

Fund Focus – JF Taiwan[^]

June 2010

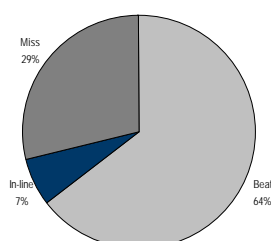
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- The Fund may invest in emerging and developing markets and thus may have significant exposure to liquidity and the relevant currency risk. The Fund's price movement may go down or up sharply over a short time span.
- Investors may be subject to substantial losses.
- 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.

Market update

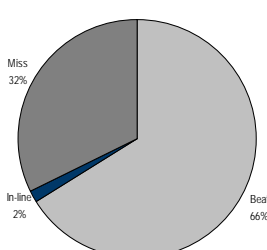
- ◆ Taiwan's economy grew 13.3% yoy in 1Q'2010, reflecting the low comparison base and the improving US economy.
- ◆ The government has raised its 2010 GDP forecast to 6.1% (Street Estimate: 6-7%) and CPI forecast to 1.4%. The central bank may leave interest rates on hold given the ongoing European woes.
- ◆ The 1Q'10 reporting season was generally positive with most Taiwanese companies delivering strong results and upbeat 2Q'10 guidance; yet apparently analysts are still awaiting further pointers from the external economies.

Taiwan's 1Q'10 results and 2Q'10 outlook

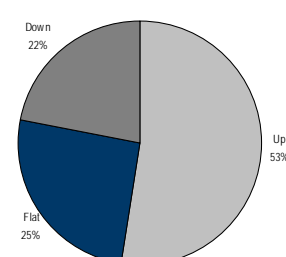
1Q10 revenue versus street



1Q10 EPS versus street



2Q10 street EPS revisions



Source: Credit Suisse, May 2010

- ◆ Both foreign and local institutional investors have been net sellers of Taiwanese stocks. QFIIs, which now own around 32% of TAIEX, are underweight Taiwan.
- ◆ Regarding the technology sector, inventory has risen slightly but continues to remain generally healthy. In fact, capex growth has largely been disciplined since 4Q'08.
- ◆ Also positively, the upcoming product innovation wave (e.g. LCD/LED/3D TVs, E-Book, micro projector) should help spur consumption.
- ◆ After a strong 1Q'10, the Taiwanese stock market is adjusting to the fact that 2Q could be progressing more slowly than expected, though this may largely reflect seasonality.

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Taiwan's growth prospects revisited

Cross-Straits

- ◆ Clearly the next focus in Cross-Straits relations will be the signing of the ECFA (Economic Cooperation Framework Agreement) with China*.
- ◆ The ECFA not only will help Taiwan open up to China, but will also give Taipei the green light to seek bilateral trade agreements with other important trade partners, both in the region and globally**.
- ◆ Nevertheless, the ECFA is a 10- to 20- year policy that is going to be put into place. It will take time, even after the framework agreement with China, to actually get bilateral trade agreements with other countries in the world and Asia.

*ECFA is a range of tariff lowering measures, concerning market access.

**There are only two economies in Asia which have no trade agreements with other Asian trade partners: Taiwan and North Korea. That shows how isolated Taiwan, in a sense, has been.

Tourism

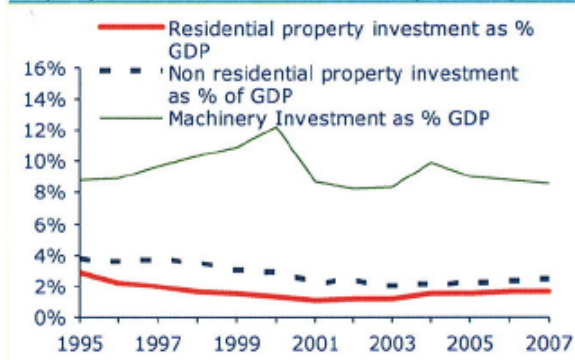
- ◆ The arguments for the further opening up of Taiwan's tourism industry to visitors from Mainland China have been well documented.
 - Taiwan's tourism industry contributed only 3-4% to GDP growth, versus Singapore's 7% and Hong Kong's 15-16%
 - Total tourist arrivals last year were 4.4m (1m⁺) compared with 10m (1m⁺) for Singapore and 30m (15m⁺) for Hong Kong.

* Mainland Chinese tourist arrivals

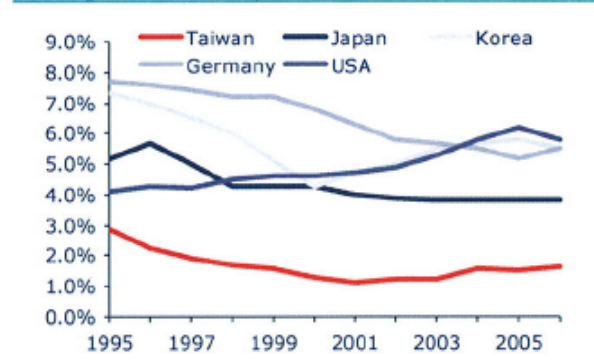
Underinvestment

- ◆ At an average 19% of GDP per annum since 2001, Taiwan's gross fixed capital formation is 2% lower than the long-term average of 21% in more mature service-oriented OECD economies. (e.g. Korea is at 29% & Japan is at 23%).
- ◆ In fact, what's lagging most in Taiwan has been the private property investment in both residential and non residential property.
- ◆ CLSA estimate Taiwan may generate at least 2-3% of extra GDP growth per annum should the above be rectified. The ECFA should help as it will allow strategic Cross Straits investments to move forward.

Property investment has cleared in the past few years



Housing investment as percentage of GDP



Source: CLSA Asia-Pacific Markets; DBGAS; OECD, May 2010

Investment Strategy – JF Taiwan[^]

- ◆ Although the market currently trades slightly above the Asian average (12-13x PE), Taiwan is not expensive in our view given its relatively high EPS growth (16%) and dividend yield (4%).
- ◆ Still, for now our portfolio has been more defensively positioned given the external uncertainties.
- ◆ We remain overweight technology though we have tactically trimmed the position and moved into some higher yield stocks.
- ◆ On the non-technology side, we are overweight China plays (such as tourism) and are neutral banks.
- ◆ We are underweight energy given their high market valuations, but overweight on petrochem to offset. Also, we are slightly underweight telecom.

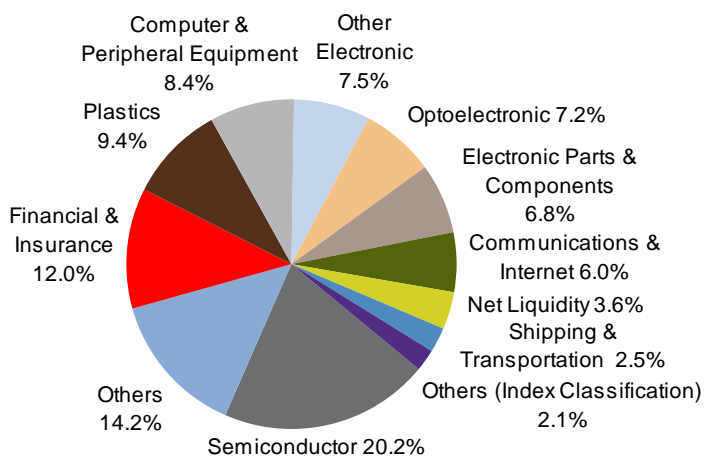
Fund performance

	2005	2006	2007	2008	2009	2010 YTD
Calendar year return (%)	+30.2	+16.4	+6.7	-48.0	+71.7	-13.0

	1 year	3 years	4 years	5 years	Since inception ^{**}
Cumulative return (%)	+3.5	-20.2	-12.0	+17.7	+25.9

Source: JPMAM (NAV to NAV in USD with income reinvested). Data valid as at 31 May 2010. ^{**} The Fund's inception date was 18 May 2001.

Sector breakdown



Source: JPMAM. Data valid as at 31 May 2010

Top 5 Holdings

Holding	Sector	%
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductor	7.3
Hon Hai Precision Industry Co. Ltd.	Other Electronic	7.2
Nan Ya Plastics Corp.	Plastics	3.8
Formosa Chemicals & Fibre Corp.	Plastics	3.6
MediaTek Inc.	Semiconductor	3.3

Data valid as at 30 April 2010

[^] JF share class of JPMorgan Funds

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