J.P.Morgan Asset Management

Fund Focus – JF Asian Total Return Bond

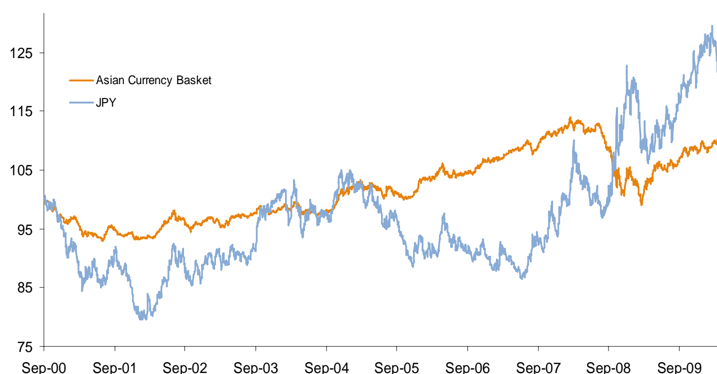
June 2010

- The fund invests in fixed income instruments in Asia and is therefore exposed to interest rate, credit and currency risk.
- The fund may invest in derivatives for investment purposes such as Credit Default Swaps (CDS). A CDS is a financial contract that allows the investment manager to increase or decrease credit exposure, typically on bonds or loans of a sovereign or corporate entity, and may therefore be subject to counterparty risk.
- Investors may be subject to substantial losses.
- The investment decision is yours. You should not invest unless the intermediary who sells you the fund has advised you that it is suitable for you and has explained how it is consistent with your investment objectives. Please refer to the offering document(s) for details.

EU debt situation: What's going on?

- The size of the EUR 750bn bail-out package was a positive surprise as was the speed of putting it together, which showed the resolve of European policy makers. In terms of rolling over government debt for the peripheral European countries, the short term liquidity problem is largely resolved. However, longer term structural issues remain. Governments will have to impose tough austerity measures to restore fiscal health and this will have a negative impact on Europe's growth in the coming quarters.
- The euro is likely to suffer given the poor growth picture and the potential need for more extraordinary measures on the monetary front, including quantitative easing though the ECB is resisting this at the moment. The reaction in the markets so far has been to reduce overall risk and to show a preference for the USD both for its liquidity and for the more optimistic outlook on growth versus Europe.
- Asian bonds and currencies have pulled back recently in the global correction. But we view this more as profit taking and a market consolidation after a sustained rally since the middle of 2009.
- The medium term positive picture of Asia's fundamental remains intact. Government finances are much healthier and banking system are not under stress. Asia will continue to be the leader in global growth. We expect the market to distinguish the problems in the developed world and contrast that with the positive picture in Asia, which will further drive flows consistent with the global rebalancing that is required.
- Given the potential problems in EUR assets - an area where FX reserves have been diversifying away from the US dollar - we believe that central banks and sovereign wealth funds will increasingly look to emerging and Asian currencies to invest.

Asian ex-Japan currencies look cheap relative to the yen, likely to benefit more from RMB appreciation



Source: Bloomberg, ADXY for Asian currency basket, base = 100 on 15 September 2000

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Portfolio highlights: JF Asian Total Return Bond

Currency

- We have received inflows in the Fund but have kept the cash so far, waiting to add on further weakness in the bond markets. Our USD exposure has increased as a result but we are looking to deploy this as we are positioning for a rebound in Asian currencies.
- The Fund has decreased its exposure to the RMB given bond maturities and the reduced likelihood of substantial appreciation near term due to the decline in its trade weighted basket currencies.
- While being overweight the Korean won and Indonesian rupiah, we have tactically trimmed these positions, conscious of greater short-term risks. Also, we have cut our Indian rupee position as its tightening pace has been reduced given global concerns with risks to its capital flow picture.

Sector

- There has been no major change in our country allocation. We are still focused on Indonesia, Greater China and Korea. Central banks in Asia will likely adopt a slower tightening path, and longer duration local currency bonds should benefit. We have, for example, added to Korean local government bonds and are looking to add to other trades that express this theme.
- Credit valuation has turned more attractive with the recent widening. We will selectively add to quality names that should benefit from the Asian macro story while having limited exposure to the problems in Europe.

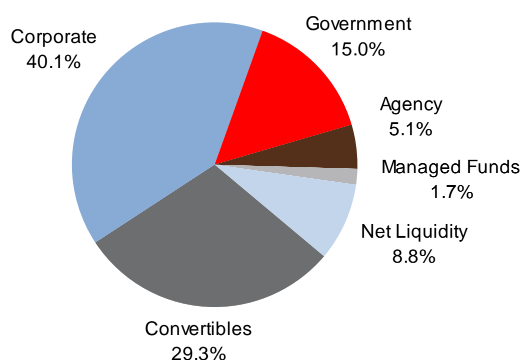
Fund performance

	2005[#]	2006	2007	2008	2009	2010 YTD
Calendar year return (%)	+1.4	+10.2	+9.6	-19.3	+31.6	+3.7

	1 year	3 years	4 years	5 years	Since inception[#]
Cumulative return (%)	+14.2	+13.7	+29.9	+34.9	+34.9

Source: JPMAM (NAV to NAV in USD with income reinvested). Data valid as at 31 May 2010. [#]The Fund's inception date was 18 January 2005.

Sector breakdown



Source: JPMAM. Data valid as at 31 May 2010

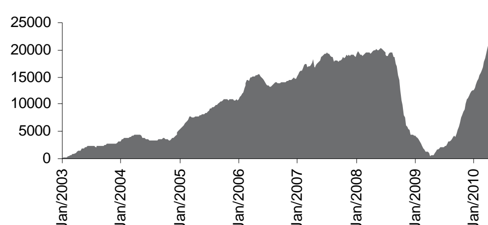
Top 5 Holdings

Holding	%
Korea Treasury No1409 4.25PCT 10/09/14	2.9
QBE Funding Trust V CB (QBE Ins) 0% 12/05/30 (Reg S)	2.5
Indonesia Government NoFR40 11% 15/09/25	2.4
Berjaya Land Bhd EB (Berjaya Spot Toto) 8% 15/08/11	2.0
Indo Integrated Energy II BV 9.75% 05/11/16 (Reg S)	2.0

Data valid as at 30 April 2010

Appendix – EM vs developed ... more to go as convergence and re-rating will continue

Cumulative EMD Flows



Source: IIF.com (The Institute of International Finance, Inc.)

- Cumulative inflows into Emerging Market debt have already returned to their pre-Lehman level.
- The reasons have been well-documented: (1) G4 Interest rates are low, (2) global cash balances remain high, (3) increasing correlation of interest rate cycles among G4 is creating a structural demand for EM as investors need diversification, (4) US pension funds are underexposed to EM bonds.
- Also, history shows that credit spreads could continue to tighten for some time even after the US starts raising interest rates.

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