

Q&A: JPMorgan Funds - Financials Bond Fund

August 2017

This document is to help you understand the evolution of JPMorgan Funds - Financials Bond Fund.

JPMorgan Funds – Financials Bond Fund – Portfolio Evolution and Benchmark Change

The purpose of the below Q&A is to help you understand developments in the bank bond market and the associated evolution of the portfolio and benchmark of JPMorgan Funds - Financials Bond Fund (the 'Sub-Fund').

1. How has the bank bond market evolved since 2008?

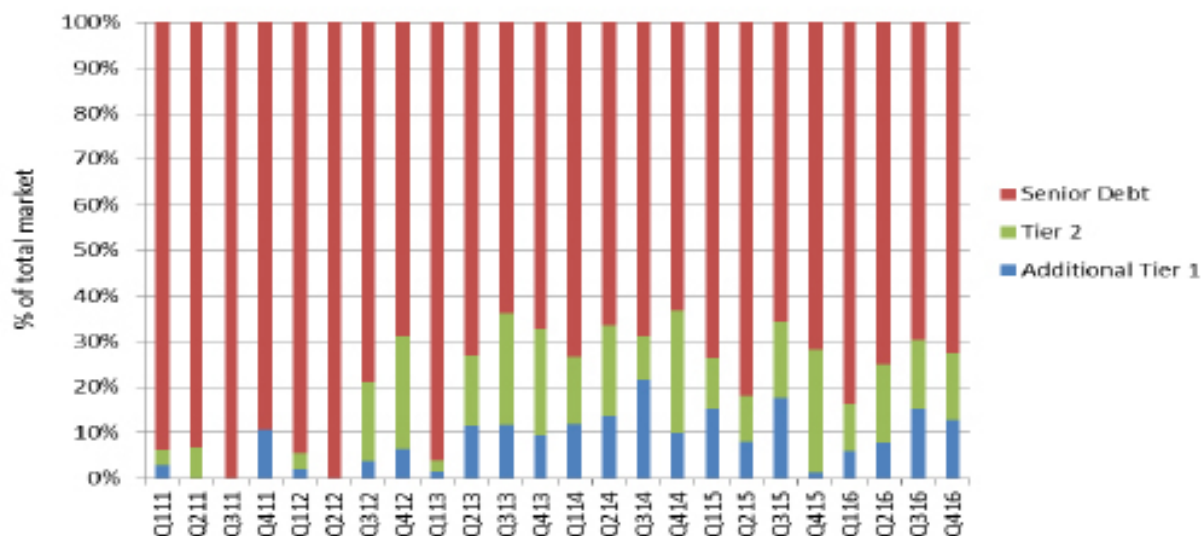
Coming out of the 2008 financial crisis, there was a strong focus amongst governments and regulators to safeguard the failure of banks and other financial institutions, especially those that were thought to pose systemic risks for the wider economy. Rather than a government having to intervene to 'bail-out' a bank using taxpayer funds, there was an increased emphasis placed on 'bail-in' instruments (see below). This was to allow banks to better withstand market shocks and events without going into an insolvency event. In summary:

- Banks have been asked to increase the amount of common equity on their balance sheet, known as 'Tier 1' capital. New types of instruments have also been authorised in the European bank bond market (known as 'Additional Tier 1' or Contingent Convertible Securities¹ or 'cocos'). These instruments share the main feature of converting into common equity or being written down when certain conditions - indicating that the bank is running into trouble - are met. These securities are structured as a non-step perpetual with a call date that tends to range from 5 to 10 years and fully discretionary coupon features, as well as mandatory coupon suspension on certain triggers.
- Banks also still issue Tier 2 capital, which is a dated form of subordinated debt, ranking above Additional Tier 1 securities, without specific contractual write-down triggers, though these bonds can also be written down at the point of non-viability.
- Finally, and very importantly, Senior Debt Security¹ bondholders also carry the explicit risk of losing some, or all, of their capital if the bank gets in trouble, albeit losses could be lower as they rank higher than the holders of the instruments described above (known as the 'bail-in' regime).

As a result of the changes described above, the composition of the market for bank bonds has gone through a major transformation as illustrated below.

¹ Prospectus defined term

Q&A: JPMorgan Funds - Financials Bond Fund



Source: Barclays as of 31 December 2016.

Furthermore, we have witnessed an evolution towards a broad and deep market for bank bonds across the entire capital structure. Moreover, those securities have often offered attractive risk adjusted returns.

European Banks As of Year End	Senior Debt Yield	Tier 2 Debt Yield	Additional Tier 1 Debt Yield
2010	3.61%	5.76%	N/A
2011	4.39%	9.73%	N/A
2012	1.63%	3.86%	N/A
2013	1.69%	3.20%	N/A
2014	0.70%	1.80%	5.99%
2015	0.86%	1.87%	6.12%
2016	0.54%	1.47%	6.68%

Source: Bloomberg Barclays Euro-Aggregate Credit Index for Senior Debt Security and Tier 2, Bloomberg Barclays European Bank CoCo Index for Additional Tier 1 (index inception date May 2014). Yield is shown as 'Yield to Worst' - an estimate of the lowest yield that you can expect to earn from a bond when, absent a default, the bond is held to maturity or to put/call date if such feature exists in the bond.

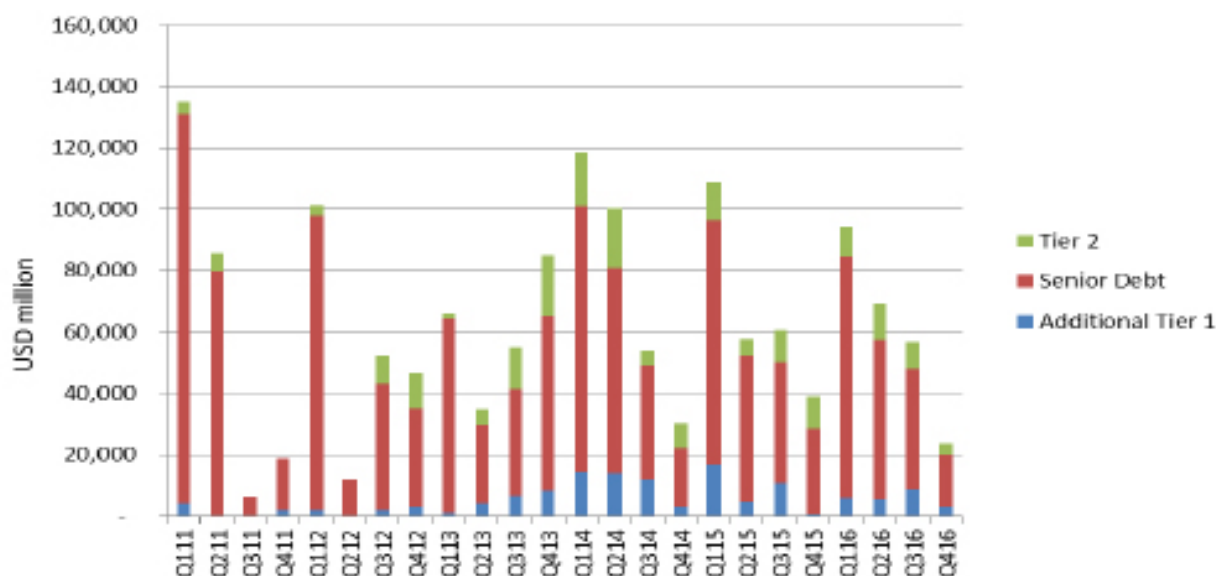
In order to get a sense of the current market, 2016 Subordinated Debt Security² - including Contingent Convertible Securities - issuance had reached EUR 566 billion. The European bank Contingent Convertible Securities market stands at approx. EUR 125 billion of outstanding amount since the issuance picked up in 2013.

Proportionally, the subordinated bond issuance activity represents between 20% and 35% of total long-term debt issued by European banks since the increase in Tier 2 and Additional Tier 1 in mid-2013. .

² Prospectus defined term

Q&A: JPMorgan Funds - Financials Bond Fund

European Bank Issuance by Capital Structure



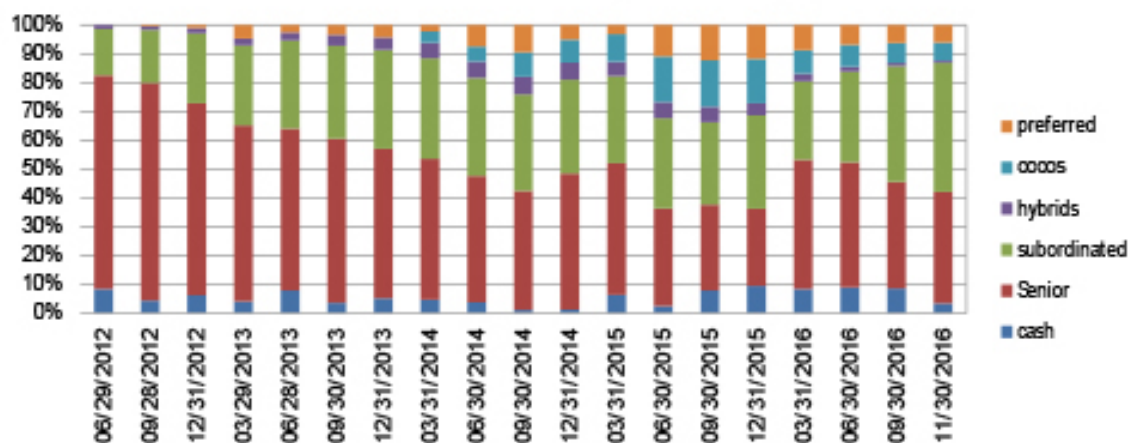
Source: Barclays as of 31 December 2016.

2. How has this evolution affected the holdings of the Sub-Fund?

In June 2012, a letter was sent to Sub-Fund shareholders advising of wider powers to invest in subordinated and below investment grade securities. These changes were approved by the Board of Directors of JPMorgan Funds and reflected in the prospectus.

The portfolio manager deemed it appropriate to change the composition of the Sub-Fund in parallel with the evolution of the bank bond market and the emergence of investment opportunities. Since June 2012, the composition of the Sub-Fund evolved as illustrated below:

JPM Financials Bond Fund (Instrument type)



Source: J.P. Morgan Asset Management. Data from 29 June 2012 to 30 November 2016. The Fund is an actively managed portfolio, holdings, sector weights, allocations and leverage, as applicable are subject to change at the discretion of the Investment Manager without notice.

Q&A: JPMorgan Funds - Financials Bond Fund

The changes were in accordance with the objectives defined in the prospectus and the Sub-Fund continues to invest in securities issued by banks, insurers, brokerage companies, finance companies and REITs.

For additional information, please refer to the prospectus and KIID of the Sub-Fund available at <http://www.jpmorganassetmanagement.lu/en/showpage.aspx?pageid=44&isin=lu0697242724&inputtype=suggestselectedoneclick>

3. How has this evolution affected the benchmark of the Sub-Fund?

Given the evolution in the Sub-Fund's asset allocation, the Sub-Fund's benchmark was changed in June 2016.

From	To
67% Barclays Global Aggregate Corporate Senior Financials Index (Total Return Gross) Hedged to EUR / 33% Barclays Global Aggregate Corporate Subordinated Financials Index (Total Return Gross) Hedged to EUR	33% Bloomberg Barclays Global Aggregate Corporate Senior Financials Index (Total Return Gross) Hedged to EUR / 67% Bloomberg Barclays Global Aggregate Corporate Subordinated Financials Index (Total Return Gross) Hedged to EUR

It was considered that the new benchmark better reflected the investment universe of the Sub-Fund.

4. Who can I contact for more information?

For more information, please contact us at the registered office or your local representative.

This document has been produced for information purposes only and as such the views contained herein are not to be taken as an advice or recommendation to buy or sell any investment or interest thereto. Reliance upon information in this material is at the sole discretion of the reader. Any research in this document has been obtained and may have been acted upon by J.P. Morgan Asset Management for its own purpose. The results of such research are being made available as additional information and do not necessarily reflect the views of J.P.Morgan Asset Management. Any forecasts, figures, opinions, statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, J.P. Morgan Asset Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. They may be subject to change without reference or notification to you. Both past performance and yield may not be a reliable guide to future performance and you should be aware that the value of securities and any income arising from them may fluctuate in accordance with market conditions. There is no guarantee that any forecast made will come to pass.

J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co and its affiliates worldwide. You should note that if you contact J.P. Morgan Asset Management by telephone those lines may be recorded and monitored for legal, security and training purposes. You should also take note that information and data from communications with you will be collected, stored and processed by J.P. Morgan Asset Management in accordance with the EMEA Privacy Policy which can be accessed through the following website <http://www.jpmorgan.com/pages/privacy>.

Issued in Continental Europe by JPMorgan Asset Management (Europe) Société à responsabilité limitée, European Bank & Business Centre, 6 route de Trèves, L-2633 Senningerberg, Grand Duchy of Luxembourg, R.C.S. Luxembourg B27900, corporate capital EUR 10.000.000. Issued in the UK by JPMorgan Asset Management (UK) Limited which is authorized and regulated by the Financial Conduct Authority. Registered in England No. 01161446. Registered address: 25 Bank St, Canary Wharf, London E14 5JP, United Kingdom.

LV-JPM50521 | EN | 09/17