

# Jupiter Merlin Income Portfolio

Short Annual Report – for the year ended 15 October 2013



## Investment Objective

To achieve a high and rising income with some potential for capital growth.

## Investment Policy

To invest predominantly in unit trusts, OEICs, Exchange Traded Funds and other collective investment schemes across several management groups. The underlying funds invest in equities, fixed interest stocks, commodities and property, principally in the UK.

The Manager has the power to use derivatives but it is intended that these will only be used for efficient portfolio management and not for investment purposes.

## Performance Record

### Percentage change and sector ranking from 1 May 1997 to 15 October 2013

	1 year	3 years	5 years	10 years	Since 1 May 1997*
<b>Jupiter Merlin Income Portfolio</b>	8.2	18.8	66.4	111.0	217.9
<b>Mixed Investment 20-60% Shares sector position</b>	88/147	40/127	13/93	2/26	1/8

Source: FE, Retail Units, bid to bid, net income reinvested.

\*The Jupiter Merlin Income Portfolio was managed by John Chatfeild-Roberts and his team at Lazard from 1 May 1997 until March 2001. In March 2002, the management of the Fund was fully transferred to Jupiter Unit Trust Managers Limited, under the same management team.

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment in a unit trust and the income from it can fall as well as rise and it may be affected by exchange rate variations. You may get back less than you invested.

**Warning to Unitholders** Customers of financial institutions can be prone to attempts by fraudsters to obtain personal information or money. There are many ways they can initiate contact, such as emails, letters and cold calls, but methods are constantly evolving so it is important that you are aware of the types of scams so that you are better able to protect yourself. Please visit our website [www.jupiteronline.com](http://www.jupiteronline.com) or call 0844 620 7600 for further information.

## Risk Profile

The Fund has little exposure to liquidity, counterparty or cash flow risk. The risks it faces from its financial instruments are market price, credit, foreign currency and interest rate risk. The Manager reviews policies for managing these risks in pursuance of the Investment Objective and Policy.

## Risk and reward indicator

The Risk and Reward Indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the Risk and Reward Indicator.

← Typically lower rewards, lower risk      Typically higher rewards, higher risk →

### Retail Units

1	2	3	4	5	6	7
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### I-Class Units

1	2	3	4	5	6	7
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- The lowest category does not mean 'no risk'. Some risk will still be present in funds with a risk and reward rating of 1.
- The Fund is in this category as it invests in a wide range of company shares and bonds issued by governments and companies, which carry a degree of risk.

## Unit Classes

In addition to the basic class of units which are available to all types of investors, the Fund also offers I-Class units which are available to investors who invest a minimum of £5,000,000. Further details are available from the Manager on request. Please note that in order to distinguish between the unit classes within the Fund they are defined in this report as either Retail Units (non I-Class) or I-Class Units. The unit types associated with each unit class are disclosed in the Comparative Tables on page 2.

## Charges

The charges you pay are used to pay the costs of running the Fund, including the costs of marketing and distributing it. These charges reduce the potential growth of your investment.

Charges taken from the Fund over the year to:	15.10.13	15.10.12
Ongoing charges for Retail Units	2.35%	2.36%
Ongoing charges for I-Class Units	1.60%	1.61%

## Portfolio Turnover Rate (PTR)

Year to 15.10.13	Year to 15.10.12
31.24%	21.51%

The PTR provides an indication of the rate the Manager has bought and sold the underlying assets of the Fund during the period as indicated above. In general, the higher the PTR of a fund, the greater level of portfolio transaction costs will be incurred.

## Distributions/Accumulations

	Quarter to 15.01.13	Quarter to 15.04.13	Quarter to 15.07.13	Quarter to 15.10.13
	Pence per unit			
Retail Income units	0.6939	1.2560	0.8164	1.0301
Retail Accumulation units	1.3093	2.3826	1.5635	1.9858
I-Class Income units	0.7003	1.2705	0.8198	1.0477
I-Class Accumulation units	1.3175	2.4018	1.5602	2.0114

## Fund Facts

Fund accounting dates		Fund payment/accumulation dates	
15 April	15 October	15 June	15 December

Additionally two further payments will be made on 15 March and 15 September each year to unitholders on the register as at 15 January and 15 July respectively.

## Comparative Tables

### Net Asset Values

Date	Net Asset Value of Fund	Net Asset Value per unit				Number of units in issue			
		Retail Income	Retail Accumulation	I-Class Income*	I-Class Accumulation*	Retail Income	Retail Accumulation	I-Class Income*	I-Class Accumulation*
15.10.12	£4,070,689,039	120.03p	226.44p	121.32p	227.82p	1,009,899,851	1,260,463,831	569,463	1,616,841
15.10.13	£4,741,071,324	126.04p	244.96p	128.18p	247.94p	1,006,176,740	1,241,210,359	109,840,318	117,636,834

### Unit Price Performance

Calendar Year	Highest offer				Lowest bid			
	Retail Income	Retail Accumulation	I-Class Income*	I-Class Accumulation*	Retail Income	Retail Accumulation	I-Class Income*	I-Class Accumulation*
2008	118.55p	188.63p	n/a	n/a	84.00p	139.18p	n/a	n/a
2009	114.62p	197.25p	n/a	n/a	87.40p	146.24p	n/a	n/a
2010	124.77p	221.10p	n/a	n/a	106.17p	183.64p	n/a	n/a
2011	125.12p	223.51p	114.98p	208.99p	108.20p	195.68p	109.12p	197.35p
2012	128.53p	241.99p	123.37p	231.48p	112.69p	208.38p	113.61p	208.79p
to 15.10.13	141.65p	271.37p	136.47p	260.27p	121.84p	229.85p	123.32p	231.55p

### Income/Accumulation Record

Calendar Year	Pence per unit			
	Retail Income	Retail Accumulation	I-Class Income*	I-Class Accumulation*
2008	4.0700p	6.5701p	n/a	n/a
2009	3.6200p	6.0879p	n/a	n/a
2010	3.3300p	5.7925p	n/a	n/a
2011	3.4051p	6.0988p	0.5507p	0.9960p
2012	3.8878p	7.1594p	3.8870p	7.1362p
to 15.12.13	3.7964p	7.2412p	3.8383p	7.2909p

\*I-Class income and I-Class accumulation units were introduced on 19 September 2011.

All of the Fund's expenses are charged to capital. This has had the effect of increasing the distributions paid on an annualised basis on Retail Units by up to 1.72% of the class' average Net Asset Value during the period under review (I-Class Units 0.97%) and constraining the class' capital performance to an equivalent extent.

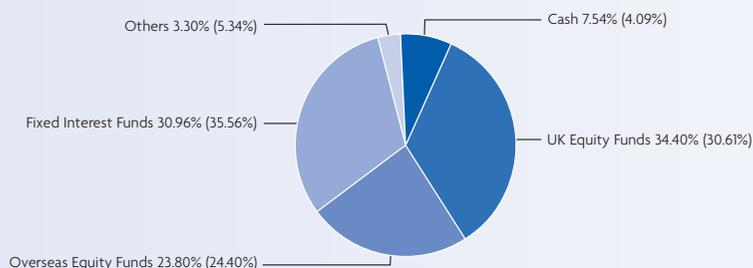
## Portfolio Holdings

The holdings at the end of the current year and at the end of the previous year are shown below.

Holding	% of Fund as at 15.10.13	Holding	% of Fund as at 15.10.12
M&G Global Dividend Fund	13.97	Invesco Perpetual Income Fund	13.53
Invesco Perpetual Income Fund	13.54	M&G Strategic Corporate Bond Fund	12.24
M&G Strategic Corporate Bond Fund	8.61	M&G Global Dividend Fund	11.42
Newton Asian Income Fund	7.01	Threadneedle Emerging Market Bond Fund	9.98
M&G Global Macro Bond Fund	6.76	Jupiter Strategic Bond Fund	8.32
Liontrust Global Strategic Bond Fund	6.60	Jupiter UK Special Situations Fund	6.82
Jupiter UK Special Situations Fund	6.08	Newton Asian Income Fund	6.62
Artemis Income Fund	5.48	First State Global Umbrella – Asian Equity Plus Fund	6.36
Jupiter Strategic Bond Fund	4.63	ETFS Physical Gold	5.34
Kames High Yield Bond Fund	4.36	Kames High Yield Bond Fund	5.02
Invesco Perpetual High Income Fund	4.28	Invesco Perpetual High Income Fund	3.76
ETFS Physical Gold	3.30	Artemis Income Fund	3.52
Jupiter Income Trust	2.88	Jupiter Income Trust	2.98
First State Global Umbrella – Asian Equity Plus Fund	2.82		
Cazenove UK Equity Income Fund	1.07		
Invesco Perpetual UK Strategic Income Fund	1.07		

## Portfolio Information

### Classification of investments as at 15 October 2013



The figures in brackets show allocations as at 15 October 2012.

## Investment Review

### Performance Review

For the year to 15 October 2013 the total return on the units was 8.2%\*, compared to 8.8%\* for the IMA Mixed Investment 20-60% Shares sector average and 9.5%\* for the FTSE APCIMS Income Index. The Fund was ranked 88th out of 147 funds over one year, 40th out of 127 funds over three years, 13th out of 93 funds over five years, 2nd out of 26 funds over ten years and 1st out of 8 funds since 1 May 1997 in the IMA Mixed Investment 20-60% Shares sector. It remains in the first quartile of its sector over 5, 10 years and since 1 May 1997. For holders of Retail Income units a final quarterly distribution of 1.0301 pence per unit (Retail Accumulation units 1.9858 pence per unit) will be paid on 15 December 2013, bringing the total paid for the period under review to 3.7964 pence per unit for holders of Retail

Income units (Retail Accumulation units 7.2412 pence per unit), compared to 3.8878 pence per unit for holders of Retail Income units (Retail Accumulation units 7.1594 pence per unit) for the same period last year.

\*Source: FE, total return, bid to bid, basic rate tax, net income reinvested. The statistics disclosed above relate to Retail Units unless otherwise stated.

### Market Review

Markets in aggregate rose strongly during the final few months of 2012 and carried this momentum into 2013, making a short term peak in March before rallying again until late May. Since this point, gyrations have curbed capital returns. Much of this volatility has surrounded the US Federal Reserve's (Fed) plans to curb its monthly injections

## Investment Review continued

of further quantitative easing (QE), its initial comments stimulating falls, but the subsequent downplaying of previous statements and then the postponement of tapering, resulted in relief rallies.

The key development in markets in the last six months, has been the marked underperformance of the emerging world relative to that of the developed. As developed market economies have picked up momentum from a low base, a cyclical slowdown has simultaneously hit these emerging regions, resulting in capital flight and deteriorating fundamentals. Whether these areas are likely to be the real losers when the Fed finally tapers QE is still uncertain, but if this is the case, it will result in global reverberations.

### Policy Review

During November we deployed capital into a selection of our long term core equity and fixed interest holdings, retaining a relatively fully invested position as markets rallied.

The Portfolio performed strongly during the first few months of 2013, as more defensive and quality-biased sectors caught up ground on more cyclical sectors which had a strong finish to 2012. In January we were also aided by trades that boosted our weighting to equities, via an increase in our holding in M&G Global Dividend Fund.

Between February and May we sold a portion of our strategic bond holdings, building a position in the Liontrust Global Strategic Bond Fund, which has a broad total return-orientated mandate investing across the fixed interest marketplace. We also hedged a portion of the US dollar exposure in the Portfolio in order to curb its vulnerability to currency fluctuations. This was closed out in April for a modest profit. In hindsight, we should have retained or even increased this hedge, as the Portfolio was negatively impacted by the material depreciation of the US dollar versus sterling from July onwards.

The Portfolio underperformed its index from June as our weighting towards the slowing Asian and emerging markets weighed on performance and our bias to the US dollar was a detriment.

As a counter-measure, we sold out of our dedicated emerging market debt fund during June and July upon concerns surrounding the slowing growth and negative

debt dynamics in a number of these countries, reinvesting the proceeds into M&G Global Macro Bond Fund, a flexible strategy that has the potential to make absolute money for our clients, even during these uncertain times for fixed interest managers. We also switched a portion of our Asian equity exposure into the UK.

At the close of the period we initiated positions in two new UK equity income funds which we expect to build over time.

### Investment Outlook

It is fairly clear that we are close to, maybe even beyond, an inflection point in a number of global themes that have been in place for many years, if not decades. Primarily, the economic world has benefitted for over 25 years from a disinflationary tailwind, resulting in a trend of declining interest rates. With interest rates at effectively zero in the western world and Japan, they can fall no further. This is not to say that interest rates are in imminent danger of rising, but declining interest rates and potentially falling bond yields are a thing of the past. As the prospect for further developed world monetary intervention wanes, this fundamental change in the macro economic backdrop should make all investors sit up and challenge their past assumptions.

**John Chaffeild-Roberts, Peter Lawery and  
Alyg Smith-Maxwell**  
Fund Managers

## Responsible Stewardship

Jupiter believes that responsible stewardship is an important issue and aims to act in the best interests of all its stakeholders by engaging with the companies that it invests in, and by exercising its voting rights with care. We believe companies with high standards of corporate responsibility, governance and sustainable business practices create an appropriate culture to enhance good investment performance. **Jupiter's Corporate Governance and Voting Policy** and its compliance with the **UK Stewardship Code**, together with supporting disclosure reports are available at [www.jupiteronline.com](http://www.jupiteronline.com)

This document is a short report of the Jupiter Merlin Income Portfolio for the year ended 15 October 2013. The full Report and Accounts of the Fund is available on our website [www.jupiteronline.com](http://www.jupiteronline.com) or upon written request to Jupiter Unit Trust Managers Limited, PO Box 10666, Chelmsford CM99 2BG.

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the year it covers and the results of those activities at the end of the year.

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