

Capital at risk. Marketing communication for professional investors.



Jupiter UK Dynamic Equity Fund

THE ENGINE ROOM

VOLUME IV – Q3 2025

by Alex Savvides, Stephanie Geary
and Siddharth Sukumar

The value of active minds



ALEX SAVVIDES
Investment Manager



STEPHANIE GEARY
Investment Manager



SIDDHARTH SUKUMAR
Investment Manager

Dear clients,

One of the more fun things about moving to a new firm is the exposure to different ways of doing things. Amongst our new colleagues there are a variety of views over every aspect of investing, although as you would hope, all centred around the unifying goal of delivering value from active fund management.

When discussing portfolio construction and position sizing some colleagues are of the view that 'more is less' (more stocks is less risk of permanently impairing one's capital base). We are acutely aware of individual stock risk, however, we are about '**less is more**' (less stocks means more chance of preserving and compounding your capital).

We believe in focused, conviction position sizing and think that in doing so we add value to clients along the way. But to do so consistently in a volatile world takes a steadfast adherence to process.

With a naturally contrarian mindset, an ownership approach that drives deep engagement and the underestimated power of patience, our 'less is more' approach results in a focused portfolio with high conviction positions. This has historically generated outperformance¹ with a strong bias to idiosyncratic returns.

But the path to outperformance is often not smooth despite our best efforts. In quarter two this year, this focused approach was rewarded handsomely. In quarter three it was not. Convatec, one of the Fund's highest conviction positions, had what can only be described as a shocking quarter and was the major contributor to the Fund's underperformance.

The travails for Convatec (and some other long-held positions) make us reflect on various things that it calls into question: position sizing, valuation risk, "superstar" CEOs, portfolio exposures, investor positioning, regulatory risk, structural threats, even the purpose and benefit of corporate engagement.

This quarter's Engine Room will touch on these subjects and how we deal with short- and long-term position underperformance through conviction testing and constructive engagement.

We also assess what it means to be a patient investor in this extraordinary investing world of today and conclude that in business transformation '**less is more**.'

We hope you enjoy this edition of The Engine Room.

Alex, Sid and Steph

1. See performance charts at bottom of document. Past performance is no indication of current or future performance, and does not take into account commissions and costs incurred on the issue/redemption of shares. Returns may increase or decrease as a result of currency fluctuations.

A word on concentration

If you want supporting evidence for a particular view of portfolio construction, from super concentration to the broadest diversification, you will find it. Let us tell you how we do it, within the confines of a daily dealing UCITS structure.

We run 30-40 stocks across the market-cap range with capital concentrated at the top. Our focus is on business transformation where we back good, hopefully great, management teams to transform good, but potentially great companies.

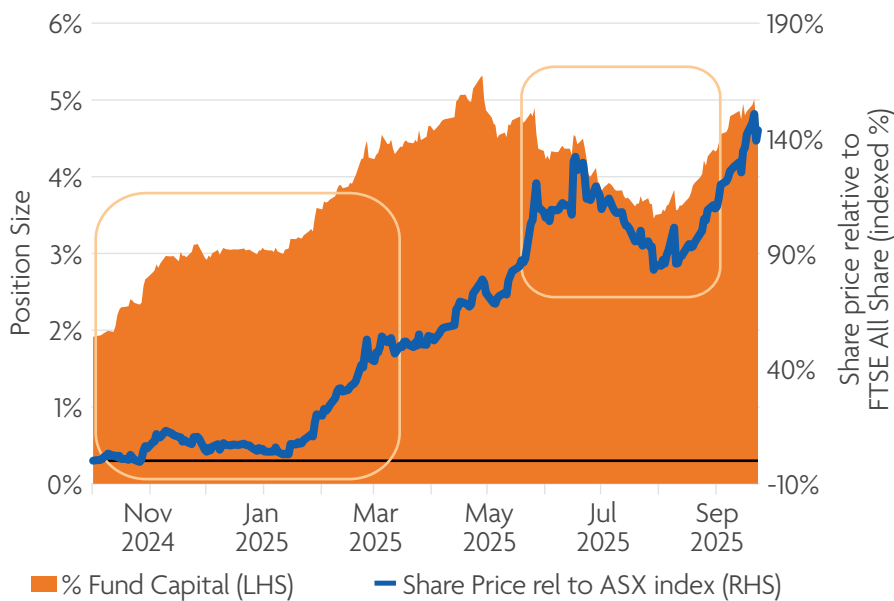
The best transformations successfully transition to value-accretive growth. The rewards for success in this area can be very large as the wider stock market progressively wakes up to the better, more enduring business characteristics. They don't happen all the time but when they do, they are very powerful. As such, business transformation as an investment approach promotes focus behind the successes.

This is not bubble-gum investing, chewing up an idea and spitting it out in a few days or weeks when the flavour has gone. This is about investing with conviction and patience over a multi-year period as thoughtful owners of businesses trying to understand their broad investment cases in detail.

To that end, we are believers in the Warren Buffett/Charlie Munger assertion that if you can understand your investments in detail and attain a level of knowledge about them, then excessive diversification is unnecessary and even counterproductive. To us therefore, '*less is more*,' and our portfolio weightings seek to reflect that.

Going into Q3, the top 5 investments accounted for c.27% of the portfolio. That is not unusual for the Fund and is the result of many years of understanding that our conviction, when appropriately built, is best expressed through *less* stocks and *more* concentration. We often show examples of how we conviction position size for success, with Babcock recently being another particularly good case in point.

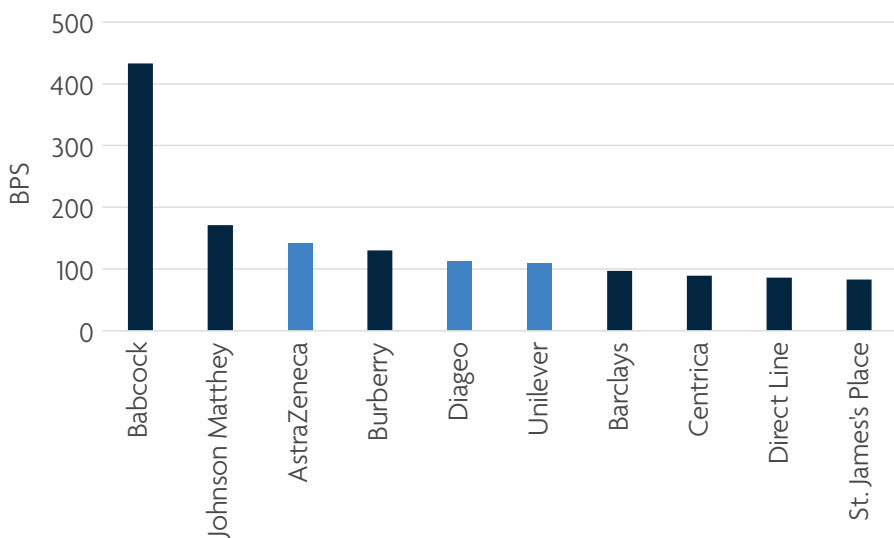
Babcock performance and position size



Source: Jupiter/Bloomberg, as at 3.10.25.

Since taking over the Fund on 11th October 2024, the Fund has outperformed the relevant benchmark by c.330bps – during a hugely volatile backdrop. The main contributors of that relative outperformance are shown in the bar chart below.

Top 10 relative contributors



Source: Jupiter/Factset. Relative contributions shown for the period 11.10.24 to 30.09.25.

Conviction position sizing has helped deliver idiosyncratic returns from, in particular, Babcock, Johnson Matthey and Burberry.

Rocky roads and performance gaps

But we do this in a world where bubble-gum investing is all the rage and this causes inevitable clashes with an approach such as ours, multi-year by design. Stocks can go in and out of favour fast, with short positions building quickly contributing to higher short-term volatility at the stock level.

It is also a world where stocks get bucketed by questionable methods into various factor exposures to enable asset managers and traders to bet for or against various thematic or macro trends.

In a narrow market where there are lots of interconnected risks and various concurrent crises affecting the investment landscape, the sudden funnelling of capital in a particular direction can have major consequences.

Business transformation at the stock level is often a rocky road and requires time. If any of the Fund's top positions don't satisfy the shorter-term demand trends or indeed are seen as being negatively affected by trends, there can be short-term performance gaps.

July was a chastening period in that regard, with several different things coming together to create a short-term but very real gap in performance. The Fund closed the month around 3.8% behind the index, a scale of one-month move that is *atypical* for this Fund. In fact, it was the third-largest, one-month relative decline for this team, with the first and second worst months during the GFC and Covid periods, respectively.

The issues were the following:

1. Size mix: FTSE 100 materially outperformed the FTSE 250 and small cap indices.
2. Sector mix: within the FTSE 100 performance was led by sectors that this Fund is under-represented in (by design): tobacco, oil & gas, and banks.
3. Profit taking: Babcock and Centrica shares suffered profit taking in July, in combination a -79bps headwind for the month. Over the quarter Babcock recovered well however to close in positive territory.
4. Idiosyncratic negatives: Convatec (-139bps), WPP (-30bps) and Victrex (-19bps) had specific issues around trading. Whilst both WPP and Victrex had profit warnings, Convatec *did not* and yet fell 20%.

Whilst the Fund clawed back some of that lost performance through the rest of the quarter with notable contributions from the Fund's now largest position, Johnson Matthey (+50bps), from Smith & Nephew (+47bps) and Babcock (+46bps), the headwind from the outsized move in Convatec was too big to overcome.

What makes a high conviction position?

Look down before you look up

One of the potential issues when running large, high conviction positions is that we expose the Fund to specific risks around a major unwind in the investment case if the conviction is misplaced. This problem would compound if a succession of issues were to come together and hit all the Fund's large positions at the same time.

We spend an inordinate amount of time as a team thinking about this and how to best protect our clients whilst giving them the best of Business Transformations.

To defend against adverse outcomes, we first seek to understand the downside protection not the upside optionality. It is at the very heart of our **Valueplus** approach (see 2Q Engine Room). Stage one is to think about the balance sheet, any adjustments needed and the direction of travel. Only then do we assess the business, its economics and the wider sector economics, before then focusing on the inherent and supportive optionality of positive change.

The Fund's *highest* conviction positions are built methodically with meaningful idiosyncratic margin of safety whilst also offering diversification across sector, thematic or factor exposures. To put 5-7% of the Fund into one position we need to feel underwritten in some way and it is therefore important to understand what we look for before committing to large positions:

1. **Deep transformation commitment and optionality:** The Fund's largest positions are those with the deepest board commitment to change and improvement.
2. **Understanding built through time:** We are constructively engaged with the executive and the board on the things that matter from day one of investing. The current top 5 have an average tenure of 4 years.
3. **Secure balance sheet:** We actively promote cash generation, deleveraging and financial discipline. The stocks in this Fund tend to have secure and *improving* balance sheets.
4. **Asset backing:** Our valuation approach focuses first on the balance sheet, looking for sources of *hidden* value and risk. Three of the current top 5 are heavily asset backed, Johnson Matthey, LandSec and Centrica, with material optionality.

5. **Valuation:** All positions hold the optionality of a re-rating with valuations low relative to history, peers and low relative to their emerging opportunity set. All have perception guided by historic rather than current norms, but with clearly improving trends.
6. **Defensive, embedded business model:** High conviction positions tend to have defensive revenue streams, often embedded in a customer workflow or life. They have good market position, and opportunities to lay down growth investment at higher marginal rates of return.
7. **Positive skew to operational trends:** We recognise the clear valuation power of growth and momentum. Often the largest positions are clearly inflecting to growth.
8. **The right management:** Typically, the best in the Fund; a track record of value creation and capital allocation discipline. Clear strategic focus.
9. **Dynamic, disciplined capital allocation:** The board and managements have a proven, disciplined, thoughtful and focused approach to capital allocation with clear and identifiable return metrics.
10. **Clear idiosyncratic drivers:** That a material part of the investment case is unique to the stock, within the control of management not dependent wholly on macro.

Moreover, it is critical that there is diversification across the top 5 and top 10 positions. We have learned through painful experience that, particularly at the top of the portfolio, it is hugely beneficial for some to zig whilst others might zag. The five-year daily correlation of the current top 10 positions would support the diversification thesis:

Security	CNA	CTEC	JMAT	LAND	RKT	BAB	BARC	GSK	BP/	SN/
CNA	1.00	0.09	0.12	0.21	0.11	0.16	0.15	0.14	0.17	0.05
CTEC	0.09	1.00	0.18	0.23	0.07	0.13	0.19	0.11	0.02	0.30
JMAT	0.12	0.18	1.00	0.17	0.05	0.18	0.26	0.07	0.13	0.10
LAND	0.21	0.23	0.17	1.00	0.18	0.19	0.26	0.17	0.11	0.30
RKT	0.11	0.07	0.05	0.18	1.00	0.10	0.07	0.27	0.03	0.23
BAB	0.16	0.13	0.18	0.19	0.10	1.00	0.34	0.02	0.12	0.08
BARC	0.15	0.19	0.26	0.26	0.07	0.34	1.00	0.06	0.26	0.16
GSK	0.14	0.11	0.07	0.17	0.27	0.02	0.06	1.00	0.12	0.29
BP/	0.17	0.02	0.13	0.11	0.03	0.12	0.26	0.12	1.00	0.08
SN/	0.05	0.30	0.10	0.30	0.23	0.08	0.16	0.29	0.08	1.00

Source: Jupiter/Aladdin STORM 2.0 UK Equity risk model. 5 year correlation shown.

And indeed, whilst Convatec has zagged year-to-date, contributing a negative 154bps of to the Fund's overall relative return, Babcock and Johnson Matthey have most definitely zigged, contributing 412bps and 186bps, respectively.

We try to not let one stock define this portfolio over the long run, but a process focused on business transformation occasionally unearths superb multi-year compounders, as was the case with 3i Group in 2012. We would always seek to maximise such opportunities when they are there.

We used a high hurdle for selling 3i, holding it for 15 years, during which time it became the largest contributor to this strategy's historic relative performance. Looking back, our understanding advantage built through determined engagement and diligence was clear. We should have had less positions and more of that specific one.

It is a strength of this Fund, focused as much on ongoing value creation as on shorter-term spot valuations, that we do not feel compelled to move on when there has been a small re-rating. We can hold the best transformations for far longer.

Business transformation can deliver enduring results, and by owning them through their earlier, often more difficult stages, we end up in a strong position to make an assessment in support of larger, higher conviction positions throughout the transformation lifecycle.

But, even with all the boxes ticked things may not turn out as planned.

Convatec – do they know something we don't?

We won't go over the full investment case for Convatec again, suffice it to say that we have been backing the transformation of this business for six years. To this point the transformation has been going well, with revenue growth accelerating and broadening out, margins recovering and cash generation improving. The shares hit new recovery highs in Q2 and at that point had been a material positive contributor to the Fund's performance.

They say that bad news comes in threes, but for Convatec in Q3 it came in fours. Having recovered from one potential pricing intervention in the US market last year, the company was hit with two further interventions in the space of a few weeks.

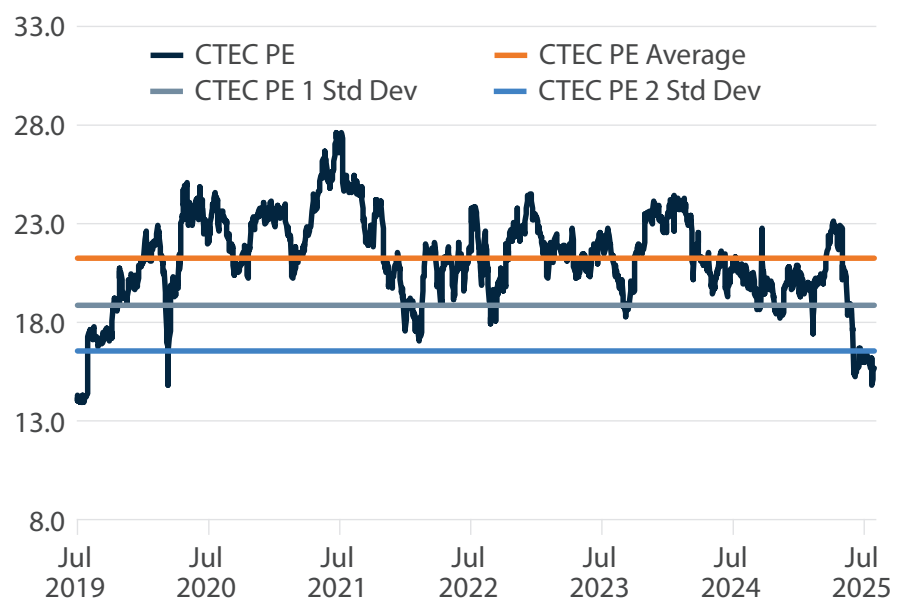
First, a proposal by the US Centers for Medicare and Medicaid Services (CMS) to subject a range of ostomy care and catheter products to a

competitive bidding programme. Then a proposal, again by the CMS, to cap the price of biologics-based skin substitutes at \$125 per square cm. Sadly, we then had news of an illness for CEO Karim Bitar, architect of the transformation, which would see him take a medical leave of absence. Finally, as the quarter closed news came that President Donald Trump would look to apply tariffs to certain imported medical products, which previously had been exempt.

Dealing with Convatec's response to the main CMS issues, Convatec have estimated a potential revenue impact of 1-2% in 2026 and an additional 1-2% in 2027. There are potential second-order impacts, however that *could* see Convatec emerge as a volume beneficiary from the proposed changes. Both proposals are in the consultation stage and may still be delayed, altered or cancelled. But that is not part of the narrative for now. With the concurrent negatively skewed announcements the Convatec bubble gum has lost its flavour to some. It is no surprise that the shares reacted badly.

The shares fell 20% over the quarter and reached a forward PE low of 15.5x. We show the history of the forward PE below since the business started transforming under this board.

Convatec PE Ratio - Transformation era



Source: Jupiter/Bloomberg, as at 3.10.25.

The shares also became (over the quarter) one of the most shorted stocks on the UK stock market, a remarkable statistic given the balance sheet improvements which saw them announce a \$300m buyback after interim results in July and a recent credit rating upgrade to investment grade. News at the end of the month that they had raised a \$500m bond in the US at +125bps, 35bps tighter than expected given a 12x oversubscribed book, adds further to the confusing positioning.

Shares can move aggressively on the smallest of things nowadays, and it's often tempting to think therefore that the market knows something that you don't. But most often it does not; it is simply about short-term positioning.

There will be much news flow to respond to in Q4 including not least, whether the CEO is able to return to his duties. We believe in the power of good CEOs and rate Karim Bitar particularly highly. His structured and methodical approach to investment has rebuilt the product pipeline. Manufacturing operations have been stabilised, improved and automated, whilst administration costs have been slimmed. The commercial engine and go-to market strategy has been revolutionised. We wish Karim well and hope that he can return. If not, we are prepared for further volatility.

But this is a business that is materially better than it was six years ago, with four divisions all getting better with the freshest product sets they have had for a generation and a further pipeline of innovative new products still to come. Convatec is exposed to defensive, sticky revenue streams in chronic care markets; is growing earnings and cashflow in excess of 10%; is buying back stock and has just had a credit rating upgrade to investment grade.

These are the hallmarks of a very high conviction position for this Fund, and we have decided that it will remain so for now at a c.5% weight. As the PE chart shows, the path has not been smooth and the shares can be volatile. Hopefully this is just another blip on the long road to continued improvement.

Conviction testing – constructive engagement in overdrive

“When the facts change, I change my mind. What do you do, sir?” – JM Keynes

The travails for Convatec (and for WPP) over the quarter made us ponder again the Fund's position sizing and ongoing conviction. It also made us consider the whole process of conviction testing for some other names like Vodafone.

Conviction once built needs continual reassessment. There is no such thing as a job done, with your conviction only as strong as the understanding of the facts on which it was based. We understand that much.

We start with a core thesis around a stock and what it could look like given certain decision paths and build from there. We test that thesis with management and the board and refine it as time goes on.

In 2021 we hypothesised that in Vodafone there was a business with hidden value that could be unlocked through a major restructuring after the disastrous decision in 2018 to acquire Liberty Global's German, Czech,

Hungary and Romania assets.

With a new chair appointed in 2020, we expected a change in CEO and a renewed strategy. We felt a more focused Vodafone, releasing value from the sprawling international empire, could release capital, reduce debt and ultimately drive a re-rating. As we explained last quarter, we like businesses that 'unpeel the onion.' But more than shrinking the conglomerate we wanted renewed vigour and urgency from a refreshed executive, clear decision making and a deeper cash focus.

Our continued engagement with Vodafone over the last four years turned up another notch last quarter as we continually reflect on the evolution of the investment case. So much restructuring has happened, for example the sale of Spain, Italy, Hungary and the 50% stake in Vantage Towers, and yet so little progress has been made in value creation terms; certainly, far less than we envisaged.

The four major asset sales contributed a capital inflow of c.€20bn for the loss of c.€2.5bn ebitdaal. Much of this went towards debt reduction but also a share buyback. There was also a decision to merge with Three in the UK and to undertake an internal restructuring and to reduce the ongoing dividend by 50%.

Sadly, the benefits of the asset sales and internal restructuring have been somewhat eaten by the material loss of profit in their German business over that time (c.€1.3bn ebitdaal lost) and the inability to fight the effects of inflation. We did not predict for this inflation adequately post 2022, but neither do we believe that the company managed its effects well enough. We feel there is so much more that can be done to the cost base.

We also feel the situation in Germany could have been handled better, with some of the issues clearly of the business's own making whilst others a result of regulatory changes that arguably were forecastable.

We have also been disappointed with some of the decision making from the board and under the new CEO Margherita Della Valle, who was previously CFO. One of the first decisions was to sell Vodafone Spain to effectively a new company, called Zegona Communications (ZEG LN EQUITY on Bloomberg). Whilst the management of Zegona had history in Spanish telecoms, this was of a different scale.

We were disappointed with the terms of the sale. The multiple looked low, and the structure of the deal, with Vodafone providing the acquirer with preference equity, seemed to materially favour the acquirer. We accepted that an external owner could potentially drive more radical changes but were hopeful of a maintained stake in a JV structure. For certain reasons Vodafone pursued a direct exit instead.

To hedge the potential value loss, we took part (while at JO Hambro Capital Management) in Zegona's UK stock market equity raise to purchase the

assets, clearly seeing that there was *optionality* in the value of Vodafone Spain's network and in a core corporate turnaround.

Zegona have since created two fibre JVs with Telefonica and MasOrange, the two other main Spanish network providers, which has involved the part monetisation of the core Vodafone Spain network. They also signed a new MVNO agreement, announced a round of cost cutting and are investigating some further asset sales. Zegona's share price has improved nearly 10-fold, propelled by the inherent leverage in the structure supported by Vodafone (their preference equity is very clearly debt not equity).

Thus far, around €3.5bn of value has been created from a starting valuation of c.€5bn. That Vodafone negotiated no mechanism to participate properly in the restructuring and likely value creation was, in our view, an error and a direct transfer of value from Vodafone to Zegona. Disappointing and avoidable in our minds and the board are accountable.

However, this is a sideshow. It is the German business that still holds the key to a material value unlock of the Group. Here, there are tentative signs of a lessening in the competitive pressures and in customer losses. The Vodafone Germany business has suffered a fall of c.22% in its ebitdaal between 2021 and 2025, partly the result of regulation changes, but also through mismanagement. There is more urgency and focus from a new regional team to fix some of the issues and be more competitive.

We remain heavily engaged with this company and continue to try to effect better thinking. One line of thought is that they could be more aggressive on cash maximisation (costs/asset ownership/capex) through better aligned incentives and that the current targeting of net debt could be extended and tightened to use excess cash to further shrink their *gross debt*. Targeting gross debt (and therefore the absolute cash cost of that debt) would help de-lever not just the balance sheet *but the P&L and cash flow statement*. Cash interest charges remain too high in our opinion.

There is a new finance director at Vodafone, and we are hopeful of a more material and direct cost saving strategy to release trapped capital. There is cost everywhere in this business that needs tackling, and the current programmes do not adequately capture the urgency and scale required. The last three years of audit fees have cost €100m alone. As recently highlighted by the CEO of BT plc² the use of AI tools offer scope for material cost savings.

And then there is the 65% ownership of Vodacom. Vodacom is a good asset that has growth runway as a pan-African mobile offering whilst also being the largest tower infrastructure owner and operator in Africa. It also has a differentiated business model and revenue streams (diversified in financial services, for example). We would contend that there is potential to unlock value from this asset over time and think that the board already should have reduced their holding.

² <https://www.ft.com/content/c8d41424-f2d9-418e-8da2-55823f1c22ca>

Long-term transformations such as with Vodafone are complicated and have many moving parts. They require deep and constructive engagement and can have successes and failures along the way.

The board is broadly doing what they set out to do but they could do much more, faster. We have made countless suggestions to this Board over the years, and we will, for as long as we hold a position, continue to do so.

It may feel like we are banging our head against a wall at times, but we are not. It is always worth the effort, whether we win or lose. It is what we do. It is how we both build *and lose* conviction.

The difference between being patient and being right

We are patient, but there is a difference between being patient and being right; so far, we have been patiently wrong on Vodafone in share price terms.

The restructuring has been partially successful (with more to come). The UK merger with 3 could be an interesting story if the move from four to three players holds. We still see so much latent value in Vodafone if operationally it were run more aggressively, which in turn could deliver further value through the P&L.

But we must accept that there has been value loss through a badly structured transaction in Spain (highlighting the importance of deal structuring) and a worse-than-expected set of developments in Germany. Recently the shares have performed a little better and reflecting on all of this, we reduced the Fund's exposure from c.3.0% to 1.5% whilst we consider where we have got to.

Whilst at the confession box, we should also report that the travails at WPP have continued (more from an uncompetitive media business than the direct sector impacts of AI, we might add) and as a result, whilst there is a cheap stock, the current assumptions needed for a full-scale turnaround look heroic and the Fund's exposure has been reduced to 1%. We have also been wrong on this one.

In combination this year to the end of September Vodafone has contributed positively (+22bps) and WPP very negatively (-174bps). WPP is the worst performing stock in the Fund year-to-date.

We are maintaining varying sized options in these businesses pending a meeting with the Board senior independent director at Vodafone and the new CEO at WPP. Once we have completed this process we will update further on the next steps.

For now, though, both are reduced as they have not worked out as hoped. In turn, we can think with a clear head. This is something we have done to good effect before.

A lesson from 2015

It is worth remembering a lesson from 2015. We often do, and we amended the strategy's analytical and tactical processes as a result; balance sheet work stepped even higher and the approach to rapidly falling share prices in high conviction names where there was leverage, was adapted. The dangers of operating *and* financial leverage became all too clear.

Investors with long memories will remember that this strategy had a large position in Anglo American in 2015, when it suffered a sudden loss of equity market confidence during a tough macro period, which led to commodity price falls and questioning of Anglo American's leverage. The stock market suddenly took its cues from the credit market and the less liquid CDS market, where the cost to insure against default spiked to an all-time high.

Backing the shares consistently as they fell (with a view that the balance sheet was sound) through topping up as the shares fell, cost investors a lot of money (over 300bps of negative relative contribution over the year).

At a certain point we recognised the folly and reduced the holding to a position less consequential so that we could take a step-back, regroup and take a fresh look, unencumbered by the position size pressure.

This stance allowed us to see more clearly and see the asset value for what it was. We ended up doubling the position again at the lows and for the next seven years the stock became one of the best performing in the strategy, paying back all losses and generating material positive absolute and relative value to the strategy.

Engagement with a purpose elsewhere

Other conviction testing took place over the quarter in a suite of names that have been in the Fund for a while, have made clear operational and strategic progress but where again, the shares have not been responding.

Rather than just check in with the brokers or investor relations to see if there was anything that we had missed, we produced a hypothesis for each on what might make the market more comfortable and what indeed would make us more comfortable.

We had three companies that we specifically had views on and three agenda items:

MONY Group: We have a thesis that despite all the good work the company is doing in the face of cyclically challenged markets and a slight AI overlay, that the business would materially benefit from entering new verticals that are stickier and promote daily rather than annual visits. As an example: we think the business needs to have a wealth and investments vertical and have made this suggestion to the board.

LandSec: In February, this year the board announced a strategic update which involved recycling capital from London offices and building a build-to-rent portfolio. The assertion was that build-to-rent income would come with the same returns but be less volatile and more inflation-linked than office rental income.

We are supportive of the direction of travel but we believe that, with a deep group discount to NAV (driven in the main by the market's negative view of office assets), a set of high-quality prime shopping centre assets valued on yields above 7% and trading extremely well, (low vacancy, rising footfall and high like-for-like rental growth), the business should consider share buybacks as an additional (partial) use of cash.

Crest Nicholson: The business is making good operational strategic progress as evidenced by the interim results released in summer. One of the things that might be holding investors back is the balance sheet position; whilst ok in isolation, stress testing performed for the audit at FY 25 results suggested there was a scenario in which the balance sheet could be stretched. There is a fix to this. Part of the attraction of Crest Nicholson is that it has a large and long-duration landbank. Indeed, it was this landbank that led to the bid from Bellway in 2024. Whilst cash performance has been good, we are actively engaging on the accelerated monetisation of parts of this landbank to help alleviate any pressure more quickly.

The meaning of patience

Understanding change within organisations aimed at creating better, more valuable, and more financially secure businesses is neither easy nor simple. It involves becoming embedded in a set of strategic changes within businesses that take time to implement and can take several years to play out.

Often these changes are undertaken set against a volatile macro backdrop. Sometimes there are idiosyncratic left-field challenges that the management teams must deal with and that we as investors need to factor in. But selling in a knee jerk way in response to any short-term troubles is not our *modus operandi*. We try to always stay focused on the long-term benefits from meaningful, structural business improvements.

This requires patient, continuous and thoughtful engagement, an aspect of investing we think is an increasingly rare and differentiated capability. We see it as not only a means to drive alignment but also a path to gaining a deeper understanding. From that understanding we can drive conviction capital allocation decisions, maintained through periods when the stock market is not in agreement.

Businesses purposefully going through this transformation journey on the UK stock market are smaller by number, which also creates focus around the best, most meaningful ones guided by our five-pillar approach, which looks for the right businesses with the right problems at the right valuation, right time and right management.

We set ourselves a simple mission: **being the best at business transformations**. That requires focus. That is why we stay focused on this important sub-set of value investing, where traditional value occasionally blossoms into real, enduring intrinsic value.

We have had good examples of that transformation to growth in the past and will have more in the future. Convatec is one that we have marked as capable of delivering on that journey. It did not work this quarter. Vodafone has restructured so much over the last four years but has not yet delivered. WPP has been restructuring since 2018 but did not move quickly enough.

We are cognisant of these short-, medium- and long-term failings. But as Babcock, Johnson Matthey, Burberry and Smith & Nephew proved this year, and with well-documented historic proof from 3i Group, QinetiQ, Centrica, Rolls-Royce, Pearson and DMGT amongst others, conviction position sizing adds value for this Fund.

We remain steadfast in the view that with a focus on change, constructive engagement feeds understanding and understanding drives conviction. In portfolio constructing for business transformation therefore, **'less is more.'**

Performance review

It was a disappointing quarter *in relative terms* with the Fund closing up 3.73%, behind the target benchmark, which closed up 6.87%. The FTSE 100 (+7.5%)

drove the index performance and materially outperformed the FTSE 250 (+2.7%), Small cap (+2.1%) and AIM (+2.0%). This mix served as a small headwind.

Other than mix, the underperformance was down to exposure to some current negative thematic issues (AI threats, US policy impacts and the UK economy), some clear idiosyncratic stock issues (principally Convatec) and a lack of clear positive strategic developments (a matter of patience). All of the underperformance took place in July, with August flat and September positive.

Thinking about mix, performance over the quarter should also be seen in the context of a narrow and divergent market, driven in large part by sub-sectors (and some stocks) that the Fund is not materially exposed to. Basic materials, driven by mining, was up 24% (for context gold was up 17% over the quarter, silver by c.30% and Fresnillo, exposed to both, by 65%) tobacco up 13% (the Fund has no exposure), and banks by 14% (the Fund is underweight).

Looking at individual names driving the FTSE 100, Rolls-Royce again had a major move, rising by 25% over the quarter (a 54bps relative headwind) and now sells for 36x next year's earnings. Rolls' share price is achieving financial miracles by being rated highly for expected upgrades and then being re-rated even further when the upgrades come. The two Asian banks, HSBC and Standard Chartered, rose by c.19% each, whilst British American Tobacco and Imperial Brands rose by 15% and 13%, respectively.

The Fund had its own FTSE 100 successes over the quarter, with **Anglo American**, **Smith & Nephew** and **Babcock** rising by c.30%, 20% and 17%, respectively, but, given their comparatively smaller index weightings, they did little to offset the headwinds.

When looking at the underperforming stocks, the three main macro-thematic drivers of UK stock market performance loom large: US policy, the perceived impact of AI and the precarious state of the UK fiscal position. Attempts to either avoid or gain from such thematic impacts had a funnelling effect on capital allocation decisions across various asset classes, driving short-term flows aggressively *into* or *against* various themes. Some asset price moves were extreme, with Oracle's eye-opening c.40% intraday move on the back of some AI-related fairy dust, in our view, making the headlines amongst others.

Looking at AI impacts in the UK, **WPP** still a (smaller) position in the Fund, fell by 29%, an AI-affected performance made worse by their own trading performance (losing market share in media buying and planning to Publicis). **YouGov**, another Fund holding, was similarly weak despite a reassuring trading update. Interestingly this quarter, data-led businesses like London Stock Exchange Group and RELX were also dragged into the quagmire 'AI losers basket' (market vernacular not ours) and fell by 20% and 9%, respectively. Not owning these was a small tailwind.

Recruiters like **Hays** (for now no longer a position in the Fund) and Page Group (not owned) fell 21% and 14%, respectively, a mixture of cyclical weakness in the jobs market and the looming threat of AI on jobs more broadly. The recruitment sector is at lows not seen since the global financial crisis.

On the President Trump policy front, companies with revenues reliant on or exposed to global trade or in the crosshairs of pricing debates, struggled again. New tariffs were proposed for medical devices and various capital goods importers. The healthcare space, already under pressure from proposed drug price reductions, suffered. Most notable for this Fund, **Convatec** was assumed to be caught in the crosshairs.

In the UK macroeconomy, the combined effects of lingering inflation, questionable government policies and ballooning budget deficits pushed government borrowing costs higher by c.30bps. The 30-year yield hit the highest level for nearly 30 years. That it was not just a UK phenomenon does not matter, bond yields in the UK remain structurally higher than comparable European countries across the curve.

The housebuilding, real estate and general retail sectors were the main losers from this theme, falling by 10%, 7% and 1%, respectively. For this Fund, the main exposures to the UK economy and interest rate environment are from high conviction transformation stocks **LandSec**, **Travis Perkins** and **Crest Nicholson**. All fell over the quarter, fairly substantially in the case of Crest Nicholson (-19%), despite none delivering any material bad news; in fact, the news that did come out of LandSec (asset sale, capital markets day) and Travis Perkins (interim results) was *good* rather than bad.

With so (too?) many traders in so (too?) many pod-shops chasing too little performance (narrow markets), a proliferation of thematic and factor ETFs, highly anxious markets and extreme loss aversion, crowding is rife and happens *extraordinarily quickly*. Short-term valuation as a price anchor is hugely subservient to earnings momentum, and more dangerously, *price momentum*. FOMO is alive and well.

Married to the unpredictable (tweeted) policy announcements from the US government and the general febrile politics across the west more broadly, these are not healthy conditions and may end badly.

Finally on performance, a word on the idiosyncratic negatives from which we can't hide. In July, **WPP** reduced full-year revenue guidance on a tougher macro and weak new business performance. We have covered WPP's issues previously and so will say little more. The challenges are real, and the Fund's position is materially smaller. The transformation has not been quick enough or deep enough and the market share losses have been large as a result. New CEO Cindy Rose, appointed soon after the warning and a prior board member, has a tough job ahead but is moving quickly.

C&C Group, an early-stage root and branch transformation, had an in-line trading statement but announced the surprise departure of the group finance director. The shares fell c.20% after the news despite no major forecast changes. No doubt the company will find another finance director in due course.

Victrex, a new position in desperate need of a transformation and new narrative – a point we have been making to the board for much of this year – had another profit warning and announced the replacement of the CEO. Whilst this will be a long-haul, and we expect the trading pressures around gross margin to continue for a period, there is much optionality in this company and a sound balance sheet from which to deliver it.

The above three issues, combined from stocks accounting for less than 4% of Fund capital, were contained. The multiple small issues that affected **Convatec**, the main idiosyncratic performance issue for the Fund in Q3, were a little more complex and in the short run, a little more damaging to the perception of the investment case.

Performance

Jupiter UK Dynamic Equity Fund (I GBP Acc)

	01 Oct '15 to 30 Sep '16	01 Oct '16 to 30 Sep '17	01 Oct '17 to 30 Sep '18	01 Oct '18 to 30 Sep '19	01 Oct '19 to 30 Sep '20
Jupiter UK Dynamic Equity Fund (I Acc)	17.1	14.6	4.6	-0.3	-22.9
FTSE All-Share	16.8	11.9	5.9	2.7	-16.6
IA UK All Companies	12.0	13.7	5.6	0.0	-12.8

	01 Oct '20 to 30 Sep '21	01 Oct '21 to 30 Sep '22	01 Oct '22 to 30 Sep '23	01 Oct '23 to 30 Sep '24	01 Oct '24 to 30 Sep '25
Jupiter UK Dynamic Equity Fund (I Acc)	39.8	-2.0	19.2	12.0	18.7
FTSE All-Share	27.9	-4.0	13.8	13.4	16.2
IA UK All Companies	32.1	-15.4	12.6	14.2	9.5

	1 Month	1 Year	3 Years	5 Years	10 Years	Since FM Inception ¹
Jupiter UK Dynamic Equity Fund (I Acc)	2.6	18.7	58.6	117.1	134.3	19.6
FTSE All-Share	1.9	16.2	50.0	84.1	118.3	16.3
IA UK All Companies	1.2	9.5	40.8	57.4	84.6	10.6

Past performance is no indication of current or future performance, and does not take into account commissions and costs incurred on the issue/redemption of shares. Returns may increase or decrease as a result of currency fluctuations.

Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, in GBP, to 30.09.25.

Target Benchmark: FTSE All-Share. Comparator: IA UK All Companies. The highlighted column denotes periods managed by the current investment team. ¹ 11.10.24.

Jupiter UK Dynamic Equity Fund risks

Pricing Risk

Price movements in financial assets mean the value of assets can fall as well as rise, with this risk typically amplified in more volatile market conditions.

Market Concentration Risk (Geographical Region/Country)

Investing in a particular country or geographic region can cause the value of this investment to rise or fall more relative to investments whose focus is spread more globally in nature.

Derivative risk

The Fund may use derivatives to reduce costs and/or the overall risk of the Fund (this is also known as Efficient Portfolio Management or “EPM”). Derivatives involve a level of risk, however, for EPM they should not increase the overall riskiness of the Fund.

Liquidity Risk (general)

During difficult market conditions there may not be enough investors to buy and sell certain investments. This may have an impact on the value of the Fund.

Counterparty Default Risk

The risk of losses due to the default of a counterparty on a derivatives contract or a custodian that is safeguarding the Fund's assets.

For a more detailed explanation of risk factors, please refer to the “Risk Factors” section of the Scheme Particulars.

The value of active minds – independent thinking:

A key feature of Jupiter's investment approach is that we eschew the adoption of a house view, instead preferring to allow our specialist fund managers to formulate their own opinions on their asset class. As a result, it should be noted that any views expressed – including on matters relating to environmental, social and governance considerations – are those of the author(s), and may differ from views held by other Jupiter investment professionals.



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