Managers of 130/30 portfolios seek to capture potential returns in two ways:  

**Buying long** to purchase a stock considered attractive or undervalued, resulting in a gain if the share price increases over time.  

**Selling short** when a stock is deemed unattractive or overvalued and expected to decline in price. The manager does not own the stock but borrows and then immediately sells it. Shares are later bought back and returned to the lender, ideally at a lower price — and a profit. Cash received from short sales are typically invested in long positions of other stocks.

In recent years, 130/30 portfolios have gained traction as useful ways for investors who are seeking to add greater flexibility, diversification and return potential to their equity holdings. These professionally managed strategies typically short 30% of assets and use the proceeds to increase long positions to 130% of portfolio value.

**Combining long positions with limited shorting**

Investment managers of actively managed equity strategies research the markets to develop outlooks on which stocks they think are likely to rise in value and which are likely to decline. Long-only managers apply this research by investing in the former while avoiding the latter. Consequently, the only way a long-only framework can contribute to portfolio returns with an unattractive stock is by not owning it.

Employing a 130/30 approach removes this long-only constraint and allows managers to implement select short positions in an effort to generate returns from stocks they dislike in addition to taking long positions in those they favor. This expands their investment opportunity set and helps strengthen portfolio return potential.

To illustrate, consider a manager who has analyzed a group of stocks and ranked them into five categories, ranging from most attractive to least attractive based on investment potential. While long-only managers usually would be limited to the top quintiles, 130/30 managers have expanded flexibility to seek return from negative performance generated from stocks in the lower quintiles as well [see Exhibit 1].

### Exhibit 1: Expanding opportunity

- Expands manager’s ability to leverage best ideas on both sides of the market
- Utilizes negative opinions to pursue positive results
- Extracts increased return potential from every dollar invested

The above diagram is for illustrative purposes only.
How 130/30 strategies work

A 130/30 approach is also known as an “equity extension” strategy because it extends long portfolios to include more of a manager’s strongest investment ideas. Shorting 30% of assets generates cash to increase long positions to 130%, which means that for every $100,000 invested, $130,000 goes toward stocks considered to be most attractive [see Exhibit 2]. This additional long exposure is generally offset by an equal amount of shorting in unattractive securities with the potential to underperform.

The result: more money invested in stocks a manager feels strongest about — both positively and negatively. Investors can receive a broadly diversified portfolio of stocks representing more research insights and greater exposure to market opportunities. While these strategies have specific limits on how much can be shorted, managers may short less based on current market conditions and future outlooks.

Exhibit 2: An example of 130/30 equity extension

More opportunity without additional market exposure

Equity extension strategies can make each investment dollar work harder, but they do not increase net market exposure. This refers to the percentage of portfolio assets exposed to general market risks. Net market exposure is calculated by subtracting any short positions from long holdings. For example: 130% long - 30% short = 100% net market exposure. An investment strategy with 100% exposure targets roughly the same level of overall risk (beta) as the broad market. Instead of increasing this risk, 130/30 strategies pursue higher returns by freeing up managers to do what they do best — select stocks. The use of shorting allows them to invest more in the stocks they like and dislike most, which offers the opportunity to tailor portfolio risk/return characteristics.

Exhibit 3: Long/short hedged strategies reduce market risk exposure
Potential investor benefits

There are a number of compelling reasons why investors may want to consider a 130/30 approach to equity investing.

Higher return potential in up and down markets

130/30 strategies seek to extend return potential beyond the limits of long-only investing by loosening restrictions on managers and maximizing their stock-picking skills. The goal is larger gains than the benchmark in up periods and smaller losses during downturns. Even modest outperformance across these markets can result in substantial compounding benefits for investors [see Exhibit 4].

An efficient way to invest

Allowing limited shorting is one way for skilled managers to invest even more efficiently by taking full advantage of their stock research and rankings. Managers often uncover the least attractive stocks while looking for the most attractive. 130/30 funds can put these insights to work.

Portfolio diversification

130/30 strategies expand the investment universe across a broader mix of securities and sources of return potential, including stocks expected to drop in value. In some market climates, both long and short holdings may contribute positively to fund performance. During times of falling prices, gains from short selling may cushion losses from long positions, reducing overall risks.

Freedom and flexibility

130/30 managers are free to act on both positive and negative views of stocks. They can choose to short very few portfolio assets, the maximum allowable amount or anything in between. They can also increase or decrease the long/short mix to respond to new opportunities or obstacles in the market.

Exhibit 4: Even modest higher returns deliver significantly higher account balances over time

<table>
<thead>
<tr>
<th>Growth of $100,000 investments</th>
<th>8% annual return</th>
<th>9% annual return</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years</td>
<td>$146,933</td>
<td>$153,862</td>
</tr>
<tr>
<td>15 years</td>
<td>$317,217</td>
<td>$364,248</td>
</tr>
<tr>
<td>25 years</td>
<td>$684,848</td>
<td>$862,308</td>
</tr>
</tbody>
</table>

Source: J.P. Morgan Asset Management. The above example is hypothetical and shown for illustrative purposes only.

Common 130/30 misperceptions

“It’s too risky.”

Shorting involves added risk, but it also offers the potential to expand diversification and offset losses from long holdings. In theory, this can actually increase defensive characteristics in down markets.

“These are alternative investments.”

These strategies typically invest in large, mature U.S. companies that form the foundation of any well-built portfolio.

“All 130/30 funds are quantitative.”

There are actively managed 130/30 strategies based on fundamental research that do not use computer models or other quantitative processes. Similar to many long-only funds, fundamental 130/30 managers rely on investment skill to make portfolio decisions.
Adding a 130/30 strategy to a diversified portfolio

<table>
<thead>
<tr>
<th>Investment role</th>
<th>Who may benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish strong portfolio foundation</td>
<td>Investors not already exposed to large U.S. companies representing both growth and value stocks</td>
</tr>
<tr>
<td>Replace long-only funds</td>
<td>Investors looking to increase portfolio diversification and return potential</td>
</tr>
<tr>
<td>Fund IRAs, 401(k)s and other tax-advantaged accounts</td>
<td>Investors who do not want to incur current year taxes on frequent trading typical of 130/30 strategies</td>
</tr>
</tbody>
</table>

Invest with the #1 provider of 130/30 funds\(^1\)

J.P. Morgan Asset Management offers a range of equity extension portfolios. The firm was recognized for its 130/30 expertise by Lipper, a leading provider of mutual fund information and ratings. As one of the world’s largest, most respected financial institutions, with over a century of experience and $1.31 trillion in assets under management, J.P. Morgan provides investment insights, capabilities and solutions few firms can match.

- Nearly 300 career research analysts globally, averaging 15 years of experience, and covering about 650 mid and large cap U.S. companies for 130/30 funds alone
- Time-tested stock ranking process offering a 25-year history of consistent, repeatable results [see Exhibit 5]
- Experienced, disciplined fund managers drawing on decades of stock investment and portfolio construction experience; most have managed their 130/30 funds since inception
- Long-term performance through market cycles, with five-year returns for some 130/30 funds and even longer manager track records with similar long-only strategies
- Over 20 years of organizational experience with shorting strategies, leveraging significant investment in infrastructure, technology and personnel, as well as long-standing relationships with multiple prime brokers
- A strong emphasis on risk management; depending on the specific strategy, risk controls may include:
  - Broad diversification with limits on portfolio holdings and sector exposure
  - Careful liquidity monitoring
  - Automatically reassessing short positions that rise 15%+ in value
  - Testing the impact of potential trades under various market scenarios

\(^1\)Lipper, December 2010
As of December 31, 2011

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**“130/30 didn’t work during the recent bear market.”**

Returns during this period were a reflection of each manager’s underlying process, not the 130/30 concept. Quantitative funds were punished most severely, as nervous investors put greater emphasis on company fundamentals. Numerous 130/30 managers performed exactly as expected, delivering smaller losses than the overall market.

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**“Fund track records are too short.”**

There are 130/30 managers with three- to five-year historical returns, which cover two very different environments – the recent bear market and current recovery.

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**“These are for institutional or affluent investors.”**

Mutual funds that offer 130/30 strategies are highly liquid, professionally managed and usually available for low minimum investments, making it easy to get the same strategy once reserved for sophisticated clients.
Exhibit 5: J.P. Morgan’s time-tested stock ranking process

Some J.P. Morgan 130/30 funds use a stock ranking process dating back to 1986. As demonstrated below, our highest-ranked stocks have consistently outperformed the market while lower-ranked stocks underperformed.


<table>
<thead>
<tr>
<th>Quintile</th>
<th>Performance vs. S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>2</td>
<td>3%</td>
</tr>
<tr>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>4</td>
<td>1%</td>
</tr>
<tr>
<td>5</td>
<td>0%</td>
</tr>
</tbody>
</table>

Potential long positions: Quintiles 1 to 4
Potential short positions: Quintile 5

Source: J.P. Morgan Asset Management

Past performance is no guarantee of future results. Chart is shown for illustrative purposes only. Chart shows performance of quintiles (as determined by J.P. Morgan research universe) versus the S&P 500 Index, with quintiles rebalanced monthly. Quintile performance represents the annualized returns of quintiles vs. the annualized return of the S&P 500 Index over the full time period. Quintile performance results have certain inherent limitations. Unlike an actual performance record, quintile results do not represent actual trading, liquidity constraints, fee schedules and transaction costs. No representation is being made that any portfolio will or is likely to achieve profits or losses similar to those shown.

Available J.P. Morgan 130/30 strategies

For more information, please visit www.jpmorganfunds.com

U.S. Large Cap Core Plus Fund
Share class/Ticker: A JLCAX • S JLPSX
• Top-quintile performer versus peers over the three year period\(^2\)
• Lead manager Tom Luddy named 2010 “Money Manager of Year”\(^3\)

U.S. Large Cap Value Plus Fund
Share class/Ticker: A JTVAX • S JTVSX
• Seeks higher return potential than index or long-only funds
• Well-suited for investors looking to replace existing large cap value managers or complement growth-style funds

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\(^2\) The ranking information is provided by Lipper Analytical Services. The JPMorgan U.S. Large Cap Core Plus Fund - A shares at NAV was ranked against the following number of funds in the Lipper Extended U.S. Large-Cap Core Funds Category for the period ended 12/31/11. For the 1 year period 38 out of 50 funds. For the 3 year period 5 out of 41 funds. For the 5 year period 3 out of 18 funds. Ten year period not yet rated. Past performance is no guarantee of future results. Rankings are calculated based upon the total returns of multiple share classes within their respective Lipper category. Different share classes may have different rankings.

\(^3\) Institutional Investor magazine, March 2010
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