



130/30 Investment Strategies

Turning insight into greater profit

For professional investors only

Better insight + Better process = Better results

JPMorgan 
Asset Management

130/30: A smarter way to invest

130/30 is a new breed of equity investment, designed to work harder and smarter than traditional long-only equity strategies. 130/30's success lies in its ability to better capitalise on attractive positions while also exploiting negative stock insights. The result is the potential to produce higher expected alpha without adding appreciably to overall portfolio risks.

Intuitively designed to boost returns

The aim of 130/30 investments is to give fund managers the freedom to attain greater returns from their investment insights and processes. This is done by enhancing traditional long-only investing by taking an extra short exposure in unattractive stocks, offset by further long positions in the most attractive companies. These long-short positions are set at a fixed portion of portfolio value – usually in the 20% to 40% range – so that, for example, a “130/30” portfolio would be one that is long 130% and short 30%. This means 130/30 managers can harvest their insights into unattractive stocks, giving them the opportunity to benefit materially from the stocks they believe will fall in value. They can also take more positions in the stocks they find most attractive in order to further gain from their expected appreciation.

A perfect fit into an equity allocation

Although 130/30 funds employ long and short positions, they aim to remain fully invested in the stock market with net market exposure kept close to 100% at all times. In addition, their performance is measured against equity benchmarks just like traditional equity funds.

As a result, 130/30 funds maintain a beta of around 1. This is different to other long-short strategies, which rely on opportune short positions (where market exposure can change significantly) or that are constructed to be market neutral (i.e. a beta of 0). This means that 130/30 funds can slot easily and efficiently into the equity allocation of any diversified investor.

Suitable for a wide range of investors

The ability of 130/30 funds to potentially boost equity returns while maintaining a net 100% exposure to the stock market means they will suit all traditional equity investors looking to enhance their risk/return profile and further diversify their core equity portfolios.

130/30: Translating more insights into portfolios

130/30 strategies allow fund managers to take more underweight positions relative to benchmark weightings, while also providing them with greater scope to extend their positive stock positions. This compelling combination means that fund managers can therefore translate more of their stock ideas into their portfolios, helping them achieve higher information ratios.

Loosening the long-only constraint

In a long-only portfolio, fund managers are constrained in their ability to capitalise on negative ideas. This is because the majority of stocks in most stock market indices around the world are so small that fund managers are very limited in the size of their negative positions in stocks that they don't like.

Take the MSCI Europe Index for example (although the same is true for other major benchmarks, such as the S&P 500). There are just 21 stocks in the index which have a weighting large enough to allow fund manager to make a 1% or greater negative position by choosing to underweight the stock. However, by lifting the short constraint, fund managers can underweight even very small stocks by a much larger amount, while also providing the opportunity to take more positions in the most attractive stocks.

Therefore, whereas the asymmetry of potential positions in long-only portfolios can result in a significant waste of investment insight, in 130/30 portfolios fund managers have the freedom to better exploit both their negative and positive views in the search for higher returns.

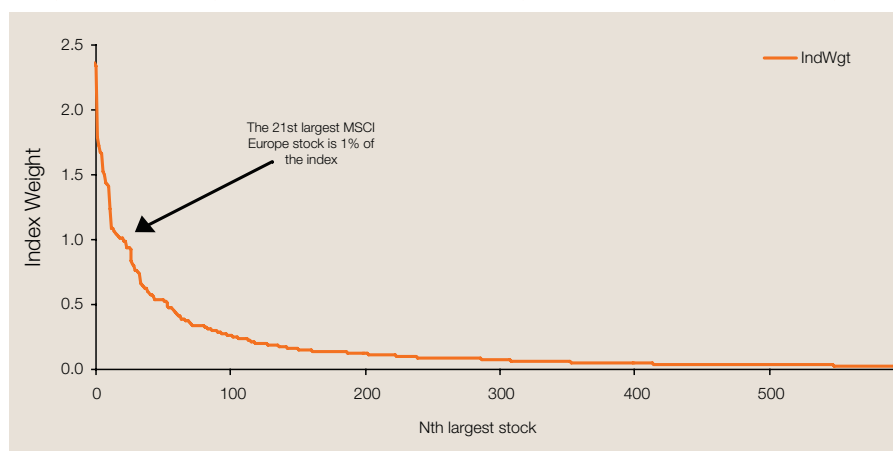
Potentially higher information ratios

Because 130/30 funds allow fund managers the ability to translate more of their insights into their portfolios by increasing underweight and overweight positions, they allow them to better use the information at their disposal and spread active positions and risk more evenly across their portfolios.

As a result, returns produced by 130/30 funds are a much fairer reflection of fund manager skills than traditional long-only equity funds – in other words, they can achieve higher potential information ratios.

Theoretically the potential uplift to information ratios can be significant, even when just a modest degree of shorting is used. This is important because the higher the information ratio, the greater the odds that a fund manager will outperform consistently over any time horizon.

Long only investing does not allow fund managers to fully exploit their insights



130/30: Choosing the right manager

130/30 funds offer compelling investment opportunities. But not all successful long-only managers can become effective 130/30 managers, so choosing the right manager is essential.

Not all managers have what it takes

Using a 130/30 strategy will not turn a failing investment process into a good one. The manager must already demonstrate skill in investing as this forms the foundation for a 130/30 strategy. Furthermore, only managers with strong experience of taking short positions and well-developed relationships with prime brokers are well positioned to manage 130/30 portfolios.

It is therefore vital that investors choose their 130/30 manager carefully, seeking out those managers who produce both negative and positive views on a broad universe of stocks and who also have had success in managing long-only strategies and experience in taking short positions.

JPMorgan Asset Management – The expertise to deliver

At JPMorgan Asset Management 130/30 investing is a natural extension of our existing equity capabilities. Our proven alpha-generating investment processes, experience managing long-short and equity market neutral portfolios, and our well-established broker relationships make us ideally placed to maximise the benefits of 130/30 investment strategies.

It's this depth of experience and breadth of stock coverage around the world, as well as our rigorous stock ranking systems and disciplined portfolio construction techniques, that give us considerable competitive advantages when it comes to 130/30 investing.

A range of 130/30 funds to choose from

We believe 130/30 is the ideal strategy for investors looking to increase the expected return on their conventional equity allocation using well diversified portfolios. That's why we've developed a range of funds to give our clients access to the exciting investment opportunity offered by the 130/30 approach. We've also ensured that our 130/30 funds are regulated and authorised in Luxembourg as UCITS III funds. Therefore, investors benefit from the same level of fund reporting and rigorous risk management as they'd expect from our long-only equity funds.

As such, our 130/30 funds achieve their 30% short and corresponding 30% long positions through a total return swap to ensure they comply with their Luxembourg regulatory obligations and are always managed at the 130/30 level.

JPMorgan Asset Management's 130/30 Fund Range

At JPMorgan Asset Management, we have already established a successful track record in managing 130/30 funds* having pioneered the implementation and development of the 130/30 investment strategy in the United States, where our US-registered JPMorgan Large Cap 130/30 Fund was one of the industry's first.

JPMorgan offers four 130/30 funds for investors, covering the US and Europe, and will be rolling the 130/30 concept out to other regions in the coming months. The concept has proved popular amongst US institutions and is already being bought by UK and Continental European institutional investors, who are discerning in their choice of manager and are looking for higher-alpha equity products to help close any deficits in their pension plan.

Our behavioural finance funds:

JPMorgan Europe 130/30 Fund

Fund managers	Chris Llewelyn and Michael Barakos
Benchmark	MSCI Europe Index
Fund base currency	EUR
Launch date	25 June 2007

JPMorgan US 130/30 Fund

Fund managers	Silvio Tarca and Rob Weller
Benchmark	S&P 500 Index
Fund base currency	USD
Launch date	2 August 2007

Our research driven process funds:

JPMorgan Europe Select 130/30 Fund

Fund managers	Europe RDP Team
Benchmark	MSCI Europe Index
Fund base currency	EUR
Launch date	25 June 2007

JPMorgan US Select 130/30 Fund

Fund managers	Tom Luddy and Susan Bao
Benchmark	S&P 500 Index
Fund base currency	USD
Launch date	5 July 2007



130/30 Key Facts

- Benefit from all stock insights – including negative ones
130/30 funds give fund managers more freedom to harvest their insights into unattractive stocks they believe will fall in value.
- More efficient exposure to positive positions
130/30 funds also give fund managers the ability to take bigger positions in the stocks they find most attractive in order to further gain from their expected appreciation.
- Fits comfortably into an equity allocation
130/30 funds maintain a net 100% exposure to the stock market, while their performance is measured against equity benchmarks just like traditional equity funds.
- 130/30 will benefit investors looking for an innovative way to add a “core plus” equity solution to their portfolios, as well as all investors looking to boost returns from their equity allocation without significant risk.

*The US registered JPMorgan Large Cap 130/30 fund has annualised excess returns above its S&P 500 benchmark over 3 years of 5.4% (as at 31 August 07), Source JPMAM.

For further information:

For more details about how you can benefit from the 130/30 investment strategy and for more information about JPMorgan Asset Management's range of 130/30 funds, please contact your usual JPMorgan Asset Management representative.

Alternatively, please visit our website at
www.jpmorganassetmanagement.co.uk/institutional

JPMorgan Asset Management
Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ

www.jpmorganassetmanagement.co.uk

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