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# JPMorgan European Smaller Companies Trust plc Annual General Meeting

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**July 2017**

**Francesco Conte**, Portfolio Manager

**Edward Greaves**, Portfolio Manager

# JPMorgan European Smaller Companies Trust plc

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## Key characteristics

### ■ 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

### ■ Policy

- To invest in a diversified portfolio of companies the majority of which, at the time of purchase, fall within the market capitalisation range of the benchmark index

### ■ Benchmark

- Euromoney Smaller European Companies (ex UK) Index (Total Return Net)

### ■ Net assets

- GBP 724.8m

### ■ Gearing

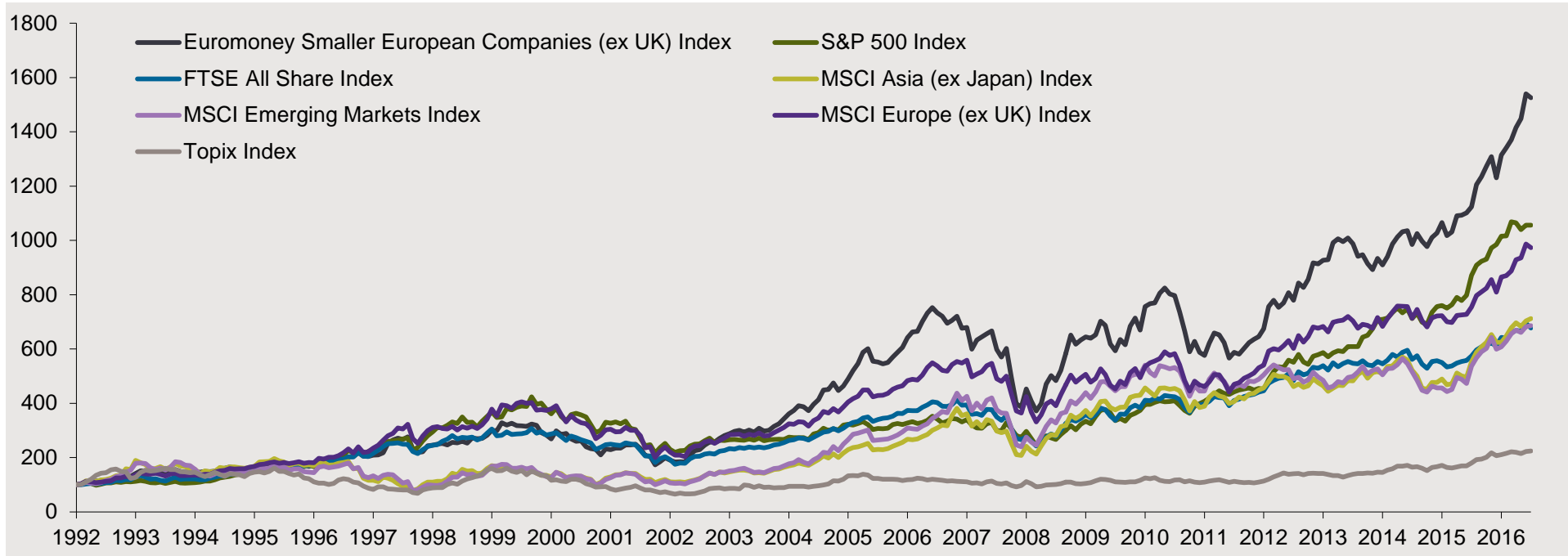
- Current: 3.6% cash

Source: J.P. Morgan Asset Management. As at 31 May 2017. The Investment Manager (Portfolio Manager) seeks to achieve the stated targets/objectives. There can be no guarantee the objectives/targets will be met. The Benchmark is a point of reference against which the performance of the Investment Trust may be measured. The Investment Trust may bear little resemblance to its benchmark. Diversification does not guarantee investment returns and does not eliminate the risk of loss.

# European smaller companies

A compelling long asset class

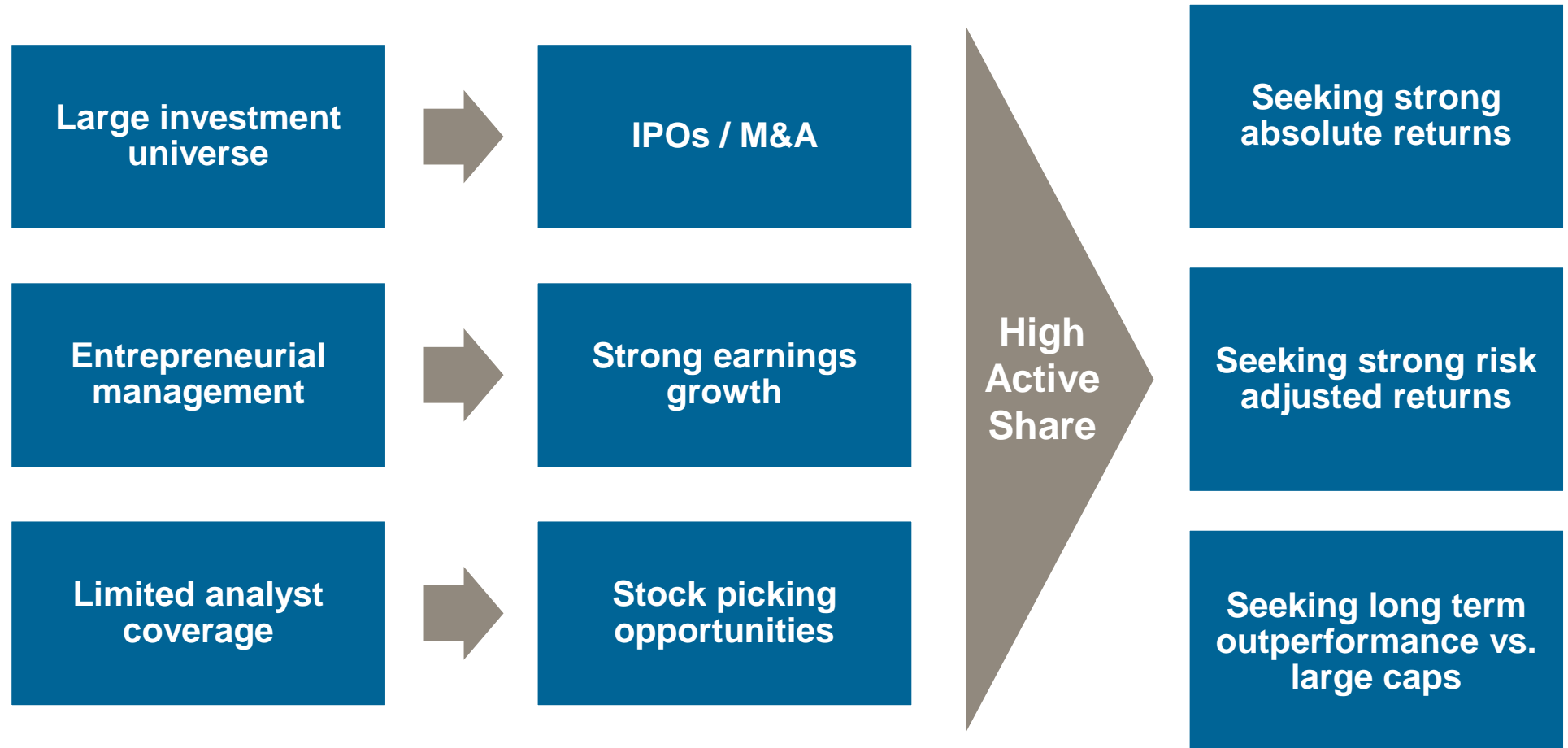
## Cumulative returns



... European small caps have produced long term equity returns amongst the best in the world

Source: J.P. Morgan Asset Management, Thomson Reuters Datastream. All series are rebased to 100 as at 31 December 1992 to 30 June 2017. 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 necessarily a reliable indicator of current and future performance.

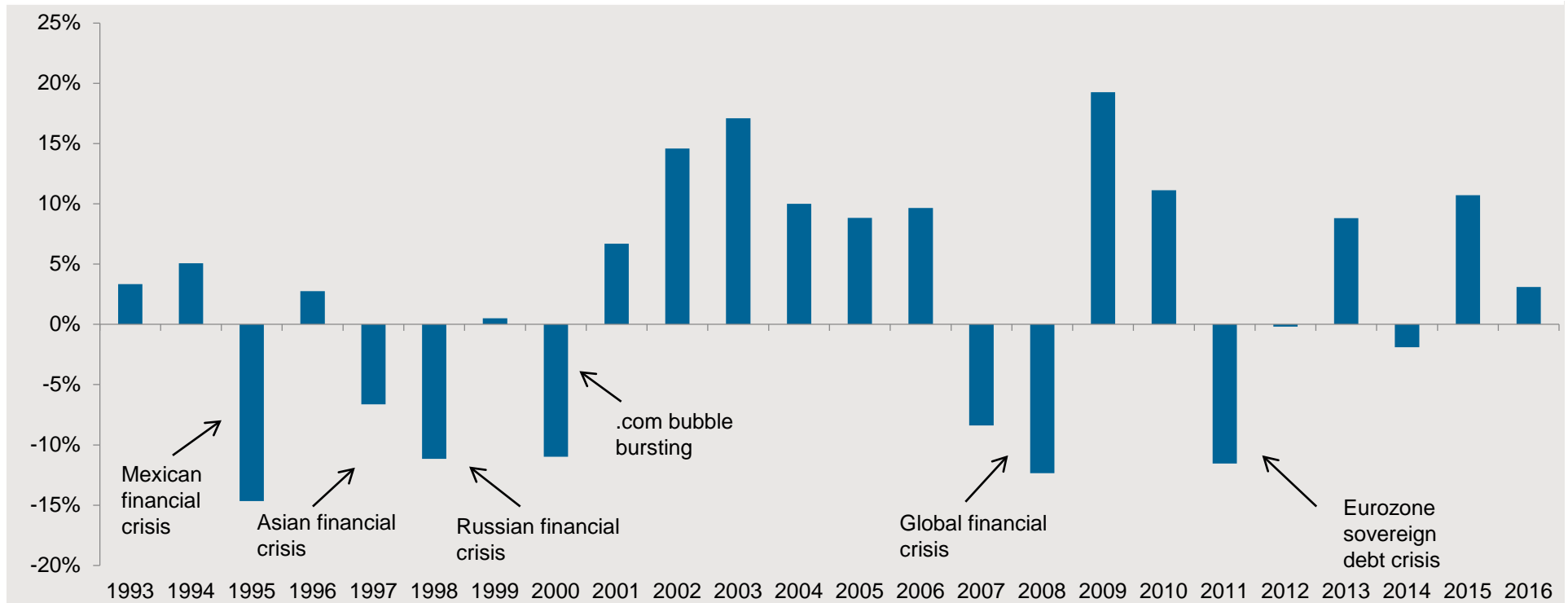
## Small cap investing rationale



# European smaller companies

Generally outperform in up markets

Calendar year excess returns Euromoney Smaller European Companies (ex UK) Index vs. MSCI Europe (ex UK) Index



Source: J.P. Morgan Asset Management, Thomson Reuters Datastream, data from 31 December 1993 to 31 December 2017. All indices in EUR and include reinvested dividends. Indices do not include fees or operating expenses and are not available for actual investment. Past performance is not necessarily a reliable indicator for current and future performance.

# JPMorgan European Smaller Companies Trust plc

Largest European smaller companies investment trust\*



**Jim Campbell**

22 years at JPMAM, 28 years industry experience



**Francesco Conte**

18 years at JPMAM, 28 years industry experience



**Edward Greaves**

5 years at JPMAM, 9 years industry experience



- One of the longest track records in European small cap investing
- Investment process focused on capturing change in operating momentum
- Consistent value-added from active use of gearing

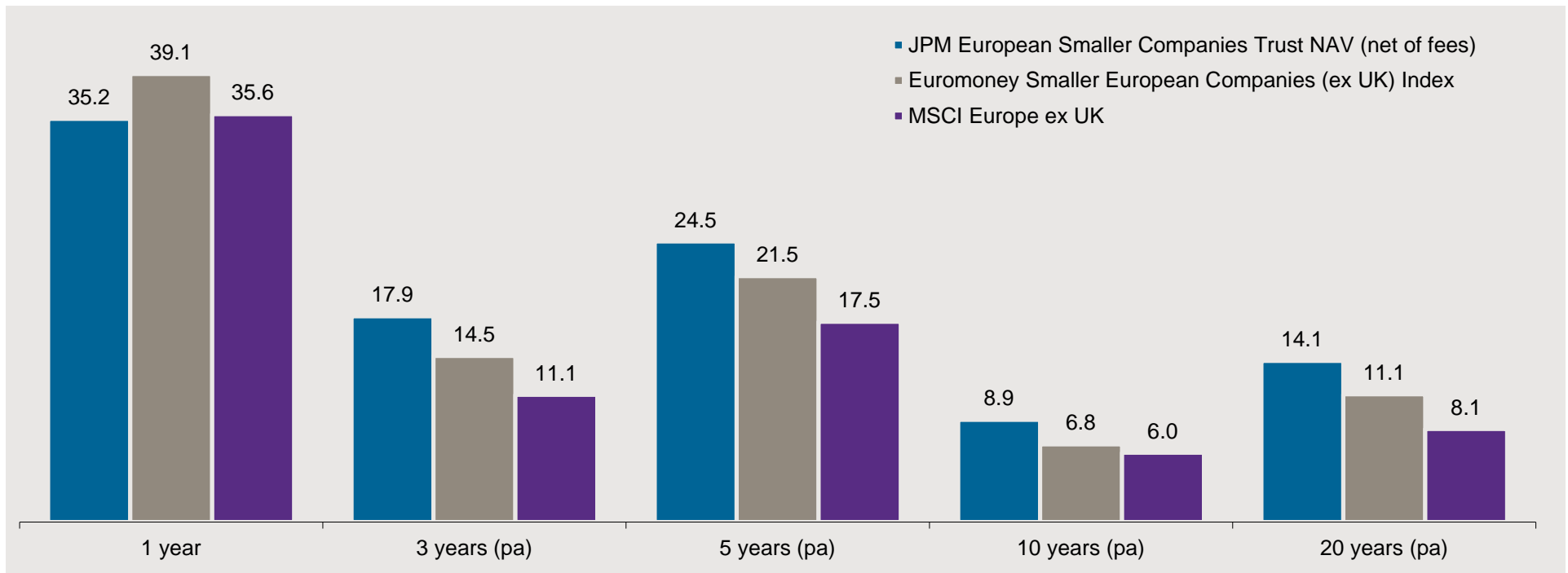
... An established track record through market cycles

Source: Thomson Reuters Datastream, as at 30 June 2017. Chart shows Euromoney Europe Smaller Companies Index (light blue) and JPMorgan European Smaller Companies Investment Trust plc NAV (dark blue) from 1994, rebased to 100 as at 31 December 1994. There can be no assurance that the professionals currently employed by J.P. Morgan Asset Management will continue to be employed by J.P. Morgan Asset Management or that the past performance or success of any such professional serves as an indicator of such professional's future performance or success. Past performance is not necessarily a reliable indicator of current and future performance \*Largest investment trust in the Europe Smaller Companies universe by market value as of 31 March 2017.

# JPMorgan European Smaller Companies Trust plc

## Long term returns

### Annualised returns 31 May 2017 (%)



### ...asset class offers opportunity for significant alpha generation

Source: J.P. Morgan Asset Management, Thomson Reuters Datastream. NAV returns are net of fees, in GBP, with income reinvested. All indices in sterling and include reinvested dividends. Indices do not include fees or operating expenses and are not available for actual investment. Performance is provisional. Past performance is not necessarily a reliable indicator for current and future performance.

# Our investment philosophy

We believe that attractively valued, high quality stocks with positive momentum outperform the market

## VALUE

- Themes:
  - Cyclical recovery
  - Restructuring opportunities
  - High yielding stocks

- Stock examples:
  - Alten
  - Ipsos
  - Sopra Steria

## QUALITY

- Themes:
  - Market leaders
  - High return of capital
  - Disciplined capital allocation
  - Shareholder returns

- Stock examples:
  - IMA
  - Fincobank
  - Forbo

## MOMENTUM

- Themes:
  - Structurally growing end markets
  - Disruptive technology
  - Bolt-on acquisition strategy

- Stock examples:
  - Datalogic
  - Metso
  - Temenos

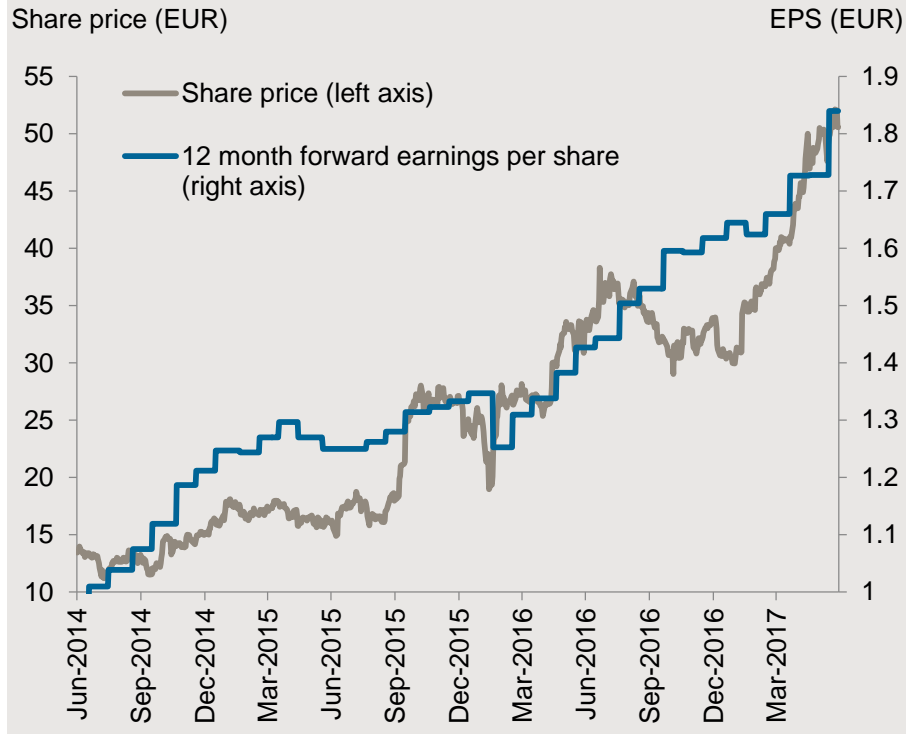
Source: J.P. Morgan Asset Management 31 May 2017. The companies/securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell. J.P. Morgan Asset Management may or may not hold positions on behalf of its clients in any or all of the aforementioned securities. Past performance is not necessarily a reliable indicator for current and future performance.



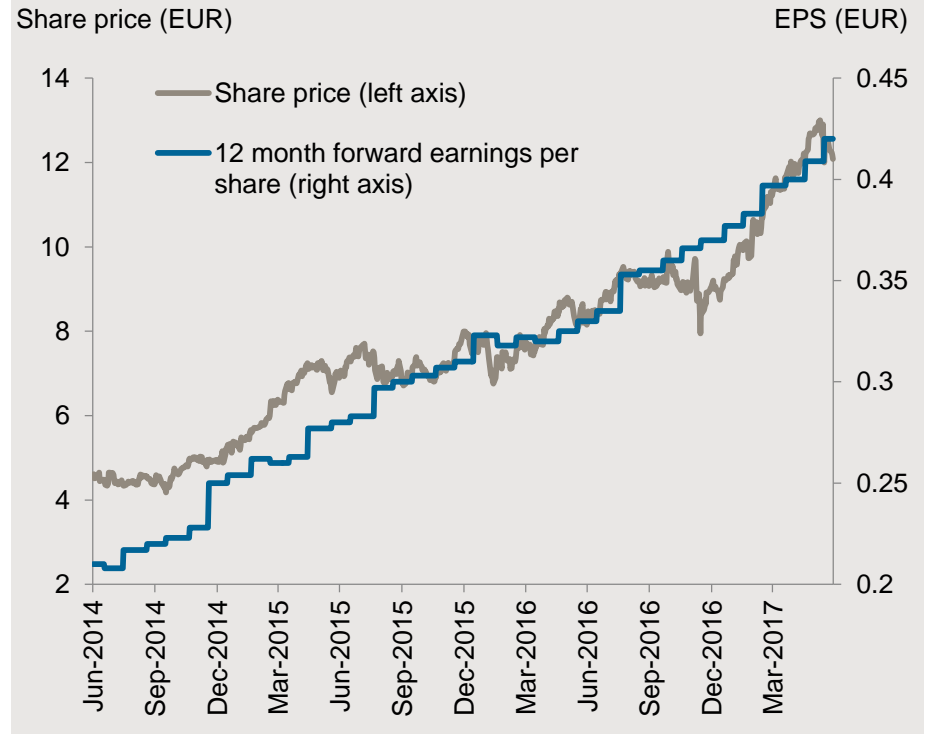
# Stock examples

## Classic growth stocks

### Ubisoft



### Amplifon

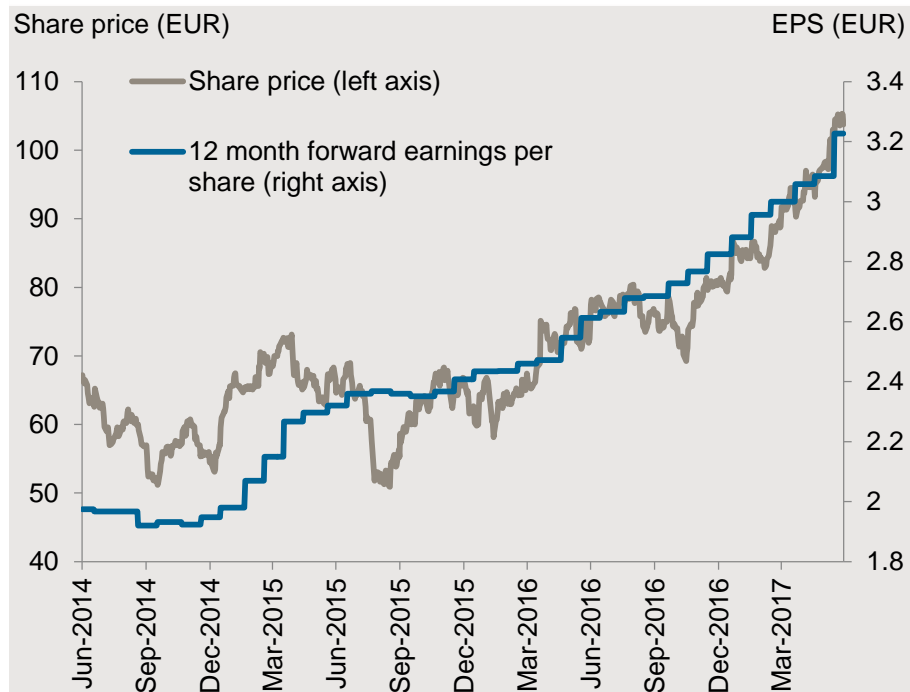


Source: Datastream. J.P. Morgan Asset Management. Data from 30 June 2014 to 30 June 2017. The companies/securities above shown are for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell. J.P. Morgan Asset Management may or may not have positions on behalf of its clients in any or all of the aforementioned securities. Past performance is not necessarily a reliable indicator of current and future performance.

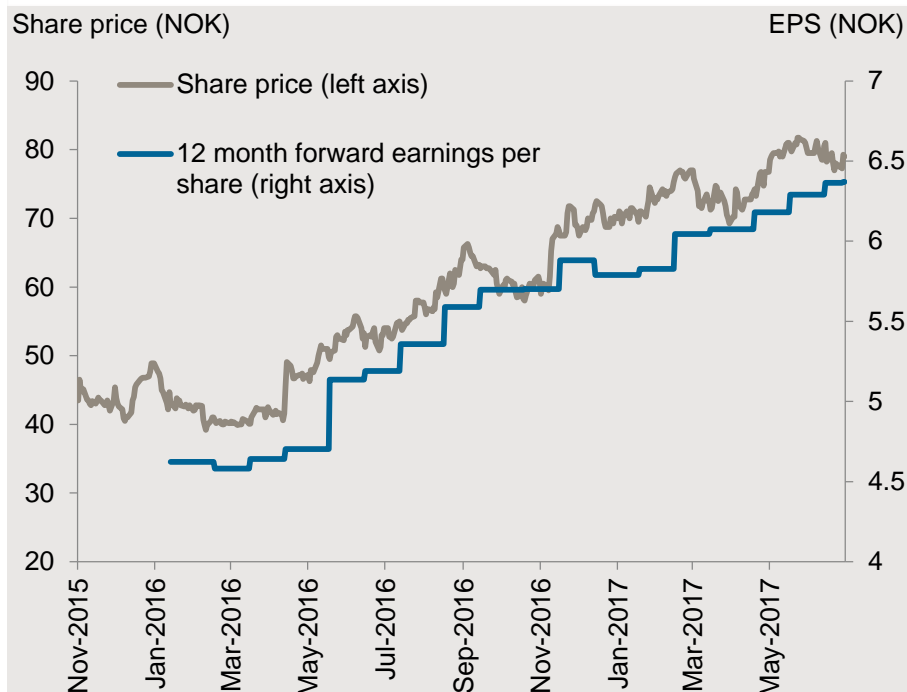
# Stock examples

## Innovative companies in traditional sectors

### Remy Cointreau



### Skandiabanken



Source: Datastream. J.P. Morgan Asset Management. Data from 30 June 2014 to 30 June 2017. The companies/securities above shown are for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell. J.P. Morgan Asset Management may or may not have positions on behalf of its clients in any or all of the aforementioned securities. Past performance is not necessarily a reliable indicator of current and future performance.

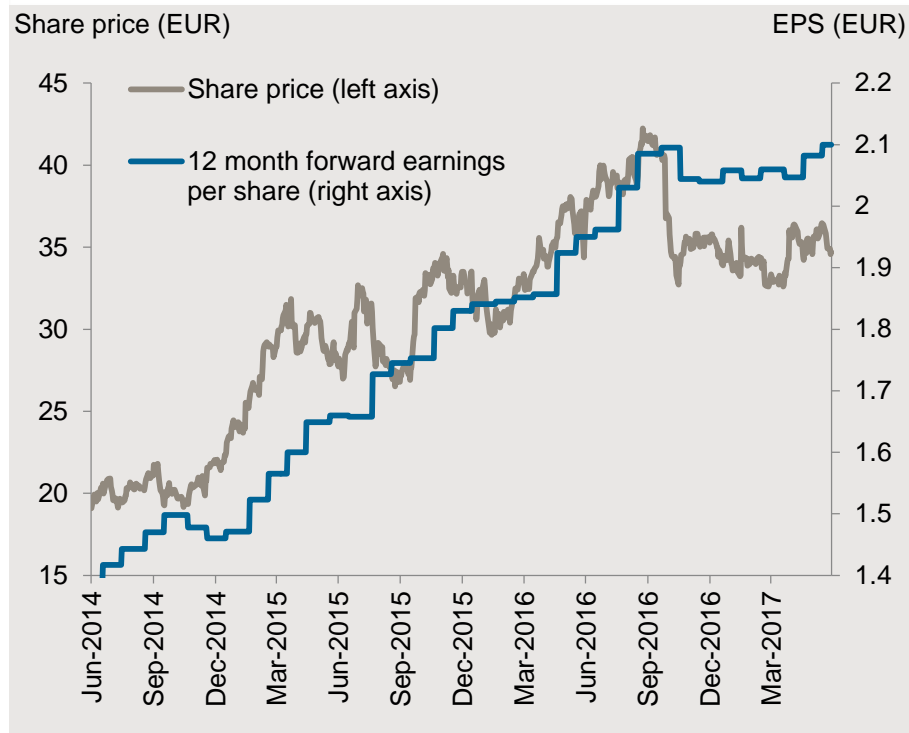
# Stock examples

## Recent additions

### FLSmidth



### Huhtamaki

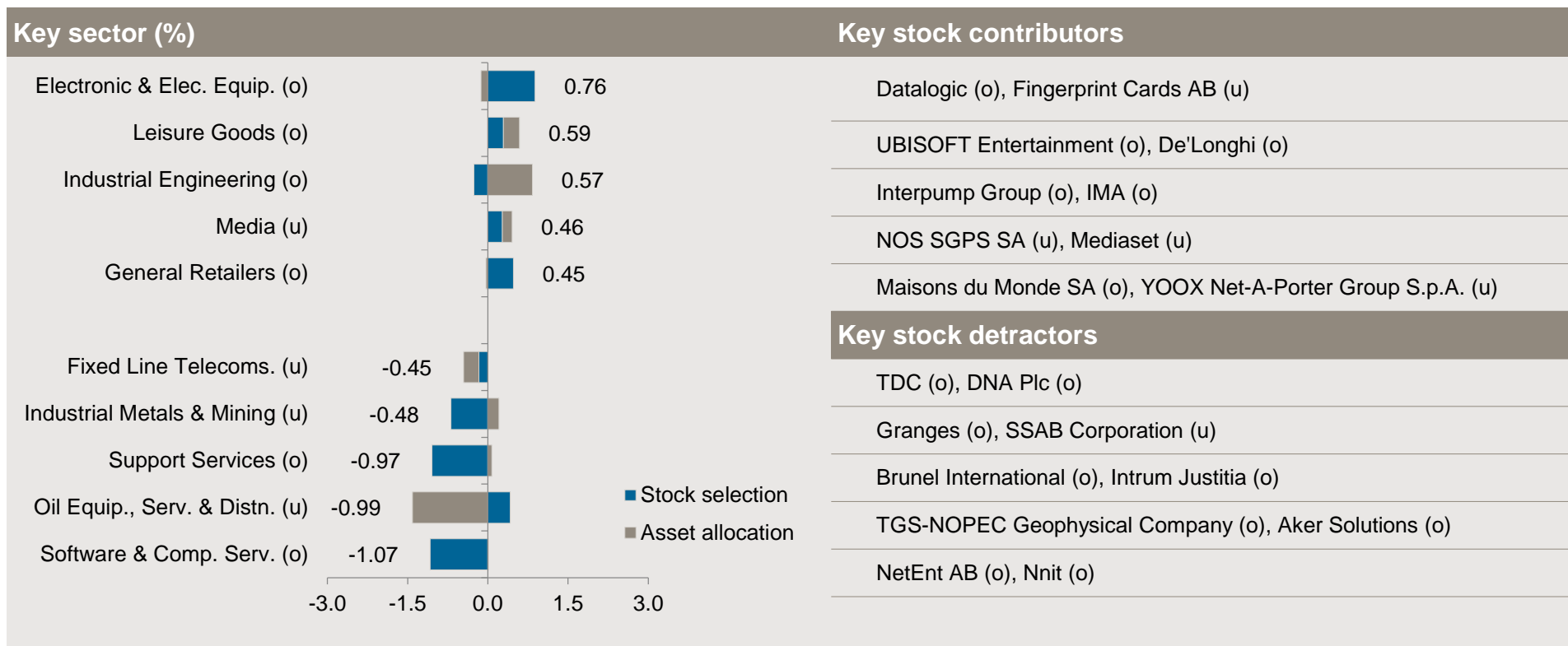


Source: Datastream. J.P. Morgan Asset Management. Data from 30 June 2014 to 30 June 2017. The companies/securities above shown are for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell. J.P. Morgan Asset Management may or may not have positions on behalf of its clients in any or all of the aforementioned securities. Past performance is not necessarily a reliable indicator of current and future performance.

# Performance attribution

JPMorgan European Smaller Companies Trust plc - 12 months to 31 May 2017

Attribution summary	Stock: -4.21 Sector: -0.59
Benchmark	EuroMoney Sm Eur Cos ex UK GBP



Source: Factset. (o)= overweight, (u)= underweight, (n)=neutral. The trust is an actively managed portfolio, holdings, sector weights, allocations and leverage, as applicable are subject to change at the discretion of the Investment Manager without notice. Past performance is not necessarily a reliable indicator for current and future performance.

# Portfolio positions

JPM Europe Smaller Companies Investment Trust plc as of 31 May 2017

Benchmark

Euromoney Smaller European  
Companies ex UK Index (Net)

## Top 10 overweight positions

Stock	Portfolio weight (%)	Benchmark weight (%)	Relative position (%)
Ipsos	2.4	0.1	2.3
Stabilus	2.4	0.1	2.2
SalMar	2.4	0.2	2.2
Maisons du Monde	2.2	0.1	2.1
Tarkett	2.3	0.2	2.1
Alten	2.3	0.2	2.1
Dometic Group	2.2	0.2	2.0
Thule Group	2.2	0.1	2.0
SimCorp	2.2	0.2	2.0
Hella	2.0	0.0	2.0

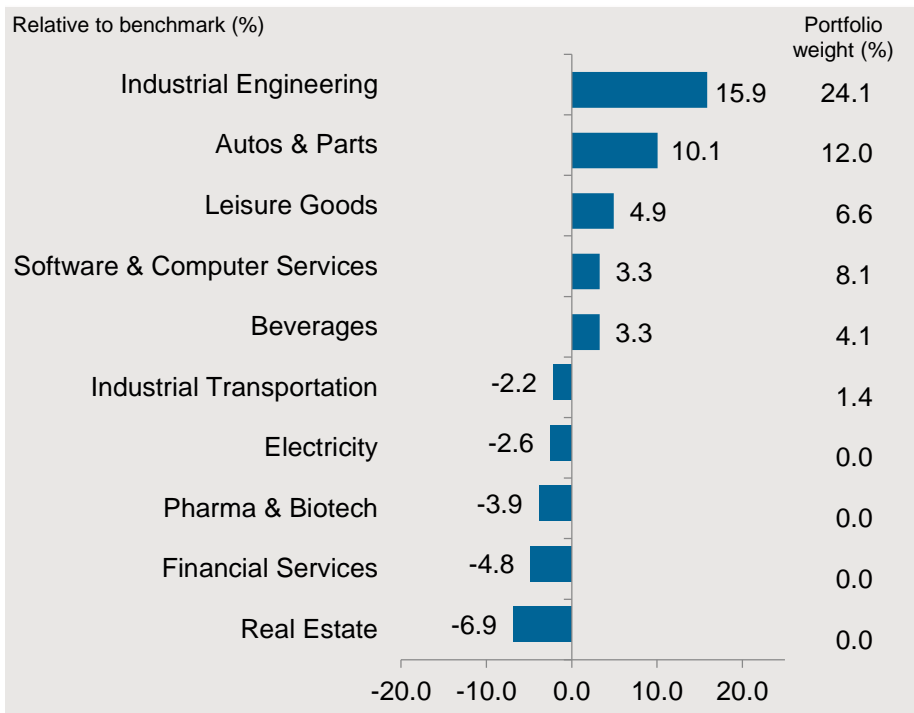
Source: Factset. The trust is an actively managed portfolio, holdings, sector weights, allocations and leverage, as applicable are subject to change at the discretion of the Investment Manager without notice.

# Sector and country positions

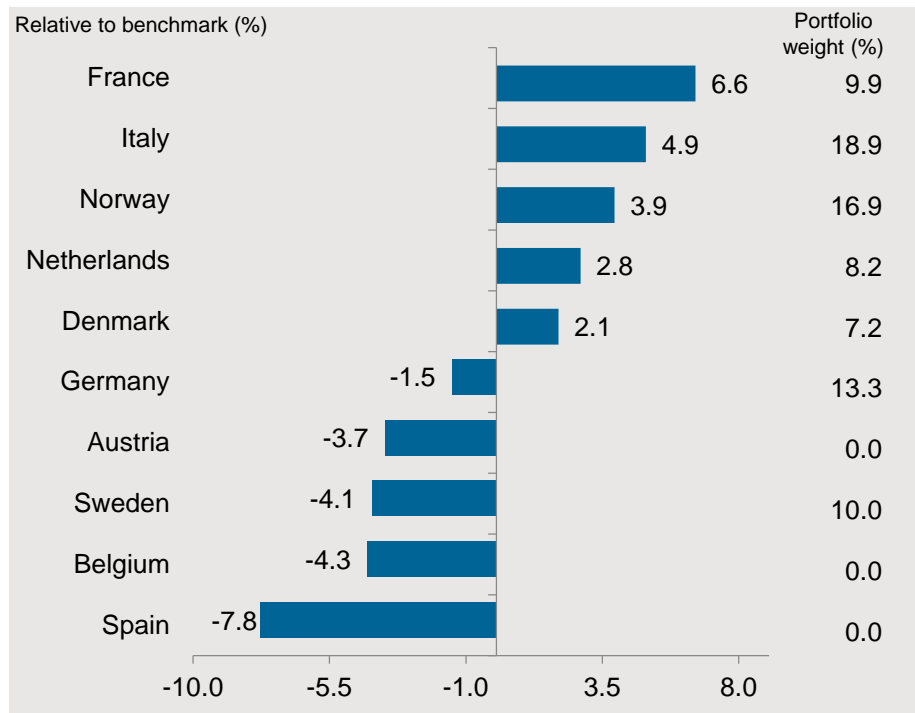
JPM Europe Smaller Companies Investment Trust plc as of 31 May 2017

Benchmark **Euromoney Smaller European Companies ex UK Index (Net)**

## Active and absolute sector positions



## Active and absolute country positions



Source: Factset. The trust is an actively managed portfolio, holdings, sector weights, allocations and leverage, as applicable are subject to change at the discretion of the Investment Manager without notice.

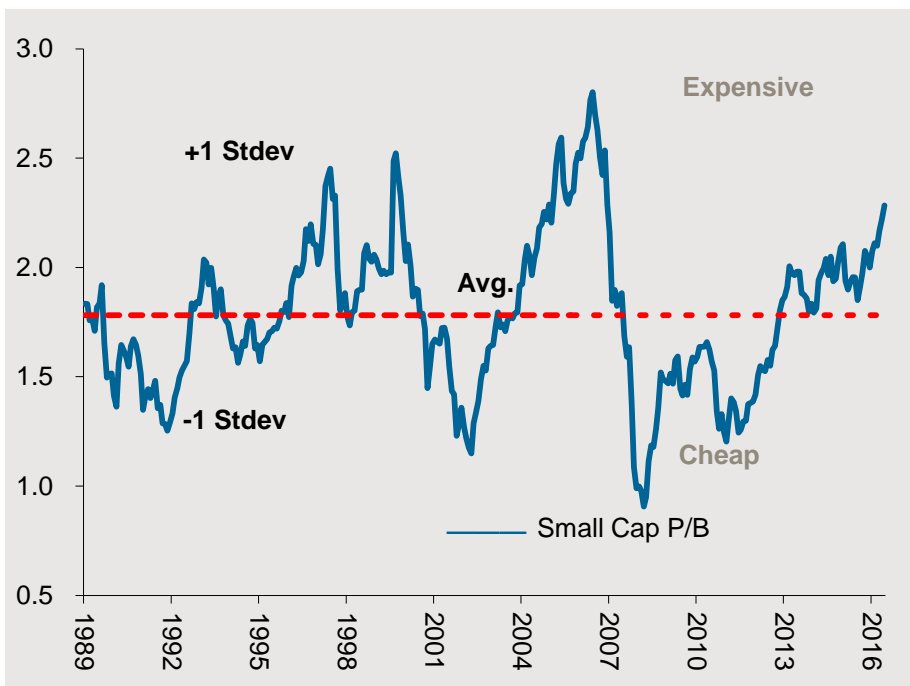
# Global manufacturing PMIs

		2015						2016												2017					
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
	<b>Global</b>	50.8	50.5	50.4	51.0	51.0	50.7	50.9	50.0	50.7	50.2	50.1	50.4	51.0	50.7	51.0	51.9	52.0	52.7	52.7	53.0	53.0	52.7	52.6	52.6
	<b>Developed</b>	52.1	51.9	51.7	52.6	52.3	52.0	52.1	50.8	50.9	50.5	50.3	51.1	51.4	51.2	51.5	52.6	52.9	53.7	54.2	54.1	53.9	54.1	54.1	53.9
	<b>Emerging</b>	49.1	48.6	48.4	49.0	49.2	49.0	49.4	48.9	50.2	49.6	49.5	49.3	50.3	50.1	50.3	51.0	50.8	51.1	50.8	51.3	51.6	50.8	50.5	50.8
Developed	<b>Eurozone</b>	52.4	52.3	52.0	52.3	52.8	53.2	52.3	51.2	51.6	51.7	51.5	52.8	52.0	51.7	52.6	53.5	53.7	54.9	55.2	55.4	56.2	56.7	57.0	57.4
	<b>France</b>	49.6	48.3	50.6	50.6	50.6	51.4	50.0	50.2	49.6	48.0	48.4	48.3	48.6	48.3	49.7	51.8	51.7	53.5	53.6	52.2	53.3	55.1	53.8	54.8
	<b>Germany</b>	51.8	53.3	52.3	52.1	52.9	53.2	52.3	50.5	50.7	51.8	52.1	54.5	53.8	53.6	54.3	55.0	54.3	55.6	56.4	56.8	58.3	58.2	59.5	59.6
	<b>Italy</b>	55.3	53.8	52.7	54.1	54.9	55.6	53.2	52.2	53.5	53.9	52.4	53.5	51.2	49.8	51.0	50.9	52.2	53.2	53.0	55.0	55.7	56.2	55.1	55.2
	<b>Spain</b>	53.6	53.2	51.7	51.3	53.1	53.0	55.4	54.1	53.4	53.5	51.8	52.2	51.0	51.0	52.3	53.3	54.5	55.3	55.6	54.8	53.9	54.5	55.4	54.7
	<b>Switzerland</b>	50.0	51.3	48.0	49.6	49.0	49.9	50.2	51.1	53.0	53.1	55.3	51.5	51.5	51.6	54.4	55.2	55.9	56.2	54.6	57.8	58.6	57.4	55.6	60.1
	<b>UK</b>	52.3	51.8	51.5	54.5	52.5	51.2	52.5	50.9	51.1	49.5	50.4	53.1	48.3	53.5	55.3	54.2	53.5	55.9	55.6	54.6	54.0	57.0	56.3	54.3
	<b>US</b>	53.8	53.0	53.1	54.1	52.8	51.2	52.4	51.3	51.5	50.8	50.7	51.3	52.9	52.0	51.5	53.4	54.1	54.3	55.0	54.2	53.3	52.8	52.7	52.1
	<b>Japan</b>	51.2	51.7	51.0	52.4	52.6	52.6	52.3	50.1	49.1	48.2	47.7	48.1	49.3	49.5	50.4	51.4	51.3	52.4	52.7	53.3	52.4	52.7	53.1	52.4
	Emerging	<b>Brazil</b>	47.2	45.8	47.0	44.1	43.8	45.6	47.4	44.5	46.0	42.6	41.6	43.2	46.0	45.7	46.0	46.3	46.2	45.2	44.0	46.9	49.6	50.1	52.0
<b>Russia</b>		48.3	47.9	49.1	50.2	50.1	48.7	49.8	49.3	48.3	48.0	49.6	51.5	49.5	50.8	51.1	52.4	53.6	53.7	54.7	52.5	52.4	50.8	52.4	50.3
<b>India</b>		52.7	52.3	51.2	50.7	50.3	49.1	51.1	51.1	52.4	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9
<b>China</b>		47.8	47.3	47.2	48.3	48.6	48.2	48.4	48.0	49.7	49.4	49.2	48.6	50.6	50.0	50.1	51.2	50.9	51.9	51.0	51.7	51.2	50.3	49.6	50.4
<b>Korea</b>		47.6	47.9	49.2	49.1	49.1	50.7	49.5	48.7	49.5	50.0	50.1	50.5	50.1	48.6	47.6	48.0	48.0	49.4	49.0	49.2	48.4	49.4	49.2	50.1
<b>Taiwan</b>		47.1	46.1	46.9	47.8	49.5	51.7	50.6	49.4	51.1	49.7	48.5	50.5	51.0	51.8	52.2	52.7	54.7	56.2	55.6	54.5	56.2	54.4	53.1	56.2

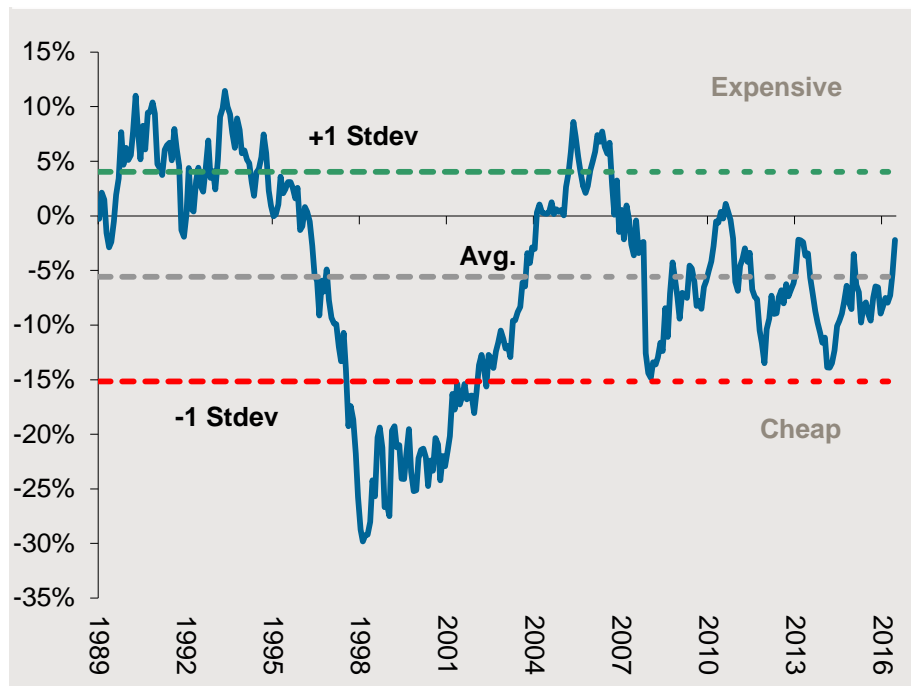
Source: FactSet, Markit, J.P. Morgan Asset Management. The Global Purchasing Managers' Index (PMI) assesses the economic health of the manufacturing sector by surveying output and employment intentions. Guide to the Markets - Europe. Data as of 30 June 2016.

# European smaller company valuations

**Absolute valuations – price/book\***



**Relative valuations – price/book\***



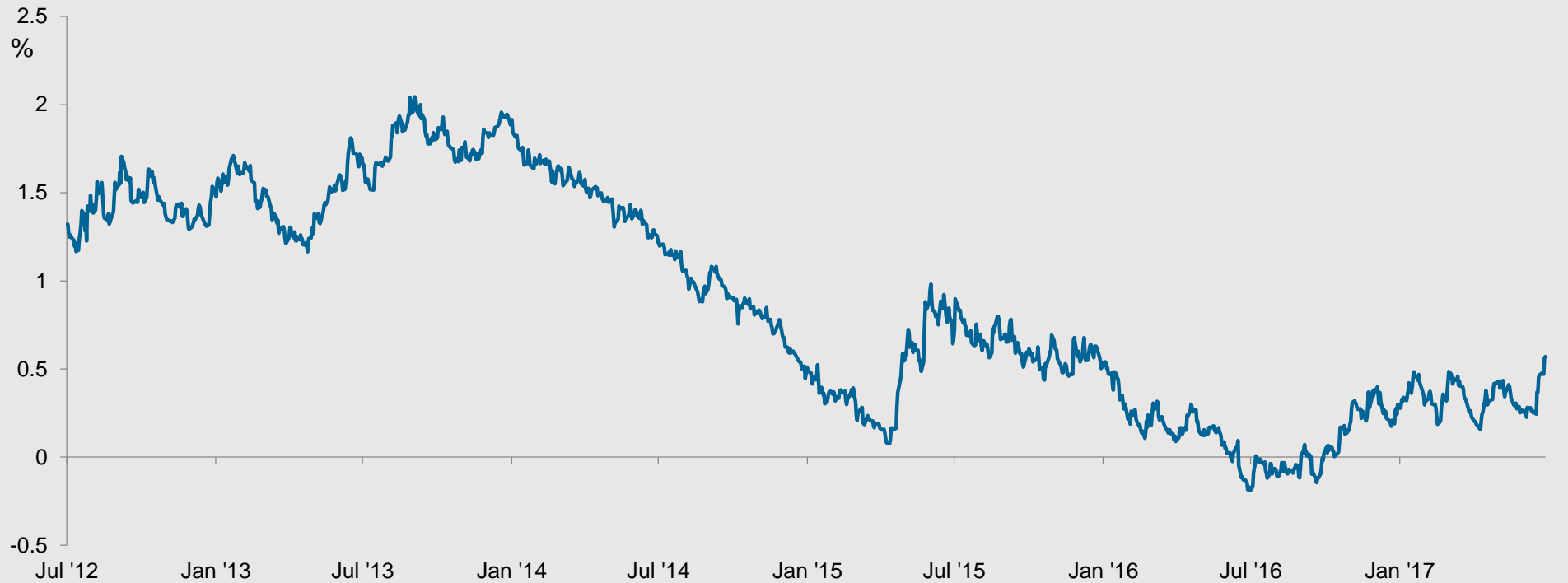
## ... valuations attractive v. large companies

Source: European Quantitative Research, Citigroup Investment Research. Data as at 1 June 2017. Past performance is not necessarily a reliable indicator for current and future performance.  
 \*Price-To-Book is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest Quarter's book value per share.



# German 10 year government bond yield

## German 10 year government bond yield



Source: Bloomberg from July 2012 to July 2017. Past performance is not necessarily a reliable indicator for current and future performance.

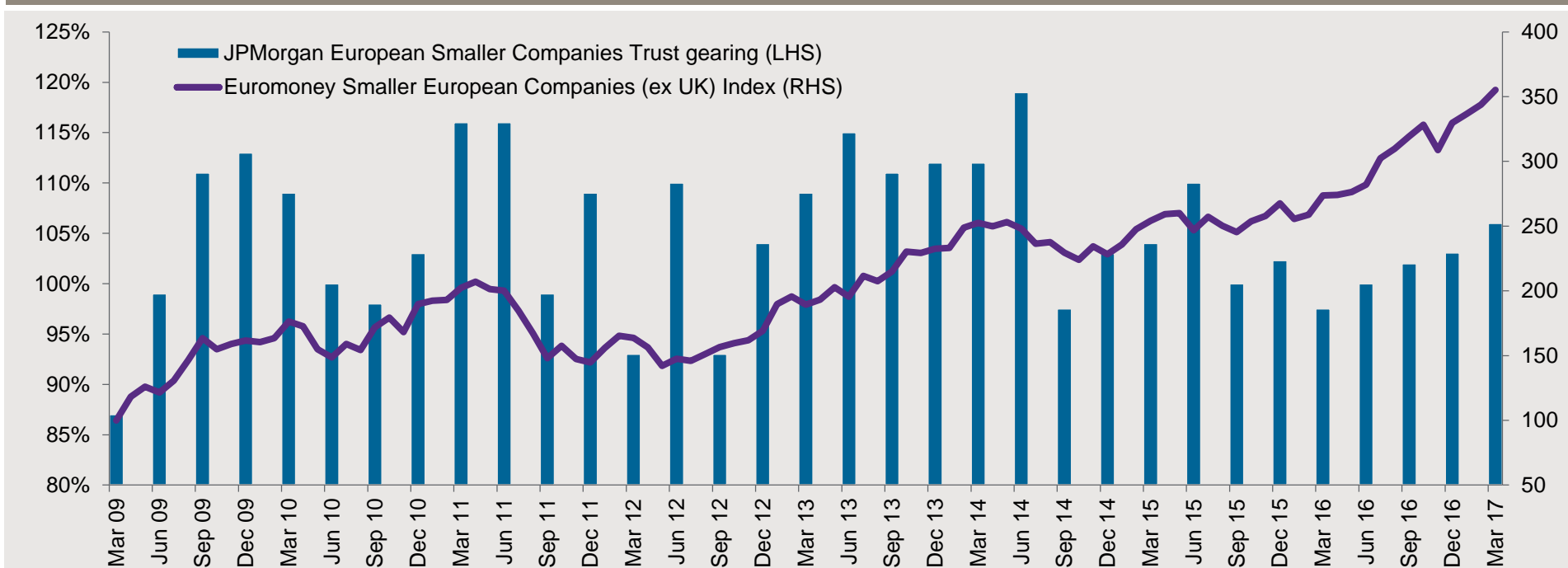


# Appendix



## Gearing versus the index

Since 2009 (quarterly)

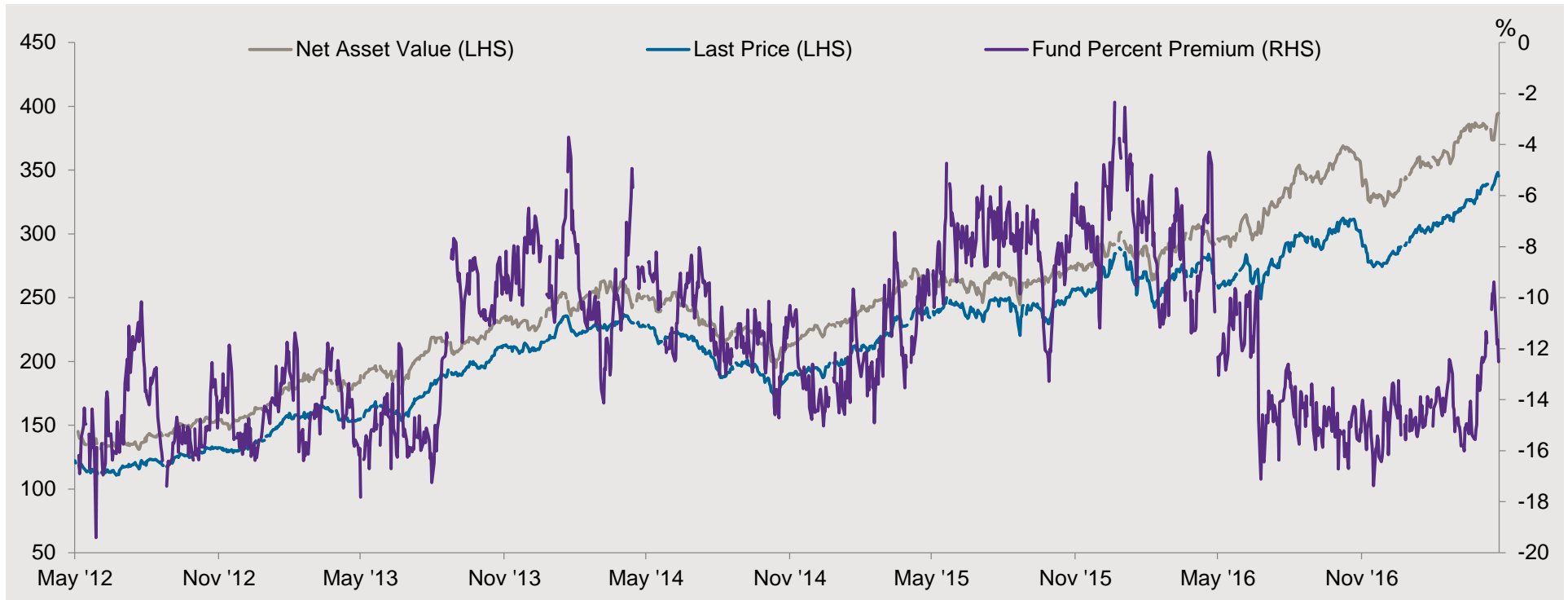


### ...active management of gearing a source of consistent value added

Source: Thomson Reuters Datastream, J.P. Morgan Asset Management as at 31 March 2017. Index rebased to 100 at start of data series. \* Index is Euromoney Smaller European Companies (ex UK) Index. Investment trusts may utilise gearing which will exaggerate market movements both down and up which could mean sudden and large falls in value. For further details, please refer to the trust's annual report and accounts. Gearing is the ability to borrow money to invest that money on behalf of the shareholders

# 5 year discount

## JPMorgan European Smaller Companies Trust plc



Source: Bloomberg from May 2012 to May 2017. Past performance is not necessarily a reliable indicator of current and future performance.

# Euromoney Smaller European Companies (ex UK) Index

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## Key characteristics

- 1,000 stocks across 14 markets
- Market capitalisation range of £27m – £4.1bn
- Back history from December 1985
- Monthly geographic and sector analysis
- Daily pricing on Bloomberg-JCSCEXPT Index

Source: Euromoney; as at 31 August 2016.

## Specific risks

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### JPM Europe Smaller Companies Fund

- The value of your investment may fall as well as rise and you may get back less than you originally invested.
- The value of Equity and Equity-Linked Securities may fluctuate in response to the performance of individual companies and general market conditions.
- The Fund invests in securities of smaller companies which may be more difficult to sell, more volatile and tend to carry greater financial risk than securities of larger companies.
- This Fund is aggressively managed, which may result in higher volatility of the Fund's performance and bigger differences between the performance of the Fund and its Benchmark.
- Movements in currency exchange rates can adversely affect the return of your investment.

Source: J.P. Morgan Asset Management as of 30 June 2017.

# J.P. Morgan Asset Management

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