J.P.Morgan
Asset Management

Fund Focus – JF Asia Domestic Opportunities Fund

August 2010

- The Fund invests in specialised sectors and themes, primarily in companies whose predominant business will benefit from the domestic growth in Asian economies, excluding Japan but including Australia and New Zealand, and is therefore subject to greater concentration risk than a more diversified investment. The Fund's price movement may go down or up sharply over a short time span.
- The Fund may invest in emerging markets and thus may have exposure to the relevant currency risk.
- Investors may be subject to substantial losses.

2H'10 Portfolio Strategy

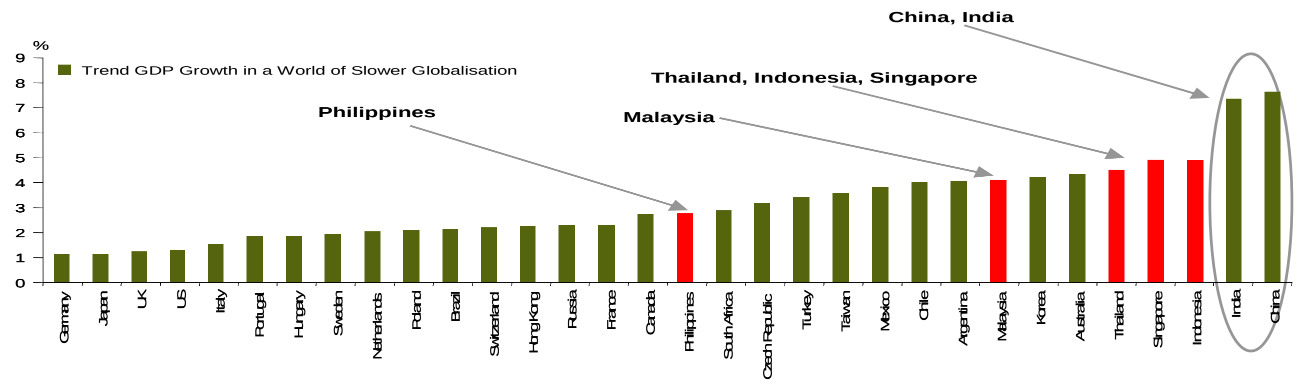
Q1. What is your current strategic allocation in the Fund? What is your investment strategy for 2H'10?

- China and India remain our Fund's core country allocation. For China, the economy is slowing towards trend growth, trend being higher than the growth in any other major economy in the world. Chinese banks are sound, asset quality is good and the property price increases the government is trying to moderate are so different in nature to the vast bubble in the US that the two markets bear no comparison. We expect China to perform better after the fund-raising by the banks, whose stronger capital positions give them greater flexibility to respond to good quality loan demand.

- For India, we expect economic growth to continue to show strong momentum. The Reserve Bank of India (Indian central bank) recently raised their economic growth forecast for FY2011 to 8.5% from 8%. Domestic consumption will continue to be the major driver of economic growth. Favourable demographics and investment, which was historically neglected, will contribute more to GDP growth going forward. The Indian government plans to spend USD225bn over FY11-12 on infrastructure projects. Hence, we favour infrastructure-related stocks in India.

- Apart from "Chindia", we continue to find opportunities in the course of market volatility, adding names in some ASEAN markets, such as Indonesia and Thailand for deep value investing. During the 1H'10, the best of the performance came from those markets most insulated to world events and principally from the smaller ASEAN markets. If risk aversion remains high in 2H'10, the smaller Asian (ASEAN) markets will continue to do well. Overall, our portfolio's beta will steadily increase as we think market conditions will improve in 2H'10.

ASEAN: another growth engine apart from "Chindia"



Source: UBS, Dec 2009

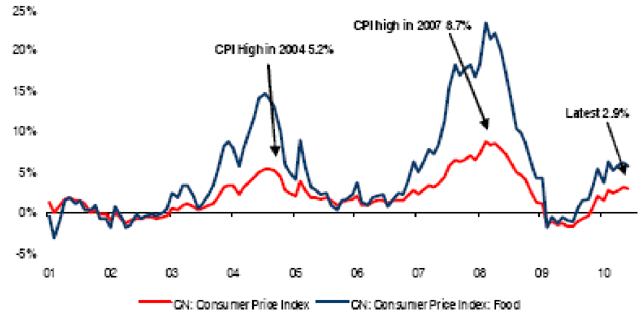
Q2. Given the policy uncertainty in China, do you still maintain a significant weighting there? What's your view on Chinese property and banking stocks? Will you reduce the positions in these sectors given their recent rally?

- We definitely stay positive on China. One potent argument is that policies designed to prevent overheating have been working and the softening macro environment both at home and abroad should see less tightening risk in China in 2H'10. As the market tends to be forward-looking, China plays may be able to outperform again when tightening concerns recede.
- However, our heavy overweight in China early this year has contributed negatively to the short-term portfolio performance. Our preferred long-term domestic growth plays in China such as China Vanke, Poly Investments and Ports Design etc. corrected during 1H'10 due to tightening concerns. We had been too early in adding to these names given our belief that their valuations had already priced in macroeconomic soft-landing as well as any earnings downside.
- That said, we continue to favour properties, banks and other domestic stocks in China which are still trading at big discounts to their historical levels. They still present good upside potential in the medium term and are good proxy for Asia domestic consumption.
- For instance, we were overweight China's property counters in 2009, which contributed positively to the Fund performance until the government announcement of tightening measures. We are still positive on the sector over the medium- to long-term as (1) urbanisation will continue; (2) valuations are very attractive after the corrections; and 3) earnings visibility is strong for the quality property stocks. The Fund will maintain its heavy weight in China/Hong Kong (over 40%).

China: Moderation in growth and receding inflationary pressure should lessen tightening risk in 2H'10

PMI input prices

CPI (yoy%)



Source: China Confederation of Logistics, CEIC, Datastream, Credit Suisse estimates.

Q3. It seems many consumer stocks especially those in China are trading at high PE multiples, will you chase these stocks as their earnings growth remains very strong?

- As ever, it is hard to say whether Chinese consumer stocks are trading at legitimate expectations as some foreign retailers find it difficult to succeed in the local consumer markets. For example, despite its lower PE multiples, Korean retailer Shinsegae has entered China for more than 5 years and is still losing money; and Walmart had failed to penetrate Korea and already withdrawn. Both cases connote the local/cultural factors are unique in retail business.
- In contrast, there are many successful Chinese retailers which are experiencing torrid sales growth and EPS (earnings per share) growth. Hence, they should command a higher PE. Some of them are trading on consensus 2010E 22-28x PE with 2010E sales growth at 20-37% and EPS growth at 24-32%. Belle (China's top women's shoe retailer) and China Yurun Food (China's leading meat product retailer) are two examples.
- Furthermore, we have been making endeavours to bring in non-China domiciled companies, which also can offer Chinese consumption growth prospects but are trading at a more attractive level. For example, we like a top player in the Korean cosmetics market, which is also expanding in China, with sales in the Mainland growing 23% yoy in 2Q'10 in RMB terms.

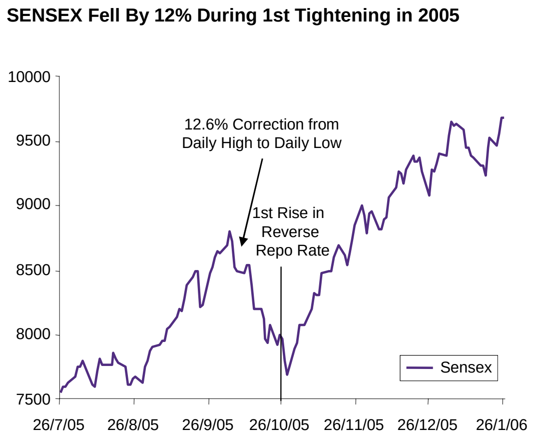
Q4. The Fund remains positive on India (with 18.5% weighting as at 31 July 2010). However, with the wholesale price index (WPI) over 10%, would there be any negative impact on equities there?

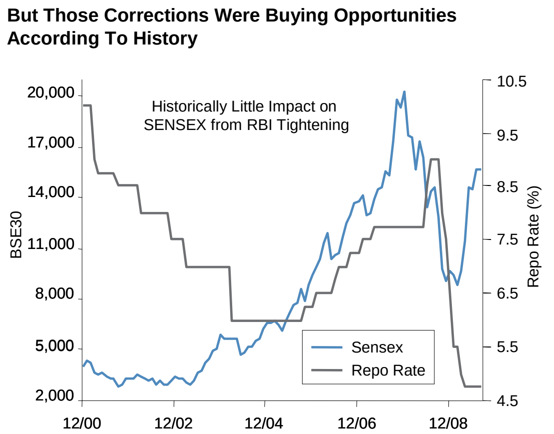
- The lower base effect and poor monsoon distorted food inflation since mid-09. However, we expect food inflation to moderate by mid-2010 as we move to more normal yoy comparison and the monsoon season has already started. The Reserve Bank of India (RBI) also expects the WPI inflation to taper down to mid-single digits by March 2011.

- Monetary policy concerns could potentially mean a tricky period for the equity market in the near term. However, experience tells us that monetary tightening is not necessarily bad for equities in the medium-term. Indeed, Indian equities continued to rally during the last tightening cycle in 2006/07.

- Furthermore, if history is any guide, the Indian equity market is more correlated with corporate earnings than inflation/interest rates. Overall earnings expectations had been upgraded materially for fiscal 2011 and 2012 since mid-2009, with earnings growth expected to achieve 25-30% p.a. Although several big cap names missed their FY1Q earnings expectations recently, which have led to some downgrades to FY11 earnings forecasts, we still expect earnings per share in aggregate could double in the next 3-4 years.

What if RBI really tightens …





Source: Thomson Reuters Datastream, Credit Suisse estimates, December 2009

Q5. Apart from the Chinese property stocks, does the Fund invest in property stocks in other Asian markets?

- In addition to Chinese properties, Thai property companies having been doing well. However, liquidity remains an issue as most of the latter are small caps.

- Singapore's property stocks have been increasingly catching on, as sentiment there has been improving due to the pickup in the economy and after the opening of two casino resorts. Singapore's 2Q GDP rose 19.3% yoy, exceeding all expectations. This led the government to upgrade its 2010 GDP growth forecast to 13-15% from the earlier forecast of 7-9%.

- Genting Singapore (a leading integrated resort developer and casino operator) opened its Resorts World Sentosa on 20 January 2010, while Marina Bay Sands, Singapore's second integrated resort, also opened its doors to the public on 27 April 2010. Since the opening of the two Integrated Resorts, tourist arrivals in Singapore have soared. Visitor arrivals for June increased 27% yoy to 950,000, the highest on record, marking seven consecutive months of record visitors.

- Singapore's residential property prices and transaction volume moderated in 2Q'10 but show signs of pickup of late with strong interest in some mass market condominium launches. We are looking for opportunities to add to the Singapore property sector.

Q6. Which sectors do you favour in Thailand and Indonesia?

- Indonesia, where the Fund has a 7% weighting, was the stand-out strong performer in 1H'10 with the Jakarta SE Composite Index up 19% in USD terms, as investors perceived that inflation was under control and domestic consumption would remain strong. We remain enthused by Indonesia's secular consumption growth in association with the agricultural and mining sectors.

- We also anticipate more upside in Thailand, which is trading at a multi-year high but on a lower multiple than the rest of ASEAN. Exports aside, we expect Thai consumer spending will rise as the political factor has been stabilised. Hence, we are structurally positive on Thai domestic consumption including the food & beverage sector. Charoen Pokphand Foods (the largest agribusiness company in Thailand) has long been on our radar screen. But the stock's strong 12-month performance means we are awaiting for a better entry point.

Q7. Why does the Fund seem to have a large cap bias? Do you see any opportunity in the mid-small caps?

- As at end-June, the Fund had only 7.7% weighting invested in holdings with a market cap below USD 1 billion. We generally still see value in many large cap names, and as such we do not have much incentive to move down the curve.

- That said, with respect to China's retail sector, the valuations as aforementioned are not cheap and so we have turned to a few names in the small-/mid-cap space for their better return/risk profiles. Ports Design (a high-end female apparel retailer) and Lianhua Supermarket (the largest retail chain operator in China) are some of the stock examples.

Q8. What is the turnover rate^ and number of holdings for the Fund?

- Our current turnover rate is 135% (as at 26 July 2010). We expect it to rise in the months ahead as (1) the prolonged market volatility may require us to trade more on short-term factors; and (2) we have been repositioning our Fund, making it a less concentrated portfolio with the total number of holdings at 67 (as at 31.07.10).

^ Turnover represents how much of a fund's holdings are changed over the course of a year through buying and selling. For example, if a fund has a turnover rate of more than 100%, that means its average holding period for a stock is less than 1 year. A high turnover rate indicates higher transaction cost for the fund, and actively managed funds often have higher turnover rates.

Remark: All stock examples are for illustration only and may not be currently included in the JF Asia Domestic Opportunities Fund. Individual stock performance is not indicative of fund performance.

Performance – JF Asia Domestic Opportunities

		2007*	2008	2009	2010 YTD
Calendar year return (%)		+26.3	-55.9	+66.3	+0.2
	6 months	1 year	2 years	3 years	Since inception*
Cumulative return (%)	+8.4	+6.0	+4.7	-14.5	-7.2

Source: JPMAM (NAV to NAV in USD with income reinvested). Data valid as at 30 July 2010. *The Fund's inception date was 14 May 2007.

1H'10 performance attribution: (31/12/2009 to 30/06/2010)**

Top 3 contributing sectors:

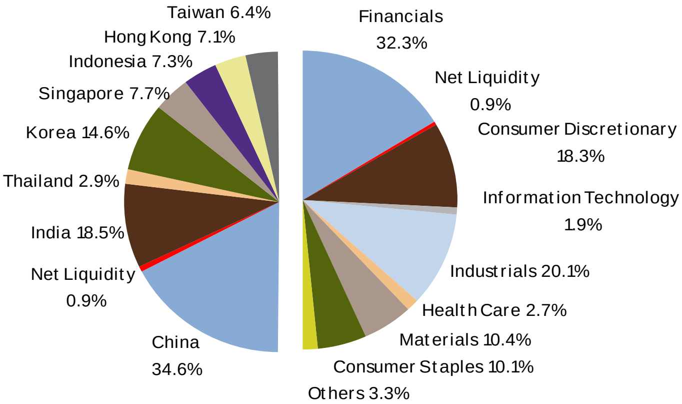
(1) Australia's financials (2) Indonesia's industrials (3) India's financials

Bottom 3 contributing sectors:

(1) Korea's consumer discretionary (2) Korea's healthcare (3) China's energy

** Source: JPMAM. The analysis is based on the Fund's relative performance to the MSCI AC Asia Pacific ex Japan net return index (measured in USD).

Country & Sector breakdown



Source: JPMAM. Data valid as at 30 July 2010

Top 5 Holdings

Holding	Sector	%
Maruti Suzuki India Ltd.	Consumer Discretionary	3.4
United Tractors	Industrials	3.0
Housing Development Finance Corp. Ltd.	Financials	2.9
Samsung Engineering Co. Ltd.	Industrials	2.7
Mundra Port & Special Economic Zone Ltd.	Industrials	2.6

Data valid as at 30 June 2010

For more information, please call us or visit J.P. Morgan Investment Centre at:
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