

Fund Focus – JF China[^]

August 2010

- The Fund invests in a single market, primarily in companies of the People's Republic of China, and is therefore subject to greater concentration risk than a more diversified investment.
- The Fund may invest in emerging and developing markets and thus may have significant exposure to liquidity and the relevant currency risk. The Fund's price movement may go down or up sharply over a short time span.
- Investors may be subject to substantial losses.

Fund Quarterly Review – 2Q' 2010

- ◆ Chinese equities were sold off, especially domestic A-shares, in a quarter of volatile trading. Beijing intensified efforts to cool domestic property markets and impose stringent controls on new local government project financing. These policies coupled with Euroland uncertainties added to concerns over China's growth prospects in 2H 2010.
- ◆ **JF China** underperformed its benchmark against this volatile backdrop due to our overweight positions in domestic growth stocks. The latter fell significantly on policy concerns in spite of historically attractive valuations. China's latest economic data continued to show solid growth, despite moderating from the peak in 1Q'10.

Performance – JF China[^]

	2005	2006	2007	2008	2009	2010 YTD
Calendar year return (%)	+6.9	+99.8	+66.7	-53.1	+65.1	-9.7
		1 year	3 years	4 years	5 years	Since inception*
Cumulative return (%)		+7.6	-2.5	+77.8	+157.2	+368.0

[^] JF share class of JPMorgan Funds. Source: JPMAM (NAV to NAV in USD with income reinvested). Data valid as at 30 June 2010. *The Fund's inception date was 4 July 1994.

Outlook & Strategy

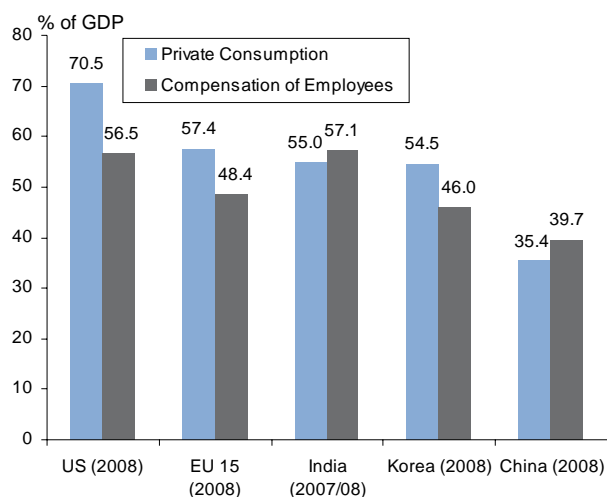
- ◆ While the Chinese government's primary aim is to reduce property investment and speculation, there are risks that policy tightening could lead to a more pronounced impact on property prices and volumes, as well as the overall economy, than the government would have expected or desired.
- ◆ Nonetheless, we expect the measures announced so far coupled with increasing residential property supply in 2H'10 will lead to gradually falling property prices, easing the pressure on policymakers.
- ◆ We believe the re-balancing of China's economic structure from an investment-driven to an increasingly consumption-driven growth model can accelerate, supported by RMB revaluation, government efforts to improve China's social safety net (education, healthcare, public housing etc) as well as rising wages/household incomes.
- ◆ However, the transition could cause some growing pains in the short term given that China's fixed asset investment growth appears to have peaked. GDP growth could drop towards 8% from the past 10-year average of around 10%. Sequentially, growth may already have fallen below 8% in 2Q (saar) according to the estimates of some private brokers.

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- ◆ Instability in global financial markets will likely persist short term. That said, fundamentals and balance sheets remain exceptionally strong in China and thus far the impact on exporters and domestic consumption from the turmoil in European markets has been much less than feared.
- ◆ Our portfolio continues to position for leverage to China's domestic growth plays while domestic cyclicals have been oversold due to the market's fears over "policy over-tightening."

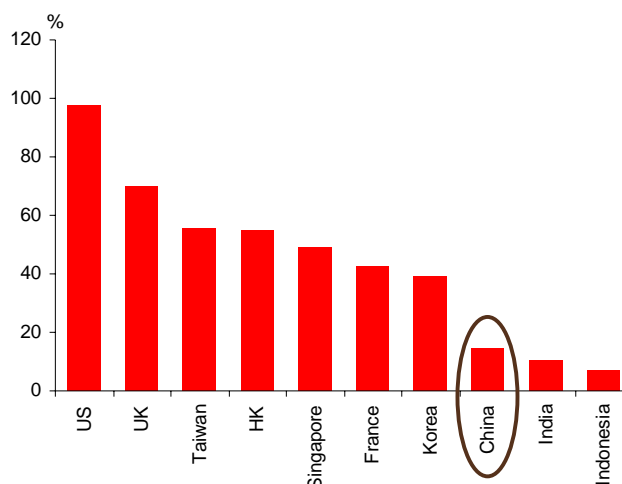
The opportunity for long-term rebalancing:

Labor's share of GDP as well as consumer loans are relatively low in China



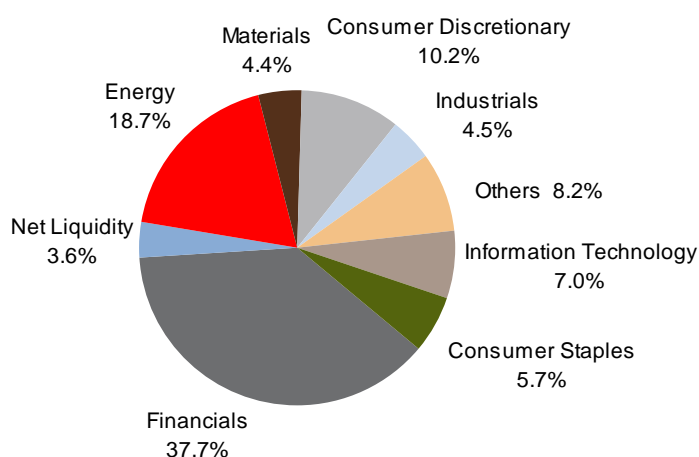
Source: CEIC, Credit Suisse estimates. Data valid as of December 2009

Consumer Loans as % Nominal GDP



Source: CLSA Asia-Pacific Markets

Sector breakdown



Source: JPMAM. Data valid as at 30 June 2010

Top 5 Holdings

Holding	Sector	%
China Construction Bank Corp.	Financials	9.4
China Life Insurance Co. Ltd.	Financials	8.8
Industrial & Commercial Bank of China Ltd.	Financials	5.3
Tencent Holdings Ltd.	Information Technology	5.0
China Petroleum & Chemical Corp.	Energy	4.9

Data valid as at 31 May 2010

For more information, please call us or visit J.P. Morgan Investment Centre at:
Walkway Level, Jardine House, Central, Hong Kong

Tel: (852) 2265 1133

Fax: (852) 2868 5013

www.jpmorganam.com.hk