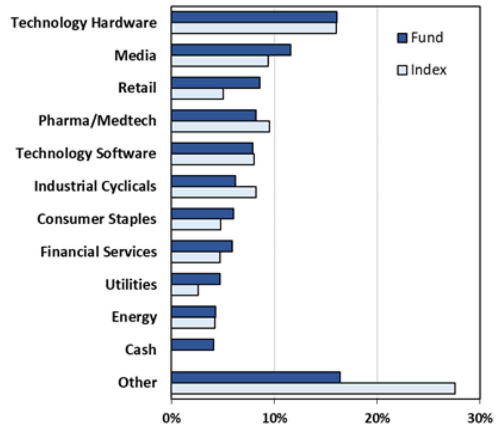
Investment objective: JGGI aims to provide a long-term total return in excess of the MSCI All Country World Index by investing in global equities. The fund aims to pay a dividend equal to at least 4% of the previous year-end NAV.

Team: The fund is managed by Tim Woodhouse, Helge Skibeli and James Cook of JPMorgan Asset Management, supported by over 80 research analysts.

Strategy: The portfolio is constructed on a bottom-up basis and consists of high conviction holdings. The strategy is style-agnostic, with the portfolio actively managed to perform in either 'growth' or 'value' orientated markets.

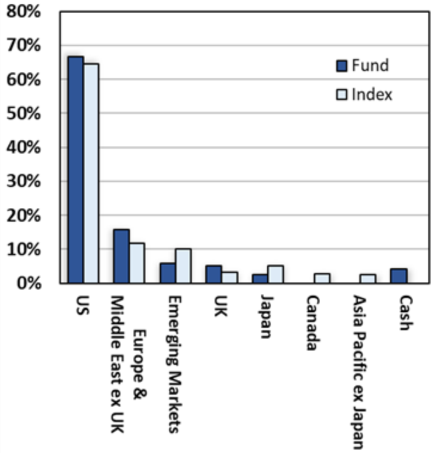
Recent developments: In February 2024, JGGI raised £34.5m in a placing and retail offer. In March, it acquired £75m of assets by merging with JPMorgan Multi-Asset Growth & Income (MATE).

Portfolio: Sector Breakdown (%)



Note: 'Other' sector category includes Health Services & Systems, Property & Insurance
Source: JGGI, Winterflood Securities. Data as at 31 August 2024

Portfolio: Geographic Breakdown (%)



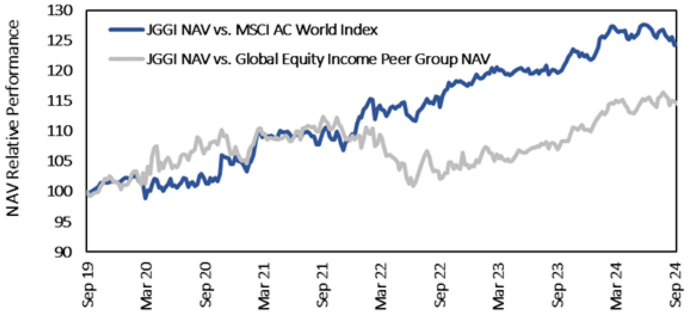
Source: JGGI, Winterflood Securities. Data as at 31 August 2024

Key Figures

£2.7bn	Market Capitalisation (27 Sep 2024)
54	No. of holdings (31 Jul 2024)
+0.2%	Premium to NAV (27 Sep 2024)
73%	Active Share (31 Jul 2024)
0.50%	Ongoing Charges (% of NAV) (Estimated)
3.5%	Dividend Yield (27 Sep 2024)
0.8%	Net Gearing (% of NAV) (31 Aug 2024)
1st	5Y NAV TR Peer Group ranking (27 Sep 2024)

Source: JGGI, Morningstar, Winterflood Securities. Last disclosed data as at 27 September 2024

Performance

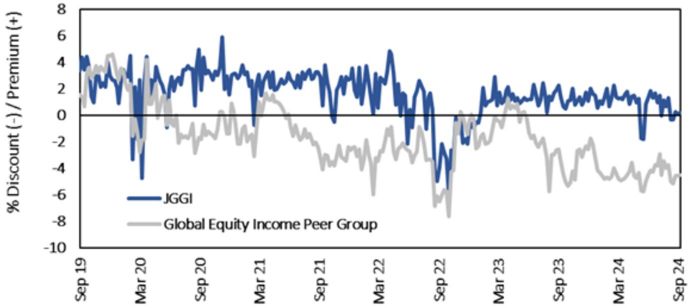


Source: JGGI, Morningstar, Winterflood Securities. Data as at 27 September 2024

	Total Return (£)					
	1m	3m	6m	1y	3y	5y
JGGI (NAV)	0.3%	-2.0%	1.9%	24.8%	41.9%	104.3%
JGGI (Share Price)	-0.8%	-2.7%	1.9%	22.9%	39.4%	95.6%
MSCI AC World Index	1.5%	0.5%	3.6%	20.0%	25.9%	63.7%
Global Equity Income Peer Group (NAV)	1.4%	-1.0%	2.1%	17.1%	40.2%	77.2%

Source: JGGI, Morningstar, Winterflood Securities. Data as at 27 September 2024

Discount / Premium (%)



Source: JGGI, Morningstar, Winterflood Securities. Data as at 27 September 2024

Discount Control & Issuance	Aim to keep discount below 5% and manage premium via use of share issuance and buybacks. YTD (to 27 September 2024) the fund raised £334.2m via issuance (excl. MATE merger), and £4.9m of shares were repurchased.

Source: JGGI, Morningstar, Winterflood Securities. Data as at 27 September 2024

Note: *Past performance is not a reliable indicator of future results*

Our Insight

Challenges:

Concentration: With only 50-60 names held on average and c.40% invested in its top 10 holdings, one could argue that the fund may miss out on broad-based developments or emerging trends, and carries more stock-specific risk than a generic Global index.

Very Soft Landing: As the portfolio is positioned defensively in anticipation of macroeconomic volatility, it is conceivable that relative performance will suffer if a surprisingly resilient macro environment triggers a rally in low-quality cyclical stocks.

China Underweight: The portfolio's lack of direct China exposure may lead to underperformance if the Chinese market significantly outperforms Global averages.

Small Cap Revival: The lack of exposure to companies with a market cap below $10bn implies that any revival in Global Smaller Companies may lead to underperformance.

Potential Dividend Volatility: As dividends are based on the previous financial year-end NAV, the dividend may be cut if the NAV falls over the year. However, the Board has demonstrated its willingness to grow the dividend even in these circumstances in the past.

Advantages:

Style-Agnostic Approach: JGGI has outperformed across market rotations, as it has anticipated and adapted to new environments, due to its style-agnostic approach. The majority of relative performance is driven by stock selection, providing some resilience to the impacts from macroeconomic and geopolitical events, such as the upcoming US election.

Differentiation: JGGI is unlikely to perform similarly to an ETF, as the managers are not averse to taking contrarian positions, based on research. This is reflected in the fund's 73% active share.

Well-Resourced Team: The managers are supported by over 80 analysts worldwide, with an average of 19 years' experience.

Scale: Following the rollovers of other funds into JGGI and the existence of a tiered fee structure, ongoing charges may fall further. Furthermore, JGGI is one of few investment trusts that have been able to grow through regular issuance over the last 12 months.

Yield: The fund has delivered consecutive annual dividend increases since 2017 at a CAGR of +14.8%, providing shareholders with a partial inflation offset and utilising the investment trust structure.

Our Insight:

Positioned For Resilience: The managers view the trust as a 'bedrock' holding in a portfolio, as it combines growth and income with global exposure. We are inclined to agree, as their approach has outperformed across markets with very different characteristics. The expected move towards a falling interest rate environment represents a new paradigm, but the managers' track record of successfully navigating a wide variation of macro conditions since 2019 offers confidence.

Leveraging Resources: The deep bench of analysts available to the team are a differentiator from its peers, and the team's ability to distil ideas from the large opportunity set, subject to valuation criteria, has facilitated outperformance.

Limited Rating Volatility: While the fund's shares currently trade in line with NAV, in contrast to much of the investment trust sector trading at a discount, we expect discount/premium volatility to be mitigated to an extent by the Board's active approach to share buybacks and issuance, including its aim to limit the discount to 5%.

Winterflood

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Team & Strategy

Team & Strategy

Team: Tim Woodhouse has been co-portfolio manager of JPMorgan Global Growth & Income (JGGI) since September 2017. He was joined by Raj Tanna and Helge Skibeli in March 2019. James Cook joined the team in January 2023, replacing Raj Tanna. The managers are supported by a well-resourced global team of over 80 research analysts.

Objective: To provide a long-term total return in excess of the MSCI All Country World Index by investing in global equities.

Philosophy: The strategy is style-agnostic, with the portfolio actively managed to perform in either 'growth' or 'value' orientated markets. The managers tend to be active during periods of increased market volatility, and their approach is slightly contrarian.

Process: The portfolio is constructed on a bottom-up basis and consists of high-conviction holdings sourced from the best ideas generated by the global team of research analysts. Holdings in the portfolio must satisfy three criteria: significant valuation upside; clear insight into what drives the company's performance; and high conviction in the investment outcome.

Risk Management: The managers employ a sophisticated risk management framework, which includes regular assessments of portfolio weightings to 'value', 'growth', defensive and cyclical segments. The managers prefer to limit foreign currency exposure, which is predominantly hedged back towards the benchmark.

Dividend: The fund aims to pay an 'enhanced' quarterly dividend, totalling at least 4% of NAV at the preceding financial year-end. Given that dividends are partially funded from capital reserves, the strategy is unconstrained, avoiding the need for an income requirement in stock selection.

Gearing: Limited gearing usage, ranging between -5% (net cash) and 20% of NAV. The portfolio had net gearing of 0.8% as at 31 August 2024.

M&A: The assets from JPMorgan Multi-Asset Growth & Income (£75m) were rolled over into JGGI in March 2024.

Fees: The fund charges a tiered annual management fee of 0.55% of net assets up to £750m, 0.40% between £750m and £1.5bn, and 0.30% thereafter. There is no performance fee. *Note: shareholders do not pay these costs directly.*

The Managers Say:
"We look to generate steady […] outperformance, with our returns rooted in detailed analysis, and our risk profile one that seeks to preserve those gains"

Portfolio

Portfolio: Characteristics

Concentration: The portfolio typically consists of 50 to 60 high-conviction holdings, although the formal upper limit is 90. Of the c.2,500 stocks under analyst research coverage, c.3% is included in the portfolio.

Weightings: The portfolio's active share tends to exceed 80%, but sectoral and regional benchmark deviations are controlled from a risk perspective. For instance, any sector over- or underweight in excess of 5% is viewed as a 'sector bet', which must be substantiated. The portfolio is focused on large-caps, with no exposure to companies with market caps of less than $10bn. 67% of the portfolio was invested in mega-cap stocks (market cap >$100bn) as at 31 August 2024, up from 54% a year earlier.

Quality: Investment opportunities are classified either as Premium, Quality, Standard or Challenged. Premium and Quality businesses have the lowest likelihood of negative earnings revisions and comprise the majority of the portfolio (76% of NAV vs. 49% for the benchmark as at 31 July 2024).

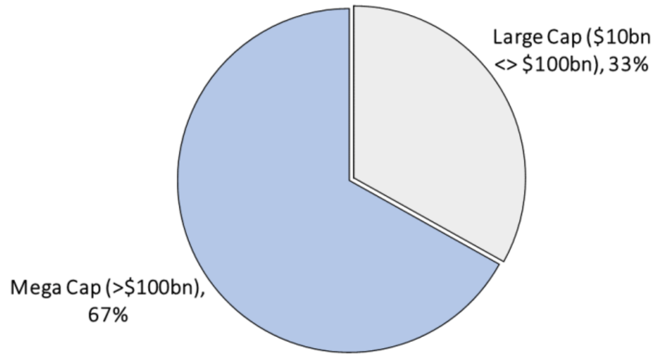
Comparison: The portfolio tends to have higher quality ratings[1], higher earnings growth and a higher free cash flow yield than the benchmark index. Compared with the benchmark, the portfolio as at 31 July 2024 had higher normalised earnings growth (+11.1% p.a. vs +8.9% p.a.), a slightly lower normalised free cash flow (FCF) yield (5.0% vs 5.3%), a higher normalised price-to-earnings (P/E) ratio (16.5x vs 15.9x) and a slightly lower normalised dividend yield (2.0% vs 2.3%).

	Fund	Index
Number of holdings	54	2680
Active share	73%	n/a
Beta	0.98	1.00
Normalised EPS growth rate	11.1%	8.9%
Normalised FCF yield	5.0%	5.3%
Normalised P/E ratio	16.5x	15.9x
Normalised dividend yield	2.0%	2.3%

Source: JGGI as at 31 July 2024

Note: 'Index' is MSCI All Country World Index

Market Cap (% of Portfolio)



Source: JGGI as at 31 August 2024

The Managers Say:
"We look for superior earnings quality, growing faster than the market, at a better price than the market"

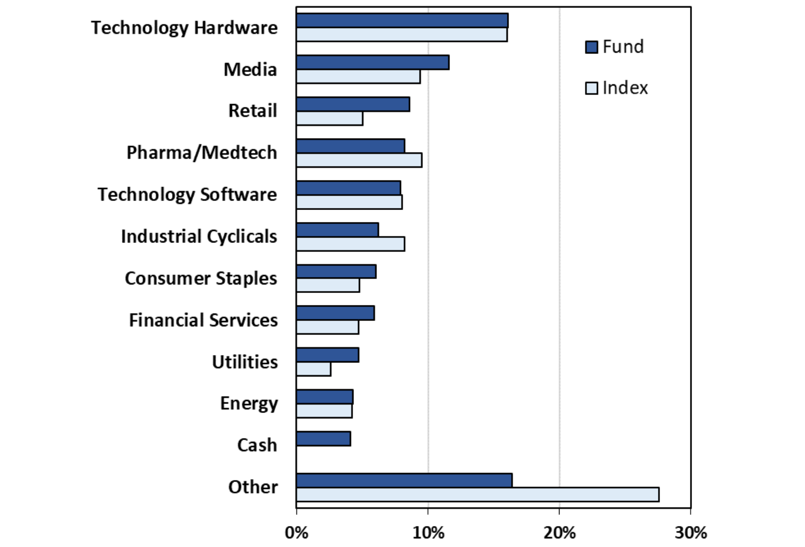
[1] According to the strategic classification framework used by JPMorgan Asset Management

Portfolio: Sector & Geography

Sector: The largest sector weightings as at 31 August 2024 were to Technology Hardware, including Semiconductors (16%), Media (12%) and Retail (9%). The largest sector overweights were to Cash (+4%), Retail (+3%) and Media (+2%). The Retail overweight reflects holdings including Ross Stores (a US discount retailer), auto parts retailers (which are viewed as defensive) and LVMH (which is viewed as attractively valued). The largest sector underweights were to Other[2] (-11%), Industrial Cyclicals (-2%) and Pharma/ Medtech (-1%).

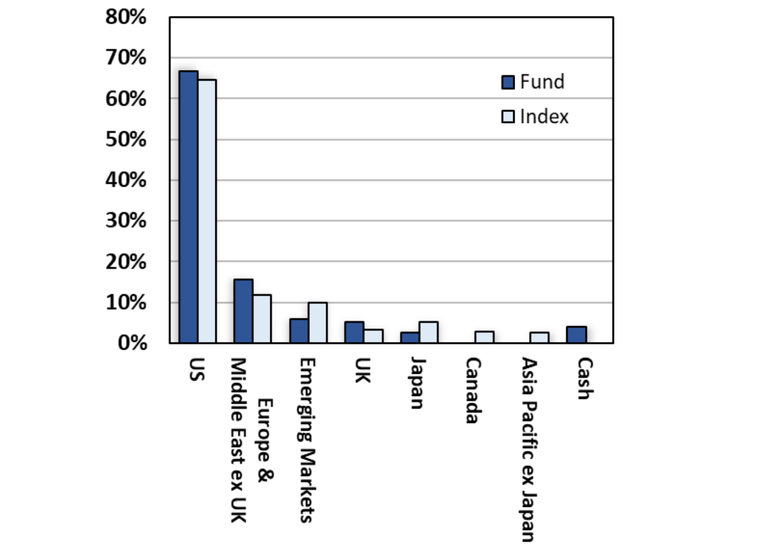
Geography: The largest regional allocations as at 31 August 2024 were to the US (67%), Europe & the Middle East ex UK (16%) and Emerging Markets (6%). Despite its Global mandate, the fund has no exposure to China, largely driven by increased regulatory uncertainty.

Sector Allocation (% of Portfolio)



Source: JGGI as at 31 August 2024

Geographic Allocation (% of Portfolio)



Source: JGGI as at 31 August 2024

The Managers Say:
"Industry cycles are unfolding at different speeds, and this is offering bottom-up investors such as ourselves great opportunities"

[2] 'Other' sector category includes Health Services & Systems, Property, Insurance & Basic Industries

Portfolio: Highlights

Growth & Defensive Overweights: As at 31 July, the portfolio had an overweight allocation to high-growth stocks (+10%) and defensive stocks (+12%) compared with the MSCI All Country World Index. Conversely, exposure to low-growth stocks was underweight (-10%), alongside cyclical businesses (-13%). This reflects the managers' conviction that large cap technology companies, semiconductors and renewable energy infrastructure are better placed than commodities and economically sensitive consumer sectors in the prevailing market environment. The allocation to very high-quality companies has been reduced slightly in recent months due to high relative valuations, but the portfolio retains a quality overweight versus the benchmark.

Artificial Intelligence Exposure: AI remains a key thematic exposure across global equity markets, and the portfolio retains a substantial weighting to a range of AI beneficiaries such as Microsoft (7% of NAV as at 31 August), NVIDIA (6%), Meta (3%) and TSMC (3%). Semiconductor exposure was reduced earlier this year on valuation grounds, but it remains the largest single sector overweight allocation in the portfolio.

Additions: Over the year to 30 June 2024, additions included SK Hynix (2% of NAV as at 31 July), as memory capacity is an important requirement for on-device AI processing. Nestle (3%) and Heineken (1%) were added based on their resilience in the face of economic stress. A new position in Honeywell (2%) is expected to benefit from a slowing aircraft production cycle, necessitating additional maintenance and replacement parts on existing fleets. Southern Company (2%) benefits from a supportive regulatory environment for renewable energy, while Welltower (1%) is a Healthcare facilities REIT that benefits from increased demand for assisted living accommodation.

Sales: Over the year to 30 June 2024, exits included US insurance group Progressive, which had been one of the top contributors to portfolio returns over the last 5 years, as well as Zurich Reinsurance, both on a valuation basis. In general, the managers have increased their focus on capital discipline and exited a number of defensive, asset-light service businesses. Other exits included AIA, ASML, NXP Semiconductors, Roche, RWE, S&P Global and Volvo.

Top 10 Holdings	Industry	% of Net Assets
Microsoft	Technology Software	7.0%
Nvidia	Technology Hardware	5.9%
Amazon	Media	5.9%
Mastercard	Financial Services	3.9%
Meta Platforms	Media	3.4%
UnitedHealth	Health Services & Systems	3.1%
TSMC	Technology Hardware	2.9%
Muenchener Rueckversicherung	Insurance	2.8%
LVMH	Retail	2.8%
Apple	Technology Hardware	2.7%
Total		40.4%

Source: JGGI as at 31 August 2024

The Managers Say:
"We are most concerned for corporate profits in the low-growth, cyclical parts of the economy such as US banks, where we believe earnings have been above trend"

Performance, Rating & Yield

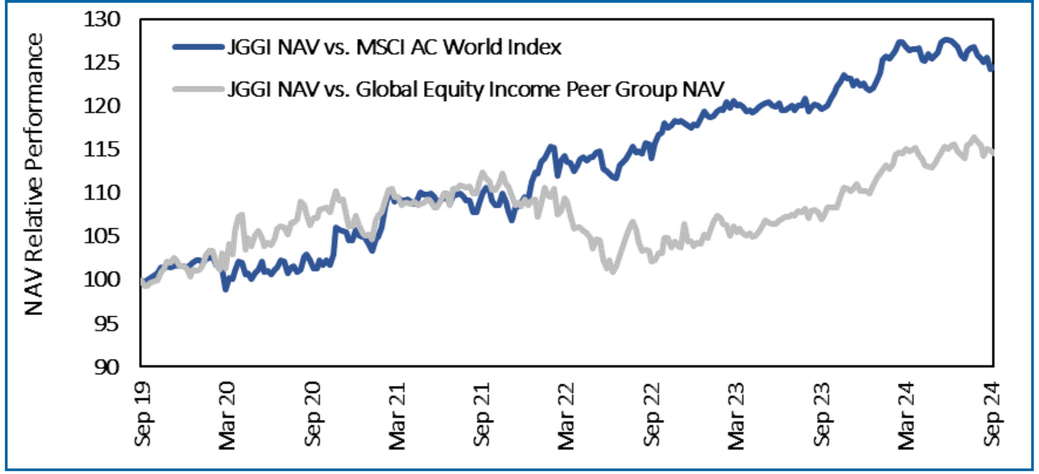
Performance

Track Record: JGGI has outperformed the MSCI All Country World Index over each calendar year from 2019 to 2023, representing the period under the current management team, on both a NAV total return and share price total return basis. The same trend holds over the year to date (1 January to 27 September 2024). The fund has also outperformed the Global Equity Income investment trust peer group in each year since 2019 to date, except for calendar year 2022.

Market Conditions: The managers tend to be active during periods of increased market volatility, with this slightly contrarian approach contributing to consistent outperformance across market rotations, anchored by valuation discipline. In early August 2024, the team took advantage of the extreme sell-off in Japanese equities to add to high-quality businesses in the country. This period of volatility also served as a reminder of the risks still present in equity markets, with the portfolio's relatively defensive positioning proving beneficial, albeit it suffered slightly from its growth bias, particularly in the semiconductor area.

Drivers: Over the year to 31 July 2024, NAV total return was +23.3%, compared with +17.2% for the benchmark. Share price total return was +22.6%, as the premium reduced marginally. Key sector contributors included Technology / Semiconductors (+3.9% contribution to relative NAV performance), Media (+2.0%) and Basic Industries (+0.6%), while Industrial Cyclicals (-1.0%), Banks (-0.9%) and Retail (-0.5%) detracted most. Key stock contributors included an underweight position in Apple (+1.8%), as well as holdings in NVIDIA (+1.1%), Progressive (+1.0%) and TSMC (+0.6%). Key stock detractors included LVMH (-0.6%), Deere (-0.5%), VINCI (-0.4%), and not holding Eli Lilly (-0.3%).

5-Year Relative NAV Performance



Source: Winterflood Securities, Morningstar as at 27 September 2024

	Total Return (£)						
	YTD	2023	2022	2021	2020	2019	2018
JGGI (NAV)	15.2%	19.5%	-0.9%	24.7%	16.4%	23.8%	-8.9%
JGGI (Share Price)	13.2%	22.6%	-4.9%	24.8%	15.9%	26.2%	-10.1%
MSCI AC World Index	13.0%	15.3%	-8.1%	19.6%	12.7%	21.7%	-3.8%
Global Equity Income Peer Group (NAV)	11.1%	12.7%	3.2%	21.7%	11.0%	17.8%	-6.6%

Source: Winterflood Securities, Morningstar as at 27 September 2024

Note: *Past performance is not a reliable indicator of future results*

Rating & Yield

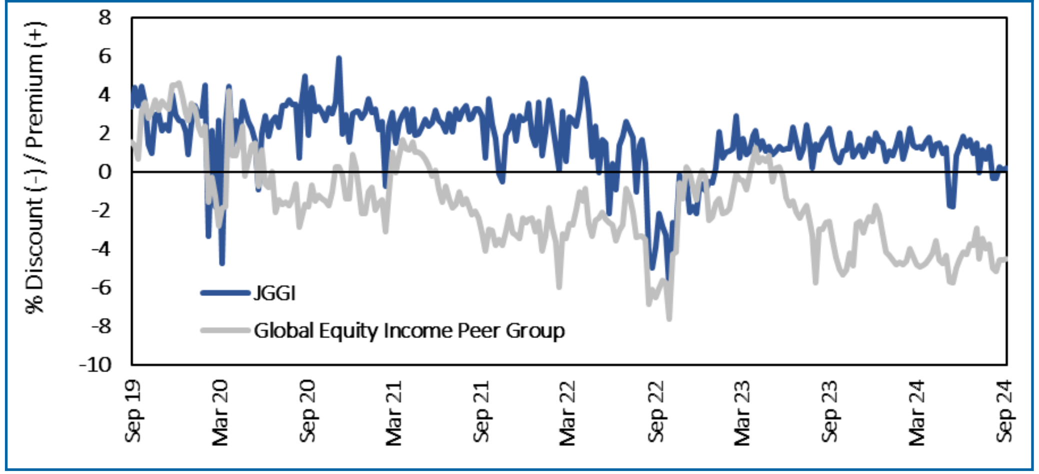
Rating: The fund traded in line with its NAV as at 27 September 2024, compared with a 1-year average premium of +1.0%, a 3-year average premium of +1.0% and a 5-year average premium of +1.6%. This compares to a current Global Equity Income peer group weighted average discount of -4.5%.

Discount Control: The Board operates a 5% discount control policy and has regularly issued shares to limit the premium.

Issuance & Buybacks: Over the year to date (to 27 September 2024) the fund has issued 61.6m shares at a premium, raising £334.2m, excluding the money raised via the merger with JPMorgan Multi-Asset Growth & Income. This issuance includes a placing and retail offer in February, which raised £34.5m. Over the same period, JGGI has repurchased 900,000 shares at a discount, at a cost of £4.9m.

Dividends: In line with its policy aiming to pay out at least 4% of NAV as at the start of the financial year, JGGI has declared a target dividend of 22.80p per share for the financial year to 30 June 2025 (FY25), a +23.6% increase on FY24 (18.44p). This represents a prospective yield of 4.1% on the share price as at 17 September 2024. If the target is achieved, this would represent the fund's 9th consecutive year of dividend growth, at a compound annual growth rate (CAGR) of +14.8%.

5-Year Discount History



Source: Winterflood Securities, Morningstar as at 27 September 2024

	Dividends (p)								
	FY25E	FY24	FY23	FY22	FY21	FY20	FY19	FY18	FY17
Dividend per share	22.80	18.44	17.00	16.96	13.16	13.04	12.52	12.16	6.60
Dividend growth YoY	23.6%	8.5%	0.2%	28.9%	0.9%	4.2%	3.0%	84.2%	106.3%
CAGR FY17-25E					14.8%				

Note: FY25E is the target dividend for FY25, but has not yet been declared

Source: JGGI, Winterflood Securities as at 27 September 2024

Peer Group

Peer Group: Composition

In addition to JGGI, the **Global Equity Income** peer group consists of mandates with the following investment objectives:

Henderson International Income (HINT): Growing annual dividend and capital appreciation from 50-80 positions in equities and fixed income. Portfolio diversified across geography (ex UK), industry and size.

Invesco Global Equity Income (IGET): Growing income and long-term capital appreciation, primarily through diversified listed equity investments.

Murray International (MYI): Above-average dividend yield, with long-term growth in dividends and capital ahead of inflation, primarily by investing in global equities.

Scottish American* (SAIN): Real dividend growth by increasing capital and growing income, mainly through equity market investments, but other asset classes may be held.

STS Global Income & Growth Trust (STS): Rising income and long-term capital growth through balanced global equity portfolio.

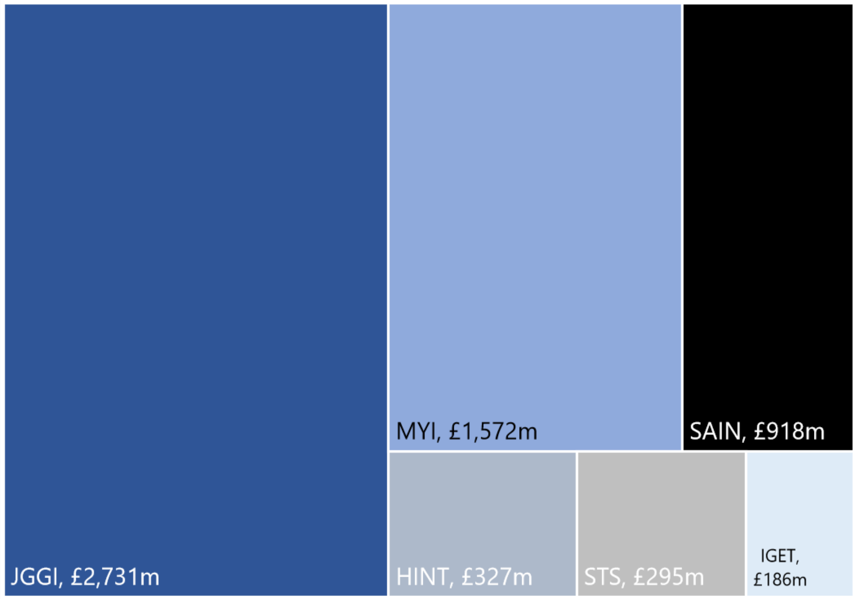
* Denotes a corporate client of Winterflood Securities

Peer Group: Size & Style

Size: JGGI has the largest market cap in the peer group (£2.7bn as at 27 September 2024)

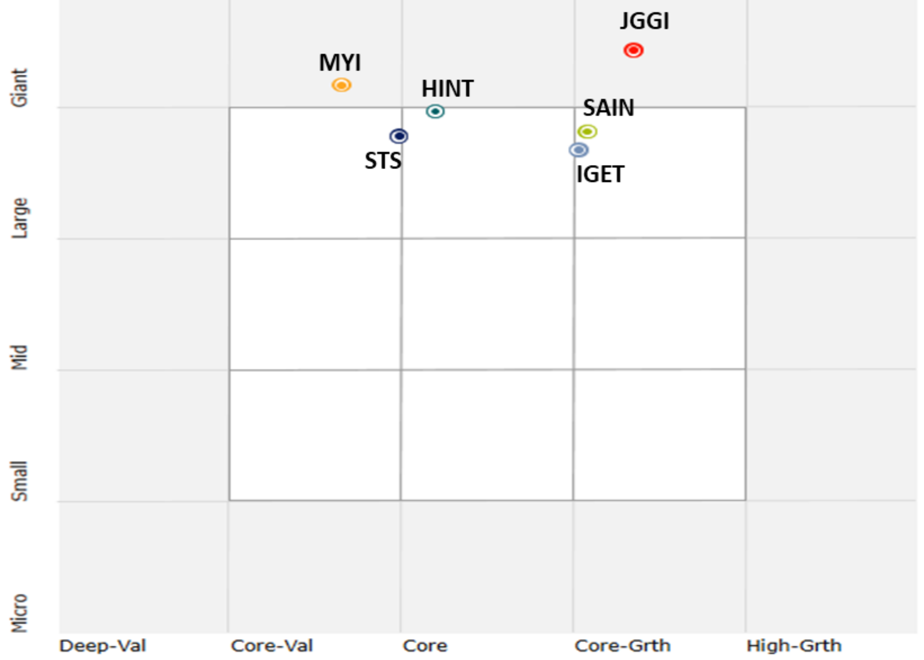
Style: According to Morningstar, JGGI has a 'core growth' investment style, with its peers ranging from 'core value' to 'core growth'. JGGI has the largest growth bias in the peer group, with all other constituents aiming to generate an income from their underlying portfolios, in contrast to JGGI's unconstrained approach, with dividends supported by payment from capital reserves. All peer group constituents focus on large and mega cap stocks.

Market Cap Visualisation



Source: Winterflood Securities, Morningstar as at 27 September 2024

Size and Style Bias



Source: Winterflood Securities, Morningstar as at latest available date

Peer Group: Metrics

Rating: As at 27 September 2024, JGGI was the only fund in the peer group not trading at a discount to NAV (+0.2% premium).

Yield: As at 27 September, JGGI had the third highest 12-month trailing dividend yield in the peer group (3.5%).

Net Issuance[3]: JGGI is the only fund in the peer group that has, on a net basis, raised capital through issuance over the 12 months to 27 September 2024, with net issuance equivalent to 13.8% of its market capitalisation as at 27 September 2024.

Cost: JGGI has the joint-lowest ongoing charges ratio (including performance fees) in the peer group (0.5% of NAV). *Please note that shareholders do not pay these costs directly.*

Ticker	Name	Sector	Premium (+) / Discount (-) (NAV)	Average Premium (+) / Discount (-) 12m	Z-Score 12m	Market Capitalisation (£m)	Dividend Yield 12m	Gearing (+) / Net Cash (-) %NAV	Net Issuance 12m	Ongoing Charges %NAV
HINT	Henderson International Income	Global: Equity Income	-12.1%	-11.9%	-0.1	327	4.6%	3.4%	0.0%	0.7%
IGET	Invesco Global Equity Income Trust	Global: Equity Income	-10.3%	-12.1%	1.0	186	3.0%	-0.4%	0.0%	1.2%
JGGI	JPMorgan Global Growth & Income*	Global: Equity Income	0.2%	1.0%	-0.9	2,731	3.5%	1.1%	13.8%	0.5%
MYI	Murray International	Global: Equity Income	-8.7%	-8.8%	0.0	1,572	4.5%	4.1%	-1.8%	0.5%
SAIN	Scottish American*	Global: Equity Income	-8.6%	-7.4%	-0.5	918	2.8%	5.5%	0.0%	0.6%
STS	STS Global Income & Growth Trust	Global: Equity Income	-1.1%	-1.3%	0.3	295	2.8%	4.5%	-13.7%	1.0%
	Average	Global: Equity Income	-6.8%	-6.8%	0.0	1,005	3.5%	3.0%	-0.3%	0.7%
	Weighted Average	Global: Equity Income	-4.5%	-4.0%	-0.4		3.7%	2.8%	5.1%	0.6%

Source: Winterflood Securities, Morningstar as at 27 September 2024

[3] Net share issuance (net share buybacks if negative) over the last 12 months as a percentage of current market capitalisation.
Excludes issuance/buybacks resulting from IPOs, Tenders, Redemptions, Share Conversions, Consideration Shares, Treasury Share Cancellations and Mergers

Peer Group: Performance

NAV Total Return: As at 27 September 2024, JGGI had the best NAV total return in the peer group over the last 12 months and the last 5 years, and the second-best NAV total return over the last 3 years.

Share Price Total Return: As at 27 September, JGGI had the second-best share price total return in the peer group over the last 12 months, and the best over the last 3 and 5 years.

			NAV Performance (Total Return)						Price Performance (Total Return)					
Ticker	Name	Sector	1M	3M	6M	1Y	3Y	5Y	1M	3M	6M	1Y	3Y	5Y
HINT	Henderson International Income	Global: Equity Income	2%	1%	2%	11%	23%	40%	2%	2%	4%	7%	19%	24%
IGET	Invesco Global Equity Income Trust	Global: Equity Income	3%	5%	8%	24%	48%	81%	2%	8%	13%	25%	38%	70%
JGGI	JPMorgan Global Growth & Income*	Global: Equity Income	0%	-2%	2%	25%	42%	104%	-1%	-3%	2%	23%	39%	96%
MYI	Murray International	Global: Equity Income	3%	1%	3%	14%	36%	47%	2%	4%	6%	13%	34%	36%
SAIN	Scottish American*	Global: Equity Income	2%	1%	2%	11%	23%	61%	1%	1%	4%	6%	10%	41%
STS	STS Global Income & Growth Trust	Global: Equity Income	2%	6%	5%	9%	18%	32%	3%	7%	6%	7%	17%	35%
	Average	Global: Equity Income	**2%**	**2%**	**4%**	**16%**	**32%**	**61%**	**2%**	**3%**	**6%**	**14%**	**26%**	**50%**
	Weighted Average	Global: Equity Income	**1%**	**0%**	**3%**	**18%**	**36%**	**75%**	**1%**	**1%**	**4%**	**16%**	**31%**	**64%**
	MSCI All Country World Index	Global: Equity Income	1%	0%	4%	20%	26%	64%	1%	0%	4%	20%	26%	64%
	FTSE All World Index	Global: Equity Income	2%	1%	4%	20%	28%	67%	2%	1%	4%	20%	28%	67%

Source: Winterflood Securities, Morningstar as at 27 September 2024

Note: *Past performance is not a reliable indicator of future results*

Outlook & Insight

Managers' Outlook

Defensive Positioning: The portfolio has been re-positioned towards a more defensive stance since last year, with defensive stocks viewed as attractively valued relative to history. The portfolio beta of 0.97 is lower than it has been for the preceding 3-4 years. The managers have been somewhat surprised by the time it has taken for the negative impact of rising interest rates to feed through to the wider economy, with middle-income households displaying resilience, particularly in the US. The interpretation of forthcoming interest rate reductions will depend on whether they are driven by a weakening economy (in which case the fund's defensive positioning should prove beneficial), or whether rates are cut as inflation has fallen but the economy remains buoyant. In the latter scenario, cyclical stocks are expected to outperform, and the team would increase the fund's cyclical exposure if this were to materialise. However, the managers do not currently view the valuation of cyclicals as attractive, as many such companies are considered to still be 'over-earning', benefitting from the release of pent-up demand and savings in the aftermath of the Covid-19 pandemic.

Magnificent 7: When assessing the fund's positioning within 'Magnificent 7' stocks, the managers' key focus is on which companies can best monetise AI. JGGI has generated substantial outperformance from picking the right stocks within the Magnificent 7, rather than having a general overweight to the entire cohort. The portfolio is notably underweight Alphabet as the managers believe its market share in web search will be impacted by AI-based alternatives. The fund does not hold Tesla as the outlook is considered too uncertain, with a wide range of possible outcomes.

US Election: James Cook highlights that while the upcoming US election is clearly an important issue, the managers aim to hold stocks that should perform well irrespective of the outcome. In addition, he notes that it is unclear what policies the eventual winner will implement once elected, as he observes this often differs from campaign trail rhetoric.

Stock Picker's Market: After a decade of looking undervalued, global equities are viewed as fairly valued versus bonds at present. They are also valued in line with their historical average P/E ratio, but the managers expect negative earnings revisions ahead as global profit margins excluding the 'Magnificent 7' are in decline. Against this backdrop, the valuation of defensive stocks is considered particularly attractive, as the market has been pricing in a benign economic environment. High growth companies have performed well and are therefore highly valued, but the managers continue to identify stock specific opportunities, supported by strong earnings growth and free cashflow. The current wide valuation spread between the highest quality and lowest quality companies in the global equity market is expected to revert closer to its mean over time, signaling a strong opportunity for stock picking within sectors.

The Managers Say:
"Our caution about the near-term outlook, and the possibility of recession, has also influenced positioning"

Our Insight

Challenges:

Concentration: With only 50-60 names held on average and c.40% invested in its top 10 holdings, one could argue that the fund may miss out on broad-based developments or emerging trends, and carries more stock-specific risk than a generic Global index.

Very Soft Landing: As the portfolio is positioned defensively in anticipation of macroeconomic volatility, it is conceivable that relative performance will suffer if a surprisingly resilient macro environment triggers a rally in low-quality cyclical stocks.

China Underweight: The portfolio's lack of direct China exposure may lead to underperformance if the Chinese market significantly outperforms Global averages.

Small Cap Revival: The lack of exposure to companies with a market cap below $10bn implies that any revival in Global Smaller Companies may lead to underperformance.

Potential Dividend Volatility: As dividends are based on the previous financial year-end NAV, the dividend may be cut if the NAV falls over the year. However, the Board has demonstrated its willingness to grow the dividend even in these circumstances in the past.

Advantages:

Style-Agnostic Approach: JGGI has outperformed across market rotations, as it has anticipated and adapted to new environments, due to its style-agnostic approach. The majority of relative performance is driven by stock selection, providing some resilience to the impacts from macroeconomic and geopolitical events, such as the upcoming US election.

Differentiation: JGGI is unlikely to perform similarly to an ETF, as the managers are not averse to taking contrarian positions, based on research. This is reflected in the fund's 73% active share.

Well-Resourced Team: The managers are supported by over 80 analysts worldwide, with an average of 19 years' experience.

Scale: Following the rollovers of other funds into JGGI and the existence of a tiered fee structure, ongoing charges may fall further. Furthermore, JGGI is one of few investment trusts that have been able to grow through regular issuance over the last 12 months.

Yield: The fund has delivered consecutive annual dividend increases since 2017 at a CAGR of +14.8%, providing shareholders with a partial inflation offset and utilising the investment trust structure.

Our Insight:

Positioned For Resilience: The managers view the trust as a 'bedrock' holding in a portfolio, as it combines growth and income with global exposure. We are inclined to agree, as their approach has outperformed across markets with very different characteristics. The expected move towards a falling interest rate environment represents a new paradigm, but the managers' track record of successfully navigating a wide variation of macro conditions since 2019 offers confidence.

Leveraging Resources: The deep bench of analysts available to the team are a differentiator from its peers, and the team's ability to distil ideas from the large opportunity set, subject to valuation criteria, has facilitated outperformance.

Limited Rating Volatility: While the fund's shares currently trade in line with NAV, in contrast to much of the investment trust sector trading at a discount, we expect discount/premium volatility to be mitigated to an extent by the Board's active approach to share buybacks and issuance, including its aim to limit the discount to 5%.

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Glossary & Disclaimer

Glossary

Investment Trust Terminology:

- **Active Share:** The degree to which the composition of the portfolio diverges from its benchmark or reference index, expressed as a percentage of NAV.
- **Discount/Premium to NAV:** The percentage difference between the share price of an investment trust and its NAV per share. A positive difference is a Premium to NAV, while a negative difference is a Discount to NAV.
- **'Enhanced' Dividend:** Term used to describe a dividend (partially) paid from capital reserves, rather than from revenue reserves.
- **FCF Yield:** Free Cash Flow (FCF) Yield is the ratio of forecast free cash flow per share to the current share price.
- **Gearing:** The debts of a fund, used as leverage to increase exposure, expressed as a percentage of NAV.
- **NAV:** Net Asset Value, the difference between a fund's assets and liabilities.
- **Net Issuance:** In the context of this report, the term Net Issuance is used to indicate net share issuance (net share buybacks if negative) over the last 12 months as a percentage of current Market Capitalisation. Excludes issuance/buybacks resulting from IPOs, Tenders, Redemptions, Share Conversions, Consideration Shares and Treasury Share cancellations.
- **Ongoing Charges:** Annual percentage reduction in shareholder returns as a result of a fund's recurring operational expenses, assuming markets remain static and the portfolio is not traded.
- **P/E Ratio:** Price to Earnings (P/E) ratio is a company's share price divided by its earnings per share.
- **Total Return:** Investment returns over a given period, assuming any dividends paid over this period have been reinvested.
- **Z Score:** Statistical indicator of current Discount/Premium deviation from 12-month average.

For more, see https://www.theaic.co.uk/aic/glossary

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- **Look at the Key Links** (see panel on right) for further information of the risks and explanation of key terms.
- **Investment trusts** can use **gearing** which can offer the chance to boost the trust's profit but also **increases the risk**.

Key Links

- → **Glossary of Key Terms**
- → **AIC Guide to Investment Trusts**
- → **Key Information Document** (JGGI)
- → **Investor Disclosure Document** (JGGI)
- → **Prospectus** (JGGI)
- → **Factsheet** (JGGI)
- → **Homepage** (JGGI)

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