JPM Cautious Total Return Fund – June 2010

All data as at 30 June 2010 unless otherwise indicated

June 2010

June was another volatile month for risk assets and the JPM **Cautious Total Return Fund** produced a return of **+0.3%** on the A class shares. This can be compared to returns for **global equities** (MSCI World Index) of **-4.2%** hedged to GBP (-6.2% unhedged) and global bonds (JPMGBI) of **+1.1%** hedged to GBP (-0.8% unhedged) during the month.

Over the second quarter, the fund returned -3.1% compared to the returns for the MSCI World Index of -11.9% hedged to GBP (-11.2% unhedged) and the JPMGBI of +3.1% hedged to GBP (+2.9% unhedged).

Source: Bloomberg & J.P. Morgan Asset Management.
Returns throughout are in GBP. Figures rounded to one decimal place.

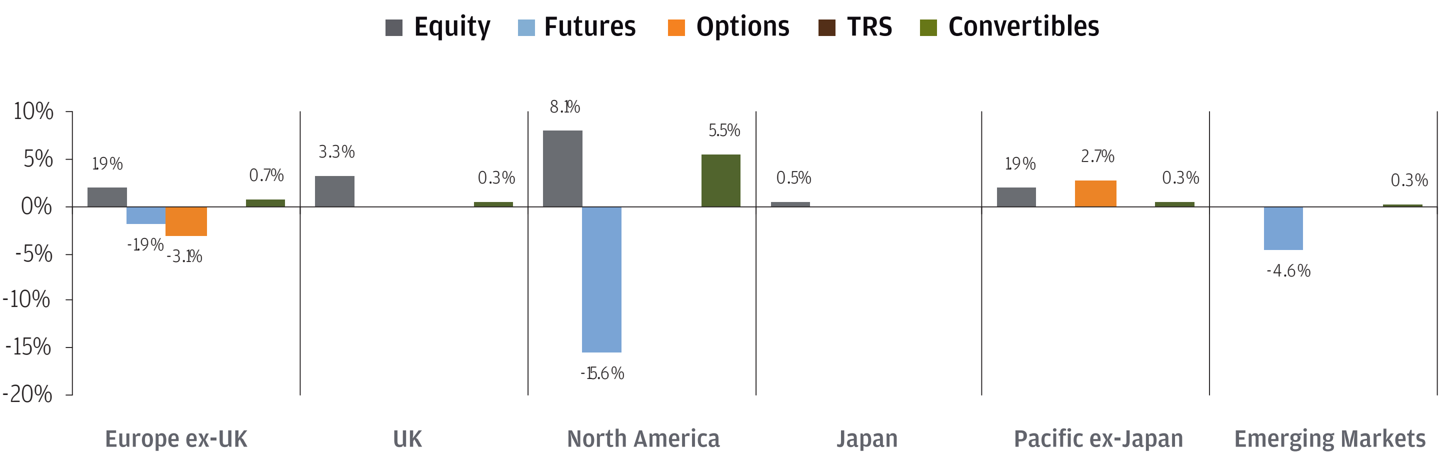
Our current fund positioning is shown below:

JPM Cautious Total Return Fund — Total Delta 0.2%

	Weights	Names
Equities	15.6%	32
Convertibles	31.1%	37
Bonds	27.6%	21
Cash/cash for margin	25.6%	
Total	**100.0%**	
Derivative positions		
Equity futures	-22.1%	
Options*	-0.4%	
TRS*	0.0%	
Bond futures	-19.0%	

Source: J.P. Morgan Asset Management. *Delta adjusted.

Equity market exposure:



	Europe ex-UK	UK	North America	Japan	Pacific ex-Japan	Emerging Markets
Delta	-2.5%	3.6%	-2.0%	0.5%	4.9%	-4.4%

Source: J.P. Morgan Asset Management

Fund performance versus benchmark and peer group:

30 April 2010	1 year	3 years*	Since inception*
JPM Cautious Total Return Fund (%)	4.0	2.1	3.4
1 Month GBP LIBOR (%)	0.5	3.2	3.9
Sector Average (%)	13.9	2.1	2.6
Quartile ranking	4	1	2

Source: J.P. Morgan Asset Management, Micropal. Fund returns net of A class fees, in GBP. Fund inception date 01/07/05. Micropal sector – IMA Cautious Managed. *Annualised.

Past performance does not guarantee future results

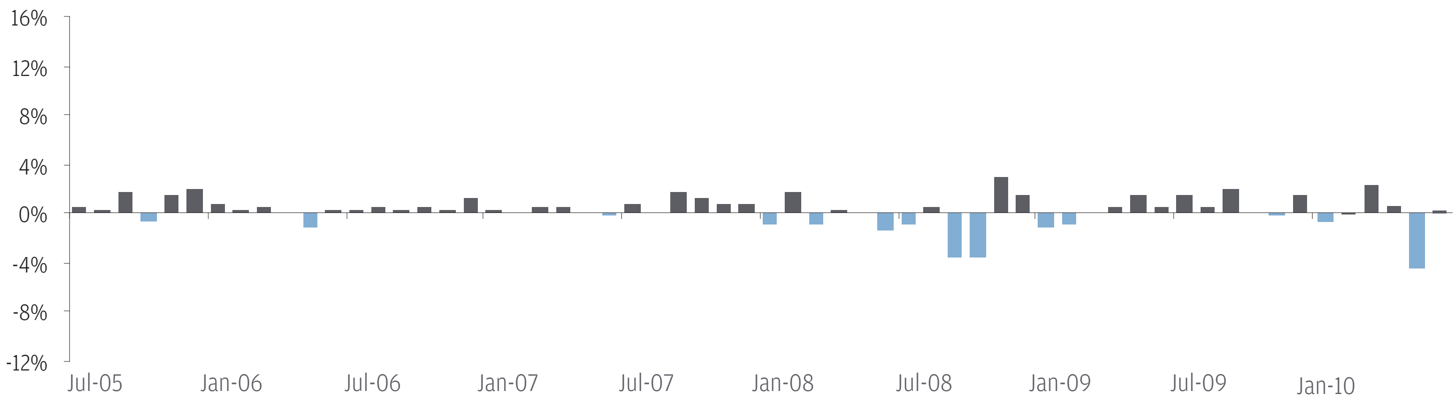
Better insight + Better process = Better results

J.P.Morgan
Asset Management

JPM Cautious Total Return Fund

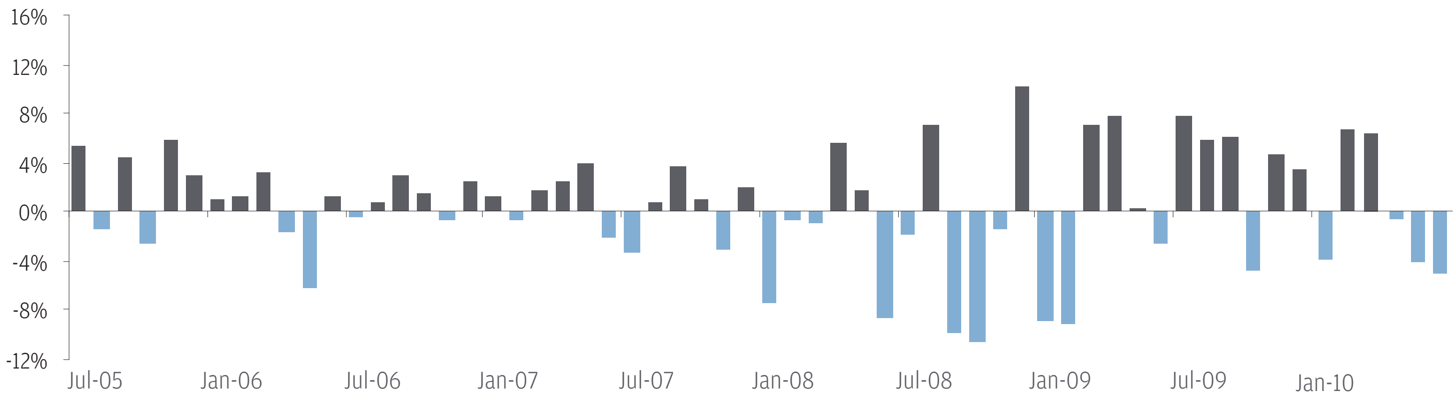
Historical monthly returns

JPM Cautious Total Return Fund:



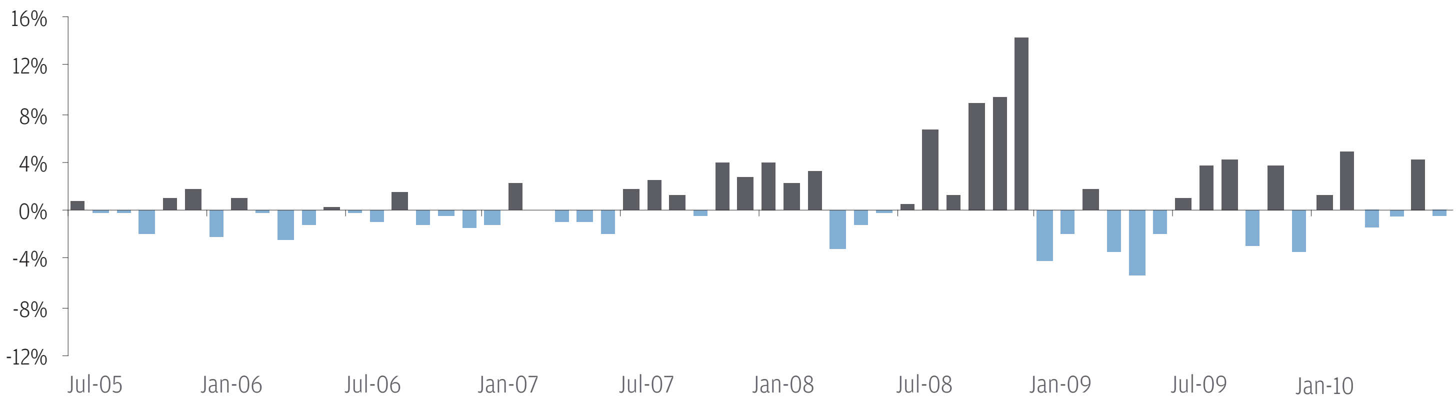
Source: J.P. Morgan Asset Management. Returns are in GBP, nav to nav, net of A class fees with net income reinvested.

MSCI World:



Source: Datastream. MSCI World Index – gross dividends reinvested, in GBP.

JPM Government Bond Index:



Source: Datastream. JPMorgan Government Bond Index – gross dividends reinvested, in GBP.

Please note that charts show absolute returns for the JPM Cautious Total Return Fund, MSCI World and JPM GBI Global on a monthly basis in GBP.

Past performance does not guarantee future results

JPM Cautious Total Return Fund

June was a better month for the JPM Cautious Total Return Fund, as it returned +31bps on the A class shares, in difficult and volatile markets. Meanwhile, global equities (MSCI World Index hedged to GBP) returned -4.2% and global bonds (J.P. Morgan Government Bond Index hedged to GBP) returned +1.1% for the month. We had reduced both the net and gross exposure in the portfolio at the end of May and continue to run muted levels of risk in the fund. The delta of the portfolio averaged 5% during June, with an average duration of around one year.

Although we have reduced risk in the fund, we remain in some of our favoured trades, which worked well during the month. In fixed income, we have been running the majority of risk in the belly of the German curve, however we did tactically add to Treasury risk during the month, as the benchmark US 10-year Treasury note moved through the 3% yield level for the first time since April 2009. We still see very little value in most global sovereign debt, but we have to accept that US Treasuries are still one of the most liquid asset classes globally and they will perform well should the economic situation continue to deteriorate. We would stress that we see this as a tactical bet rather than a strategic value position. An area that we are starting to feel offers interesting value is the UK Gilt market, with the recent budget highlighting the coalition government's commitment to reducing the fiscal deficit, a move that seems likely to protect the UK's AAA rating. With Gilts offering the highest yield of any similarly rated country, we feel they are likely to outperform on a sustained basis.

We continued to add to our Asian geographic bias during the month and we see one of the benefits of the recent growth scare is a reduced likelihood of aggressive monetary tightening in the region. Although small, the move by the People's Bank of China to revalue the yuan also acts as a positive and we added some upside options on the Hang Seng, which look incredibly cheap. Our cash equity positions remain concentrated in the US, particularly large-cap, blue-chip companies with a global bias.

We have retained our exposure to the convertible market, believing that they offer a more attractive risk/reward profile than straight credit, particularly short-dated US-based bonds. We did reduce some of the credit hedges during the month and now have only about 25% of the exposure hedged.

We remain strategically bearish on the path of the euro, believing in a move towards 1.10 against the USD, but the trade is crowded and we will look for a move toward 1.28 before adding to our current 5% bet.

Our outlook remains cautiously optimistic and we do not subscribe to the double-dip recession theories. We think that the recent dip in the data is a mid-cycle pause from well-above-trend levels of GDP growth. However, the risk of a more sinister outcome has risen and in our minds, the global economy has reached a fork in the road. One path we use as our central scenario is that growth slows but remains positive, the other path is that the structural issues in the global economy overwhelm the cyclical bounce that we have been experiencing, policy actions will ultimately prove ineffective and a deflationary depression awaits. We stress that the latter path is still an extreme scenario, but the recent roll-over in both the hard and soft data remind us that we should not completely discount this risk.

We will look to keep risk in the portfolio low until we gain more clarity on the path of the economy. We intend to keep the strategic delta of the portfolio at the lower end of permitted ranges over the summer months. We will look to enter into relative value positions, both in the fixed income and equity markets, rather than directional bets. Additionally we will maintain the underlying cash investment in the most liquid, high quality investments in this uncertain environment.

For more information please contact our brokerline 0800 727 770
www.jpmorganassetmanagement.co.uk

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