

## Fund Focus – JPM Global Natural Resources (USD)\*

August 2010

- The Fund invests in specialised sectors and themes, primarily in natural resources companies globally, 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.
- Investors may be subject to substantial losses.

### Challenging times for Natural Resources with Gold offering shelter once again

|                                    |        |
|------------------------------------|--------|
| Gold Price                         | 11.4%  |
| Oil Price                          | -9.7%  |
| LME Base Metals Prices             | -17.7% |
| MSCI World Metals and Mining Index | -17.2% |
| MSCI World Energy Index            | -16.8% |

Source: Bloomberg. 2Q'10 data, measured in USD.

- ◆ With the exception of a strong performance for gold, it was a challenging quarter for commodities.
- ◆ Base metals prices saw the greatest declines as a combination of investors concerns about China, European growth and credit concerns, and Australia's super profits tax proposal, weighed heavily on the sector.
- ◆ Investors continue to be nervous about the possibility of a double dip recession in Europe and how the Chinese government's efforts to slow the economy may negatively impact demand for commodities.
- ◆ In addition the Australian government's proposal for a super profits tax on mining assets in Australia severely impacted those large diversified miners with operations there.
- ◆ The oil price also fell during the quarter as concerns about China growth, and therefore Emerging Markets demand, drove the WTI lower, in a backdrop of still sufficient US inventory supply.
- ◆ Gold was the clear beneficiary of investors' jitters, rising 11% over the quarter due to its safe haven status, and ending the quarter at USD1242 per ounce.
- ◆ Larger mining companies tracked base metals and bulk prices lower, whilst energy stocks saw more significant declines.

### Fund performance – JPM Global Natural Resources (USD)\*

|                          | 2006  | 2007   | 2008    | 2009    | 2010 YTD          |
|--------------------------|-------|--------|---------|---------|-------------------|
| Calendar year return (%) | +17.5 | +45.4  | -67.1   | +117.4  | -6.5              |
| Cumulative return (%)    |       | 1 year | 2 years | 3 years | Since inception** |
|                          |       | +26.7  | -34.9   | -25.5   | +14.2             |

\*JPM 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 12 September 2006.

- ◆ The Fund had a difficult quarter, underperforming the comparator.
- ◆ Our base metals and diversified holdings detracted the most from performance, with all of the individual commodities within this sub sector suffering from double digit declines.

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- ◆ Although negative, our stock selection within the energy portion of the Fund fell less than the decline in the oil price and larger oil companies, as noted above by the MSCI Energy Index.
- ◆ This was due to our predominantly upstream exposure to oil and gas companies in this sector with a holding in Falkland Oil and Gas being the largest positive contributor. The company's share price rose by over 100% in the quarter in EUR terms, 88% in GBP, after data indicated rich deposits in the surrounding area^.
- ◆ Our gold and precious metals exposure was the only positive contributor in the quarter with stocks rising approximately 17% in this sub-sector in EUR and 7% in GBP.
- ◆ Our silver holdings actually saw the largest rises, of approximately 27% in EUR and 17% in GBP, whilst our gold holdings rose by 20% in EUR and 10% in GBP. Platinum and palladium performed less impressively however as both were impacted by concerns about auto sales given the economic outlook worries.
- ◆ At the stock level, our largest positive contributors to performance were our gold holdings with 8 out of the top 10 being gold exploration companies.
- ◆ One of our largest positive contributor to performance overall was our largest holding, Pacific Rubiales which continues to be recognised for its excellent growth profile and dominance as an oil exploration company in Columbia.

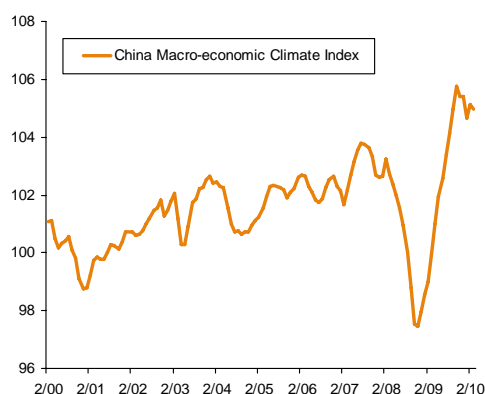
^Individual stock performance is not indicative of fund performance.

## Outlook & Strategy

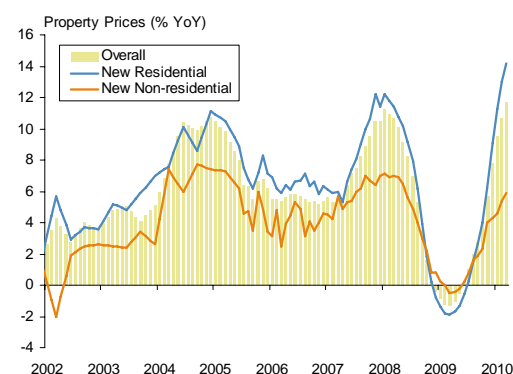
- ◆ During the quarter we made some small adjustments to the portfolio given the news of a proposed super profits tax for companies with mining resources in Australia, and investors' concerns surrounding European credit.
- ◆ In addition, investors appear concerned about the Chinese government's efforts to stave off inflation and maintain a sustainable level of economic growth, impacting base metals stocks and bulk commodity producers.
- ◆ We reduced our exposure to the larger diversified miners that would be more severely impacted by the tax, and added to our gold exposure in response to investors' economic concerns.
- ◆ Since the close of the quarter, we have seen a change in Prime Minister in Australia and following this, proposed changes to the super profits tax, significantly reducing the negative impact on companies' earnings.
- ◆ In addition, a key change is that the tax will only be imposed on iron ore and coal mining assets, rather than all mining assets (copper etc).
- ◆ We believe that base metals stocks have been too severely de-rated by the above news, even given recent declines in base metals prices, and we have more recently taken opportunities to add to base metals positions where appropriate, given attractive valuations.
- ◆ From a top down perspective, within base metals we can see some clear distinctions in terms of attractiveness where supply is tighter for certain metals such as copper and less so for others, notably aluminium. As such we are selective within this group and prefer copper over aluminium.

### Chinese government stimulus contributed to a successful recovery – Economy is set to moderate from a high level

China Macroeconomic Climate Index (1996=100)



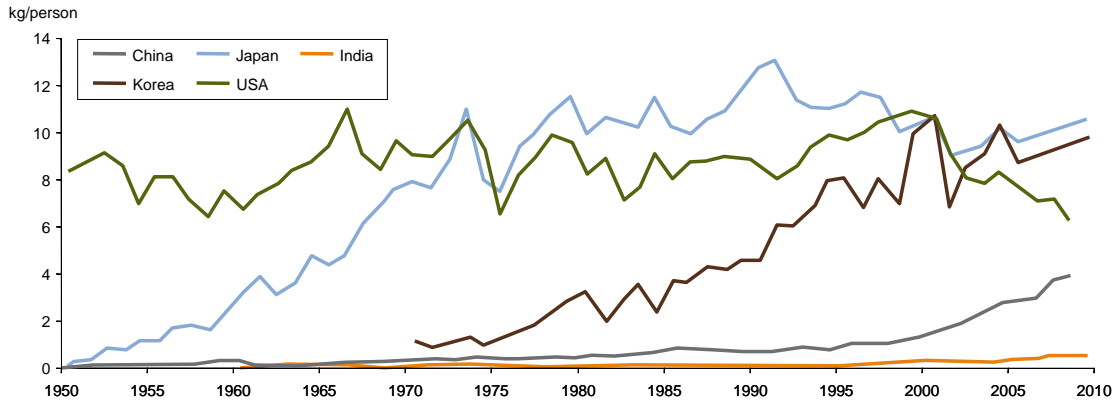
Housing Prices



Source: (LHS) National Bureau of Statistics & Goldman Sachs. (RHS) NBS, CEIC, UBS estimates, 19 April 2010. Both charts are derived from JPM Global Natural Resources Presentation, June 2010.

## Putting 'slowing China' into context: Chinese and Indian per capita consumption, still some way to go

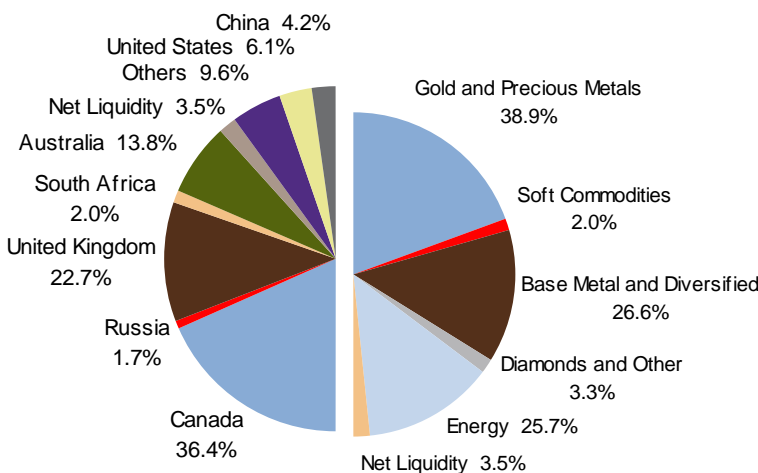
Copper Consumption per Capita since 1950



Source: Macquarie Research, March 2010 - JPM Global Natural Resources Presentation, June 2010.

- ◆ We will likely maintain an overweight position in gold given that investors appear to be very sensitive to any negative economic newsflow and therefore we find gold a good defensive investment in this respect to counteract any negative sentiment impact on base metals.
- ◆ We continue to like iron ore and coal and despite recent price declines, the YTD increases in prices should feed through to a good earnings season for these companies.
- ◆ So from an asset allocation point of view, we maintain a good holding in select base metals and energy to benefit from any optimism about the economic outlook, whilst gold should act as a hedge should the environment deteriorate in the short term.
- ◆ Longer term, we consider the sector to continue to offer an attractive investment proposition, given the strong cash flow of a number of companies, continued M&A activity and the long term demand/ supply situation in many commodities.
- ◆ As always, we focus on identifying world-class exploration projects that offer the greatest investment return potential of investment returns.

### Country / Region & Sector breakdown



Source: JPMAM. Data valid as at 30 June 2010

### Top 5 Holdings

| Holding                 | Sector                     | %   |
|-------------------------|----------------------------|-----|
| Rio Tinto               | Base Metal and Diversified | 3.6 |
| Pacific Rubiales Energy | Energy                     | 2.6 |
| Xstrata                 | Base Metal and Diversified | 2.2 |
| Red Back Mining         | Gold and Precious Metals   | 2.1 |
| Anglo American          | Base Metal and Diversified | 2.1 |

Data valid as at 31 May 2010

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