Jupiter **Merlin Balanced Portfolio**

Short Annual Report – for the year ended 31 May 2013

JUPITER

Investment Objective

To achieve long-term capital growth with income.

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 international equities, fixed interest stocks, commodities and property.

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 launch to 31 May 2013

	1 year	3 years	5 years	Since launch*
Jupiter Merlin Balanced Portfolio	22.2	29.0	40.9	177.0
Mixed Investment 40-85% Shares sector position	64/143	70/127	10/97	9/51

Source: FE, Retail Units, bid to bid, net income reinvested.
**Launch date 1 October 2002.*

The increase in the annual management charge as from 1 September 2005 and the introduction of a registration fee as from the same date have had the effect of increasing the total expenses of the Fund by approximately 1% p.a. The performance would have been correspondingly reduced had the current fees and charges applied since launch. As from the same date the Fund's objective changed to aim for growth with income as opposed to growth only and this may also impact performance going forward.

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.

Risk Profile

The Fund has little exposure to liquidity, counterparty or cash flow risk. The main 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

I-Class Units

1	2	3	4	**5**	6	7

- 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 into funds that invest in a wide range of company shares and bonds issued by governments and companies, which carry a degree of risk.

I-Class Units

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.

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 or call 0844 620 7600 for further information.

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. They include the costs (less any rebates) incurred by the underlying funds held during the period.

Charges taken from the Fund over the year to:	31.05.13	31.05.12
Ongoing charges for Retail Units	2.45%	2.42%
Ongoing charges for I-Class Units	1.70%	1.67%

Portfolio Turnover Rate (PTR)

Year to 31.05.13	Year to 31.05.12
47.66%	5.24%

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

A final distribution of 1.1953 pence per unit will be paid to holders of Retail income units on 31 July 2013 (Retail accumulation units 1.5359 pence per unit), bringing the total distributions paid in respect of the period under review for Retail income units to 2.3404 pence per unit (Retail accumulation units 2.9870 pence per unit) compared to 1.8622 pence per unit for Retail Income units (Retail accumulation units 2.3194 pence per unit) for the same period last year. A final distribution of 1.2219 pence per unit will be paid to holders of I-Class income units (I-Class accumulation units 1.5450 pence per unit), bringing the total distributions paid in respect of the period under review for I-Class income units to 2.3788 pence per unit (I-Class accumulation units 3.0057 pence per unit) compared to 1.4932 pence per unit for I-Class Income units (I-Class accumulation units 1.8597 pence per unit) for the same period last year.

Fund Facts

Fund accounting dates		Fund payment/ accumulation dates	
31 May	30 November	31 July	31 January

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*
31.05.12	£1,240,698,311	84.90p	107.76p	85.68p	108.27p	187,660,689	1,003,449,524	1,162	46,236
31.05.13	£1,592,907,041	101.16p	131.56p	102.76p	133.02p	186,129,093	1,009,737,822	21,172,681	40,894,132

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	89.60p	101.38p	n/a	n/a	62.46p	71.67p	n/a	n/a
2009	85.88p	103.56p	n/a	n/a	62.33p	73.15p	n/a	n/a
2010	95.95p	118.02p	n/a	n/a	79.07p	95.36p	n/a	n/a
2011	96.33p	118.49p	87.13p	108.18p	80.95p	100.52p	81.23p	100.87p
2012	96.56p	123.43p	92.89p	118.20p	84.42p	106.15p	85.21p	106.63p
to 31.05.13	110.97p	142.63p	107.06p	136.91p	91.40p	117.48p	92.59p	118.45p

Income/Accumulation Record

Calendar Year	Pence per unit			
	Retail Income	Retail Accumulation	I-Class Income*	I-Class Accumulation*
2008	2.6600p	2.9790p	n/a	n/a
2009	2.4700p	2.8600p	n/a	n/a
2010	1.9600p	2.3477p	n/a	n/a
2011	1.5933p	1.9517p	n/a	n/a
2012	1.8622p	2.3194p	1.4932p	1.8597p
to 31.07.13	2.3404p	2.9870p	2.3788p	3.0057p

*The 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.

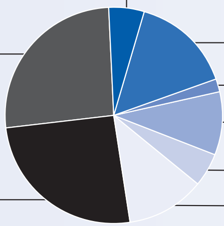
Major Holdings

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

Holding	% of Fund as at 31.05.13	Holding	% of Fund as at 31.05.12
Invesco Perpetual Income Fund	9.57	Invesco Perpetual Income Fund	9.93
Findlay Park American Fund	9.46	Findlay Park American Fund	9.28
M&G Global Dividend Fund	8.71	M&G Global Dividend Fund	8.75
First State Global Umbrella – Asian Equity Plus Fund	8.12	Jupiter Growth & Income Fund	7.85
Jupiter Growth & Income Fund	8.11	Jupiter Strategic Bond Fund	6.31
Prusik Asian Equity Income Fund	6.94	M&G Strategic Corporate Bond Fund	6.25
Fundsmith Equity Fund	5.98	ETFS Physical Gold	6.12
Threadneedle European Select Fund	5.04	First State Global Umbrella – Asian Equity Plus Fund	5.92
AXA Framlington UK Select Opportunities Fund	4.98	AXA Framlington UK Select Opportunities Fund	5.14
ETFS Physical Gold	4.36	Jupiter Japan Income Fund	4.86

Portfolio Information

Classification of investments as at 31 May 2013



The figures in brackets show allocations as at 31 May 2012.

Investment Review

Performance Review

For the year to 31 May 2013, the total return on the units was 22.2%*, compared to 20.4%* for the FTSE APCIMS Balanced Portfolio Index and 21.4%* for the IMA Mixed Investment 40-85% Shares sector average. Over 5 years the Portfolio has returned 40.9%* compared to 26.2%* from the sector average. The Portfolio is ranked 64th out of 143 funds over the period, 70th out of 127 funds over 3 years, 10th out of 97 funds over 5 years and 9th out of 51 funds since launch.

**Source: FE, Retail Units, bid to bid, net income re-invested.*

The statistics disclosed above relate to Retail Units unless otherwise stated.

Dividend

A final distribution of 1.1953 pence per unit will be paid to holders of Retail income units on 31 July 2013 (Retail accumulation units 1.5359 pence per unit), bringing the total distributions paid in respect of the period under review for Retail income units to 2.3404 pence per unit (Retail accumulation units 2.9870 pence per unit) compared to 1.8622 pence per unit for Retail Income units (Retail accumulation units 2.3194 pence per unit) for the same period last year. A final distribution of 1.2219 pence per unit will be paid to holders of I-Class income units (I-Class accumulation units 1.5450 pence per unit), bringing the total distributions paid in respect of the period under review for I-Class income units to 2.3788 pence per unit (I-Class accumulation units 3.0057 pence per unit) compared to 1.4932 pence per unit for I-Class Income units (I-Class accumulation units 1.8597 pence per unit) for the same period last year.

Market Review

Since Greece caught the eye of the wary global investor in 2010, Europe has been fire fighting. Trying to produce a plausible and structured response to banking and sovereign risks is difficult enough for single sovereign states, but fold in nationalistic tendencies, cultural differences and a sprinkle of deep-seated historical animosity, and achieving any sort of agreement within the 17 Eurozone states was always going to be challenging. This resulted in previously insured Cypriot depositors almost being forced to help foot the bill to recapitalise their ailing banks, immediately making a Euro held by a northern European bank safer and thus more valuable, than a Euro held by a southern counterpart, a perfect way to initiate capital flight from already embattled southern European banks. So far, printing money has papered over some colossal structural and economic problems in Europe and this action has bought time for politicians to implement meaningful and beneficial change. On the whole, we believe that this time has been wasted. In our view, literally anything could happen in Europe; until the structural inefficiencies are tackled, we believe European economic growth is at best going to be sporadic.

The most dramatic moves during the year were seen in Japan, where enthusiasm to rid themselves of the zero growth, deflationary spiral that has gripped their nation for over twenty years, produced a landslide victory for Shinzo Abe with his pro-growth, inflationary agenda. In the new Bank of Japan governor, Haruhiko Kuroda, Prime Minister Abe has found a kindred spirit. In his first meeting in charge of the Bank of Japan, Kuroda exceeded market expectations, planning to massively increase Japan's quantitative easing efforts. This has the potential to return the world's third largest economy to growth after years in the doldrums, but may create an inflationary spiral that could dwarf their current issues. Their markets had been in optimistic mood since November, with the yen tumbling against the other major world currencies, but jitters surrounding potential US monetary tightening resulted in shares giving back some of their gains at the end of May.

Policy Review

During the second half of 2012, we cut our direct exposure to technology and energy shares and trimmed our exposure to Japanese equities, which transpired to be ill-timed. The primary beneficiary of these moves was our Asian weighting where we added the Prusik Asian Equity Income Fund. Tom Naughton takes a disciplined approach running this mid-cap orientated fund, investing in companies that he feels have attractive and sustainable growth opportunities that pay healthy yields.

Following the extremely strong performance of fixed interest assets during 2012, we cut our weighting to bonds in favour of equities in November and again in January, allowing us to add the consumer – staples-focussed Fundsmith Equity to the Portfolio. This move was of significant benefit to the Portfolio as equity markets rallied strongly, led by these multinational, large cap, consistent-earnings growth companies.

In February we added further capital to Prusik Asian Equity Income Fund and hedged a portion of our US dollar exposure at $1.51 following a strong dollar rally, closing out the hedge in April at a profit.

In April we switched our holding in Jupiter North American Income Fund into the Jupiter Global Equity Income Fund. Both of these funds are managed by Sebastian Radcliffe, whom we know well, taking the decision that we preferred the greater flexibility of his global mandate for this Portfolio.

In May we made a further asset allocation change, reducing fixed interest once again, allowing us to increase our exposure to Japan via the CF Morant Wright Nippon Yield Fund, which is run by a team for which we have a great deal of respect. It invests in small to mid-cap Japanese companies, taking a very value conscious approach. We chose to hedge the yen exposure on our Japan holdings in the Portfolio in early April and continue to run this hedge, as we deem the recent policy measures taken in Japan are as likely to be positive for the equity market but negative for the yen.

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 twenty-five 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, although in recession-hit Europe there is certainly scope for interest rates to go negative in the not too distant future. With the tidal waves of money printing battering the shores of every country around the world, inflation is a present danger. This is not to say that interest rates are in imminent danger of rising, and bond yields following suit, as financial repression has so far kept these constrained, but declining interest rates are a thing of the past. The distortions created by Western monetary policy, mimicked by many emerging markets via mercantilist currency manipulation, have seen all boats rise. As the benefits of continued monetary intervention wane, we may soon discover which are seaworthy.

Beyond our European shores, the fate of three countries will likely define the world's fortune, Japan, the US and China. In China, a nation that has thrived from being the outsourcing capital of the world, one quote suffices to highlight the current situation. "From 2000 to 2010, wages in the Yangtze Delta, a manufacturing hotbed, jumped from 72 cents an hour to $8.62*". It is thus immediately apparent why the new Chinese leadership is so keen to re-orientate their economy towards a more domestically-biased one; their labour cost advantage has clearly gone. What Japan (or more specifically the Yen) does from here, is the key for many export-orientated economies in both the developed and emerging worlds. How do you compete with superior Japanese exports that are becoming more competitively priced by the day? And finally the US, the ultimate export destination, is not out of the woods yet, but she has cleansed many of her past ills. America is growing, but the cheap and available labour force, the potentially plentiful supply of energy (if indeed their shale reserves are the bonanza that many hope) and falling input costs, will be crucial for momentum to build.

The world we are faced with is one where manipulation abounds, bond yields are extremely low, cash pays nothing and inflation concerns lurk around the corner. Once you consider the undoubtedly huge cash piles sitting on the side lines and the thirst for both yield and real return from investors around the globe, then one could create a pretty bullish view for equities. The flows that we have seen into equities over the last year may be but the tip of the iceberg. If the macro-economic picture was a little clearer, then the next twelve months could be quite a solid year for equities.

In this ever changing world, where long term trends fade and flourish, we believe active asset allocation and pragmatic investment principles are critical to capture the strongest investment themes and avoid the mean-reversion of yesterday's winners. Thus, flanked by our underlying fund managers who have similar long term philosophies, we stand ready to face the challenges and embrace the opportunities of the future.

**Quote Source: originally from Reuters, via Cornerstone Macro, May 9 2013*

John Chatfeild-Roberts, Peter Lawery and Algy Smith-Maxwell
Fund Manager

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

This document is a short report of the Jupiter Merlin Balanced Portfolio for the year ended 31 May 2013. The full Report and Accounts of the Fund is available on our website 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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