

# Jupiter China Fund

Short Interim Report – for the six months ended 28 February 2014



## Investment Objective

To achieve long-term capital growth.

## Investment Policy

To invest principally in companies operating in China (including Hong Kong) but may also invest in companies operating in other countries which, in the Manager's opinion, conduct a material proportion of their business in China (including Hong Kong) or derive a material proportion of their earnings from activities in China. The Manager will only enter into derivative transactions for the purpose of efficient management of the portfolio and not for investment.

## Performance Record

Percentage change and sector ranking from launch to 28 February 2014

	6 months	1 year	3 years	5 years	Since launch*
Jupiter China Fund	8.8	5.3	3.6	87.3	96.1
China/Greater China sector position	6/40	8/39	12/34	8/22	7/15

Source: FE, Retail Units, bid to bid, net income reinvested.

\*Launch date 20 October 2006.

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

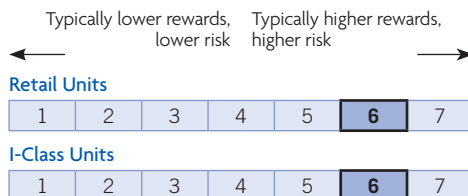
The Fund has little exposure to credit, counterparty or cash flow risk. The risks it faces from its financial instruments are liquidity, market price, foreign currency and interest rate risk. The Manager reviews policies for managing these risks in pursuance of the Investment Objective and Policy.

**It should be noted that this Fund will be investing in a single developing geographic area and there is a greater risk of volatility due to potential political and economic change. It should also be noted that brokerage, transaction and custody costs are generally higher in China and other emerging markets in the area than in Western security markets.**

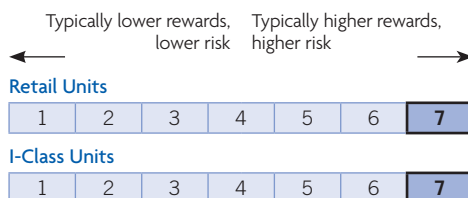
## Risk and reward indicator

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.

As at 28.02.14



As at 31.08.13



- 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 in a wide range of shares of companies based in China, which carry a degree of risk.

**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](http://www.jupiteronline.com) or call 0844 620 7600 for further information.

## Unit Classes

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 below.

## 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.

Charges taken from the Fund over the six months (annualised) to:	28.02.14	28.02.13
Ongoing charges for Retail Units	1.81%	1.80%
Ongoing charges for I-Class Units	1.06%	1.05%

## 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**
31.08.13	£177,789,190	83.98p	85.93p	85.44p	86.86p	9,750,261	191,852,266	141,258	5,330,154
28.02.14	£178,301,432	91.35p	93.45p	93.06p	94.84p	8,454,839	172,256,662	848,052	9,294,265

### 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**
2009	96.07p	96.51p	n/a	n/a	47.43p	47.43p	n/a	n/a
2010	108.82p	109.32p	n/a	n/a	82.39p	82.76p	n/a	n/a
2011	106.92p	107.47p	n/a	74.22p	57.33p	57.59p	n/a	57.62p
2012	88.08p	88.47p	81.16p	84.34p	64.89p	65.83p	73.68p	66.28p
2013	100.07p	102.39p	97.22p	98.81p	76.36p	77.47p	78.45p	78.47p
to 28.02.14	99.49p	101.80p	96.76p	98.33p	86.77p	88.81p	88.91p	90.36p

### Income/Accumulation Record

Calendar Year	Pence per unit			
	Retail Income	Retail Accumulation	I-Class Income*	I-Class Accumulation**
2009	0.3300p	0.3379p	n/a	n/a
2010	0.0000p	0.0000p	n/a	n/a
2011	0.0000p	0.0000p	n/a	n/a
2012	0.6586p	0.6781p	n/a	0.9869p
2013	0.7410p	0.7510p	1.3694p	1.3697p
28.02.14	n/a	n/a	n/a	n/a

\*I-Class income units were introduced on 29 October 2012.

\*\*I-Class accumulation units were introduced on 19 September 2011.

## Portfolio Turnover Rate (PTR)

Six months to to 28.02.14	Six months to to 28.02.13
71.35%	68.90%

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

There are no distributions or accumulations due in respect of the period under review.

## Fund Facts

Fund accounting dates		Fund payment/accumulation date	
28 February	31 August	–	31 October

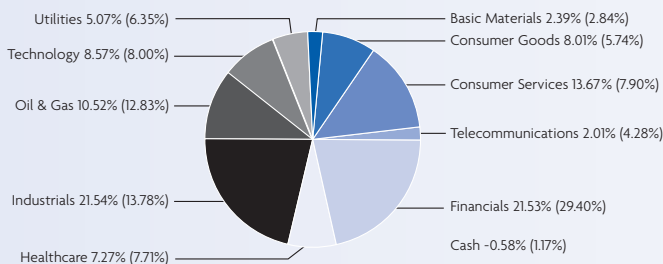
## Major Holdings

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

Holding	% of Fund as at 28.02.14	Holding	% of Fund as at 31.08.13
Tencent	6.47	Industrial & Commercial Bank of China	4.98
Ping An Insurance	3.13	China Unicom	4.28
Industrial & Commercial Bank of China	2.83	China Construction Bank	4.24
China Construction Bank	2.80	Tencent	3.40
CITIC Securities	2.57	CNOOC	3.16
Hollysys Automation Technologies	2.41	PetroChina	3.15
China Cinda	2.31	Ping An Insurance	2.54
WuXi PharmaTech (Cayman) ADR	2.23	CITIC Securities	2.46
Baidu ADR	2.10	Home Inns & Hotels ADR	2.38
HC International	2.10	Concord Medical ADR	2.27

## Portfolio Information

### Classification of investments as at 28 February 2014



The figures in brackets show allocations as at 31 August 2013.

The sectors are based on the Industry Classification Benchmark (see page 4).

## Investment Review

### Performance Review

Fears of a tighter credit environment both at home and away have weighed heavily on China's markets over the last 6 months. President Xi Jinping's first attempts to force a more market orientated approach towards the allocation of capital, as part of his extensive reform program, has resulted in loan growth slowing as provincial governments and State Owned Enterprises (SOEs) have been forced to adjust to tighter credit terms. Elsewhere, the US Federal Reserve's first unsteady steps towards tapering its long-standing program of Quantitative Easing has impaired sentiment amongst global investors with the result that the strong momentum seen across China's markets as at the Fund's year-end has given way to a more sombre view of the challenges facing the new administration.

Despite these twin challenges the Jupiter China Fund has continued to perform well, driven by its holdings of mid and smaller capitalised growth companies which have delivered broadly good results. A continuing emphasis on enterprises likely to benefit from the new administration's reform agenda has proved to be one of the key factors contributing to the Fund's out-performance. In this context exposure to the rapidly evolving information technology, pollution control, and consumer service sectors have continued to drive returns.

Over the six months to the end of February, the Fund's unit price has risen by 8.8%\* percent in sterling terms. This compares with a 2.3%\* decline in the MSCI Zhong Hua Index, the Fund's benchmark, and a 3.2 percent decline in the MSCI China Index. This has meant that over the period under review, the Jupiter China Fund has remained ranked in the top quartile of the IMA China/Greater China Sector.

\*Source: FE, Retail Units, bid to bid, net income reinvested.

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

### Market Review

China's new leaders used the opportunity provided by the Third Plenum meeting in November, to unveil a series of comprehensive reform measures. These are intended to address the growing imbalances that are threatening the administration's aim of achieving sustainable long term growth by rebalancing the economy towards one that is consumption led rather than investment driven.

Emphasis has been placed on the market playing a 'decisive role in allocating resources' as the country embarks on the next stage of its journey towards a market-based economy. We believe if the reforms are successful, not only will one see

greater moves towards deregulation across much of the industrial spectrum, but SOEs will be prevented from wasteful investment spending, whilst being expected to contribute far more to the fiscal coffers than in the past. The whole thrust of President Xi's reform program is to force the government at every level to retreat from bureaucratic interference, and focus instead on effective regulation and the provision of basic social services.

In the near term the greatest challenges are likely to be associated with the unwinding of China's debt burden associated with the fiscal stimulus following the onset of the Global Financial Crisis some five years ago. This has manifested itself in a surge in formal and informal lending over the last few years that now needs to be reined in. Importantly, the country has significant financial reserves and a closed capital account that is likely to provide enough time for the prescriptive measures drawn up by the government and the People's Bank of China to take effect. In the meantime there will be flurries of discomfort associated with publicity surrounding the likely failure of a small number of Trust products – investment vehicles used to funnel money into projects where banks have been reluctant to lend. Critically a larger than normal proportion of these trusts will mature between April and September this year amplifying investors' concerns. We remain confident that the Chinese regulators are aware of the challenges faced by the financial sector and will be seeking to ensure that the deleveraging process occurs smoothly.

Finally, we believe many of the issues surrounding China's need for reform are currently reflected in share prices with little benefit seen to be accruing from the Government's reform program. We believe progress on the required reforms will be steady but uneven and may lead to further market volatility in the coming months. Any stock market weakness could offer, in our view, a good opportunity to pick up quality companies at attractive prices. At some stage, undoubtedly, political reform will have to match the progress being made on the economy but the Chinese population is likely to be less demanding on this front as long as incomes continue to grow and it feels it is sharing in the overall prosperity brought about by the economic boom of the last five years.

### Fund Strategy

The Fund continues to be exposed to industries that are central to the new administration's strategy of delivering sustainable levels of growth. These involve not only investments in

beneficiaries of rising consumption but also companies at the forefront of new technologies, energy efficiency, pollution control and social services (education and healthcare). As a result our emphasis remains on more dynamic growth companies rather than the traditional index heavyweights that by and large reflect the way China has been run in the past.

### Investment Outlook

The new Chinese administration has made it quite clear that it is engaging in meaningful reform to manage the excesses, intended or otherwise, that have been building up in the economy. Foremost among the excesses identified by the authorities has been the issue of misallocation of capital and the imbalances caused by funding long term major infrastructure programs with short term lending. Far from ignoring the issue, China's administration is tackling it head on. A clearer macro-picture should evolve during over the next few months, as the Chinese New Year effect ceases to distort the monthly numbers and we get further economic guidance from the National People's Congress held in March. There are unlikely to be many surprises during the congress, as Party leaders have consistently spoken about maintaining 'stable' growth and a 'prudent' monetary policy. This will likely mean that the Party will keep its GDP growth target of 7.5% and a 3.5% CPI inflation target for 2014. More importantly for the Fund's strategy, there should be further indications that the reform bandwagon is picking up pace.

**Philip Ehrmann**  
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](http://www.jupiteronline.com)

This document is a short report of the Jupiter China Fund for the period ending 28 February 2014. The full Report and Accounts of the Fund is available on our website [www.jupiteronline.com](http://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 period it covers and the results of those activities at the end of the period.

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