Jupiter Merlin Worldwide Portfolio

JUPITER INDEPENDENT FUNDS TEAM

The last twelve months

July, August and September 2020: The third quarter of the year initially saw the pandemic continue to subside in the UK and Europe, before the start of the feared 'second wave' began as lockdown restrictions were lifted. Investment markets held up relatively well in most areas, however, without a repeat of the sharp crashes seen in March.

October, November and December 2020: In December, the UK became the first country in the world to start vaccinating its citizens, although a more transmissible strain of Covid-19 emerged. A victory for Joe Biden in the US presidential election signalled that 2021 would see a new occupant of the White House.

January, February and March 2021: With vaccines now providing a very real 'shot in the arm' around the world (especially in the UK and US, less so in the EU), the world began to anticipate an economic recovery. Although broadly to be celebrated, of course, a strong economic bounce is not entirely without risk to some parts of global investment markets.

April, May and June 2021: Questions about the future path of inflation intensified, with the Federal Reserve (the US central bank) indicating a willingness to raise interest rates sooner than previously anticipated. Elsewhere, climate change remained on the agenda, given fresh impetus by the G7 summit in June.

Jupiter Merlin investment outlook

Global economy: 2020 was dominated by the pandemic; 2021 remains so, albeit the great unlocking is now under way in the West, despite the prevalence of the Delta variant of the virus. The announcement of the successful Pfizer/BioNTech vaccine trials early in November, followed swiftly by others, changed the economic landscape, providing a visible path beyond Covid during 2021, and the prospect of recovery after the significant damage inflicted by the pandemic.

Central banks and governments have been prodigious in their monetary and fiscal support. The latest data highlights emerging inflationary pressures and bond market opinion is divided between those who see accelerating inflation as a short-term, transitory event, and those who see a more structural and enduring risk. Without panicking, investors are assuming that the next moves in central banks' interest rates, whenever they may be, are more likely to be up than down.

Economic recovery is very much in evidence, albeit at different rates in different parts of the world as the pandemic waxes, wanes or lingers more in some countries than others. Markets are fickle masters and investors are turning their attention to the risks of medium-to-longer-term inflation if economies were to show signs of over-heating. Contrasting with the Global Financial Crisis of more than a decade ago when it was largely left to the central banks to do the heavy lifting, the big difference with the Covid recession is the extent to which governments are joining in with massive fiscal help (President Biden's planned $6 trillion investment packages being a good example). On both sides of the Atlantic, much of the expenditure and, increasingly, the monetary policy direction of central banks are both linked to meeting the Paris Climate Accord targets of carbon net zero by 2050.

Digitisation of the economy, already established and embedded, is broadly <u>de</u>flationary; decarbonisation, a revolution by coercion and only in its infancy, is likely to be <u>in</u>flationary. These are powerful forces pulling in opposite directions. Time will tell which will have the upper hand and whether the markets are chasing ghosts as they price in their own perceptions of longer-term risks of higher inflation. Weaning economies off the drug of artificial stimulus, able to function and grow sustainably on their own, is the next big challenge facing the authorities. There is no map for this voyage of discovery. However, we will continue to monitor the situation closely and if the facts change, we will react accordingly.

Equities (commonly known as shares): The period under review saw equity markets continuing to recover to a greater or lesser extent from their precipitous falls of February and March 2020. Notable at the November inflection point was the sentiment change in equities in favour of economically sensitive companies and in preference to the growth-type[1] companies and those which had been perceived as Covid winners. Not necessarily apparent in the headline indices, while we believe there remains a strong secular trend associated with the digitisation and decarbonisation of the economy, underneath the surface the market's 'style' rotation from 'value'[2] to 'growth' was not only significant but endured for most of the year to date. However, equity markets remain sensitive to the economic outlook, particularly the potential vulnerability of economically sensitive companies should President Biden's fiscal spending programme meet resistance before the mid-term elections in November 2022.

Fixed Income (commonly known as 'bonds'): Fixed income investors' minds are busy interpreting the smoke signals from the major central banks. If central banks were the monetary policy cavalry belatedly charging over the economic horizon as the pandemic took hold, the increasingly circumspect language more recently, especially from the Federal Reserve and its public airing of opinions as to whether interest rates need to rise in 2023 to combat rising inflation, has created jitters. There is little argument that the next change in interest rates is upwards (the Fed is adamant it will not use negative interest rates): it is merely a question of when and by how much depending on the strength and endurance of inflation. A pre-requisite to higher interest rates is stopping quantitative easing (central banks' bond purchasing programmes), itself a concern given the extent to which all asset classes have been buoyed, even underpinned, by central bank policy ever since the Global Financial Crisis of more than a decade ago.

Jupiter Merlin Worldwide Portfolio review

Having been preoccupied with capital preservation early in the pandemic, the Portfolio's equity exposure was biased towards 'growth' companies and those perceived as Covid winners. Recognising the significance of the vaccine announcements in November and the visible prospect of economic recovery, we balanced up the Portfolio's 'growth' and 'value' styles. Believing the secular growth narrative remains intact we were reluctant to fund the 'value' additions from the 'growth' funds. Instead, we sold most of the physical gold and most of the BlackRock Gold & General holding, in both cases booking a significant profit; we also trimmed Findlay Park North American.

We reallocated some of the proceeds to the existing holding in Jupiter Global Value. Anticipating Dominic Cummings' departure from No 10 presaging a likely Brexit deal, we added a new UK 'value' fund, Man GLG UK Income, which seeks good-value, mispriced UK assets with the prospect of responding positively to economic recovery. Finally in November, we bought a new technology holding, BlueBox Global Technology; manager William de Gale seeks companies which not only enable the technological revolution, but which are strong businesses, generating profits and cash and making decent returns.

In March, to increase the Portfolio's exposure to the global economic recovery we bought a new holding in BlackRock Natural Resources, investing in activities ranging from energy and mining to agriculture, trimming some Fundsmith Equity and selling the remaining Crux European Special Situations fund. We also added to Morant Wright Japan with its value approach in an attractive and cheap market. Towards the end of the period, we opened a new position, Jupiter Global Equity Growth Unconstrained, an interesting fund run by innovative managers based in the US which targets investment opportunities among disruptive technologies. In June we opened a new, small position in Chrysalis Investments Limited, managed by Jupiter's Richard Watts and team, giving exposure towards the growth investment style at the small-and-medium sized end of the UK market.

The Jupiter Merlin Portfolios are long-term investments; while not immune from market volatility, 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.

[1] *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.*
[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.*

Fund-specific 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.