



Uncovering Europe's hidden gems

JPMorgan European Discovery Trust plc

INTRODUCTION

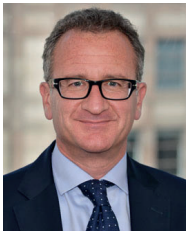
European equities are back in vogue, with massive fiscal and monetary support, economic re-openings, and a sizable valuation discount relative to the US. All of which provide an attractive macro backdrop for investors.

Capitalising on this exciting opportunity requires a flexible and dynamic investment strategy. The **JPMorgan European Discovery Trust plc** invests in European smaller companies, seeking out entrepreneurial businesses that are often leaders in their market niches and/or have growth prospects that are underappreciated by the market. Stock selection is guided by a disciplined investment strategy with a long track record of discovering Europe's lesser known corporate leaders, providing attractive long-term return potential.

The trust is focused on bottom up stock selection but from this overarching investment themes often emerge. These new structural growth themes often appear in the small cap space first which allows this trust to gain early exposure to new exciting growing companies. Currently some of the strongest growth potential is seen in companies benefitting from the increasing focus on health and wellness, technology-driven disruption, and an acceleration in efforts to tackle climate change.

The trust has successfully benefited from previous global investment trends. For example, the trust gained exposure to the opening up of China to luxury goods companies through investments in companies such as Ferragamo. The trust also benefited from technology improvements in the medtech space via several holdings, including dental implant leader Straumann, while the move to digital downloads in the video games sector supported our holding in Ubisoft. All these investments generated strong returns for the trust before being sold when the stocks became large caps, with the proceeds used to invest in new small-cap opportunities.

AUTHORS



Francesco Conte
Portfolio Manager



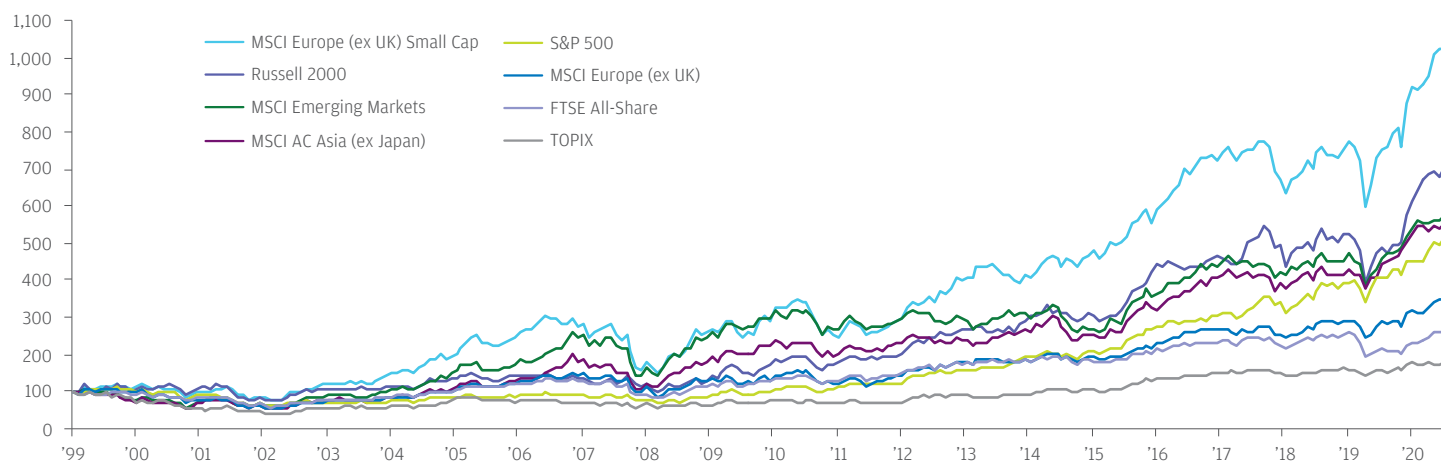
Edward Greaves
Portfolio Manager

SMALLER STOCKS WITH BIG POTENTIAL

Notwithstanding some brief, but significant, periods of underperformance, the smaller European stocks, that the JPMorgan European Discovery Trust focuses on, have not only outperformed large caps in Europe over the long-term, but have also outperformed most other markets globally. The MSCI Europe Small Cap Index is one of the best-performing indices in the world over the last two decades.

Just as attractive for investors is the fact that, although Europe's smaller companies have outperformed over many years, the sector remains underappreciated and under analysed by the market. This provides an opportunity for specialist active managers to take advantage of these market inefficiencies.

EXHIBIT 1: A COMPELLING LONG TERM ASSET CLASS



Source: J.P. Morgan Asset Management, Bloomberg. All series are rebased to 100 as at 31 December 1999 to 30 June 2021. All indices in GBP and include reinvested dividends. Indices do not include fees or operating expenses and are not available for actual investment.

Past performance is not a reliable indicator for current and future results.

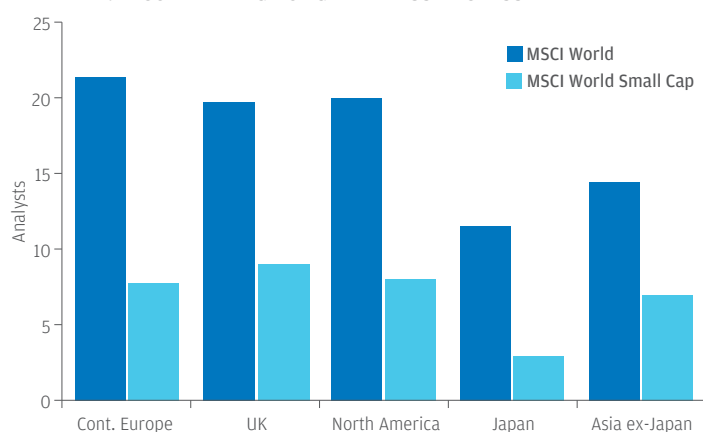
GREATER SCOPE TO PICK WINNING STOCKS

We believe the inefficiencies of the smaller company market and its lower sensitivity to the macroeconomic backdrop relative to larger caps offers greater opportunities for active stock pickers.

- **UNDER-APPRECIATED POTENTIAL:** A particularly powerful long-term consideration is the lower analyst/investor coverage across the European small cap universe, which we believe creates a less efficient market and more room for active managers to generate alpha.

- **MORE CORPORATE ACTIVITY:** Smaller companies are more likely to be acquired than larger companies, providing an additional source of investor returns. Over the years we have owned a number of companies that have been acquired including Bulgari, Tag Heuer, Jazztel, Moleskine, Altran, Grandvision, and Dialog Semiconductor.
- **IPOS:** When companies first list on the stock market they tend to be smaller companies and this provides a constant stream of new and exciting investment opportunities for the trust.
- **GREATER EXPOSURE TO STOCK-SPECIFIC RETURNS:** Relative to larger companies, investing in smaller companies provides greater exposure to stock-specific factors and less to general macro-economic conditions. As a result, we believe the JPMorgan European Discovery Trust plc provides a greater ability to generate alpha through stock picking. This is especially true in periods of high volatility as the disconnect between share prices and intrinsic value can grow significantly.

EXHIBIT 2: A COMPELLING LONG TERM ASSET CLASS



... Average of 18 analysts covering each MSCI World company

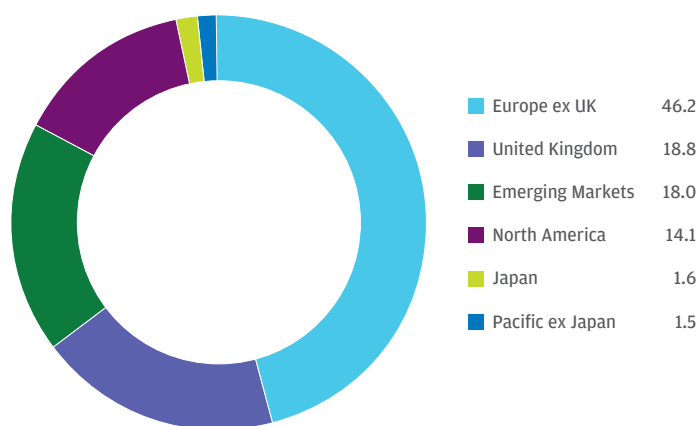
Average of 7 analysts covering each MSCI World Small Cap company

Source: J.P. Morgan Asset Management, Bloomberg, data as of 30 June, 2019.

Past performance is not a reliable indicator for current and future results.

- **INTERNATIONAL DIVERSIFICATION:** The ability to add value through stock picking is further enhanced by the diversified revenue exposure of Europe's smaller and underexplored companies. A significant proportion of small cap revenues comes from North America and emerging markets including China. With the majority of revenues generated outside the European Union, the country in which a company is listed has minimal impact on its long term growth potential.

EXHIBIT 4: MSCI EUROPE SMALL CAP INDEX REVENUE EXPOSURE (%)



Source: FactSet and J.P. Morgan Asset Management. As at 30 September 2020.

- **VALUATION DISCOUNT:** The significant market correction caused by the Covid-19 pandemic created the opportunity to uncover many exceptional companies with solid business models that were trading on very attractive valuations. The opportunities created have reinforced the quality of the European Discovery portfolio.

WHY JPMORGAN EUROPEAN DISCOVERY TRUST PLC?

- **EXPERIENCED TEAM** - The two named portfolio managers have an average of 23 years' experience and are supported by a team of 100+ equity professionals. Our team-based approach provides in depth coverage of an extensive universe of stocks (~1,500 names) and the ability to source entrepreneurial leaders.
- **DISCIPLINED, LONG-STANDING PROCESS COMBINING THE BEST OF QUANTITATIVE AND FUNDAMENTAL ANALYSIS** - Bottom-up fundamental approach to stock selection, preferring attractively valued, well-managed companies with an improving outlook.
- **FLEXIBLE INVESTMENT APPROACH** - The portfolio managers are able to invest in sectors where they see the best current growth opportunities. The overarching investment themes that have emerged from this bottom-up stock selection currently include environmental improvement, wellness and technology driven disruption.

INVESTMENT OBJECTIVE

The Company aims to provide capital growth from a diversified portfolio of smaller European companies (excluding the United Kingdom). As the emphasis is on capital growth rather than income, shareholders should expect the dividend to vary from year to year. The company has the ability to use borrowing to gear the portfolio within the range of 20% net cash to 20% geared, in normal market conditions.

KEY RISKS

- Exchange rate changes may cause the value of underlying overseas investments to go down as well as up.
- External factors may cause an entire asset class to decline in value. Prices and values of all shares or all bonds and income could decline at the same time, or fluctuate in response to the performance of individual companies and general market conditions.
- This company may utilise gearing (borrowing) which will exaggerate market movements both up and down.
- This company invests in smaller companies which may increase its risk profile.
- The share price may trade at a discount to the Net Asset Value of the company.
- The key risks facing the Company and the mechanisms in place to monitor and measure these risks are set out in the Company's annual report, a copy of which is available from its website, www.jpnam.co.uk/investmenttrust.

Building stronger portfolios

At J.P. Morgan Asset Management, collaborating with our clients in an effort to build stronger portfolios drives everything we do.

We are committed to sharing our expertise, insights and solutions to help make better investment decisions. Whatever you are looking to achieve, together we can solve it.



For further information, please contact your usual J.P. Morgan Asset Management representative.

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