Results analysis: Jupiter Green

JGC's board has announced a review of the future of the trust....

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- **In the year to 31/03/2024, Jupiter Green (JGC) delivered positive NAV total returns of 1.9%. This compares to a 11.5% rise in the trust's benchmark, the MSCI World Small Cap Index. Share price total returns were -19.1%.**
- **Whilst returns over the full year were challenging, the performance in the second half was much stronger, with JGC returning 12.1% in NAV terms from 01/10/2023, broadly in line with the benchmark.**
- **Performance during the period was driven by the 'higher for longer' interest rates narrative, geopolitical issues and a slowdown in economic growth, although expectations of a rate cut by the US Federal Reserve prompted an equity rally in the early part of 2024.**
- **The Sustainable Oceans & Freshwater Systems and Green Building & Industry themes were the primary drivers of positive returns for the trust during the period. Stormwater management solutions provider Advanced Drainage Systems was the standout performer, delivering a total share price return of 100% over the period. Horiba, a Japanese manufacturer of precision instruments, also contributed a total return of 75%.**
- **The Clean Energy theme was the largest detractor to performance with the sector facing structural headwinds from high interest rates, rising costs and supply chain constraints. This resulted in negative returns from companies such as Orsted, Solaredge and Ceres Power.**
- **Government policy remained supportive, although the Global Stocktake report revealed that the world is not currently on track to meet temperature goals set out in the Paris Agreement, (albeit the necessary technology is in place).**
- **The trust's discount significantly widened from 13.4% to 31.3% over the year. This has subsequently narrowed to around 25% since the period end. The board continues to monitor the discount and repurchased 2,031,011 shares over the period at an average discount of 16.9% to NAV.**
- **JGC Chair Michael Naylor said: "As attitudes toward addressing climate solutions shift, there is a broadening of the value chain beyond the conventional lens. The opportunities throughout the market that this creates will be plentiful and we firmly believe the Jupiter Green Investment Trust remains well-positioned to identify them."**
- **The Board also announced that it is currently evaluating options for the future of the trust, given its size and the challenging macroeconomic environment. The Chairman noted that it may not be in the best interests of shareholders for the trust to continue in its present form and that further announcements would follow.**

Kepler View

Jupiter Green (JGC) has a wide-ranging remit to invest in companies providing innovative solutions to some of the most pressing environmental challenges facing the world. The trust offers a well-diversified portfolio across six key themes, with a preference towards small and mid-cap firms due to their growth potential.

The macroeconomic and geopolitical backdrop has undoubtedly created a drag on performance in the period, with clean energy companies in particular coming under pressure from the sharp rise in interest rates. One such example is Orsted, one of the leading global off-shore wind producers, which has seen a steep drop in valuation on the back of higher risk-free rates, rising costs and a possible write-down in its US portfolio.

However, strong performance from other themes demonstrated the benefits of taking a broad approach to the environmental solutions sector. Topping the table was Advanced Drainage Systems, which provides clean water solutions and is also one of the largest plastic recycling companies in North America. ADS contributed an impressive total return of 100% during the period on the back of its ninth consecutive year of record earnings.

The environmental solutions sector will continue to play a critical role in the transition to net-zero. As the backbone of renewable energy transmission, electricity grid networks account for the trust's largest allocation in the clean energy sector. The International Energy Agency recently warned that, after a decade of stagnation, global investment in electricity grids needs to double by 2030 to hit climate targets and ensure a reliable supply of power. By way of example, Italian-listed Prysmian, a provider of cable solutions for power grids and one of JGC's largest holdings, enjoyed a share price increase of more than 70% over the last year on the back of strong earnings growth.

However, one of the downsides of a diversified portfolio is underperforming sectors creating a drag on returns and this has been the case for JGC in the last financial year. In line with the broader sector, clean energy has struggled in the face of higher interest rates, rising costs and supply chain issues. As a result, the trust's NAV return of 2% is significantly below the 11% return for its benchmark, the MSCI World Small Cap Index, for the financial year.

The trust's share price total return of -19% for the financial year has led to a widening in the discount to more than 30%, although this has since narrowed to around 25% (as at 25/07/2024). The board has been active in trying to narrow this discount through share buybacks, having bought over 2 million shares during the period, which we estimate as just under 10% of the shares in issue.

It's worth noting that JGC traded at a premium as recently as 2021 on the back of high investor appetite for the sector but current sentiment is weighing heavily against smaller trusts in light of higher interest rates. Given that the board has announced a review, the discount may start to narrow. In the meantime, the forecast cuts to base rates, in addition to the strong secular growth drivers for the sector, could provide a more conducive environment for JGC going forward.

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