INSTITUTIONAL MONEY
KONGRESS
FRANKFURT

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Fund Manager, Head of Convertibles

February 2018
Agenda

- Why convertibles
- Why Jupiter
- Why now
Convertibles – great when sun is shining
Not so great when it rains.
But what if you could buy a form of convertible that performs whatever the weather…….
even when it snows.
And I don’t mean synthetic converti**BULLS**......
Convertible Asset Class Performance

Equity-like returns with smaller drawdowns

Source: Jupiter/Bloomberg, 31.12.93 to 28.02.18. Citi World Government Bond Index USD, MSCI World Net Total Return USD, Thomson Reuters Global Convertible Bond Index USD.
Annualised return and volatility
Equities, convertibles and bonds

31.12.93 - 31.01.18

Source: Jupiter/Bloomberg, 31.12.93 to 31.01.18. Citi World Government Bond Index USD, MSCI World Net Total Return USD, Thomson Reuters Global Convertible Bond Index USD.
Convertible Bonds Improve the Efficient Frontier

Compared to Equities and Bonds, Convertibles have delivered higher returns with lower volatility

Each data-point shows the historical risk and return of an efficient portfolio with an allocation to the bond and equity indices. The points on the Index Converts line include an allocation to the convertible bond index and point on the Jupiter Convertibles line include an allocation to the global convertible strategy managed by the team. An efficient portfolio is one which has allocations to the available assets such that risk is minimised for a given level of return. Data not adjusted for rebalancing costs. Source: Jupiter/Bloomberg, 31.08.04 to 29.12.17. Indices shown: Bloomberg Barclays Global Aggregate Total Return, MSCI World Net Total Return, UBS Thomson Reuters Global Convertible Bond. All indices EUR hedged.
Convertible bonds in rising interest rate environment

Global Convertible Bonds

Source: BAML, Thomson Reuters, Bloomberg, MSCI.
Convertible bonds in rising interest rate environment

US Convertible Bonds

Source: Barclays Capital, BAML, S&P.
Jupiter Global Convertibles SICAV

Focus on favourable risk–reward

- Long-term, value-driven approach
- Benchmark hugging unwise due to convertible issuance patterns
- No benchmark constraints to seek to achieve optimal portfolio
- Disciplined process combines quantitative credit and equity scoring with qualitative analysis
- Balanced delta objective, seeking gamma
Long-term track record

Significant outperformance, notably during large declines

Past performance is no indication of current or future performance, doesn’t take into account commissions and costs incurred on the issue/redemption of shares.

The funds shown are a representation of the fund manager’s experience and are not necessarily indicative of the potential performance of the Jupiter Global Convertibles SICAV. Source: Jupiter/FE/Bloomberg. I EUR Acc share class, gross income reinvested, net of fees, from 01.10.10 to 31.01.18. Indices shown UBS Global (EUR) May 2001–August 2004, Thomson Reuters Global Focus Hedged (EUR) September 2004–August 2014, Thomson Reuters Global Convertible Focus Hedged EUR from September 2014 onwards. *For comparison it is assumed that the index is not invested while no fund is being managed.
Performance compared to closest peers
Lower volatility, higher risk-adjusted returns

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Source: Jupiter/Bloomberg. Fund shown are EUR hedged. Peer group is a bespoke peer group of balanced global convertible bond funds. Return gross of management fee. Volatility figures based on daily fund returns and are shown annualised. Periods shown calendar years to 31.01.18.
## Portfolio construction and guidelines

<table>
<thead>
<tr>
<th>Geography and sector</th>
<th>The portfolio is geographically and sectorally diversified, but managed as a single unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified portfolio</td>
<td>Typically 80–100 securities, blending a range of deltas to achieve a balanced overall portfolio</td>
</tr>
<tr>
<td>Delta</td>
<td>Usually 30–50% range. May widen to 20–60%</td>
</tr>
<tr>
<td>Credit</td>
<td>Average implied credit quality investment grade, albeit with no credit limit on individual issues</td>
</tr>
<tr>
<td>Currency</td>
<td>Fund seeks to hedge most non-base currency exposure</td>
</tr>
</tbody>
</table>

These are fund manager restrictions and not fund restrictions, subject to change.
### Investment summary – greater uncertainty ahead

**Structural changes in financial market drivers are occurring**

- Western central banks are shifting to more normal monetary policy, albeit gradually
- Financial markets have benefited from massive liquidity injections
- Abnormally low rates and high debt levels create potential for instability
- Popular financial strategies incorporating leverage rely on a continuation of the low volatility status quo
- The real economy should be fairly stable; Europe and Japan could surprise further to the upside.
- Political challenges remain – populism, anti-austerity, protectionism

Against this uncertainty investors should seek:
- upside participation if the music keeps playing
- downside support if it doesn’t
- exposure to volatility
- low interest rate exposure

- ..therefore convertible bond exposure could be desirable

The views expressed are those of the presenter at the time of preparation and may change in the future.
Central banks are seeking to normalise monetary policy

- Real and nominal interest rates have been artificially suppressed since the crisis
- Inflation is subdued, but economies are not deflationary
- Central banks will normalize through a mix of reduction of QE and higher rates
- Higher short term rates will impact investor behaviour

The views expressed are those of the presenter at the time of preparation and may change in the future.
Source: Jupiter/Bloomberg 31.01.18.
Central bank balance sheets expanded dramatically…this is changing
Western central banks are likely to reduce their monetary interventions

Y/Y change in central bank balance sheets. $bln at current fx rates.

The views expressed are those of the presenter at the time of preparation and may change in the future.
Source: Credit Suisse July 2017, 2017, 2018, 2019 figures are estimates.
Global debt at all time highs when yields are at lows

- Global debt: $217 trillion = 327% of GDP
- Before global financial crisis global debt was $149 trillion
- Yields of most debt sectors have been suppressed by savings surplus and QE
- Forced buying of debt has reduced returns as...
- …risk of default and losses have increased

Merrill Lynch Euro High Yield Index, Yield to worst.

The views expressed are those of the presenter at the time of preparation and may change in the future.
Source: Jupiter/Bloomberg 31.01.18.
Financial engineering has increased with low volatility and strong markets

- Indexation and ETFs have had the benefit of reducing costs
- But are symptomatic of greater financial engineering
- Smart beta = $870 bn
- Risk parity = $1 trn
- Plus short volatility strategies and leverage
- These will aggravate market disruptions
- Liquidity has not been tested

Global ETF asset growth (USD bn)

The views expressed are those of the presenter at the time of preparation and may change in the future.
Source: Jupiter/ETFGI 30.06.17.
Euphoria hits the US equity market, no margin for error!
Valuations suggest US equities return < 1% per year for the next 12 years

High US corporate debt levels a risk to the outlook

- Interest rate costs rising with Fed set to hike further
- Tight credit spreads = limited ability to absorb rising sovereign yields
- How many zombie companies?

The views expressed are those of the presenter at the time of preparation and may change in the future.
Does Europe really need QE?

- QE was about providing life support to the financial system
- Leading indicators pointing to positive outlook
- Negative rates hard to justify at this juncture
- Although inflation remains subdued

European Indicators

The views expressed are those of the presenter at the time of preparation and may change in the future.
PMI points to upside risks in Japan

- Abenomics not working?
- Corporate governance improving on a number of measures
- Payout ratios set to rise further

The views expressed are those of the presenter at the time of preparation and may change in the future.
Something is different in Japan this time around

Japan: Profits as a percentage of sales

Earnings growth has driven Japanese equity price rises
European and Japanese equity valuations look reasonable

Decomposition of change in equity prices for earnings and valuations

The views expressed are those of the presenter at the time of preparation and may change in the future.
Source: Bloomberg/Jupiter, 3 years to 31.01.18.
US convertible universe has highest underlying equity valuations

Convertible underlying equity forward P/E vs. equity index forward P/E

Source: Jupiter/Thomson Reuters, 29.12.17.
Indices are Thomson Reuters Focus indices for convertibles; MSCI Asia ex Japan, Euro Stoxx 50, NIKKEI 225 and S&P500 for equities.
Convertible bonds implied volatility

Source: Nomura, 22.01.18. Note: Tier 1 & 2 CB names only based on Nomura Fair Values.
Summary

- Convertible bonds have consistently delivered strong risk-adjusted returns
- We therefore believe investors may want to consider a structural allocation to the asset class
- Jupiter offers a highly experienced team with a successful 17 year* track record
- Consistent, proven approach to managing global convertibles through several market cycles
- Defensive strategy, seeking favourable risk-reward. Largest outperformance in down cycles
- Greater uncertainty coupled with low risk premiums and complacency in both risky and risk-free assets make convertibles an attractive asset class at this stage of the cycle

Past performance is no indication of current or future performance.
## 12 month rolling performance

### Jupiter Global Convertibles

<table>
<thead>
<tr>
<th>(%)</th>
<th>01 Feb ‘13 to 31 Jan ‘14</th>
<th>01 Feb ‘14 to 31 Jan ‘15</th>
<th>01 Feb ‘15 to 31 Jan ‘16</th>
<th>01 Feb ‘16 to 31 Jan ‘17</th>
<th>01 Feb ‘17 to 31 Jan ‘18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jupiter Global Convertibles L EUR Acc</td>
<td>8.3</td>
<td>3.6</td>
<td>-1.7</td>
<td>7.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Thomson Reuters Global Focus Hedged CB TR EUR</td>
<td>11.1</td>
<td>5.8</td>
<td>-2.0</td>
<td>5.8</td>
<td>5.5</td>
</tr>
</tbody>
</table>

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Since inception: 02.10.2010.
Jupiter Global Convertibles risks

- Convertible bonds can benefit or make losses from fluctuations in equity prices, they may be subject to greater volatility, interest rate and default risks.
- The fund can invest a large portion in high yield and non-rated bonds. These bonds may offer a higher income but carry a greater risk of default, particularly in volatile markets.
- The KIID and Prospectus are available from Jupiter on request.
- This fund can invest more than 35% of its value in securities issued or guaranteed by an EEA state.
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