

Fund Focus – JF Korea Fund

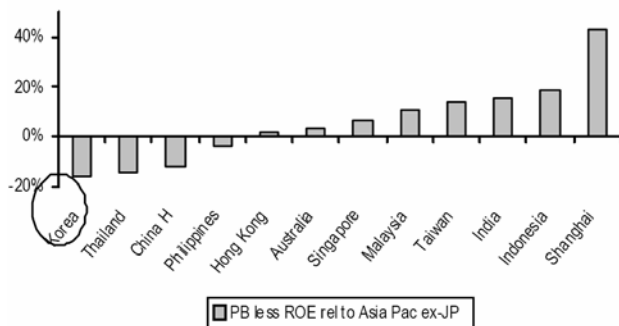
June 2010

- The Fund invests primarily in companies whose shares are listed on the Korea Stock Exchange or traded on the Korean over-the-counter market, and therefore may have exposure to the relevant currency risk. The Fund's price movement may go down or up sharply over a short time span.
- The Fund invests in a single market and is therefore subject to greater concentration and liquidity risk than a more diversified investment.
- 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.

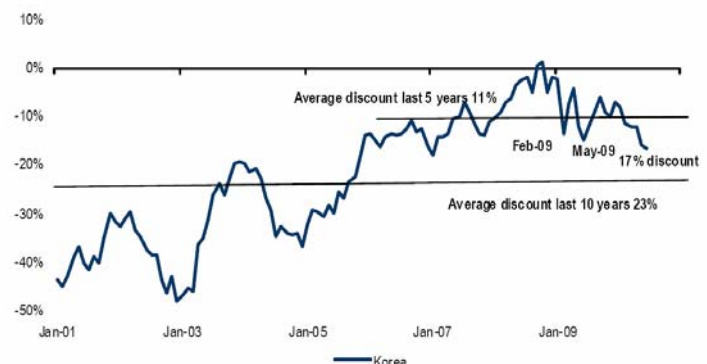
Korea upgraded to overweight

- ◆ We have recently upgraded Korea in our regional asset allocation from neutral to overweight driven by a number of key positives including: 1) Valuations - Korea has recently become the most undervalued market in Asia when looking from a P/B vs ROE perspective, 2) Historical Discount - the current P/B vs ROE discount (17%) is the largest over the last 5 years (average 11%), 3) Domestic mutual fund flows have stabilised, 4) Korea National Pension Service may increase their equity exposure, 5) Overall improvements seen in the domestic economy which is supported by decent levels of liquidity.
- ◆ The main risks to Korea are further flare ups with their neighbour in the North and/or a global double dip recession. Another key risk that a lot of investors cite are concerns surrounding Korea's growth and the magnitude of household debt which has increased to a ratio of around 1.43, higher than that of the US (ratio of household debt to disposable income). If the global financial crisis provided one lesson, it is that large debt positions are risky, if for no other reason than they leave the borrower vulnerable to the consequences of some external shock. However this latter point, in isolation, may seem worrying but when looked at from a broader perspective, there is also evidence showing rapid growth in Korean net financial wealth as well as an increasing ability to service their debt through consistent growth in disposable income levels.

PB-ROE indicator - Korea the most undervalued



PB-ROE discount to region



Source: Credit Suisse estimates. Asian Daily 9th June 2010

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Portfolio highlights: JF Korea

- ◆ Overall, we are modestly optimistic on Korean equities after their strong performance in 2009. As widely expected, the Bank of Korea recently left the base rate on hold at 2%. However, both the MPC statement and the governor's comments turned slightly more hawkish to signal that its move towards an exit strategy from extremely low policy rates may have stepped up a little bit further. We maintain the view that the Bank of Korea will begin to raise its policy interest rate sometime in 3Q10. We therefore see the KRW's further upside potential becoming a headwind for exporters. The portfolio currently has a bias towards domestic-oriented names rather than exporters. Given the decent earnings prospects and historically low interest rates we retain a positive stance towards the market.
- ◆ The Ministry of Strategy and Finance has indicated recently that the fragile state of the economic recovery means that it will continue to exercise caution with regard to moves to reverse stimulus measures. Now that the domestic economy is showing signs of regaining its stability, the authorities will slowly adjust their focus towards structural issues. Real GDP grew by a healthy 7.8% year on year in the first quarter of 2010.
- ◆ As always, we think stock picking rather than sector allocation will be the bigger factor in driving performance. We are positioned with minimal sector bets and are biased towards stocks we see with earnings upside at decent valuations.

Sector positioning - we love the unloved.

- ◆ The JF Korea Fund is overweight Construction and Shipbuilders. Both sectors are largely unloved and have been underperforming. We are selectively adding where appropriate. Firstly we are positive on construction companies which have large exposures to overseas construction (especially in the Middle East). Secondly, we like companies which stand to benefit from industry consolidation as the government tries to restructure the ailing construction industry. News-flow on this has been very negative, affecting sentiment. Property prices are falling in Korea given the new regulations on property taxes and the Korean government regulating banks & restricting their lending to consumers (mortgages).
- ◆ The second most unloved sector is the shipbuilders. We are becoming more positive on the sector. However foreigners have also been buying here. We believe ship prices have bottomed given high input costs (steel) and foresee that there will be improvements in the future.
- ◆ The Fund is underweight Iron & Metal products. We have been underweight POSCO, one of the largest benchmark weights. POSCO is looking cheaper at around 1x PBV. However we believe the outlook for steel is not looking as good as during 2002-2008. We have made a structural bet against steel, however if valuations become cheaper we will certainly re-look at this trade again.

Fund performance

	2005	2006	2007	2008	2009	YTD 2010*
Calendar year return (%)	+72.8	+15.2	+39.3	-52.4	+70.3	+7.3

	1 yr	3yr	5yr	10 yr	Since Inception#
Cumulative return (%)	+48.3	+11.4	+112.7	+372.4	+335.3

Source: JPMAM (NAV to NAV in USD with income reinvested). *Data valid as at 30 April 2010. #The Fund's inception date was 11/12/1991.

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