Fund Focus – JF India Fund

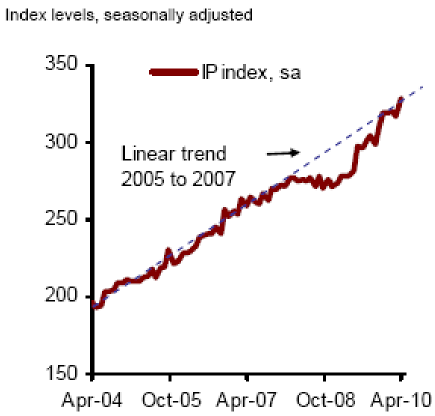
July 2010

- The Fund may invest in emerging and developing markets, primarily India, and therefore the Fund has significant exposure to liquidity and the relevant currency risk.
- The Fund has exposure to the Indian FII market via an Indian FII license. Investors will be subject to the associated regulatory and concentration risk.
- The Fund's price movement may be subject to significant volatility and thus may go down or up sharply over a short time span.
- 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.

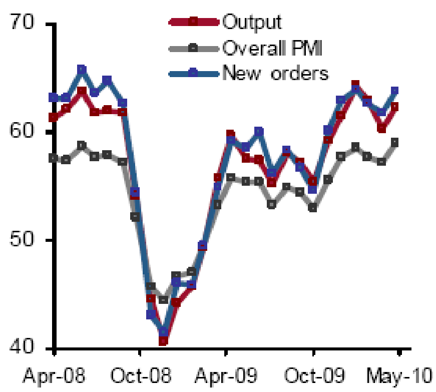
India growth backdrop looks attractive

- The current backdrop for India is looking attractive. GDP for Q4 (March 10) came in at 8.6% driven primarily by manufacturing and services. The growth backdrop is looking very strong albeit slightly ahead of consensus expectations. April industrial production (IP) surprised on the upside (up +17% yoy vs consensus estimates of 14.5%). The jump in IP however, is not broad based and was dominated by a 33% mom jump in the capital goods' sub-index – a very lumpy series which we believe distorted the overall IP figure. Sequential readings may show further volatility. Production strength however was relatively more broad-based – enough to raise the prospect of further monetary policy tightening by the RBI who look to be behind the curve.
- We believe GDP growth for 2010 (year beginning April) will be around 8-8.5% (7.4% in 2009) but initial signs show potential upside. Data for April IP and the May Purchasing Managers Index (PMI) suggest the possibility that industrial GDP growth could be somewhat higher than expected. There is also some upside to growth in financial services given that bank credit growth is also likely to improve by more than consensus.
- Recently, Rukhshad Shroff – the portfolio manager of the JF India Fund, visited a number of companies in India and came away upbeat. Corporate and aggregate numbers are both looking good. For the quarter ending March 10 corporate earnings were 38% yoy – higher than expected (33-34%) which should provide a marginal uptick to FY11. Our Indian equity portfolios have several core themes - two where we are most positive are infrastructure and consumption.

India IP



India PMI (manufacturing)



Source: Credit Suisse estimates. Emerging Mkts Quarterly 23 June 2010

Inflation still creeping higher

- Inflation in India has been running well above the 5-6% ‘comfort zone’ for the past several months. Agricultural prices are cooling but price pressures remain in the manufacturing sector and are clearly increasing. Benchmark wholesale-price inflation unexpectedly quickened to 10.2% in May.
- In a bold move, the government recently announced an across the board hike in petroleum product prices to reduce subsidies despite opposition from a few coalition partners. Going forward, the pricing mechanism for gasoline (and eventually diesel) will be market determined.
- This move not only alleviates concerns about the fiscal deficit, but also demonstrates the government’s resolve to take economically sensible but politically unpopular decisions. On the flip side, inflationary pressures will worsen on the margin with the direct impact estimated at 60bps.
- On 2 July, the Reserve Bank of India raised the reverse repurchase and repurchase rates by 0.25% each to 4% and 5.5%, respectively. The central bank signalled it is set to increase interest rates further after this unscheduled hike due to the concern that increased consumer spending and rising fuel prices will drive up inflation.
- While there is also some case for slower monetary tightening given the outlook for international commodity prices and a slower global recovery, the risks of higher inflation is far greater if rising demand isn’t tempered by policy tightening now. Inflation did surprise the market and has strengthened the argument for faster action by the RBI.
- If the global economy slows then corporate earnings in India should be relatively resilient given that a large part of earnings are domestically driven. However, at the margin there will still be areas where we could see potential downgrades - namely in metals, oil and mining. If estimates for these sectors do come off, this should be seen as a macro positive for India as it will help reduce domestic inflationary pressures - currently the biggest macro concern. P/e expansion in an environment of reduced inflation is positive.

Portfolio highlights – JF India

- Our Indian equity team is underweight commodities overall but see infrastructure-related projects and companies that fund infrastructure projects as gaining ground. We also see a sound consumption story in India. India was recently upgraded to overweight in our regional asset allocation.
- We are currently overweight select IT and Energy companies (although overall underweight energy) as well as having an overall overweight in Financials and Industrials (autos, electricals). We also like some of the cement companies in India.
- We are underweight energy, materials, utilities and telecoms.

	2005	2006	2007	2008	2009	YTD 2010*
Calendar year return (%)	+42.8	+49.0	+64.9	-61.5	+79.3	+0.4

	1 yr	3yr	5yr	10 yr	Since Inception#
Cumulative return (%)	+24.0	+1.4	+135.4	+331.6	+1,765.4

Source: JPMAM (NAV to NAV in USD with income reinvested). *Data valid as at 31 May 2010. #The Fund’s inception date was 23 Nov 1989.

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