Jupiter Merlin Real Return

JUPITER INDEPENDENT FUNDS TEAM

Performance and positioning

Cumulative performance (%)

	YTD	1 month	3 months	1 year	Since inception*
Jupiter Merlin Real Return Fund	3.0	0.4	3.0	8.8	8.9
CPI +3%	1.8	0.9	1.8	4.6	13.1

Past performance is no guide to the future.
*Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, Jupiter Merlin Real Return I Acc, to 31.05.21. *Since inception: 09.07.2018.*

12-month rolling performance (%)

	01 Jun '19 to 31 May '20	01 Jun '20 to 31 May '21
Jupiter Merlin Real Return Fund	1.5	8.8
CPI +3%	3.8	4.6

Past performance is no guide to the future.
Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, Jupiter Merlin Real Return I Acc, to 31.05.21. Since inception: 09.07.2018.

Equity markets are showing signs of being more sensitive to real world economic conditions, though sometimes they seem confused as to what they want. Early in May US employment data showing only half the number of jobs created against the estimates prompted a negative reaction: the economy must be stalling! Two weeks later, much higher than expected US inflation data caused another negative reaction: the economy is running too hot! Both cannot be simultaneously correct.

If equity investors are natural optimists, even if prone to being swayed by sentiment and fashion, bond investors are pragmatists, preoccupied with whether they are being adequately compensated for the riskiness of their loans and come redemption day, whether their capital principal will be returned on time and in full. In contrast to equities, US 10 Year Treasury yields remained largely untroubled having already re-priced the risk of rising inflation and rising interest rates earlier this year and taking the view that little of substance had changed. In Europe, on the other hand, lagging the UK and the US in its vaccination programme, bond yields have been playing catch-up as the eurozone economy begins to show latent signs of revival. At the beginning of the year, Germany, Holland, France, Spain and Portugal all had negative 10 Year sovereign bond yields (where a bond yield is negative, essentially the investor is paying the borrower for the use of his/her money); although Holland is flirting either side of a zero yield, it is now only Germany's 10 Year bond yields which are enduringly negative in the eurozone.

May produced a slew of positive economic news, notwithstanding continuing focus on the Indian strain of Covid as potentially disruptive. Purchasing Managers' Indices (PMIs) are economic confidence barometers; economists regularly survey businesses about their prospects as measured through order books, wages, labour turnover, input costs and output prices, margins etc: economically, a value greater than 50 indicates an expansionary outlook, while below 50 optimism is in short supply, the risks of contraction are there. The eurozone composite PMI (combining manufacturing and services) recorded 56.9 in May against 53.8 in April, the highest for 39 months. The composite survey in the US, within which the

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manufacturing component was 70.1, saw 68.1 for May up from 63.5 in April; these US numbers were all-time records; the UK manufacturing survey posted 66.1 (60.9), not quite a record but still 6 points ahead of the estimate and, in context, against a comparable value a year ago of 32.

It is important to note that PMIs are gauges, they are not hard, factual data. However, the Bank of England felt sufficiently confident to push its 2021 economic growth forecast up from 5% to 7.25%. Meanwhile, in the US which accounts for 25% of global GDP, consensus forecasts for growth this year are now coalescing in the 7-8% range. China, one of the few large economies to have grown at all last year, has growth estimates ranging from 6.5% to as high as 10% from credible economists (China is 18% of global GDP). Perhaps it is not surprising that global growth in 2021 is now estimated to be approximately 6.5%. These are extraordinary numbers measured against spectacularly poor pandemic comparators from 2020 (in which for example the UK economy shrank by 9.9%). They are not sustainable, nor should they be; such growth rates for too long carry the risks of economic overheating leading to boom-bust. As near-term recovery rates, however, they are more than encouraging.

As we go to press, the UK is due to host the latest G7 Leaders' Summit in sunny Cornwall. Alongside discussions about Belarus, Iran, China and Russia, the subject of US Treasury Secretary Janet Yellen's new minimum global rate of corporation tax will be aired. America's opening gambit of 21% already seems moribund, press reports indicating 15% as more likely. Low tax economies designed to attract inward investment, such as Ireland with a national tax rate of 12.5% and Singapore at 17% could have seen significant disinvestment as a result. The aim is to remove the ability of the big multinationals, particularly Big Tech, operating in many tax jurisdictions simultaneously, to arbitrage the system to minimise their tax liabilities. While many key countries are on board with the idea, the hard bargaining with national interests at the forefront has only just begun. But over time we should get a better idea of which companies are most likely to be affected and by how much.

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.

Portfolio holdings as at 30 April 2021

Allianz Strategic Bond: A global, unconstrained fund that invests across the fixed income spectrum. The fund manager trades actively and uses currency hedges and inflation protection seeking to add alpha on multiple fronts.

BlackRock Natural Resources Growth & Income: This fund invests across energy, materials and agricultural commodity companies using stocking picking and asset allocation between these sectors to generate outperformance.

Blackrock UK Emerging Companies Absolute Return: This long/short equity fund invests on a broadly market-neutral basis but is willing to take significant company and sector positions. It tends to have a bias to growth-orientated companies, while shorting those the manager believes are structurally challenged.

Brook Absolute Return: A global equity absolute return strategy, conducted via detailed bottom-up analysis on stocks to identify long and short candidates. On the long side the team try to identify attractively valued companies with strong growth prospects, taking short positions in companies where they see overvaluation. They are unafraid of being contrarian where they deem the risk/return balance to be in their favour.

Eleva Absolute Return Europe: This long/short equity strategy looks to identify outstanding companies in mature industries, companies undergoing significant change and family-owned firms for the long book. The short book consists of structurally challenged or expensive companies and those that appear to be at a negative inflection point.

Fundsmith Equity: This fund invests in companies with predictable revenue streams. The companies often benefit from their identifiable brands, are cash generative and have strong balance sheets.

Jupiter Global Value: This fund takes a Value orientated approach, focusing on quality stocks that are trading materially below their long-term price/earnings average – but with sound balance sheets that should allow the companies to survive an economic downturn.

Jupiter Gold & Silver: This invests blends together investment in both listed gold and silver bullion funds, as well as the shares of gold and silver mining companies. The fund manager adjusts these exposures according to his view of market conditions.

Jupiter UK Specialist Equity: This long/short equity portfolio is run with a low net equity position and takes long positions in companies that can sustain above average growth that are seeing profit upgrades or re-ratings, with shorts positions in companies in long-term profit decline and seeing downgrades.

Lumyna Sandbar Global Equities Market Neutral: This global market neutral absolute return strategy selects long and short positions to populate its pair-trading approach. The team look to identify factors that will impact the earnings cycles of companies and drive shorter term share price movements, which they attempt to capitalise upon.

Man GLG Alpha Select: This market neutral, long/short equity fund has a bias to large cap companies and the UK. The managers trade actively, taking profits and cutting losses quickly in an effort to smooth the return profile of the strategy.

Man GLG Income: A long-only equity fund run by Henry Dixon, who takes a value-orientated approach, looking to select companies which he feels have either undervalued assets or cash flows but are also exhibiting positive change.

Morant Wright Japan: The team managing this strategy have a bias toward the mid cap area of the Japanese market, looking to invest in companies with sustainable franchises that trade on significant discounts to their estimation of intrinsic value.

WisdomTree Physical Gold: A physically-backed exchange-traded fund that tracks the price of gold.

Risks

The NURS Key Investor Information Document, Supplementary Information Document and Scheme Particulars are available from Jupiter on request. 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.