

VALUE INVESTING

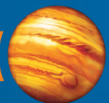
Sheffield L&P

Investment and Pensions Conference

Claudia Ripley

Jupiter Value Team

September 2017



ON THE PLANET TO PERFORM

For professional investors only. Not for retail investors.


JUPITER
Asset Management

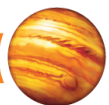
Learning objectives

1 Explain what value investing is

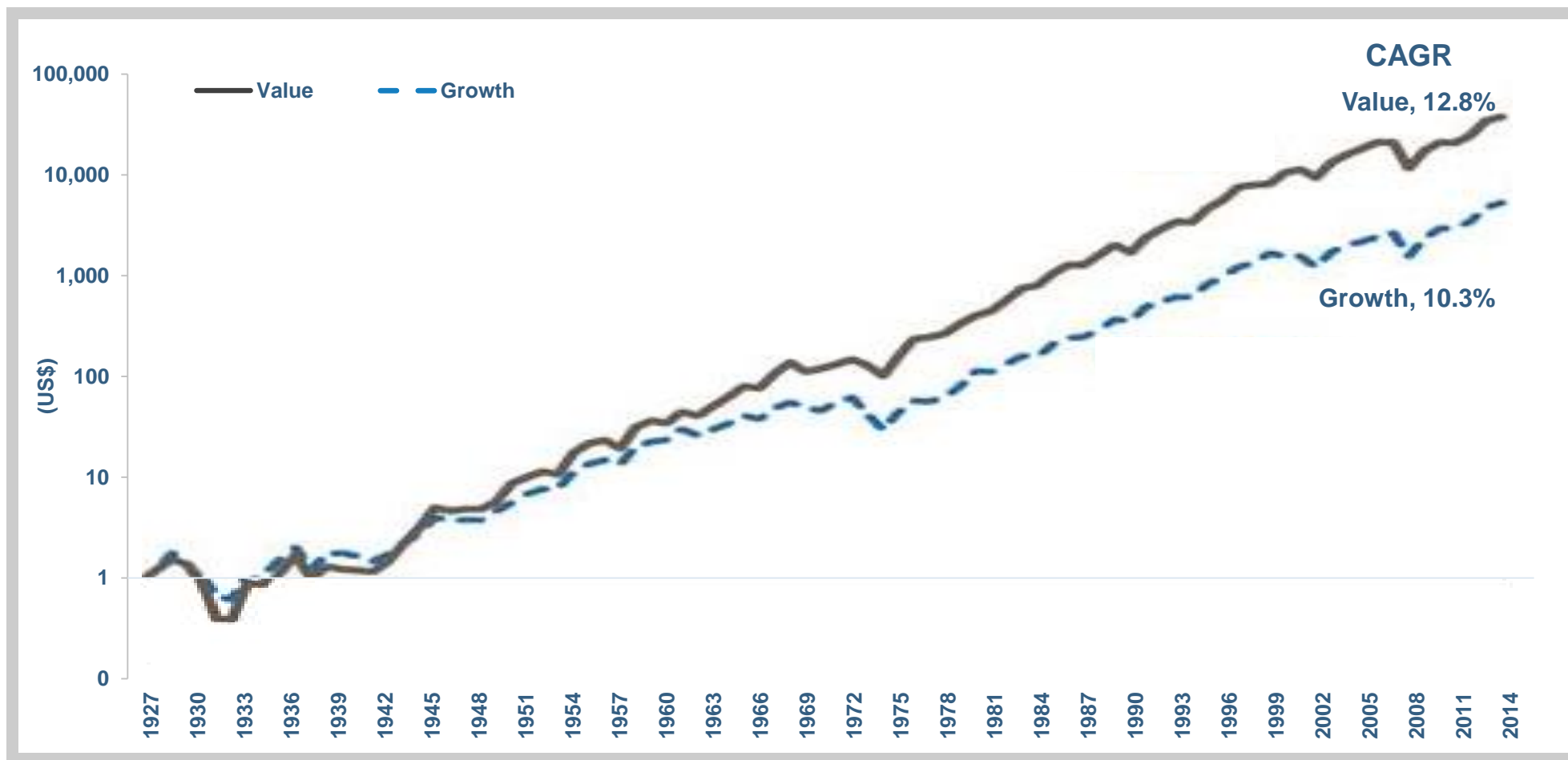
2 Understand the pitfalls of forecasting

3 Understand why income is not the first thing we look for

14011_71129



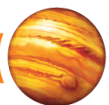
The Value Premium, 1927-2014



US data series.

Source: Calculated based on data from Kienneth French's website (mba.tuck.dartmouth.edu/pages/faculty/ken.french/index.html), which was derived from the CRSP (Center for Research in Security Prices) COMPUSTAT merged database.

14011_71129



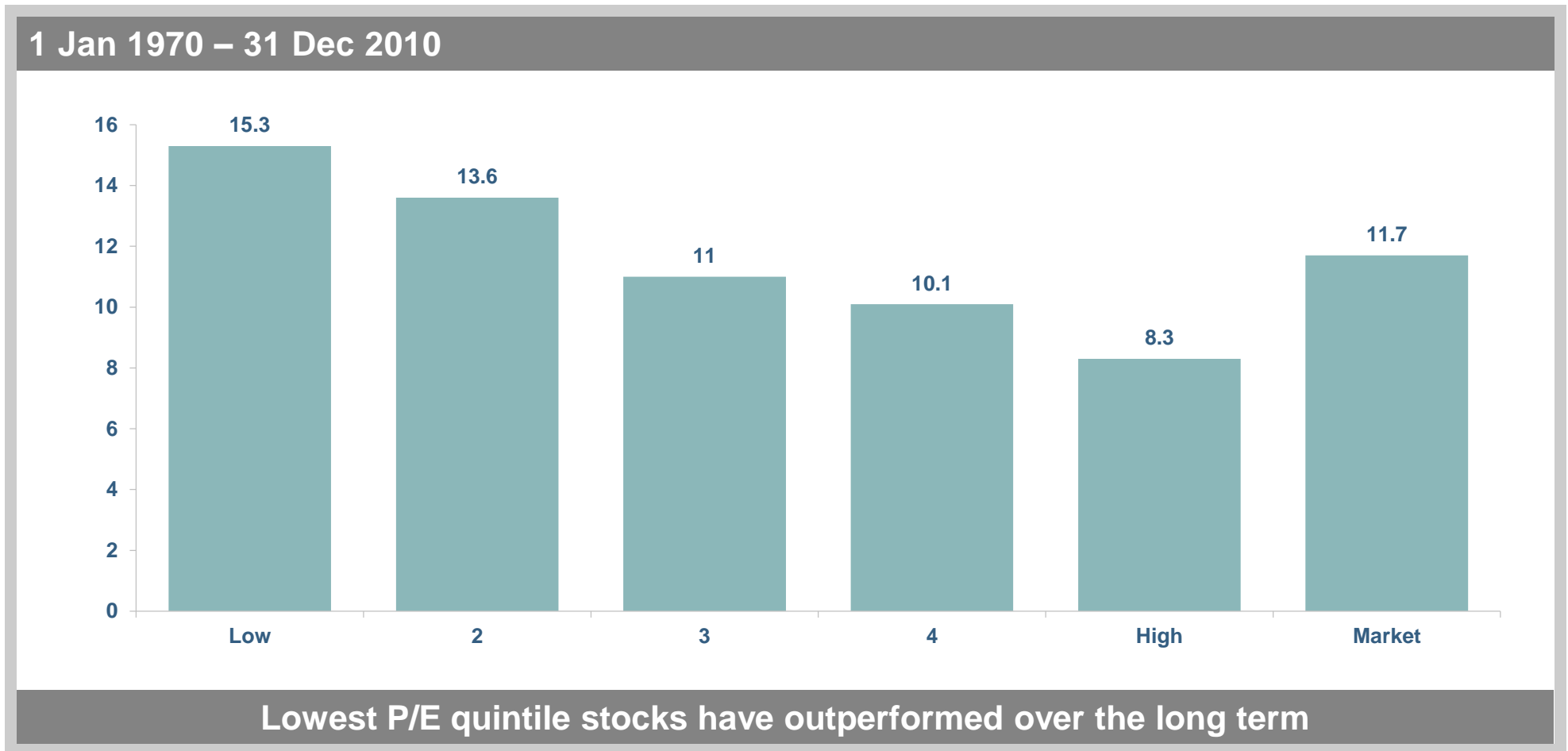
JUPITERAM.COM

For professional investors only. Not for retail investors.

JUPITER
Asset Management

Philosophy

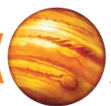
Annual returns by price earnings quintile



Historical example for illustrative purposes only.

Source: David Dreman, 2010.

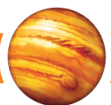
Data Source: Compastat North America (500 largest companies).



Investment process



14011_71129



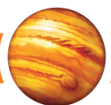
Step 1: Screen the market for value

- 1
- 2
- 3
- 4
- 5

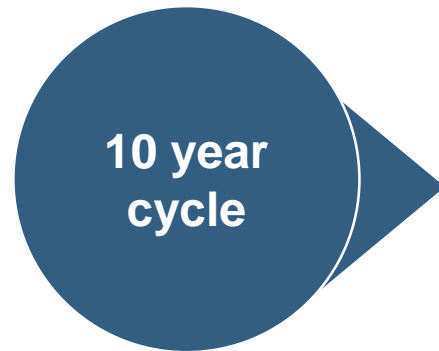


Source: Jupiter.

EV = Enterprise Value; ROA = Return on operating assets.



Step 2: Financial history



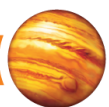
History of annual financial statements

- Profits to cash conversion
- Cash is difficult to alter
- Reported profits can be inflated or depressed

	A	G	H	I	J	K	L	M	N	O	P	Q	R	S	T
1 mkt cap			7296	Meat	pliability	55 surplus	398 kabs								
2 dpt			8196												
3 ev															
4															
5			2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
6															
7	ev	63	92	10	126	144	163	195	176	206	239	289	355	409	435
8 dpt		31	35	41	44	49	55	55	66	78	99	105	123	150	158
9 # shares		306	268.3	254	249	230	213	194	193	195	193	199	191	148	148
10									206.8	194.2	193.3	189	196	152	151
11															
12 sales		2200	2598	2960	3308	3283	3220	3272	3407	3454	3505	3562	3740	4000	4177
13 trading profit (post e		302	375	441	471	500	537	478	530	574	593	650	722	812	866
14 PAT		230	245	300	313	331	358	301	364	400	430	488	554	622	657
15															
16 trading escep (w/oif)		0	0	0	0	0	0	0	0	0	0	0	0	0	0
17 other escep		0	0	0	2	0	0	0	0	8	41	36	0		
18															
19 sh funds		275	221	272	256	199	-79	157	133.8	233	222.7	288	288	320	311
20 gvl		0	0	0	0	0	0	0	0	0	0	0	0	0	0
21 net equity		275	221	272	256	199	-79	157	134	233	223	288	288	320	311
22															
23															
24 leases		96	110	123	134	154	164	164	195	203	202	205	206	210	220
25															
26															
27 net debt		-159	-397	-251	-363	-444	-740	-623	-400	-530	-575	-493	-517	-515	-650
28 capital employed		444	528	523	519	633	661	798	534	783	799	779	903	835	101
29 inc op leases		1228	1408	1507	1600	1655	1976	2259	2094	2387	2445	2419	2462	2529	2521
30															
31 op margin		13.7%	14.5%	15.4%	15.2%	15.5%	16.1%	16.6%	15.6%	16.6%	16.5%	16.2%	16.3%	16.3%	16.7%
32 fixed charge		4.8	4.3	4.5	4.5	4.3	4.0	3.3	3.9	4.0	4.1	4.3	4.6	4.7	4.8
33 FCFE		51.5%	56.8%	62.8%	66.7%	69.0%	65.8%	65.1%	77.0%	78.0%	78.4%	78.7%	78.2%	78.5%	78.2%
34 FCFE pre leases		35.4%	36.5%	39.7%	37.8%	37.2%	36.5%	31.5%	33.2%	34.7%	33.0%	35.4%	39.3%	41.5%	39.8%
35															
36 op cash inflow		275	402	508	511	635	637	576	687	693	670	688	705	695	701
37 FCF		124	176	234	209	340	303	279	442	282	373	550	438	568	375
38 % PAT		59%	72%	78%	66%	83%	84%	93%	12%	73%	87%	113%	78%	91%	57%
39															
40 wcap per cash		-50	-9	-9	-36	28			14.1	0	19.4	-6.3	0	0	-7
41															
42 wcap		375.1	435.8	486	568	577	622.8								
43 % of sales		17.0%	17.3%	17.0%	16.2%	17.6%	18.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
44															
45															
46 % of sales		-5.6%	-7.6%	-7.8%	-9.4%	-10.2%	-11.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
47															
48 total % of sales		11.4%	9.7%	9.2%	6.8%	7.4%	7.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
49															
50 provisions		19	16.7	23.3	10	9.5	9.4	13.1	13.4	13.3					
51 % of sales		0.9%	0.7%	0.8%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
52															
53 depn		59	62.3	71	81	102	108.4	116.4	123.1	119.3	117	117	112	112	112.6
54 % of sales		2.7%	2.5%	2.5%	2.5%	3.1%	3.3%	3.6%	3.6%	3.4%	3.3%	3.3%	3.0%	2.8%	2.7%
55 capex		33.2	19.6	126.3	170	137	179	128.6	162	119	123.1	91	103	113	147.5
56 % sales		3.8%	4.8%	4.8%	5.5%	4.2%	5.4%	3.7%	2.9%	3.4%	3.8%	2.6%	2.8%	2.8%	3.8%
57															
58															
59 # staff		23,047	27,274	32,597	36,999	39,955	39,345	36,973		37,220	32,362	28,201	28,568	28,469	30,591
60 salar staff		95,997	92,249	97,877	93,948	93,846	94,630	98,497		92,600	100,976	105,061	110,196	125,725	136,640
61 profit staff		15,062	15,749	15,529	12,730	12,961	13,648	12,836		15,422	18,431	22,653	25,273	27,554	28,209
62															
63 tax pd		91	108	122	136	147	144	127	141	151	143	148	142	160	169
64 tax cash		90	96	117	113	114	119	126	115	142	144	148	152	153	153
65															
66 net inc		-0.3	-17.3	-19.2	-20.2	-24.8	-39	-48.7	-24.5	-20.7	-18.9	-21.8	-21	-28.7	-30.2
67															
68															
69 net income		526	633	782	781	934	934	999.5	1099	1154	1094	1152	1171	1143	
70															
71															
72 lease adjusted															
73															
74															
75															

Source: Jupiter.

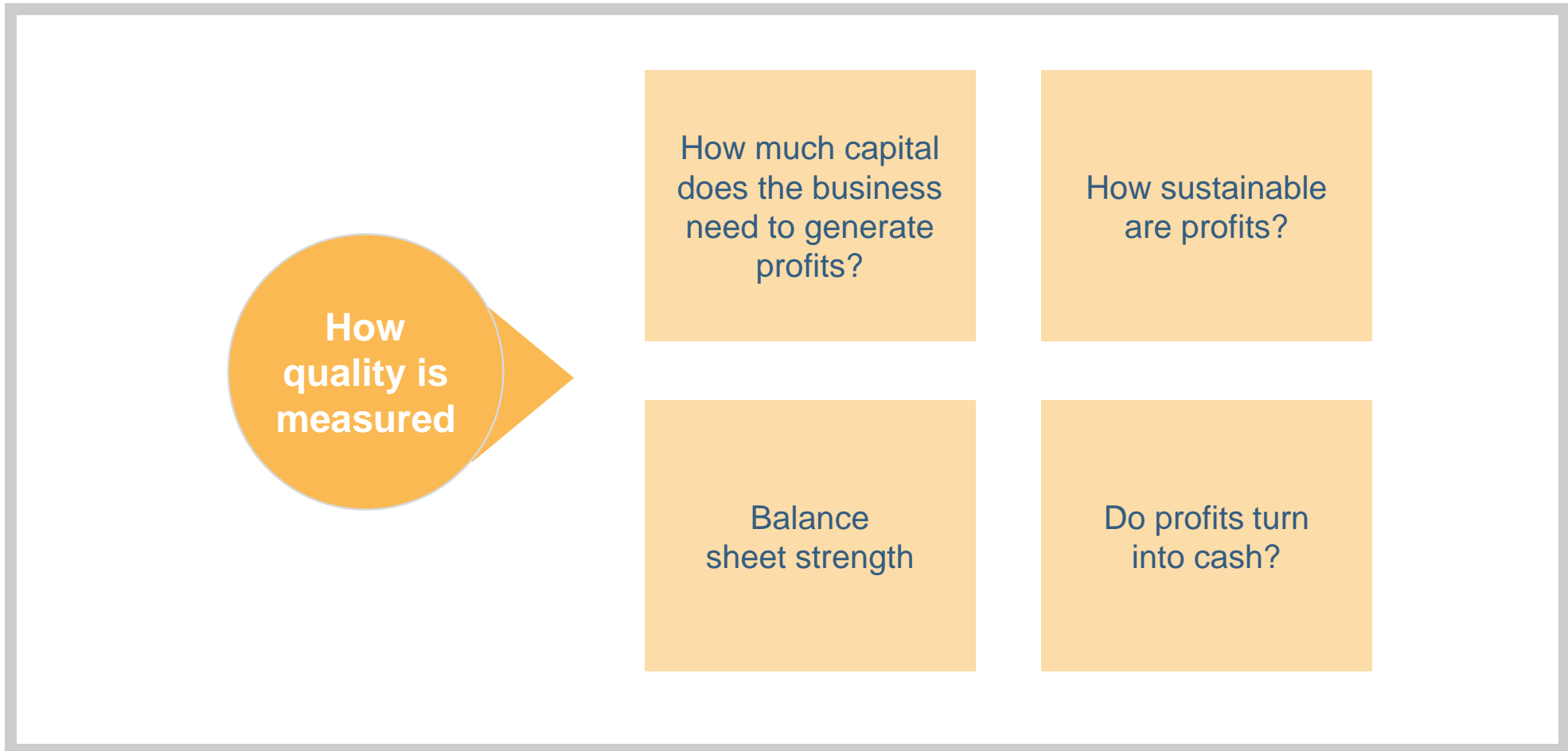
14011_71129



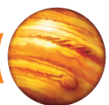
JUPITERAM.COM

For professional investors only. Not for retail investors.

Step 3: Franchise quality



14011_71129



Step 4: Portfolio construction



Relative measures of risk:

- Beta
- Tracking error
- Value at Risk (VaR)



Encourages momentum investing and offers false certainty



The Big Short*
Question from William Tanona to John Mack:

"I am surprised that your trading VaR stayed stable in the quarter given the level of loss"

Absolute measures of risk:

- Strong balance sheets
- Low valuations
- Diverse set of uncorrelated risks



More appropriate to long-term capital growth

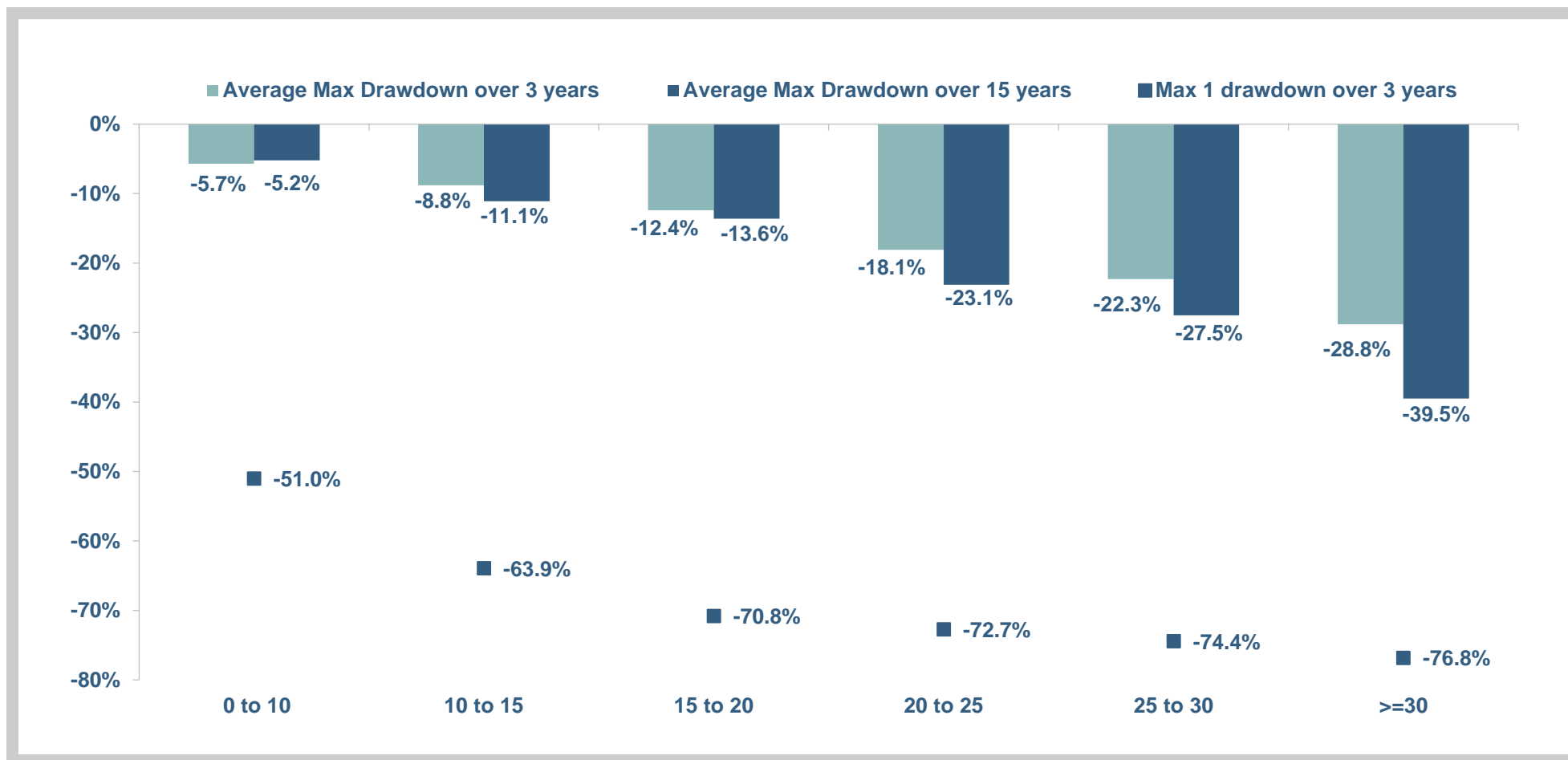
The views expressed are those of the presenter at the time of preparation and may change in the future. *Source: Page 218, "The Big Short" by Michael Lewis following a Wall Street record trading loss of \$9.2bn."

14011_71129



Step 4: Portfolio construction

Average maximum drawdown in relation to Graham & Dodd PE (all countries)



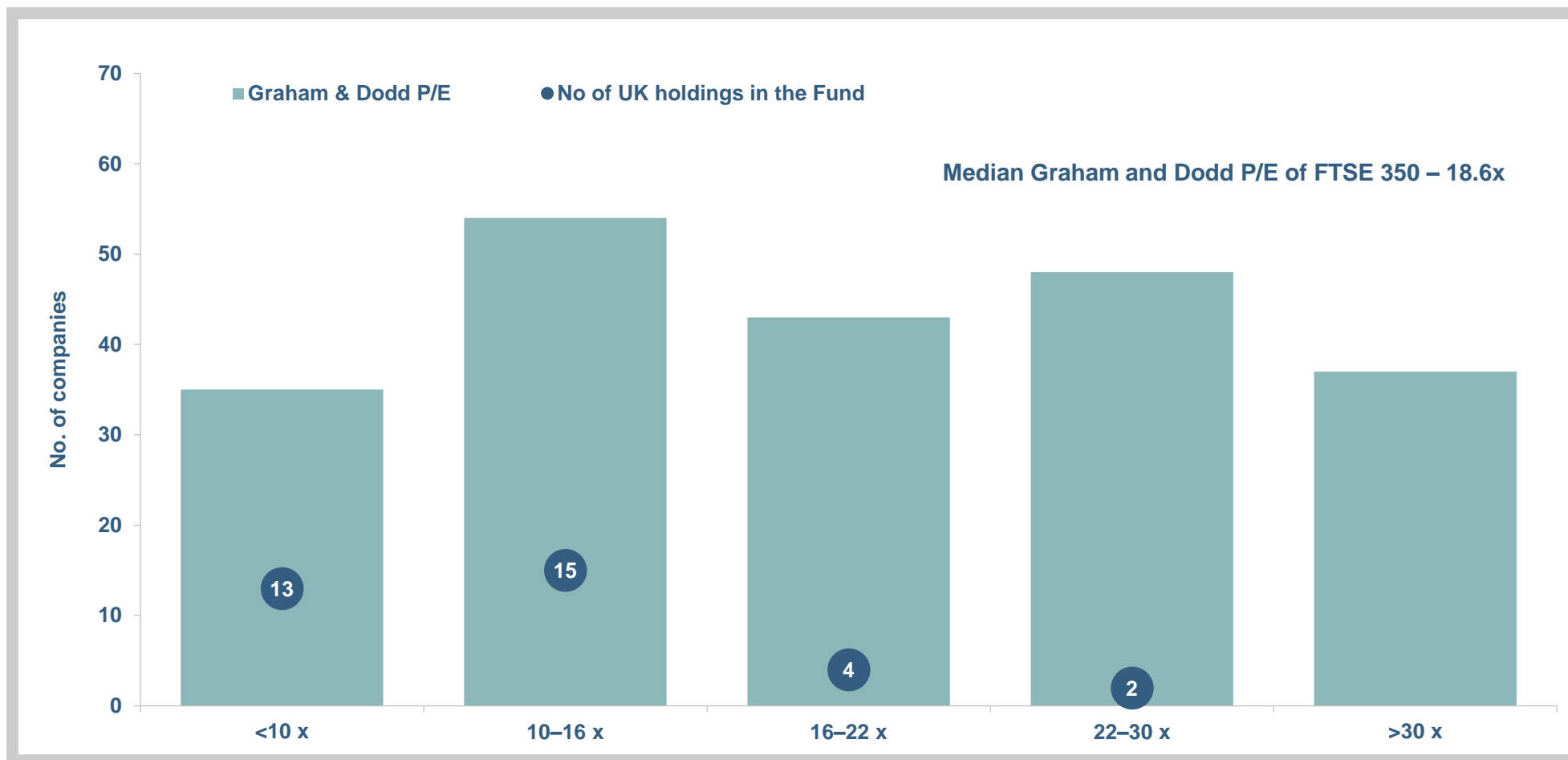
Source: StarCapital Research, S&P 5000: Shiller (2015), also known as the Graham & Dodd PE, other countries and MSCI. The chart shows the relationship between CAPE and the following maximum drawdown in "All Countries" in the period from Jan 1881 to May 2015 (S&P 500) and Dec 1979 – May 2015 (other MSCI Countries). The maximum drawdown over 3/15 years describes the maximum loss an investor could have suffered over the next 3/15 years, assuming an investment was made on the valuation date. All returns are inflation adjusted, in local currency, incl. dividend income.

14011_71129



Step 5: Selling discipline

FTSE 350* breakdown of Graham and Dodd P/E



Source: Jupiter, 31.12.16.

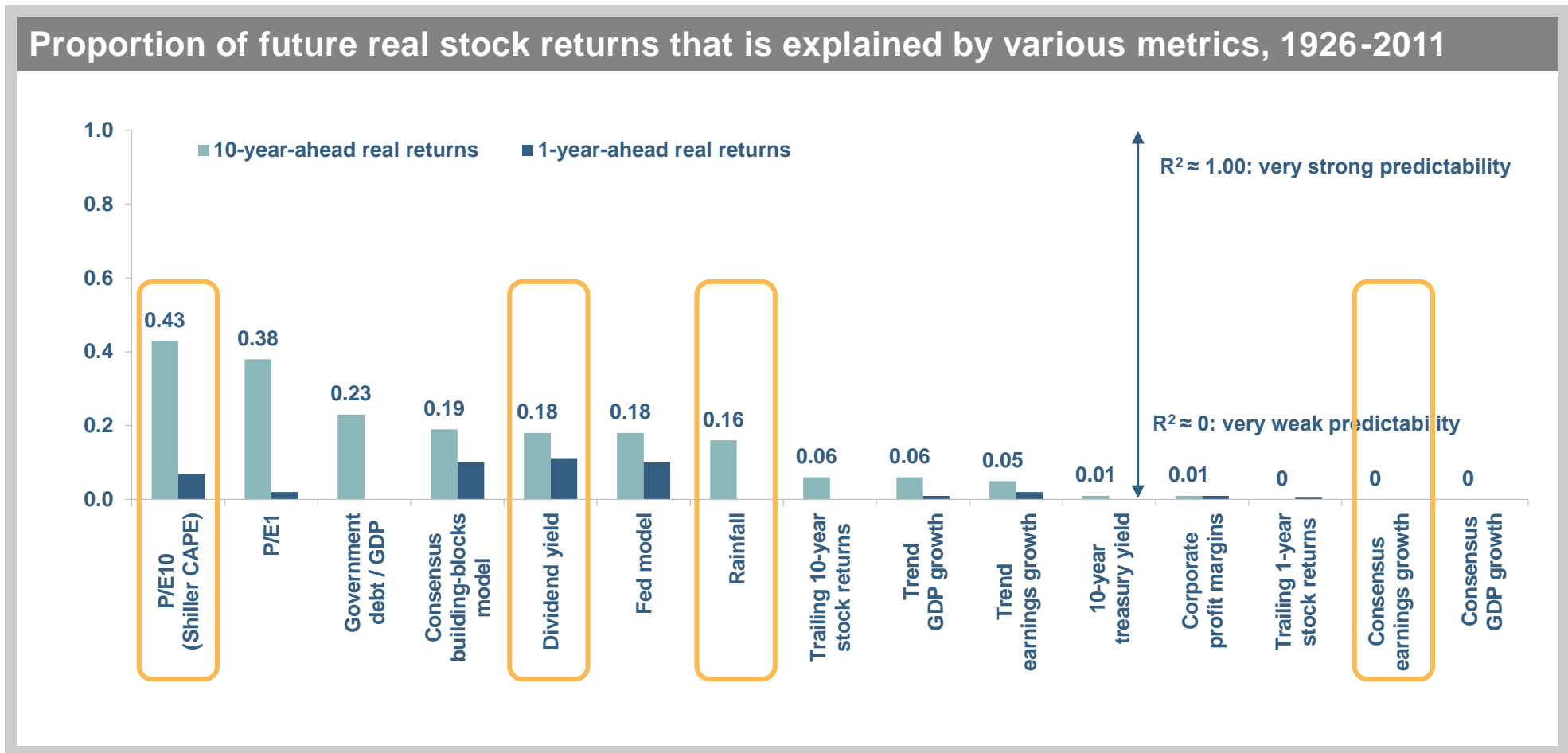
*Excluding real estate investment trusts, equity investment trust and companies with insufficient financial history (i.e. Royal Mail, Glencore, esure, Al Noor Hospitals, Foxtons, etc.).

14011_71129



The pitfalls of forecasting

Most popular metrics have had little or no correlation with future stock returns



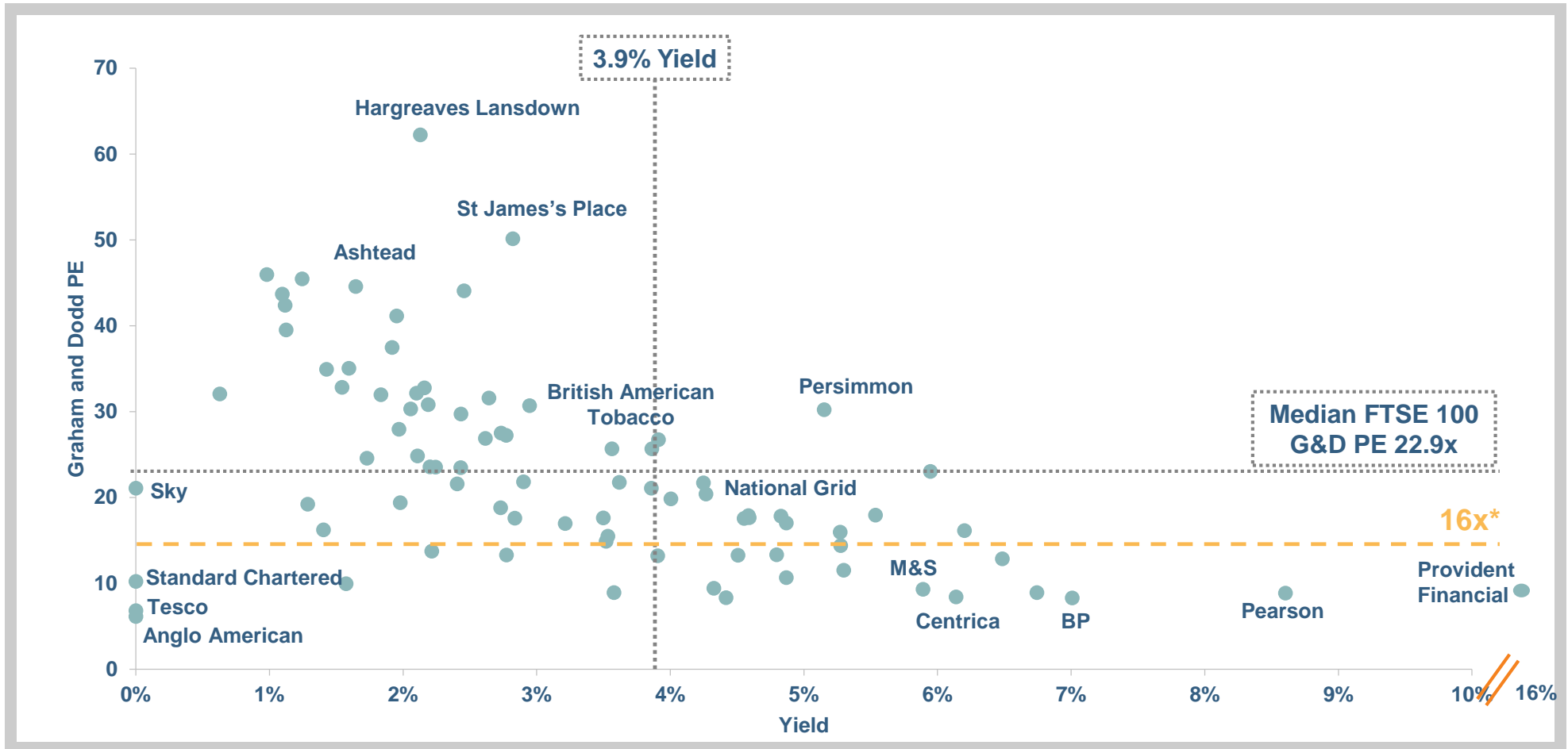
Source: Vanguard. Forecasting stock returns what signals matter, and what do they say now?. The bars display the R² of a regression model of 10 year ahead and 1 year ahead real annualised stock returns on each variable, fitted over the January 1926-June 2012 sample, with the expectation of corporate profits, which are fitted for January 1929-June 2012 (because of data limitations).

14011_71129



Valuations and yields

FTSE 100 Constituents



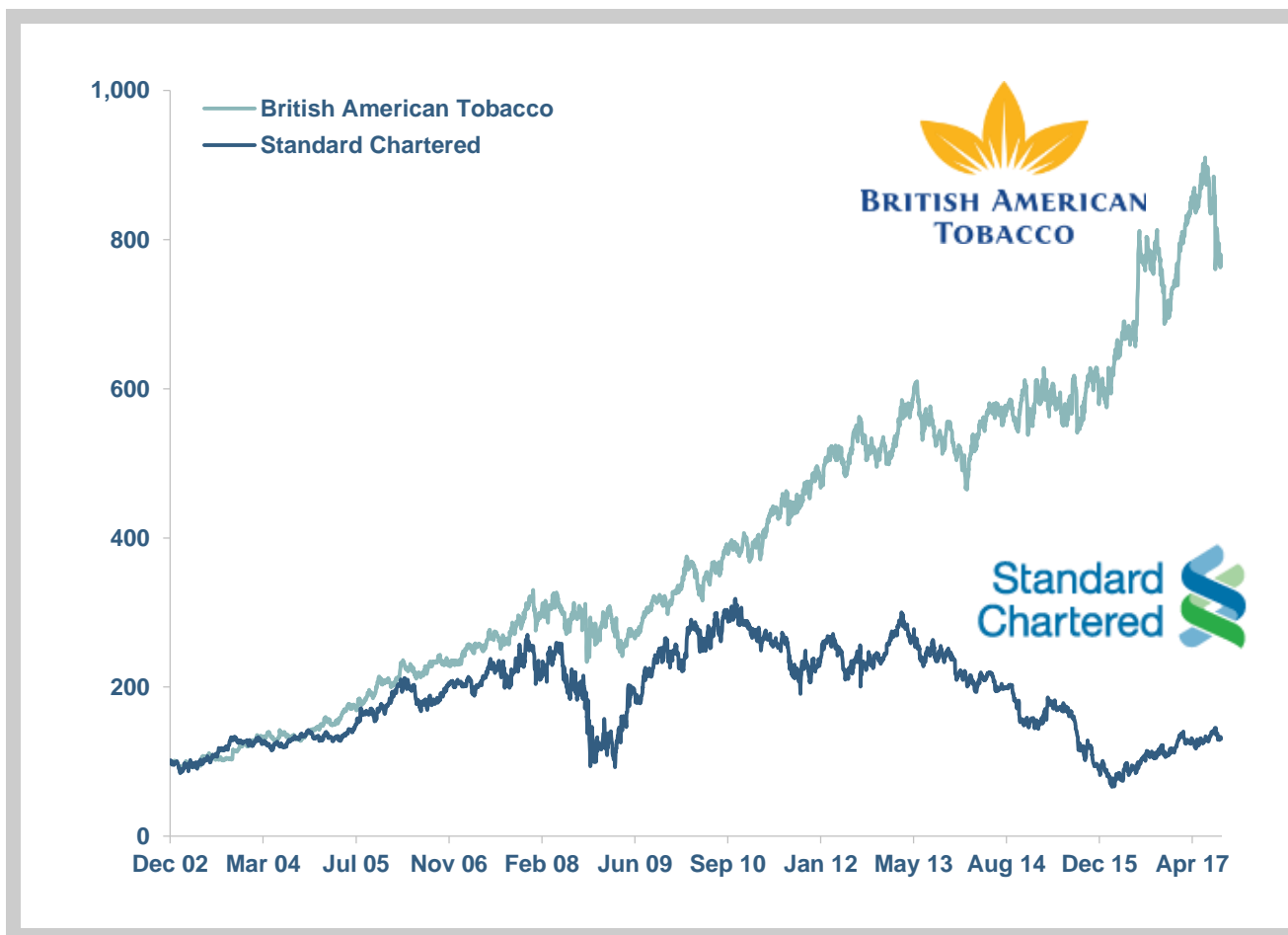
Quoted yields are not guaranteed and may change in the future. Stock examples are for illustrative purposes only and are not a recommendation to buy or sell.

Source: Jupiter, 28.08.17. * 16x is the market long term average.

14011_71129



Traditional income-yielding company vs. value company



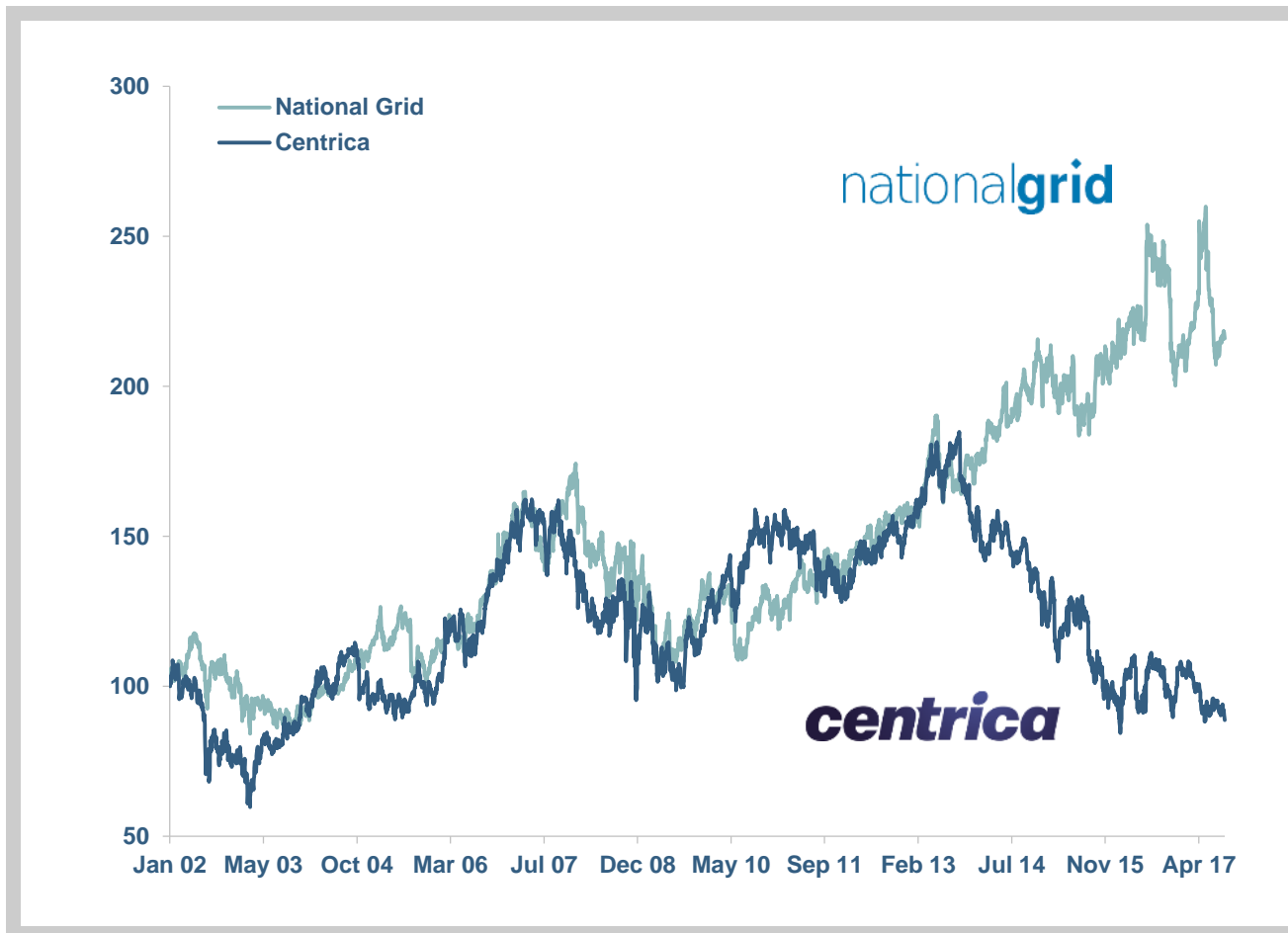
	British American Tobacco	Standard Chartered
Graham & Dodd PE	25.7x	10.1x
Dividend yield	3.6%	Zero
5-year cash cover of dividend	1.1x	n/a
2018-2020 targets		
Target returns	8%-10% ROE	
Dividend yield with 2x cover	5.9% - 7.4%	
Price to tangible book	0.77x	

Stock examples are for illustrative purposes only and are not a recommendation to buy or sell. Quoted yields are not guaranteed and may change in the future.
Source: Jupiter, August 2017.

14011_71129



Traditional income-yielding company vs. value company



	National Grid	Centrica
Graham & Dodd PE	22.1x	8.4x
Dividend yield	4.5%	6.1%
5-year cash cover of dividend*	0.3x	>2x**

Stock examples are for illustrative purposes only and are not a recommendation to buy or sell. Quoted yields are not guaranteed and may change in the future.

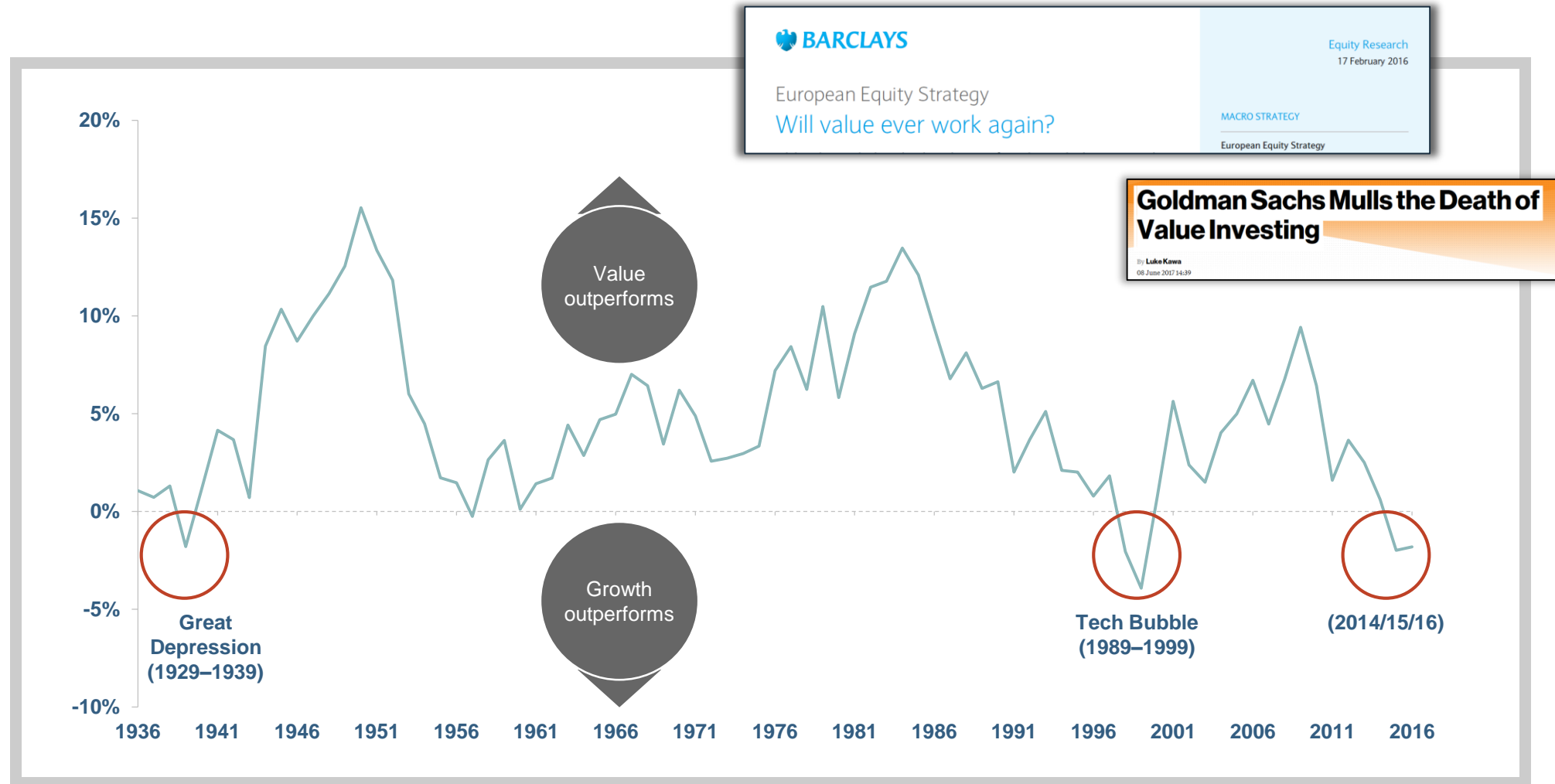
Source: Jupiter, August 2017, Report and Accounts.* Cash flow from operations less net interest, tax, capex / cash cost of ordinary dividend. ** Last 2 years since dividend cut.



14011_71129

Compelling opportunity for value investors

Unprecedented underperformance by value



BARCLAYS

European Equity Strategy
Will value ever work again?

Equity Research
17 February 2016

MACRO STRATEGY
European Equity Strategy

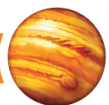
Goldman Sachs Mulls the Death of Value Investing

By Luke Kawa
08 June 2017 14:39

US stockmarket's rolling 10-year total return difference: Fama-French HML

Value versus growth as measured using Fama-French's High minus Low (HML) framework, top quintile returns less bottom quintile.

Source: Calculated based on data from Kenneth French's website (mba.tuck.dartmouth.edu/pages/faculty/ken.french/index.html), which was derived from the CRSP (Center for Research in Security Prices) COMPUSTAT merged database. Data as at 31.12.16.



Graham & Dodd P/E by sector

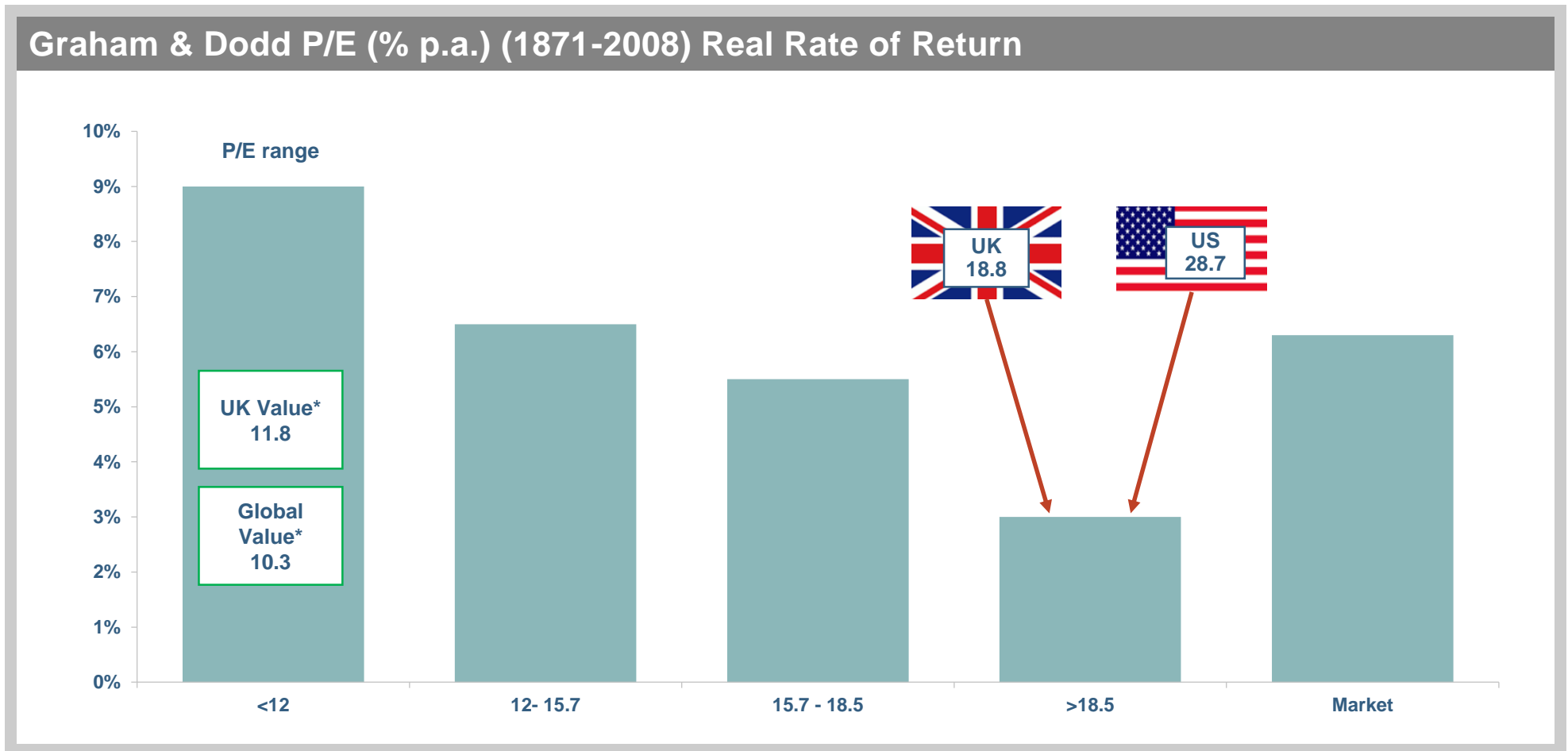
	<10x	10x – 16x	16x – 22x	22x – 30x	>30x				
Food Retail	8.3	Banks	10.8	Aerospace/ Defence	17.4	Tobacco	22.1	Apparel & Luxury Goods	30.7
Mining	8.8	Telecoms	14.5	Utilities	17.8	Airlines	23.1	Household & Personal Care	32.2
Energy	9.1	Pharmaceuticals	14.3	Industrials	19.0	Packaging	23.6	Commercial Services	32.5
		Retail	14.9	Media	19.3	Healthcare-Products	24.4	Hotels, Restaurants & Leisure	34.6
				REITS	21.5	Technology	27.0	Financial Service	42.7
				Insurance	21.8	Chemicals	28.0	Food	40.6
						Beverages	29.9		
						House Builders	30.0		

Source: Jupiter, 09.08.17.

14011_71129



Value has outperformed over the long term



Source: SocGen Global Strategy Research 2008. Performance annualised over the following decade.

US Market data sourced from Robert Shiller online data, Yale, as at 28.02.17.

*UK Value is the Jupiter Income Trust and Global Value is the Jupiter Global Equities Fund.

14011_71129



Jupiter Value Funds

Jupiter Income Trust

- Income requirement without sacrificing capital growth
- 100% yield of market*
- C. 35-50 holdings
- 88% commonality**
- Higher weight in yielding stocks***

Jupiter UK Special Situations Fund

- Capital Appreciation
- C. 35-50 holdings
- Higher weighting in non/low yielding stocks (RBS, Tesco), than Jupiter Income Trust

Jupiter Global Value

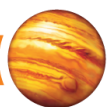
- Capital Appreciation, within a total return approach
- C. 35-50 holdings
- High active share c. 95%
- Benchmark agnostic

Client Expectations

- Requires patient investors
- Value has outperformed over the long term, but not consistently
- Differentiated investment approach

Any stock examples are used for illustrative purposes only and should not be viewed as investment advice.

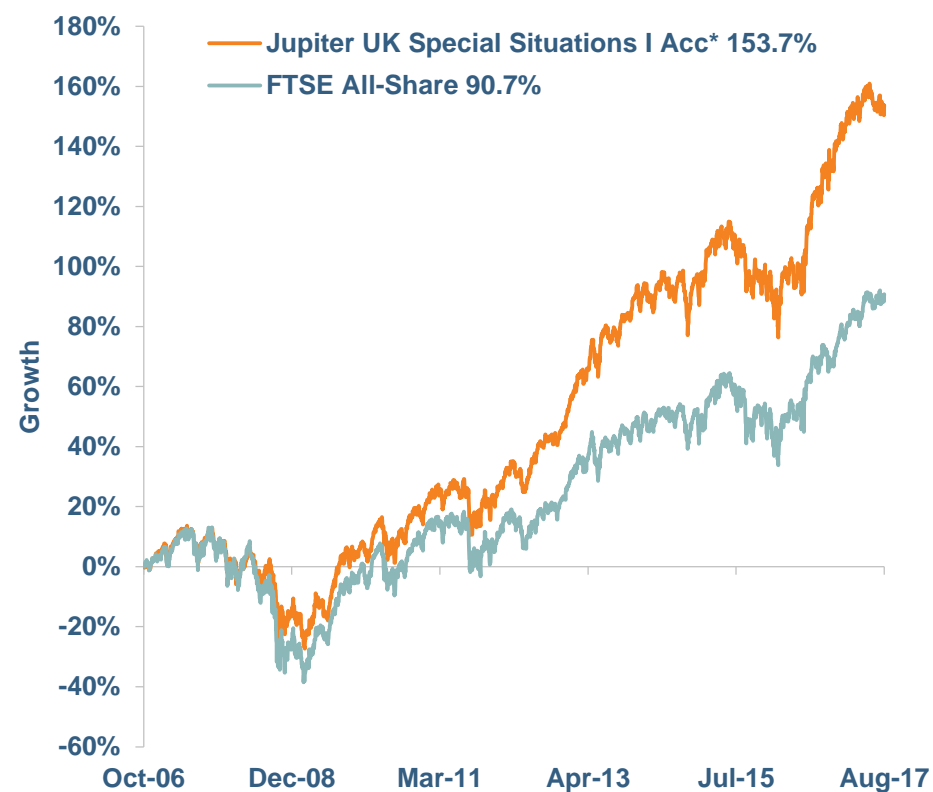
*100% yield in accordance with the IA Income Sector rule as at 3 April 2017, reduced from 110% yield of the FTSE All Share over a rolling 3 year period. ** Jupiter Income Trust has 88% commonality with the Jupiter UK Special Situations Fund as at 31 December 2016. *** Higher weighting in yielding stocks than Jupiter UK Special Situations.



Conclusion

- Value investing has outperformed over the long term, but not consistently
- Value investment provides a differentiated investment style
- Markets are at high valuation levels, but there are lowly valued equities

Performance

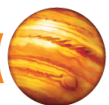


The views expressed are those of the presenter at the time of preparation and may change in the future.

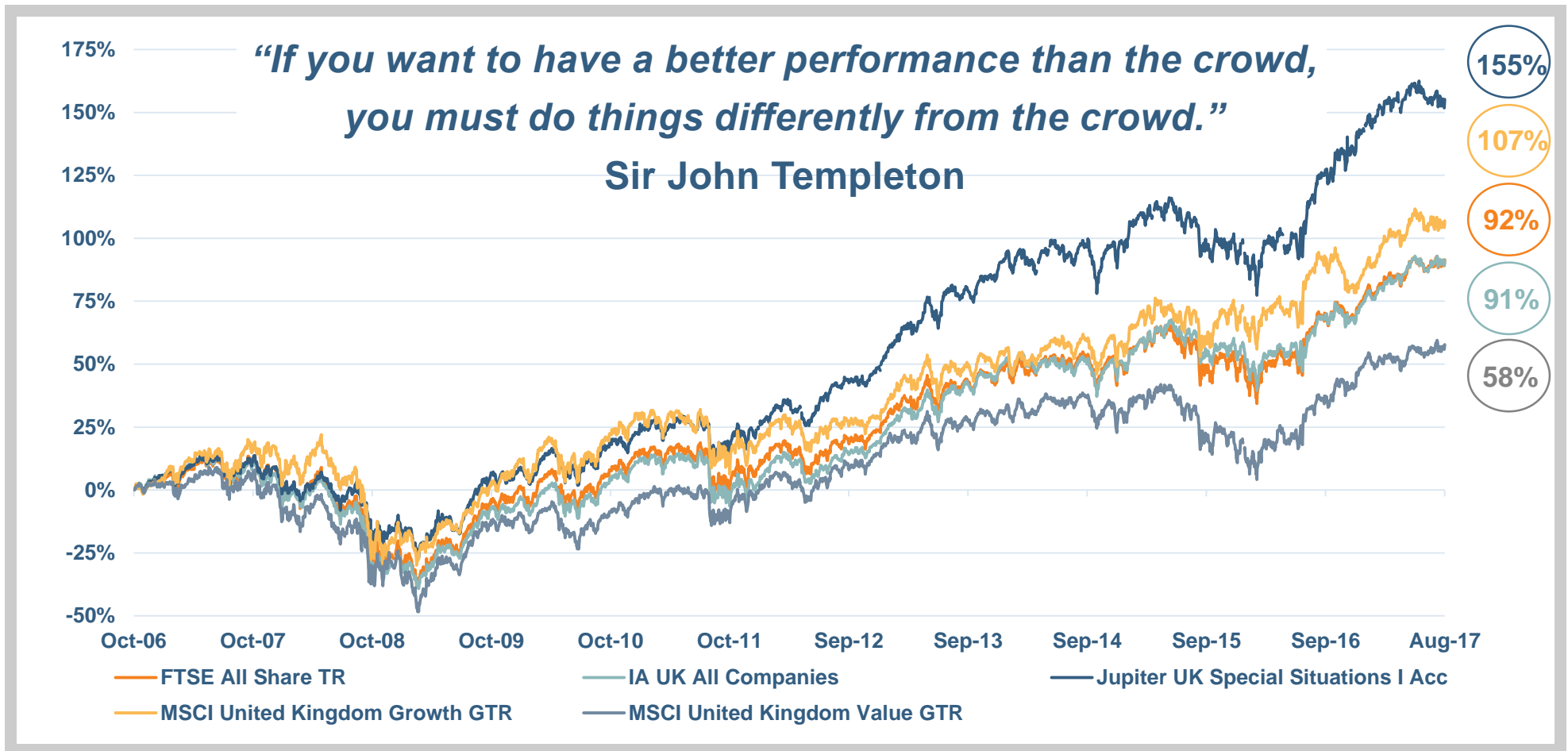
Past performance is no guide to the future.

Source: Morningstar, bid to bid, net income reinvested, in GBP, from 31.10.06 to 31.08.17.

*Ben Whitmore has managed the fund since 31.10.06.



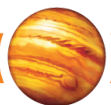
Differentiation is Key



Past performance is no guide to the future.

Source: FE, bid to bid, net income reinvested from 31 October 2006 to 31 August 2017. The fund's benchmark is the FTSE All Share.

14011_71129



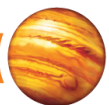
Learning outcomes

1 Explain what value investing is

2 Understand the pitfalls of forecasting

3 Understand why income is not the first thing we look for

14011_71129



Disclosure

This presentation is intended for investment professionals and not for the benefit of retail investors. 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. Any data or views given should not be construed as investment advice. Every effort is made to ensure the accuracy of the information but no assurance or warranties are given.

Past performance is no guide to the future. Company examples are for illustrative purposes only and are not a recommendation to buy or sell. Quoted yields are not guaranteed and may change in the future. Awards and ratings should not be taken as a recommendation.

Jupiter UK Special Situations Fund: The Key Investor Information Document, Supplementary Information Document and Scheme Particulars 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.

Jupiter Income Trust Fund: The Key Investor Information Document, Supplementary Information Document and Scheme Particulars are available from Jupiter on request. All of the fund's expenses are charged to capital, which can reduce the potential for capital growth.

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

Jupiter Global Value: 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. This is a sub-fund of the Jupiter Global Fund

This document contains information based on the FTSE All-Share, FTSE 100 and FTSE 350 Indices. The FTSE All-Share, FTSE 100 and FTSE 350 Indices are calculated by FTSE. FTSE does not sponsor, endorse or promote the product referred to in this document and is not in any way connected to it and does not accept any liability in relation to its issue, operation and trading. All copyright and database rights in the index values and constituent list vest in FTSE.

This document contains information based on the MSCI Value and MSCI Growth Indices. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent

For your security we may record or randomly monitor telephone calls.

Jupiter Unit Trust Managers Limited (JUTM) and Jupiter Asset Management Limited (JAM), registered address: The Zig Zag Building, 70 Victoria Street, London, SW1E 6SQ are authorised and regulated by the Financial Conduct Authority.

No part of this presentation may be reproduced in any manner without the prior permission of JAM or JUTM.

