

Fund Focus – JF Asia Absolute Return

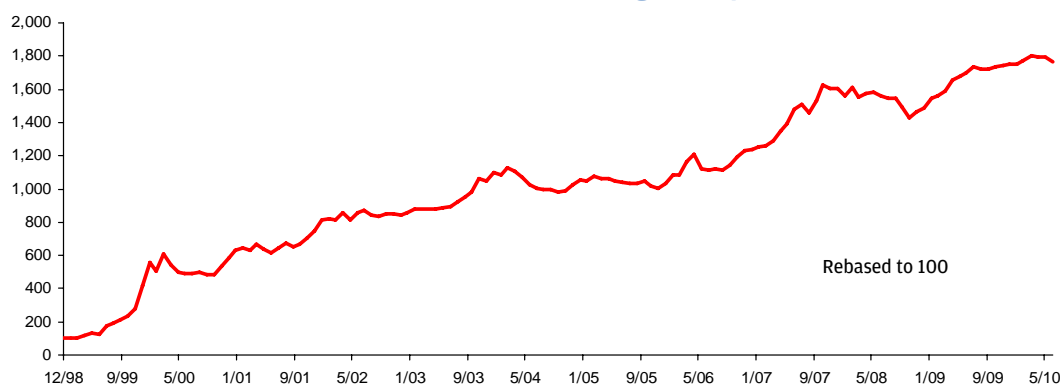
July 2010

- The Fund is an authorised hedge fund investing primarily in the Asia-Pacific region, including Japan. The Fund uses derivatives for investment purposes and may have a maximum gross equity exposure of up to 250% of Net Asset Value (NAV) and a maximum gross short equity exposure of up to 100% of NAV.
- The Fund's price movement may be subject to significant volatility and relevant counterparty risk and thus may go down or up sharply over a short time span.
- Given the Fund's dealing procedure, investment into this Fund may bear higher liquidity risk.
- Investors may be subject to losing their entire investment

Thriving on volatility

- ◆ May has been the worst month for the average hedge fund performance since the collapse of Lehman Brothers in October 2008 – and for many it is a reminder that, in spite of 18 months of bullish markets, the global economic recovery is continuing under many uncertainties.
- ◆ Difficult though the environment is, **JF Asia Absolute Return** – a multi-strategy hedge fund that aims to achieve positive absolute returns regardless of market conditions – continues to establish its credentials throughout the vicissitudes, a testament to the skill and dedication of our investment team.
- ◆ Looking ahead, financial markets are likely to stay volatile as global macro concerns continue to dominate investor sentiment. We will continue to seek fairly stable monthly absolute returns in these more volatile markets before taking on more risk.

JF Asia Absolute Return Fund: long term performance



Cumulative return (%)	1 year	2 years	3 years	4 years	5 years	Since inception*
JF Asia Absolute Return - Class A	+3.7	+13.0	+19.2	+58.4	+70.0	+1862.8
MSCI AC Asia Pacific - Net	+11.7	-13.5	-21.1	-3.2	+26.1	+83.1

Calendar year return (%)	2005	2006	2007	2008	2009	2010 YTD
JF Asia Absolute Return - Class A	-1.7	+19.6	+29.6	-7.0	+17.6	+0.8
MSCI AC Asia Pacific - Net	+23.3	+16.5	+14.3	-41.8	+37.6	-5.3

Source: JPMAM (NAV to NAV in USD) & Thomson Reuters Datastream. Data valid as at 30 June 2010. *The Fund's inception date was 30 October 1998.

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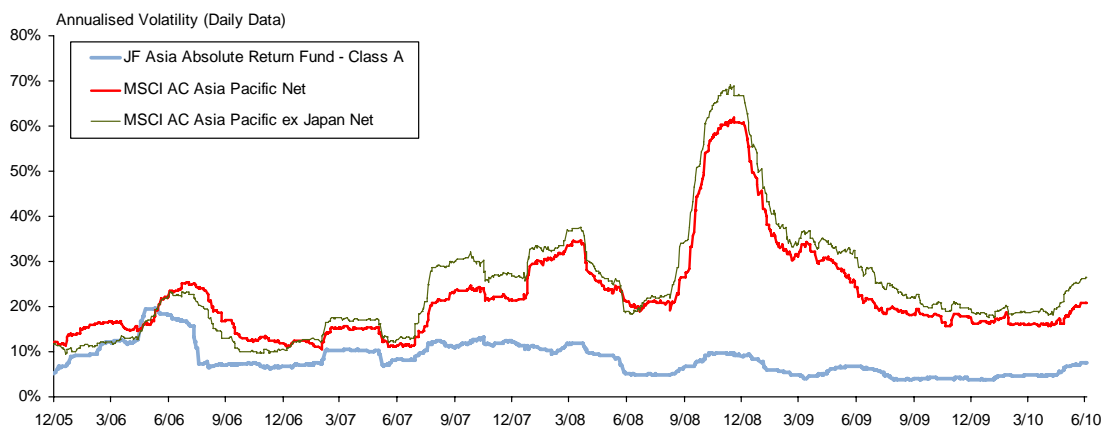
Portfolio highlights

- ◆ We believe that external influences on Asia will be mixed – a weak euro, below consensus growth in Europe and a grudging recovery in the US, countered by strong developing economy growth.
- ◆ Flexibility is our basic premise as we don't have big asset allocation bets. Cash is currently running at 20% of the portfolio. We remain committed to moving our long/short bets on countries swiftly while keeping the overall net long/short at around 10%.
- ◆ On the **equity** side, we are long Japan & Hong Kong and slightly short Korea & India.
- ◆ Chinese A-Shares are generally trading at discounts relative to H-Shares, though there are exceptions for example with the H-Shares of Cosco, China Citic Bank and PetroChina having been priced at big discounts (20%-40%) to their A Share counterparts. We expect A-Share performance to be the precursor to H-Share performance.
- ◆ Elsewhere, our concern is the pace of interest rate hikes in some emerging countries like India, Indonesia and Thailand, as inflation figures for these countries are on an uptrend.
- ◆ Commodity is one sector to which we look to add as it has been unfairly priced with respect to the Emerging Markets' secular growth potential.
- ◆ In terms of **fixed income**, we have rotated out of US Treasuries and into Asian bonds where we are now about 16% long. We maintain our short in JGBs (Japan Government Bonds) as their yields are not attractive and Japan's fiscal deficit remains worrying (gross debt is approaching 200% of GDP). Our nominal short in JGBs is 40% of the Fund. However, we think the real risk being undertaken is not disproportionate given the relatively low JGB volatility (3%).
- ◆ **Currency**-wise, we are long RMB and short JPY.
- ◆ To elaborate, we put 20% of our Fund in RMB forwards and see the JPY to be overvalued plus we don't think Japan will bear a strong yen given the FX competitiveness concern.
- ◆ Everything considered, our investment philosophy is aiming to keep volatility low while achieving steady positive returns.
- ◆ Over the past twelve months the Fund gained 6.8% with 3.2% annualized volatility, implying a Sharpe ratio of 2.0x, significantly higher than the market average (0.3x)[^]. A better risk-adjusted performance has increasingly become a critical focus for investors under the current market uncertainties.

[^]Source: JPMAM (NAV to NAV in USD). Morningstar, Offshore Hedge Multi-Strategies fund universe. Data valid as at 31 May 2010. Sharpe ratio = Annual return divided by the annual volatility (ie, risk free rate is taken as 0%). The higher the Sharpe Ratio, the higher the return earned per unit of risk taken.

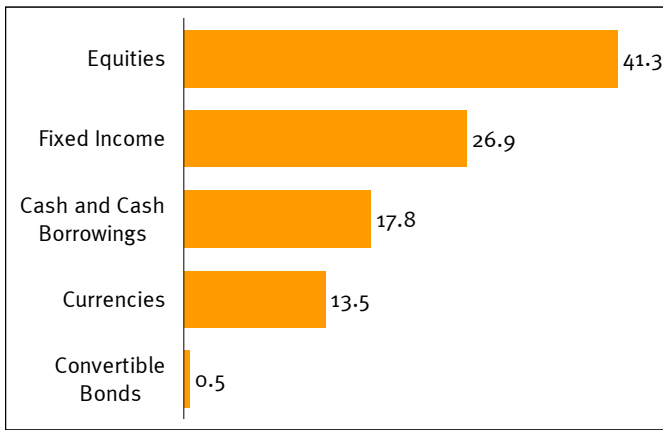
JF Asia Absolute Return Fund: Actual volatility

Rolling 60 Days Volatility

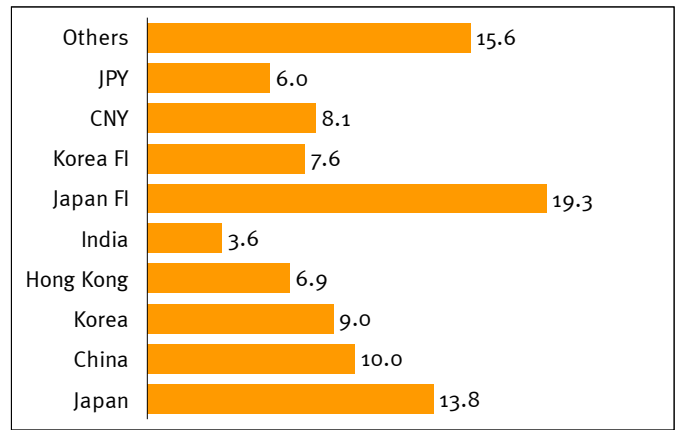


Source: JPMAM/Thomson Reuters Datastream. Data valid as at 30 June 2010.

Gross asset breakdown
(% of total gross exposure)



Gross geographical & currency breakdown (ex cash)**
(% of total gross exposure ex cash**)



Source: JPMAM. Data valid as at 30 June 2010. **Cash and cash equivalents are netted off with accrued expenses. If applicable, cash borrowings are also excluded.

Appendix: JPMAM – One of the best fund houses in Asia

The Asset Triple A Investment Awards 2009

Asset Management Company of the Year, Asia - *J.P. Morgan Asset Management*
BEST Asset Management Company, Hong Kong - *J.P. Morgan Asset Management*



AsiaHedge Magazine - Best Hedge Fund Awards 2008

BEST Asia including Japan - *JF Asia Absolute Return*



Asia Asset Management - Best of the Best Awards 2009

Hong Kong Best Institutional House - *J.P. Morgan Asset Management*
Leadership in Fund Management - *J.P. Morgan Asset Management*



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