JUPITER
MERLIN PORTFOLIOS
GUIDE TO PORTFOLIO CONSTRUCTION

JUPITER
ASSET MANAGEMENT

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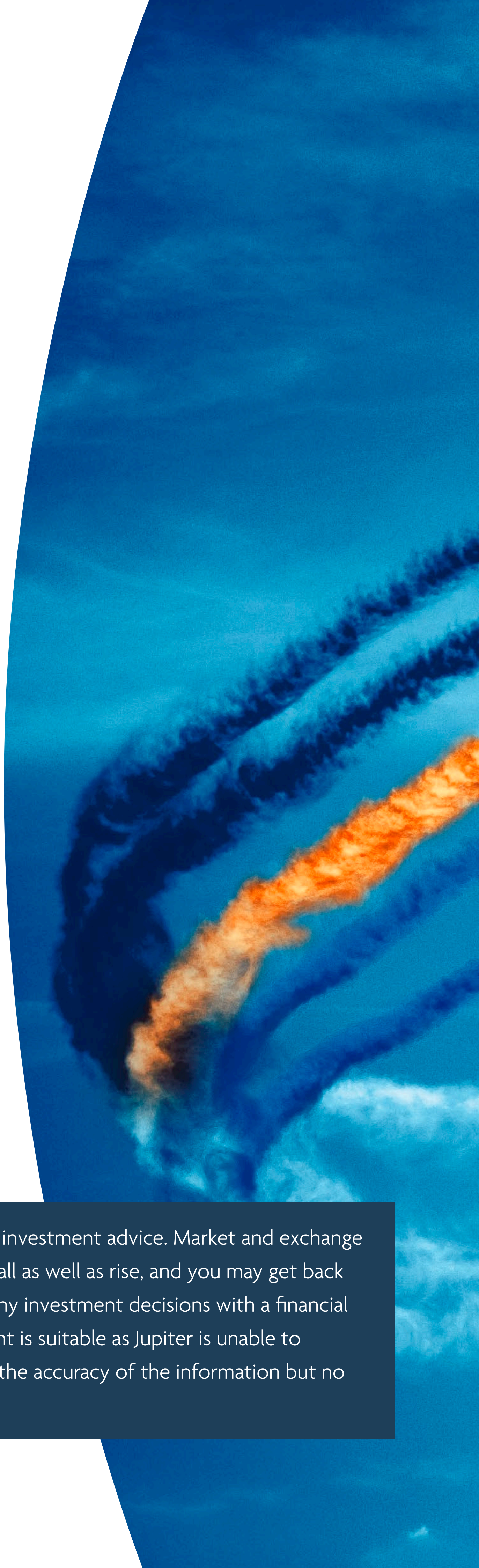


JUPITER MERLIN PORTFOLIOS

INTRODUCTION

When thinking about investing, one of the core concerns for many investors is **"Am I making the most of my money?"** Every investor has different investment objectives and expectations but knowing the different approaches to constructing an investment portfolio can help when planning for the future.

This document is for information purposes only and is not investment advice. 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. We recommend you discuss any investment decisions with a financial adviser, particularly if you are unsure whether an investment is suitable as Jupiter is unable to provide investment advice. Every effort is made to ensure the accuracy of the information but no assurance or warranties are given.

A GUIDE TO PORTFOLIO CONSTRUCTION

In this guide, we aim to explain some of the approaches and steps involved in building and maintaining an investment portfolio of funds, from the initial asset allocation strategy, through to the day to day management, to ensure the portfolio remains fit for purpose. We will go through each of the steps, as outlined below, as we work through this guide.

In common with any industry, financial services has its fair share of technical terms and jargon. We've tried to explain these with this document but would encourage you to visit Jupiter's online glossary at www.jupiteram.com for any further clarification.

STEP 1 What is asset allocation?

STEP 2 Research and selection

STEP 3 Portfolio construction

STEP 4 Portfolio maintenance

STEP 5 Portfolio management

Throughout the guide we also look at the Jupiter Independent Funds team's approach to portfolio construction. The team manages the Jupiter Merlin Portfolios; a range of multi-manager funds, each of which has a different objective and level of risk, offering potential solutions for the cautious to the more adventurous investor. A multi-manager fund is a portfolio which holds other funds rather than individual shares and bonds. Each multi-manager portfolio is constructed to meet a specific investment objective.

STEP 1
WHAT IS ASSET ALLOCATION?

The starting place for creating a portfolio is asset allocation. This means deciding how to allocate money to different geographical regions and asset classes. The goal is to select those which are best placed to help achieve investment objectives.

Different asset classes have different levels of risk and potential for return attached to them and will usually behave differently depending on the economy and other factors. In a 'recovery' phase for example, when an economy is coming out of recession equities (also known as shares) tend to perform better but they typically fare less well when an economy is going into recession.

SHARES are considered to be a higher risk asset class as they can be subject to large price movements which can put capital at risk. This is particularly true over short periods of time, but they can reward those who accept this higher level of risk over the long term compared with cash and bonds.

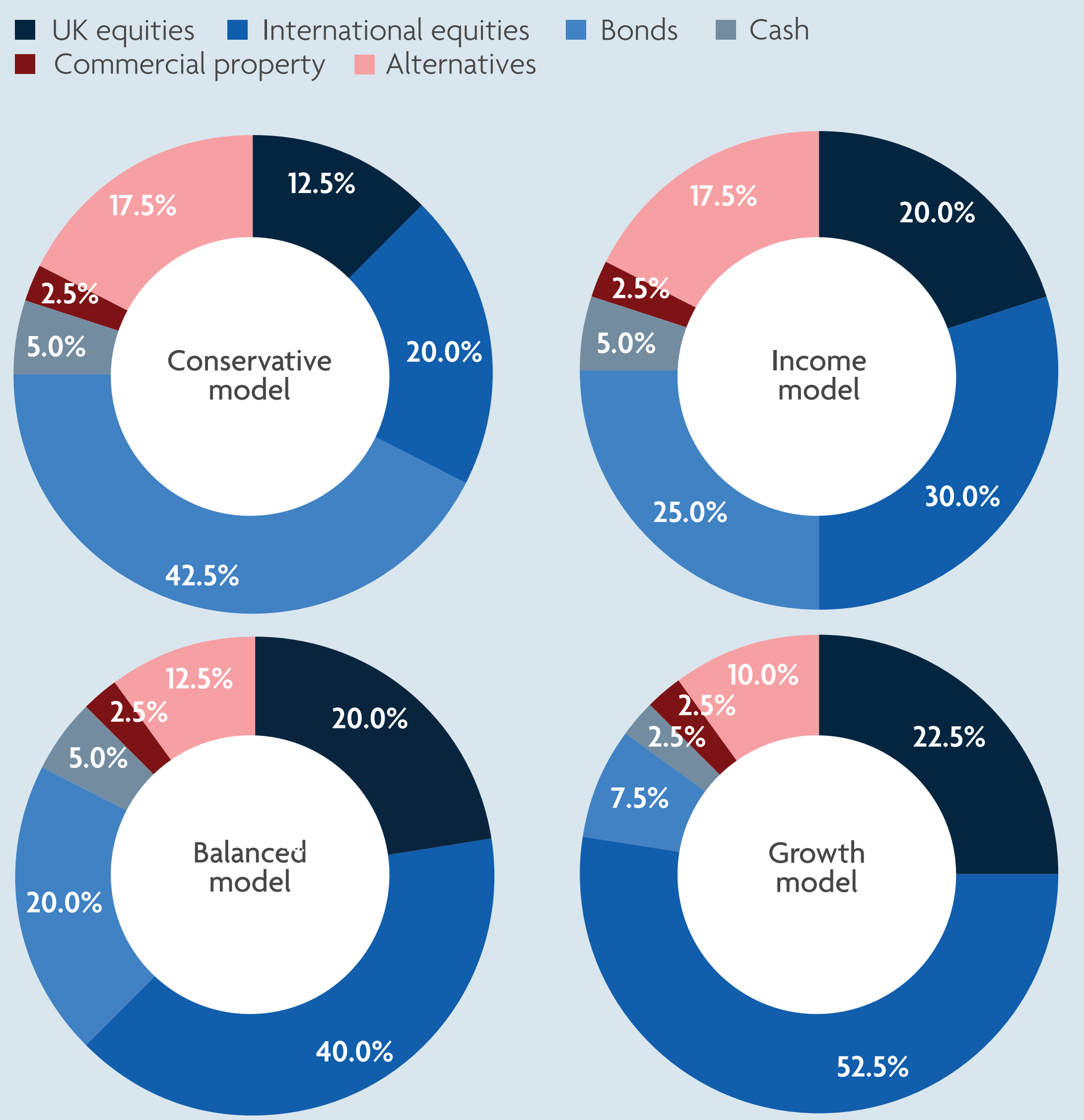
BONDS are effectively loans to a company or government. They are often considered to be at the lower end of the risk spectrum but the potential for returns is usually considered to be lower too. However, this is not always the case and knowing when to invest in bonds and when to invest in shares can be difficult. Holding a blend of both can create a more balanced approach.

These asset classes and many others, such as **COMMODITIES**, for example oil, or commercial property, can either be invested in directly or they can be accessed via a fund that investsin these types of assets.

ASSET ALLOCATION MODEL EXAMPLE

Ultimately, the objective of a good asset allocation strategy is to develop an investment portfolio that is likely to help fulfil financial goals commensurate with the investor's appetite for risk.

Asset allocation can be responsible for a significant portion of a portfolio's returns over time. However, choosing the right investments at the right time can be just as important.



Source: The Personal Investment Management & Financial Advice Association (PIMFA) asset allocation models as at June 2023.

It is important to remember that the value of investments may go down as well as up and that the more risk you take, the more you could lose or gain.

Most professionals tend to invest their clients' money either geographically or by sector. In my view, you should not be too rigid. It is more important to select a diversified portfolio than to worry about meeting a prescriptive formula.

David Lewis, co-Head of Strategy
Jupiter Independent Funds team

There are many different approaches that a portfolio manager can use for asset allocation.

FIXED WEIGHTING ALLOCATION

With this approach, the mix of assets to be held within the portfolio is established at the outset. As time passes and asset prices move, these positions will move away from the original allocations so typically a fixed weighting portfolio will be rebalanced back to the original split on a specific date every quarter. This approach takes away the worry of market timing but does not take into account the economic cycle, economic data or economic outlook, particularly over the shorter term.

STRATEGIC ASSET ALLOCATION

With this approach the asset allocation is based on the analysis of longer-term economic data and investment trends. The data and trends are typically updated on a quarterly basis with the revised asset allocations setting the strategy for the next quarter. Although this strategy is built upon market data, the strategic asset allocation approach is primarily focused on long-term trends with limited recognition of the short-term investment markets outlook, risks or opportunities.

TACTICAL ALLOCATION

With this approach the manager of the portfolio makes use of current economic data and market conditions as well as the longer-term investment outlook. This means the manager can tactically allocate the portfolio with the aim of capitalising on identified opportunities or avoiding risks as they emerge, though there is a risk of selecting the wrong stocks at the wrong time. This approach also typically allows the manager to adjust the portfolio when they feel it is right to do so from an investment perspective rather than solely making adjustments on a predetermined date each quarter.

APPROACH WITHIN THE JUPITER MERLIN PORTFOLIOS

The Jupiter Independent Funds team uses a tactical asset allocation approach.

The Jupiter Independent Funds team assesses the market environment on a regular basis and, although their preference is to be patient and invest for the long-term, they will tactically rebalance the asset allocation of the Portfolios if they feel such a move is warranted.

The team seeks to take advantage of shorter-term market movements that create opportunities and take defensive measures where appropriate. If, for instance, the gold price starts to decline, and the team believes it will re-bound based on their research, they can add to funds that have a high exposure to this sector.

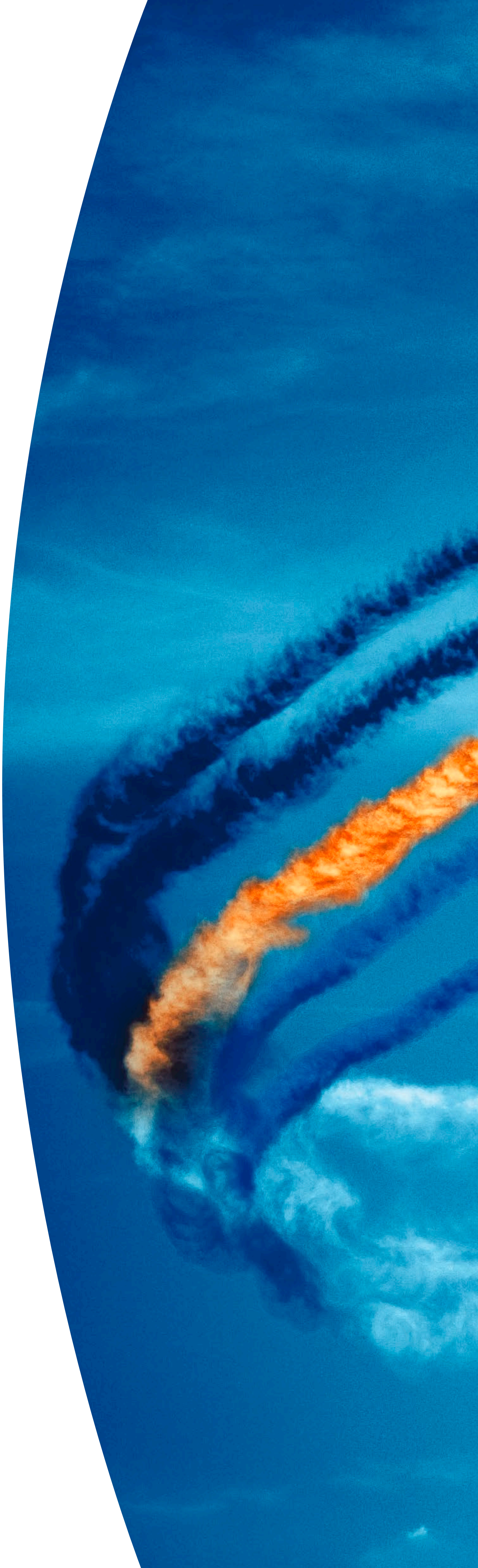
The team assesses the skills and investment style of fund managers as well as the characteristics of the funds they manage. Success in a particular field seems to come naturally to some people and fund management is no different. Good fund managers can (and do) beat the market, and it is the job of the Jupiter Independent Funds team to seek such people out. Achieving a blend of investment styles in the Portfolios is also important, as certain approaches will perform better depending on the market conditions, and having a diversity of strategies helps manage the overall risk in the Portfolios.

STEP 2
RESEARCH AND SELECTION

With around 4,500 funds available to UK investors, knowing how to select the right ones for an investment portfolio can seem a daunting task.

Active fund managers believe that through deep and thorough research they can identify the investments which have the potential to be winners and importantly avoid the losers. As a result of this extensive research active funds tend to have higher charges than funds which require less human input.

Passive funds (also known as trackers) on the other hand look to track the movements of a particular market index and therefore replicate both the good and the bad indiscriminately. Their lower operating costs mean that they tend to have lower charges.



THE COST OF THE DIFFERENCE

Choosing the funds that are most likely to deliver the returns needed to meet an investor's objectives is a specialist skill. As shown below, the best fund in the Investment Association (IA) UK All Companies Sector over the last ten years delivered 174.68% more than the worst, after fees. Therefore, selecting the right fund manager is vital.

IA UK All Companies returns over 10 years

Best performing fund return	FTSE All-Share Index	Worst performing fund return	Difference between the best and worst
184.48%	78.03%	9.80%	174.68%

Past performance is no guide to the future. 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. For illustrative purposes only.

Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, 01.07.2013 to 30.06.2023. The Investment Association UK All Companies sector; all funds with 10 year history and quoted OCF, TR, in GBP.

There are talented individuals out there who do have the ability to add value by beating the market over a long period of time – don't be fooled into thinking that it cannot be done.

Algy Smith-Maxwell, Research Director
Jupiter Independent Funds team

AIMING TO PICK THE WINNERS

There are various different ways to analyse a fund:

1. QUANTITATIVE RESEARCH

This type of research is data-led. Though past performance is no guide to the future, it can tell you how the fund has performed historically and give an indication of volatility. Looking at how a particular manager has fared in different market situations in the past might give clues as to how they might perform in similar situations in the future. Some managers, for example, may perform better in a market where share prices are rising and others when they are falling.

2. QUALITATIVE RESEARCH

This type of research involves interviews, observations and opinion. Qualitative research is just as important as quantitative and both can be used in tandem to give a clear picture of a fund, the manager who runs it and their 'style' of management.

3. INDEPENDENT RATINGS

There are a number of fund rating agencies who use quantitative and qualitative research to analyse the consistency of a fund's investment process or to give an indication of likely risk. Ratings agencies include Square Mile, Morningstar, Rayner Spencer Mills and Distribution Technology who each have their own measures and scores.

4. OUTSOURCED APPROACH

An expert can be employed to conduct the research, selection, construction and maintenance of a portfolio on an investor's behalf. This is commonly known as 'outsourcing'. If an investor decides to use an investment or portfolio manager, then it is important to understand their investment approach to ensure it matches expectations.

PRICE AS A GUIDE

There can be significant differences in fund management fees, but should we be using this measure alone when trying to select the right funds to populate a portfolio?

The chart on the next page plots all the funds in the Investment Association (IA) UK All Companies Sector over the last 10 years. The horizontal axis from left to right shows increasing annual fund management fees. The vertical axis from bottom to top shows increasing annualised returns after the deduction of annual fees.

Passive funds, which merely track an index are represented by the grey dots, while the orange dots represent actively managed funds, where the manager is able to select the stocks they think will be best placed to deliver returns.

KEY FINDINGS

- **Paying less in fund management fees does not equate to higher returns for investors**
- **Paying higher fund management fees does not equate to higher returns either**
- **Some funds can generate significantly higher than average returns**
- **The funds which have significantly outperformed the sector average returns have predominantly been actively managed funds**
- **Thorough research is needed to identify the best fund managers**

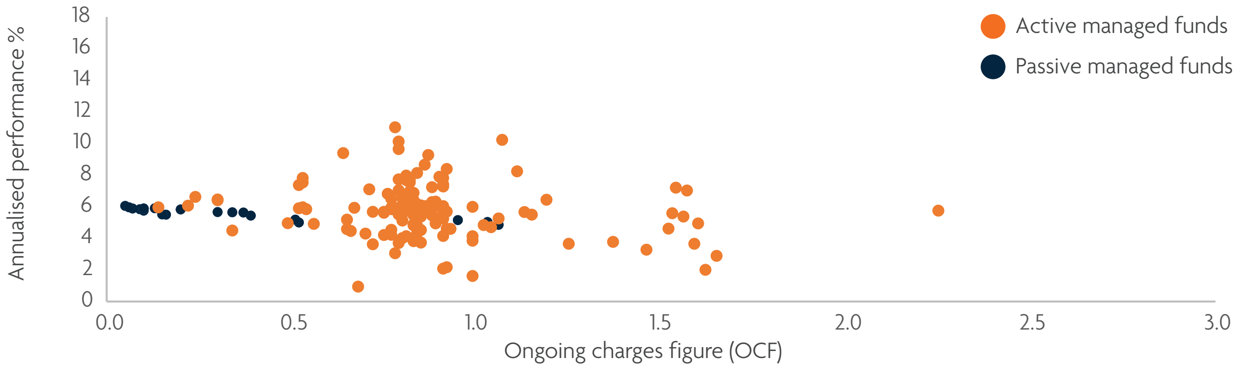
APPROACH WITHIN THE JUPITER MERLIN PORTFOLIOS

The Jupiter Independent Funds team use their experience to identify the best fund managers in the most promising asset classes and regions.

The team:

- Conducts thorough analysis of the macroeconomic backdrop to identify key turning points in the market.
- Conduct over 150 one-on-one interviews each year, in order to understand the people behind the numbers.

THE IA UK ALL COMPANIES SECTOR OVER 10 YEARS



Past performance is no guide to future performance. 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. For illustrative purposes only.

Source: FE, fundinfo 01.07.2013 to 30.06.2023. The Investment Association UK All Companies sector; all funds with 10 year history and quoted OCF, TR, in GBP.

STEP 3
PORTFOLIO CONSTRUCTION

THE AIM OF PORTFOLIO CONSTRUCTION.
Once the fund research and selection is complete, the next step is portfolio construction.

A portfolio manager will construct a portfolio with the aim of meeting an investment objective, whether that is to generate income or capital growth, or indeed a combination of the two. A portfolio manager may also look to build a more defensive portfolio that may not aim for high levels of return but instead looks to maintain its value in more difficult market conditions. Alternatively, they may build a more 'aggressive' portfolio that is more likely to outperform its peer group in more buoyant times but also carries more risk of underperforming or making larger losses in difficult market conditions.

It is my job, along with the team, to put in all the leg-work for our investors, deciding when it makes sense to hold which funds. We aim to provide the best performance over the medium to long term through a diversified selection of funds.

John Chatfeild-Roberts, co-Head of Strategy
Jupiter Independent Funds team

Choosing the right number of funds to provide the optimum balance between diversification and performance potential can be a challenge. Pick too many funds and there is the risk of investment returns being overly diluted and the impact of each individual fund being reduced. While diversification is important in trying to limit losses, spreading investment capital too thinly can eliminate the merit of picking good fund managers.

Blending the funds that have been identified as potentials for a portfolio can take time and careful analysis. When constructing a portfolio, the portfolio manager should be looking to combine funds with complementary investment styles across different asset classes. This helps reduce the risk associated with relying too heavily on a single fund manager or managers with the same style.

Additionally, some asset classes can be heavily correlated (i.e. they behave in the same way across market cycles) so it's important for a portfolio manager to select funds and managers that can bring different attributes to the portfolio.

APPROACH WITHIN THE JUPITER MERLIN PORTFOLIOS

The Jupiter Independent Funds team has a high conviction approach to portfolio construction – only selecting the funds that they believe are likely to be the best performers in the market over time.

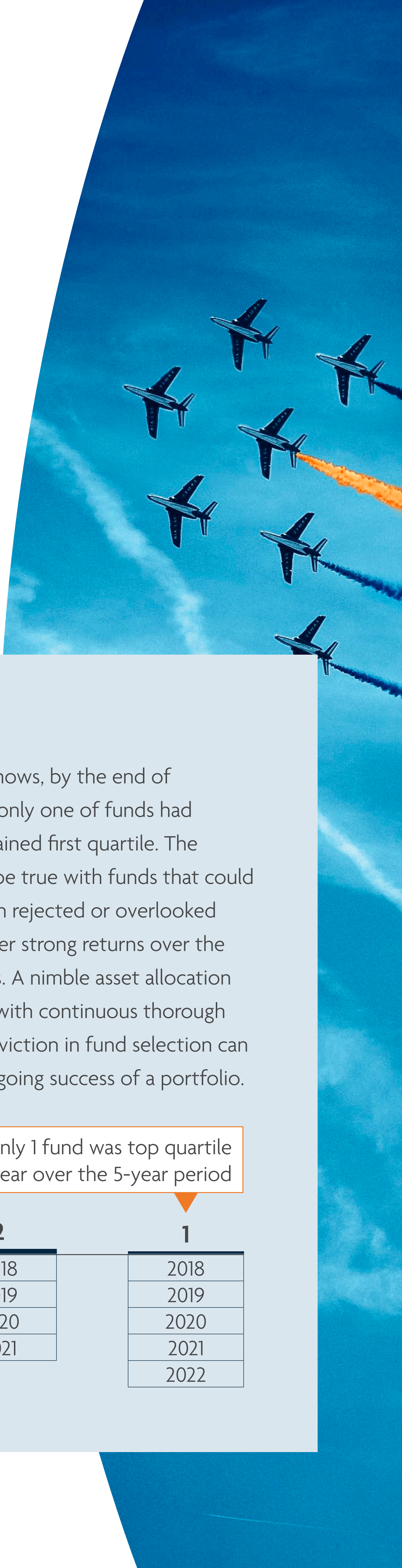
The members of the team use their decades of combined experience, alongside thorough quantitative and qualitative analysis to:

- Form an impression of a likely set of circumstances under which a fund will perform best and worst
- Decide which funds they believe best serve the portfolios' objectives
- Scrutinise performance data and ask questions of the underlying managers on an ongoing basis to ensure the given fund continues to adhere to its stated investment philosophy.

All this information allows the team to blend funds into diversified portfolios which aim to deliver out-performance over the medium to long term.

STEP 4
PORTFOLIO MAINTENANCE

Once an investment portfolio is up and running you might think it's time to sit back and relax, but it won't take care of itself; maintaining a portfolio is an ongoing process. Steps 1, 2 and 3 should be carefully considered and reviewed periodically to keep a portfolio fit for purpose.

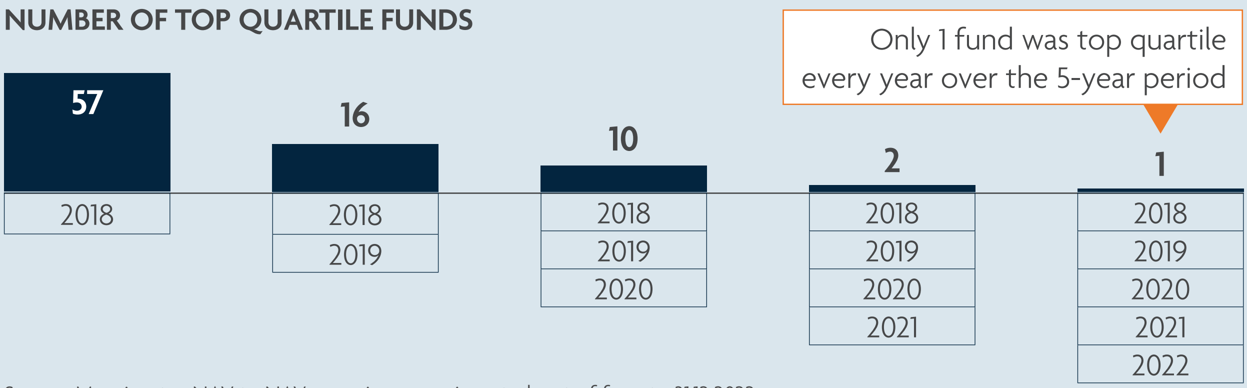


THE ONLY CONSTANT IS CHANGE

This chart helps to emphasise the importance of the ongoing maintenance of a portfolio. Although the funds selected during portfolio construction might have been suitable at that time, things change. During the 12 months from January 2018 to December 2018, 57 out of 216 funds in the Investment Association (IA) UK All Companies Sector were first quartile (i.e. in the top 25% in terms of performance); but they didn't stay that way.

As the diagram shows, by the end of December 2022, only one of funds had consistently remained first quartile. The reverse can also be true with funds that could have initially been rejected or overlooked going on to deliver strong returns over the subsequent years. A nimble asset allocation approach, along with continuous thorough research and conviction in fund selection can be key to the ongoing success of a portfolio.

NUMBER OF TOP QUARTILE FUNDS



Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, to 31.12.2022.

THE NEED FOR MAINTENANCE

As at the end of **Dec 2008**, 57 funds were 1st quartile but they didn't stay that way.

57

By the end of **Dec 2022** only one of those funds has stayed in the 1st quartile.

1

It is tempting to believe that technology can provide a solution to every decision we need to make but while technology is undoubtedly a useful tool for fund selectors, it is the people who run the funds that make the difference.

Alastair Irvine, Investment Director, Jupiter Independent Funds team

APPROACH WITHIN THE JUPITER MERLIN PORTFOLIOS

The members of the Jupiter Independent Funds team monitor the Jupiter Merlin Portfolios daily, ensuring that they know where their exposures are.

They conduct continuous analysis of the global economic back-drop, focusing particularly on identifying key turning points in the market to check that the portfolios should be well-positioned to take advantage of any opportunities and defend against potential threats.

The team seeks out the skills of individual fund managers and identifies which environments they should work best in. But selecting good fund managers is only part of the process; the team constantly re-evaluates markets and managers aiming to identify trends and turning points that require a change in strategy.

While the team reviews the portfolios daily, they believe that it is knowing the underlying fund managers well that allows them to rebalance the portfolios appropriately for the environment. The team get 'under the skin' of the managers they invest in and in doing so they believe that they have a very good idea of how that manager should perform in any given environment.

STEP 5
PORTFOLIO MANAGEMENT

An investment portfolio can be managed in several different ways, including that you can manage your own portfolio. Here we look at some of the other main options.

Not only can multi-manager funds give you the ability to access some of the brightest investment brains in the world, they also enable you to access a wider range of markets and stocks than you could achieve directly and, more efficiently.

Amanda Sillars, Investment Manager and ESG Director, Jupiter Independent Funds team

ADVISORY MANAGEMENT

Under this type of management basis, the portfolio manager makes recommendations and needs to gain approval from the investor (typically, in a written format) before any changes to the portfolio can be made. This can be positive as the investor is informed about any alterations and costs incurred before they happen. It also means, however, that as the investor is involved in the administration process it is not always possible to make changes in reaction to market movements as quickly as other management methods.

DISCRETIONARY MANAGEMENT

Having a portfolio managed on this basis means the portfolio manager can make changes to the portfolio at their discretion and without the need to get approval from the investor. This means they can make decisions and swiftly implement new strategies, making them better placed to react quickly to the changing economic climate and investment environment. A discretionary managed portfolio would typically invest directly into funds, shares or bonds. Via this method an investor may incur charges when changes are made and there may also be tax implications. It can often have high minimum investment requirements as well as separate portfolio management and transaction fees. Before employing a discretionary portfolio manager it is important to fully understand all the fees associated with the service.

MULTI-MANAGER FUND

An alternative option is to invest directly into a multi-manager fund, which is a portfolio of funds that is constructed and monitored by a fund manager. A multi-manager fund's investment is spread across a range of other funds, so it can offer an efficient and often simplified investment solution. A multi-manager fund manager will manage a portfolio to its specific objective and can make swift changes to the portfolio to react to changing market risks and opportunities. However, unlike with a discretionary manager, an investor would not incur any additional charges for the changes made within the portfolio and they would not impact upon their personal tax position*.

APPROACH WITHIN THE JUPITER MERLIN PORTFOLIOS

At Jupiter we understand that managing investments can be time consuming and often requires specialist skill.

To ensure that a portfolio continues to help meet investment goals, we believe it should be constantly monitored and rebalanced so investing in a multi-manager fund, which is an actively managed portfolio in itself, may provide a straightforward solution.

KEY FEATURES OF INVESTING IN A MULTI-MANAGER FUND INCLUDE:

Buying power: The manager(s) of a multi-manager fund are able to access funds not otherwise available to private investors and negotiate discounts on initial and annual fees.

Tax advantages: The managers can switch funds within the portfolio as often as is necessary without having to pay capital gains tax* (CGT).

Simpler tax returns: By consolidating investments in a single fund, self-assessment returns are often much simpler to complete*.

Fund selection and diversification: Multi-manager funds can help diversify risk by providing access to a range of fund managers and a broad underlying portfolio of assets.

Swift portfolio adjustment: The managers are able to react quickly to changing market conditions and sometimes pre-empt those changes.

Less paperwork: Compared to an advisory or discretionary manager basis there is very little paperwork involved.

Charges: Charges for investing in multi-manager funds are generally higher than for other unit trusts to allow for the overarching manager fees and charges applicable to the underlying funds.

*This is based on current tax laws and may be subject to change.

SUMMARY

The objective of this guide has been to share with you some of the key steps required to build and manage an effective portfolio. We also explored some of the options available to portfolio managers as well as the Jupiter Independent Funds team's approach.

The Jupiter Merlin Portfolios range is made up of seven actively managed, 'ready-made' investment portfolios – taking some of the day to day burden off an investor's shoulders.

These funds vary in their investment remit from a cautious portfolio to the more adventurous. The aim of the range is to meet clients' investment needs for capital growth and/or income while catering for a variety of risk appetites.

The Jupiter Merlin Portfolios approach to portfolio construction is rigorous, ongoing and has people at the heart of it. The table on the next page outlines the Jupiter Independent Funds team's approach to each step of the process.

7 ACTIVELY MANAGED, 'READY-MADE' INVESTMENT PORTFOLIOS

- **Jupiter Merlin Worldwide**
- **Jupiter Merlin Growth**
- **Jupiter Merlin Balanced**
- **Jupiter Merlin Income**
- **Jupiter Merlin Income & Growth Select**
- **Jupiter Merlin Moderate Select**
- **Jupiter Merlin Conservative Select**

RISKS ASSOCIATED WITH THE FUNDS

Jupiter Merlin Conservative Select and Jupiter Merlin Moderate Select can invest more than 35% of their value in securities issued or guaranteed by an EEA state. Jupiter Merlin Income, Jupiter Merlin Balanced and Jupiter Merlin Conservative Select: all of these Portfolios' expenses are charged to capital, which can reduce the potential for capital growth. The NURS Key Investor Information Document, Supplementary Information Document and Scheme Particulars are available from Jupiter on request.

APPROACH TO PORTFOLIO CONSTRUCTION FOR THE JUPITER MERLIN PORTFOLIOS

		Approach	The team's approach
1	**Asset allocation?**	In-house thorough quantitative and qualitative research	The members of the team adopt a tactical asset allocation approach so that they can make nimble changes to the portfolios based on shorter-term market movements, as well as longer-term macro views. This means that the portfolios are tactically rebalanced on a regular basis to cater for changing market environments.
2	**Research and selection**	In-house thorough quantitative and qualitative research	The members of the team have more than 100 years' combined experience in fund selection between them. They use rigorous quantitative analysis and in-depth face to face interviews to select who they believe to be the best fund managers in each asset class and region.
3	**Portfolio construction**	Diversified but with conviction	The team has a high conviction approach to portfolio construction – they only select the funds that they believe are likely to be the best performers in the market.
4	**Portfolio maintenance**	Ongoing investment based decisions	Key to the success of a portfolio is its ongoing maintenance. The team constantly re-evaluates markets and managers to identify trends and turning points that may require a change in strategy. Ultimately, the team believes that it is knowing the underlying fund managers inside out that allows them to rebalance the portfolios appropriately for the environment.
5	**Portfolio management**	Multi-manager	The Jupiter Merlin Portfolios are multi-manager funds. Each multi-manager fund is a managed portfolio in its own right so can offer a one-stop investment solution to the challenges of creating a diversified selection of funds.

JUPITER
ASSET MANAGEMENT

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