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Companion planting

Top-performing JUGI looks an attractive option for AISC shareholders.

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In gardening, companion planting is a well-known method of creating an ecosystem where each plant combines to mutually benefit the other. It helps the gardener to maximise their space, to provide enough nutrients for each plant, to deter pests, and to grow productively.

Possibly the most famous example is the Three Sisters method, comprising beans, sweetcorn and squash. The sweetcorn plants provide shade and act as a vertical pole up which the beans can climb, while the squash can be used as ground cover to ensure space is used efficiently.

The managers of [JPMorgan UK Small Cap Growth & Income \(JUGI\)](#) take a similar trifecta-like approach to portfolio construction. Rather than constructing a portfolio that outperforms when only one singular investment style is in favour, Georgina Brittain and Katen Patel aim to build a portfolio capable of generating repeatable alpha across a variety of market conditions.

To do this, they consider three factors – quality, value and momentum – using a process that has been refined over three decades. This helps them to create a portfolio of companies that are financially strong, growing, resilient, and attractively valued.

As one can see below, using return on invested capital (ROIC) as a proxy for quality, free cash flow yield as a proxy for value and earnings revisions as a proxy for momentum, the average company within JUGI's portfolio has higher returns and better capital discipline and is generating more cash than the average company in the trust's benchmark, the Deutsche Numis Smaller Companies plus AIM ex Investment Companies Index, and is seeing positive earnings upgrades compared to the market, which is seeing downgrades.

Portfolio characteristics



Source: JPMorgan

Past performance is not a reliable indicator of future results.

Not only do they consider these three factors when making investments, they regularly review their existing holdings to make sure they still meet these three characteristics, given share prices have been particularly reactive to new information in the past couple of years.

Crucially, management's unashamedly bottom-up, long-term approach has paid off over longer-term timeframes. JUGI has the third-best annualised 10-year net asset value total return, at c. 10.3%, and the second-best annualised 10-year share price total return at c. 11.5%.

Of course, just as the Three Sisters planting method can be blown off course if the weather is inclement, past performance doesn't guarantee future success and there are bound to be times when even JUGI's portfolio will underperform. Indeed, the five-year numbers are currently below the benchmark. Still, we think the depth and experience of the management team provides reassurance that the strategy can continue to deliver for shareholders.

Its portfolio is anchored in domestically oriented growth companies aligned with long-term trends and policy priorities

like self-sufficiency—companies likely to benefit from ongoing stimulus, even as global uncertainty lingers.

NAV TR performance table

	10-YEAR (ANNUALISED)	FIVE-YEAR (ANNUALISED)	ONE YEAR
Rockwood Strategic	13.80%	13.70%	10.30%
Oryx International Growth	10.30%	1.20%	8.40%
JPMorgan UK Small Cap Growth & Income	9.50%	0.50%	11.90%
River UK Micro Cap	9.10%	-1.50%	22.20%
Aberforth Smaller Companies	7.90%	5.90%	19.70%

Source: Association of Investment Companies, to 28/09/2026
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A sensible proposal

JUGI’s board recently joined forces with that of Aberdeen UK Smaller Companies Growth (AUSC) to propose a combination that would create the second-largest UK smaller companies trust, providing much-needed scale and improved liquidity and a continuation of what we see as welcome consolidation within the sector. If approved, it would be JUGI’s second major deal, following on from its 2024 merger with former stablemate JPMorgan UK Mid Cap.

We think the deal makes complete sense for both sets of shareholders, as well as for the UK mid- and small-cap space as a whole. The new, enlarged entity could be c. £645m in market capitalisation and would come with a reduction in the ongoing charges ratio.

The new management fee structure would be 0.6% chargeable on assets up to £200m, and 0.55% chargeable on assets in excess of £200m. Following completion of the proposal, the estimated OCR would be 0.7%, representing a reduction of 11 basis points (bps) and three bps compared with AUSC’s and JUGI’s current OCRs respectively.

Meanwhile, the UK SMID segment would have another vehicle of sufficient scale, good performance and reach, giving it the potential to attract greater attention from wealth managers and stronger appeal to retail investors, perhaps helping to

revive interest in what has been a shrinking part of the domestic market.

JUGI is one of the oldest trusts in the smaller companies sector and Georgina and Katen are highly experienced, having worked at JPMAM for 31 and 13 years respectively. Georgina was appointed as manager of JUGI in 1998 – the second-longest tenure in the sector. Katen joined her in July 2013.

The portfolio managers are members of a dedicated UK mid- and small-cap specialist investment team that benefits from the broader resources of JPMAM’s 90-strong international equity group of investment professionals with expertise in both quantitative and qualitative analysis. As mentioned previously, this has translated into impressive total returns through the cycle versus its benchmark.

We remain of the view that there remains latent value throughout the small-cap part of the UK market, for reasons we’ve outlined consistently. In short, UK economic data is nowhere near as apocalyptic as some would let us believe. In fact, both the UK economy and its headline stock market index, the FTSE 100, are currently outperforming developed market peers.

A real value opportunity

The key, to us, however, is the sheer scale of M&A activity we’re seeing in the small-cap market: clearly overseas and trade buyers are seeing value at a time where public market investors seem to be willingly ignoring it.

JUGI has seen several holdings taken over, suggesting Georgina and Katen's strategy is identifying the right opportunities. These takeovers have not only supported returns due to the high premia of the bids, but have also provided liquidity for the managers to rotate into the plethora of opportunities they've identified elsewhere.

In another interesting development, the yield on the small-cap asset class as a whole has now crept above 3% - an historically high level.

Over and above all this, JUGI uses the bells and whistles of the investment trust vehicle to full effect in an attempt to capitalise on the valuation opportunity within the small-cap space. This includes running gearing at around the 10% level, making JUGI one of the most-gearred trusts in the AIC UK Smaller Companies peer group and adding to the trust's upside potential.

JUGI's enhanced dividend policy is also a key selling point, in our view. It is designed to pay a relatively high income while still offering exposure to the growth potential of the UK smaller companies asset class, ensuring the trust appeals to the broadest possible set of investors.

The rate paid is equal to 4% of the year-end NAV figure and is paid in four equal amounts on a quarterly basis. The announced dividends for the first quarter of the upcoming year will be c. 3.73p per share, equating to c. 14.92p per share for the full year, representing a potential forward yield of 4.3% at the share price as of 24/09/2026. That's a meaningful premium over the small-cap index and a c. 75% premium to AUSC's yield.

As this writer hopes his new garden will benefit from companion planting such as the Three Sisters method, so do we believe that shareholders would benefit from and should look favourably upon the combination of JUGI and AUSC.

The depth and quality of the management team and its impressive performance sets JUGI apart, while its improved size and liquidity as well as its enhanced dividend policy ensure it will be on the radar of a much wider pool of investors.

Added to everything we've discussed above, there's also the benefit of a double-discount: not only is the c. 15.5x price-to-earnings (PE) ratio on the MSCI UK Small Cap Index a c. 40% discount to the c. 25x PE on the MSCI World Small Cap Index, as of 31/08/2026, so too is JUGI trading on a discount of c. 7.6%, offering the scope for a real re-rating.

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