



# JPM Strategic Bond Fund

Solutions for a changing bond world

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**J.P.Morgan**  
Asset Management

# Invest globally for greater opportunities

With UK interest rates at record lows and inflationary pressures rising, investors can potentially find more attractive opportunities by broadening into global bond markets.

## Negative real interest rates represent a challenging environment for UK bonds

- UK bond yields look unattractive at current levels.
- High inflation is eroding returns while rising interest rate expectations may lead to unrealised capital losses.

## UK real interest rates are negative



Source: FactSet, July 2011

## Complex bond markets require in depth research

The JPM Strategic Bond Fund invests globally to capitalise on a wealth of bond opportunities that are available outside of the UK. Crucially, at J.P. Morgan Asset Management we have the global fixed income resources needed to identify opportunities across global bond markets.

We have over 600 investment professionals dedicated to fixed income. The depth and breadth of our bond analysis allows greater penetration into local markets around the world and provides more rigorous and wider analysis across fixed income sectors.



“The JPM Strategic Bond Fund allocates globally across the fixed income spectrum, providing diversified access to opportunities outside the UK in emerging markets debt, high yield bonds and international government bonds”

Bob Michele, fund manager, JPM Strategic Bond Fund

# Outsource your clients' fixed income allocation

The JPM Strategic Bond Fund's flexible investment strategy allows it to adapt to the changing economic cycle so that it is always best positioned for your clients, whatever the prevailing environment.

## Allocating across the fixed income spectrum

Bond markets behave differently across the economic cycle, which is why our bond allocation changes as economic conditions change. As the economy slows and moves into recession the fund can maintain allocations to government bonds and investment grade corporate debt, while also moving to a longer duration as interest rates fall. As the economy begins to recover, the fund can raise exposure to riskier assets such as high yield and emerging market bonds, while favouring a shorter duration – particularly as the economy begins to overheat and interest rates begin to rise.

## The flexibility to adapt to changing economic conditions

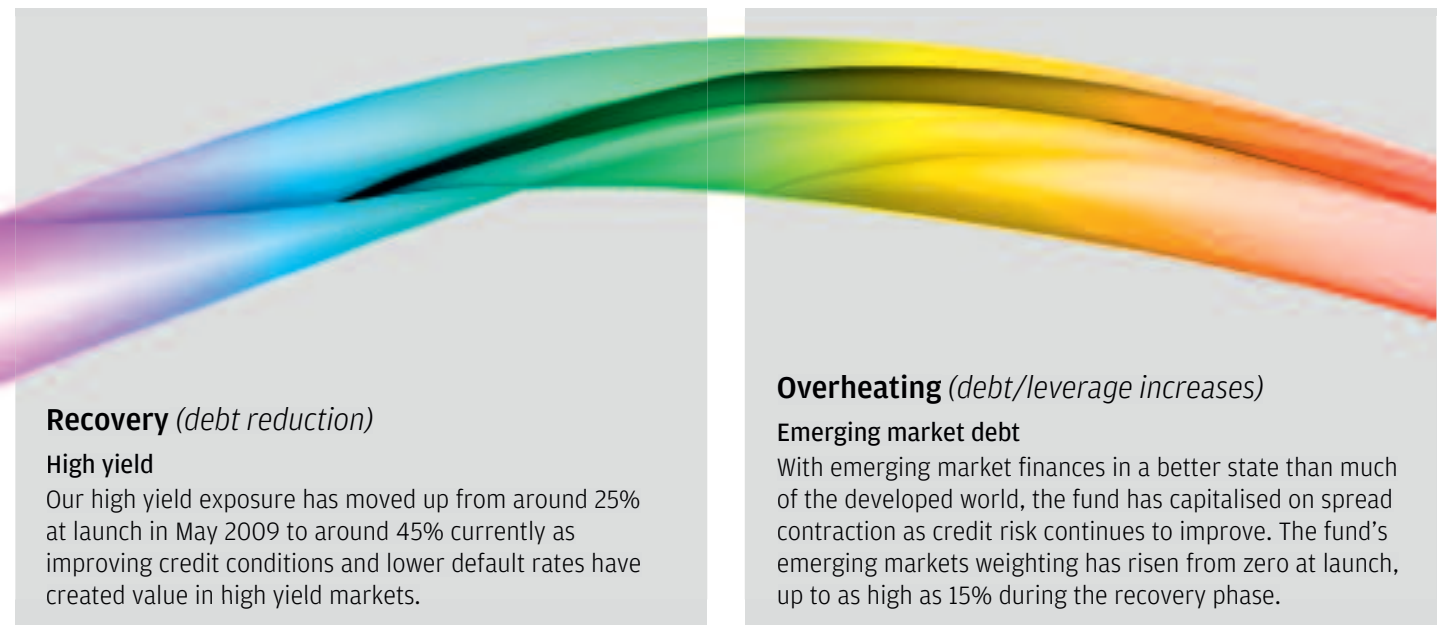


Source: J.P.Morgan Asset Management. The above graph is for illustrative purposes only.

### Active duration management and hedged currency exposure

The fund is actively managed by experts to ensure your clients' fixed income allocations always have the most appropriate duration and currency positioning. At launch in May 2009 the fund's duration was relatively long at around six years, reflecting the global economic recession and easy monetary conditions. As the recovery took hold during 2010 and interest rate expectations rose, the fund's duration was cut to below one year.

Foreign exchange returns can also provide an important source of fixed income return. Therefore, although the fund is mainly hedged to sterling to minimise currency risk, it will maintain some currency positioning where strong opportunities exist against sterling.



#### Recovery (*debt reduction*)

##### High yield

Our high yield exposure has moved up from around 25% at launch in May 2009 to around 45% currently as improving credit conditions and lower default rates have created value in high yield markets.

#### Overheating (*debt/leverage increases*)

##### Emerging market debt

With emerging market finances in a better state than much of the developed world, the fund has capitalised on spread contraction as credit risk continues to improve. The fund's emerging markets weighting has risen from zero at launch, up to as high as 15% during the recovery phase.

Shorter duration

# JPM Strategic Bond Fund: Share in our best fixed income ideas

The JPM Strategic Bond Fund is a best ideas fund that capitalises on the entire global fixed income opportunity set, targeting returns of cash plus 3% net of fees over the interest rate cycle (three to five years). The fund emphasises capital preservation and low volatility returns.

- ✓ **Benefit from a flexible, unconstrained approach**
- ✓ **Tap into a strong performance record**
- ✓ **Outsource your fixed income asset allocation**
- ✓ **Enjoy the backing of an integrated global investment process**
- ✓ **Invest with one of the world's largest fixed income managers**



*“With UK bonds under pressure from high inflation and rising interest rate expectations, our JPM Strategic Bond Fund invests globally to provide a solution to your clients’ fixed income needs.”*

Nicholas Gartside, JPM Strategic Bond Fund

## Key risks

- Bond funds may not behave like direct investments in the underlying bonds themselves. By investing in bond funds, the certainty of receiving a regular fixed amount of income for a defined period of time with the prospect of a future known return of capital is lost.
- Bond prices can fluctuate significantly depending not only on the global economic and interest rate conditions but also on the general credit market environment and the creditworthiness of the issuer.
- The credit quality of high yield bonds is below investment grade and they usually offer higher yields to compensate for the reduced creditworthiness and the increased risk of default relative to investment grade bonds.
- Bonds with a lower credit rating may have a higher risk of defaulting which may in turn have an adverse effect on the performance of Funds which invest in them.
- The investment policy of the Fund permits the use of derivatives and/or forward transactions for investment purposes. As a result the Fund may sometimes be leveraged, potentially increasing the volatility and therefore risk of the Fund.
- The Fund may have a significant exposure to asset and mortgage backed securities (ABS and MBS). Owing to the nature of some ABS and MBS, the exact timing and size of cashflows paid by the securities may not be fully assured.
- Bond funds will normally distribute a combination of coupon and the expected discount/premium on the securities. Therefore, a Fund's distribution will comprise income received and an element of projected capital gains or losses. This could result in an element of capital gain being taxed as income in the hands of an investor.

## Profile of the typical investor

- The Fund may suit investors who are seeking to maximise returns in a higher risk environment through a combination of capital growth and income through investment in bonds.
- Investors should have at least a five-year investment horizon.

To learn how the **JPM Strategic Bond Fund** can help you outsource your clients' fixed income allocation:

**Visit** [jpmorganassetmanagement.co.uk/adviser](http://jpmorganassetmanagement.co.uk/adviser)

**Call** 0800 727 770

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06/11