Agent Lending Newsletter

Q1 2013

J.P.Morgan

Welcome

It's hard to believe the first quarter of the year is already behind us. The markets have continued to be very strong throughout the quarter, believed to be a direct consequence of central bank intervention. Nowhere has that been more evident than in Japan, where Bank of Japan monetary stimulus drove the Nikkei to a near 20% gain. The U.S. continued to have better momentum, as data suggests improvements in the economy. Cyprus seemed to catch everyone unaware, but not even that could derail general gains in equity markets, though Europe did not see the same level of positivity, as Investors remained cautious about the outlook there.

The quarter remained challenging from a lending perspective and as you will read elsewhere in this newsletter, the level of shorts in the market fell, but there was a small amount of M&A activity, and dividend trading started to commence at the end of the quarter. On the regulatory front, we saw new guidelines from ESMA which impact UCITs, and industry bodies submitted responses to the FSB on its Shadow Banking Recommendations on Repo and Securities Lending on behalf of their members (including J.P. Morgan). During the quarter we also hosted our first Securities Lending Forum, and we would like to thank all who attended. See page 11 for more details about the conference.

So looking ahead to quarter two, we see the following:

- Following a trend that began in April, we expect to see a reduction in Treasury Bill issuance continuing into May; this reduction in supply should push rebate rates lower.
- Dividend season will reach its height, with revenue peaking in May.
- We don't expect any near term improvement in directional trading but do see the potential for more deal activity with the economy continuing to improve.
- We anticipate a market environment in which many issuers will take short dated levels lower.
- As European banks repay LTRO funds, we expect demand for longer duration funding to continue.

It is nevertheless a busy time at J.P. Morgan. As you will read in this newsletter, we are progressing well with our multi-year, multi-million dollar technology overhaul (page 9), we continue to pursue new market opportunities such as Russia (page 8) and continue to look at collateral expansion and diversification (page 9). Internal to J.P. Morgan, the integration of the Corporate & Investment Bank continues on track and as a result, to better distinguish ourselves, we have rebranded the business *Agent Lending*. At the same time, Paul Wilson has taken on additional responsibility of Global Product and Portfolio Analysis, while Judy Polzer has assumed a new role as Global Head of Analytics and Research. We hope you enjoy this edition of the newsletter, and we thank you for your continued partnership with J.P. Morgan.

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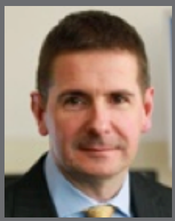

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Update from the Fixed Income Desk

U.S Fixed Income

Since the beginning of the 2013, Treasury general collateral (GC) rates have declined sharply from the elevated levels traded in the last quarter of 2012. There are multiple factors contributing to the decline in rates. First, Operation Twist was completed at the end of last year, removing a significant supply of Treasuries from dealer balance sheets. Second, the expiration of the Transaction Account Guarantee (TAG) program has led some investors to move deposits into the repo market.

Lastly, and maybe most importantly, the ongoing impact of the Fed's open-ended monthly purchases of $85 billion of Treasuries and Agency MBS (QE3/4) has caused rates to decline abruptly as excess reserves increase.

Historically, the monetary policy actions of the Federal Reserve have had a direct impact on the lending program. With increased demand for Treasuries and decreased supply, we expect rates to continue to decline. Lower rebate rates allow us to lend Treasury GC for accounts that have investment guidelines able to support these trades.

Agency collateral has continued to trade in a narrow range of two to three basis points above Treasury GC while Mortgage-Backed GC has traded in a range of three to four basis points above Treasuries. Balance sheet considerations, highlighted on month-end and quarter-end, remain a large concern for dealers which, continue to challenge utilization for these assets classes.

We continue to see demand for non-cash trades and have expanded the eligible list of pledge collateral to include high rated Euro-zone Sovereign debt and Japanese Government Bonds (JGB).

Lenders who approve the expanded pledge collateral sets have the flexibility to participate in these trades as borrower demand increases.

Looking Forward

- With the Fed's $85 billion in monthly asset purchases, Treasury GC rates may trade low in the single digits to low-teens in the second quarter.
- The market will continue to be focused on both economic growth and job growth in the U.S.. If the economy continues to add jobs at a quick pace, we would expect the Fed to scale back their monthly purchases by late 2013.
- Funding needs from the RIETS will keep the pressure on MBS term rates.
- The Treasury Department left coupon auction sizes unchanged through at least early May, as expected. According to projections, current nominal coupon sizes and projected increases in TIPS issuance will be more than sufficient to cover the Treasury's financing requirements through 2015
- In mid April, we saw a reduction in Treasury bill issuance which should continue into May. The reduction in supply should help to push rebate rates lower.
- The Federal Reserve Bank of New York is launching a pilot program with small broker-dealers in an effort to examine options for further broadening access to monetary policy operations. The limited, one-year pilot program will allow no more than five small firms to participate solely as counterparties in outright purchases and sales of U.S. Treasury securities for the System Open Market Account (SOMA) portfolio. The Treasury Operations Counterparty Pilot Program is being launched as a way for the New York Fed to continue to explore the effectiveness and feasibility of expanding operations to a broader range of counterparties.

Corporates

Trends that asserted themselves in the fourth quarter of 2012 continued to hold in the first quarter of 2013. Borrowers were reluctant to increase balances and acted quickly to cover trades, leading to a very high churn rate on loans. Traders were focused on headlines, with issuers like Dell Inc., H.J. Heinz Co., and Hewlett-Packard Co. trading special during the quarter.

Several headwinds have coalesced to mute demand to borrow corporate bonds. Global economic concerns, regulatory uncertainties, investor cash continuing to enter corporate bond funds, and spreads holding near all-time highs continue to make market participants hesitant to set new short positions. We anticipate brokers, with lighter borrowing needs, to focus on upgrading their books. This could lead to specials trading closer to general collateral levels or being returned.

International

Balances in international fixed income lending increased strongly throughout the first quarter of 2013, but were still off the highs seen at the beginning of 2012 – mainly as a result of improving market sentiment in the Eurozone leading to less demand for core euro sovereign general collateral.

Volumes remained high, especially in the corporate bond markets, as dealers continued to micro-manage their balance sheet.

However, investor sentiment in the Eurozone remained strong – which meant that spreads between European sovereigns in the repo market were very tight – Italy and Spain continue to trade in the overnight market only a few basis points away from the AAA core countries.

However, balances increased as a result of a higher number of specials, especially in the German four- to seven-year maturities. Specific issues were volatile but remained special for the entire period.

Corporate bond balances increased over the quarter, and continue to be helped by the automation of shorts coverage through Bondlend. European financials continue to be in high demand in the repo markets, which remain highly liquid. Corporate bond fails are minimal and short lived.

Looking forward

We expect demand to remain for high quality European sovereign general collateral, but, with spreads so tight in cross-currency trades, this opportunity will only be there for those lenders with three-month cash reinvestment guidelines, or those willing to participate in an upgrade trade.

Outside of Europe, demand remains strong for Australian sovereigns, but spreads will remain under pressure as there are so few issues trading with any intrinsic value.

Specials will likely remain concentrated in shorter maturity German sovereigns and we will continue to see demand for under 10-year gilts, albeit at general collateral levels. With Eonia and Sonia likely to remain low and stable for the foreseeable future, the bulk of our activity will remain on open, with little term lending opportunity.

Update from the Equities Desk

Equity markets ended the quarter mainly higher with Japan, the U.K. and the U.S. being among the best performers. Expectations of Bank of Japan monetary stimulus drove the Nikkei to a 19.25% gain, and the U.S. continued its recent strong rally with the Dow Jones Industrial Average and S&P 500 hitting record highs. Better economic data and the search for yield led to greater investor interest in equities.

Despite losing its AAA rating from Moody's, the U.K. also turned in a good performance for the quarter, up 8.7%. European peripheral markets faired badly as Cyprus negotiated a bailout which involved a levy on bank deposits over €100,000. Despite the EU stating that Cyprus is a special case and is not a template for future bailouts, investors took fright on concern about the safety of financial assets in Europe.

Across the lending book we continued to see weaker demand to borrow for directional shorts, particularly in the U.S. and Asia. Despite a stagnating equity market, the level of short selling activity and borrowing demand has continued to decline in Hong Kong, with loan returns and refinancing by borrowers driving fees lower.

In the U.S. the equity market rally has caused investors to reduce bearish bets to the lowest level since 2007, instead adding to long positions. This has of course led to a reduction in borrowing demand. Rising equity markets, strong corporate profits, low cost of debt and growing confidence among CEOs led to an increase in M&A activity.

Companies including Dell, H.J. Heinz, Liberty Global/Virgin Media, Office Max/Office Depot, SCBT Financial/First Financial and US Air/American Airlines, all announced deals in February. Although not all resulted in demand to borrow shares, we hope this is indicative of an increase in deal activity this year and could ultimately lead to an increase in borrowing demand.

Dividend trading activity picked up towards the end of the quarter. Balances increased significantly in Japan as borrowers swapped out high-dividend domestically held shares for low-dividend foreign shares for the end-of-March dividend. Australia was active, trading the arbitrage opportunity in dividend reinvestment plans, as was the U.K. for scrip dividends. In Europe, January was a good revenue month for dividend trading, with loans of Siemens in Germany. February was quiet but activity picked up strongly in March as Swedish, Finnish, French and Swiss dividend trades settled. Sweden and Finland in particular have traded well this year, with strong borrower demand and consistently high levels. Switzerland has traded higher than last year, although levels are low relative to other markets. Dividend payouts also increased, including Nordea Bank and Swedbank of Sweden and Roche Holding of Switzerland, all of whom increased their March dividends for 2013. However, market demand remains volatile in the key markets of France, Germany and Italy, with Germany in particular experiencing a fall off in demand towards the end of the quarter. In general across the dividend business, borrower balance sheet constraints, increased funding costs and tax changes have impacted demand and supply, making for a particularly challenging trading environment.

Sectors in demand (in order of size):

- **Asia-Pacific** – consumer cyclical, financial, industrial, then a big drop to consumer non-cyclical, basic materials, communications, and another drop to technology;
- **Europe, Middle East and Africa** – industrial, consumer non-cyclical, then a big drop to financial, basic materials, communications and consumer cyclical;
- **Americas** – consumer non-cyclical, then a big drop to financial, consumer cyclical, then another drop to communications, tech and industrial.

Second Quarter 2013

The second quarter will mark the height of the European dividend season, with revenue peaking in May. As already mentioned, demand has been volatile this year, making for a challenging market. We have, however, traded the majority of the book, with levels agreed and loans booked for future settlement.

Unfortunately, we do not foresee an increase in directional trading activity given the strong U.S. equity market, the uncertainty in Europe and strength of the Chinese economy. We hope to see more deal activity, whether that be capital raising or M&A, which should lead to more borrowing demand.

We expect our collateral expansion initiative to continue, resulting in increased balances against Japanese Government Bond collateral, and euro and sterling cash. We also expect to expand our automated trading ccapabilities further in APAC, as borrowers direct more of their flow through the Equilend automated trading platform. In terms of market development, we hope to go live in Russia, becoming the first agent lender in this market, and to expand our Brazilian distribution to domestic counterparts.

Update from the Re-Investment Desk

Highlights

- Market conditions and sentiment have improved in general regarding the European situation as well as the U.S. labor and housing markets.
- The market was active in floating rate securities, with maturities out to one year across various issuers.
- Looking forward, we expect an environment in which overnight repo will remain range bound and issuers will continue to adjust term unsecured issuance levels to incentivize longer dated funding.

1Q Review

During the first quarter of 2013, the FOMC, ECB, BOE and RBA all left their respective monetary policies unchanged. The market turned more optimistic regarding the European situation, taking note that global financial strains have eased.

Investors were active buyers throughout the quarter, highlighted by strong interest in floating rate products across multiple names and regions into the one year area.

In the U.S., repo declined from its sustained run at elevated levels due to numerous factors, including the expiration of unlimited FDIC insurance, the end of Operation Twist and the outright purchase of a combined $85 billion of Treasuries and mortgages by the Fed ona monthly basis.

Demand for shorter dated funding from many issuers declined as they met or exceeded funding needs. Issuers re-entered the market, gaining access to investors who have added them back to their buy lists or have expanded allowable tenors. Other issuers have exited the market, or in the case of some of the Australian and U.S. asset backed commercial paper programs, have been reducing their margins, leading to a decrease in program size.

J.P. Morgan purchases for eligible accounts throughout the quarter were focused primarily in fixed rate investments out to six months while also maximizing opportunities in floating rate products into the one year maturity range.

Outlook

Looking ahead into the second quarter of 2013 and beyond, J.P. Morgan anticipates a market environment in which many issuers will continue to take short dated levels lower, while others attempt to re-enter the market if conditions and sentiment remain favorable, as many of the French issuers have notably done during the last several months. As European banks repay LTRO funds, J.P. Morgan expects demand for longer duration funding to continue, with banks returning to more traditional funding sources away from the ECB. We expect the RBA to keep a slight easing bias to monetary policy and the market will continue to front load expectations of a rate cut, keeping the AUD yield curve inverted, or flat at best.

Although positive spreads to lend USD general collateral fixed income assets returned in 2013, if issuers continue to tighten term unsecured levels, this will again become a challenging environment in which to generate consistent profitable spreads and J.P. Morgan anticipates it will remain a challenge globally to lend fixed income general collateral at positive spreads, particularly for clients for whom cash collateral guideline parameters are constrained. Term repo structures and repo collateralized with equities and municipal bonds will provide alternatives and additional yield for eligible portfolios in an environment in which the traditional repo classes will likely remain range bound.

Our strategy will focus on maintaining liquidity overnight and through our maturity structure, by layering bank and corporate investments in the one- to three-month maturity range. Term premiums should continue to differ on an issuer-by-issuer basis for longer maturities, and we will selectively target investments in the four- to six-month tenors for which we expect to receive a premium over available three-month yields of up to 15 basis points.

We will continue seeking attractive opportunities for core holdings in longer dated high quality investments for eligible accounts, with a majority of our interest out to one year. These trades offer incremental yield and further diversification, providing access to some of the higher quality names that are no longer actively issuing in the shorter dates due to the excess liquidity that remains in that end of the market.

Country Profile: France

The securities lending environment continues to evolve as jurisdictions and regulators propose and implement reform impacting even the most 'vanilla' of securities lending markets; France can be described as one of these markets. For many years referred to as stable and almost unexciting, today recent European tax rulings as well as the introduction of the Financial Transaction Tax continue to contribute to increased volatility and squeeze demand particularly for yield enhancement activity.

- The French Financial Transaction Tax (FTT) came into force as of August 1, 2012 - the first European country to impose a transaction tax of 0.2%, levied on acquisitions of designated listed French equities. While securities lending transactions are not directly affected because 'temporary transfers of ownership' are currently exempt from the tax, the underlying trades that drive borrower demand are impacted. As the tax increases the overall cost of these trades, this may eventually hurt revenue generation in the lending market. The industry continues to monitor this closely.
- Yield enhancement trading in France is a key source of income, but this activity has recently come under pressure after a ruling by the European Court of Justice ('ECJ') in August 2012 on the discriminatory nature of withholding the tax paid on French source dividends by foreign Collective Investment Funds. Until then, the French government had levied a withholding tax on foreign investment funds ranging anywhere from 15% to as much as 25%. Since the ruling, the withholding tax levied on dividends paid by French companies is now abolished for UCIT funds residing outside of France, however both the reclaim procedures to support the recovery of tax, and the impact of this ruling for non-European funds holding French equities (e.g., U.S. Investment Funds) remain uncertain. This greater harmonization of dividend tax policies in Europe continues to threaten the yield enhancement trade by reducing the supply of tax disadvantaged securities. Given the lack of clarity around the tax recovery process, J.P. Morgan has seen clients take a varied approach to manufactured tax rates going forward, with some keeping rates at the current level, and others moving to 100%.

Trading outlook for 2013

Despite the tax matters that are pre-occupying market participants, France continues to be an attractive market for Lenders. Firstly, entry remains straightforward, with no additional market documentation requirements. Lenders also benefit from a standard lending operation.

Secondly, the trading outlook for 2013 remains relatively positive. While the equity market has led to a decrease in directional short activity in Europe, some analysts expect that company earnings should rise and economic growth will return to the region. If this is the case we should see an increase in corporate activity as we continue into 2013 and an increase in company dividends, which will be positive for dividend trading.

Currently yield enhancement levels continue to be volatile. Companies continue to announce scrips in 2013 and clients who are able to cash guarantee on their scrip elections will be able to maximize their revenue opportunity.

Sectors in which we are seeing directional demand include the automobile and communication sector, most specifically securities such as Peugeot-Citroen and Pages Jaunes.

If you would like to understand more about lending your securities in France, please contact your Agent Lending relationship manager.

Regulatory Update

The securities lending regulatory environment continues to evolve, as multiple jurisdictions and regulators propose and implement new policies.

Activity in the past few months has focused on new guidelines for UCITS funds and the proposal of financial transaction taxes in Europe.

ESMA Guidelines on UCITS Securities Lending

During December 2012 the European Securities and Markets Authority ("ESMA") published consolidated guidelines for ETFs and UCITS, which included specific points addressing the manner in which securities lending, repos and reverse repos (collectively referred to as 'efficient portfolio management' ("EPM")) should be handled.

The guidelines became applicable from February 18, 2013, with existing UCITS having a maximum of 12 months to implement the majority of the provisions.

You can access the ESMA guidelines by visiting **http://www.esma.europa.eu/content/Guidelines-ETFs-and-other-UCITS-issues**

Some of the key elements of the guidelines to consider are:

Prospectus requirements: The guidelines outline new information that a UCITS fund should include in its prospectus. This includes a statement of the collateral policy together with a statement of the funds' EPM risk policy.

Collateral diversification: The guidelines lay down a number of requirements on allowable collateral for EPM transactions, the key ones being:

- Sufficient diversification of collateral, with an explicit 20% threshold for collateral from any single issuer;
- Aggregation of collateral received across OTC derivative and EPM transaction when applying the diversification requirements;
- A requirement for collateral received via title transfer arrangements to be held by the depository (see note below regarding ESMA Q&A for clarification on this point);
- A prescription on the acceptable forms of reinvestment for cash collateral.

Disclosure requirements: the guidelines set out a number of additional criteria for which disclosure is required by the UCITS in its annual report.

ESMA issued a further set of Q&A notes on March 15 which provided additional clarification on certain points within the guidelines. This included confirmation that the depository can delegate the holding of collateral received via a title transfer arrangement, to a third party custodian provided certain conditions are met.

You can access this Q&A by visiting **http://www.esma.europa.eu/content/QA-ESMAs-guidelines-ETFs-and-other- UCITS-issues**

The guidelines are now subject to incorporation into the regulations of each Member State of the European Union.

Financial Transaction Taxes

The past few months have seen the introduction of financial transaction taxes ("FTT") in both France and Italy, together with a revised proposal from the European Commission ("Commission") for an EU wide FTT. The FTT took effect in France on August 1, 2012, with specific additional reporting for securities lending transaction starting on January 1, 2013. (*for more information, please reference the Country Profile: France article on page 5*). The FTT in Italy took effect on March 1, 2013 with the first reports not due until early 2014.

In both cases, securities lending activities are exempt from the tax charge, although reporting is required in France. The reporting requirement in Italy is still unclear, as a further clarification from the Authorities is required.

The Commission originally proposed an EU wide tax on financial transactions in September 2011. This proposal was debated at several European Council meetings during 2012 and the overall proposal became delayed once it was clear that certain European Members were opposed to the idea of an EU wide FTT. Following further negotiation, 11 member states agreed to move forward under the 'enhanced cooperation' process and as a result the Commission published an updated proposal on February 14, 2013. The key elements of the revised proposal include:

- The rate of the tax was set at 0.1% of the taxable amount of the financial transaction, and 0.01% for an financial derivative transactions;
- The tax will apply to any financial transaction carried out by an institution established in one of the 11 members states;
- In addition, the tax will apply to any financial transaction involving a security which is issued from one of the 11 member states;
- Securities lending transactions are not exempt under the proposal.

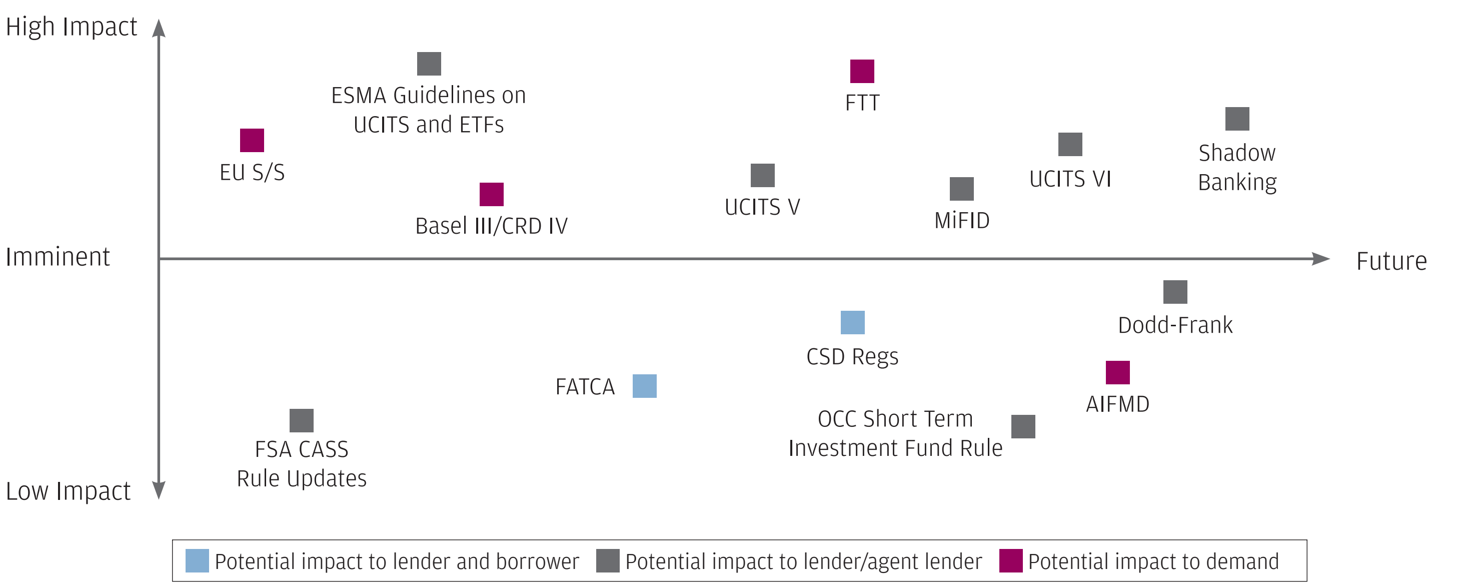
The current proposal will replace the FTT already established in France and Italy. Within the proposal, the participating member states must adopt the laws, regulations and administrative provisions necessary to comply by January 2014. However the current draft is still subject to negotiations between the Commission and the member states. The securities lending industry is also actively seeking to discuss the proposals with individual member states and the Commission, with the goal of obtaining an exemption for these transactions.

Other regulatory developments

Financial Stability Board Shadow Banking Consultation: The Securities Lending and Repo working group published a consultation at the end of 2012, and responses were submitted in January 2013. J.P. Morgan participated in the industry responses, covering key areas such as cash collateral reinvestment, central trade repositories and haircut methodologies.

Dodd-Frank: Consultations are underway on a number of sections including the setting of limits for counter-party exposure, increased transparency for lenders and borrowers and rules around the orderly liquidation of assets on a default.

Client Regulatory Update



Key Regulatory Timeline

2013			2014 & Beyond
Q1	Q2	Q3-Q4	
ESMA Guidelines on ETFs & UCITS CRD IV/R	EU CSD Legislation FATCA – payee tax tracking OCC Short Term Investment Fund Rule	AIFMD UCITS V EMIR	EU Wide FTT Shadow Banking UCITS VI FATCA – full regulations

Emerging Markets: Lending in Russia

Expansion of securities lending activity in emerging markets continues to be a focal development point for J.P Morgan, enabling Lenders in our program to secure higher fees as the yield pick is significantly higher than the more established markets.

Building upon our strong track record as a leader in emerging markets, we are now edging close to completing a loan transaction in Russia (expected to go live in the third quarter of 2013) – an exciting BRIC market with strong demand appeal.

The Russian securities market has experienced many changes in the last 18 months, for instance, the recent creation of a single Central Securities Depository ('CSD') compliant with U.S. SEC Rule 17F-7.

These changes open up new opportunities for market participants and help address key post trading infrastructure shortfalls that previously deterred international investors. The essential reform has served to significantly improve the overall appeal of Russia to non-resident investors improving both efficiency and access to the market.

Key considerations for lending in Russia

When designing a lending solution for Clients, focus on investor protection and ensuring that the end model is tailored to fit the local market is essential. In the case of Russia, extensive due diligence has been undertaken surrounding the legal safety of the loan trade, and the regulatory or tax nuances that require consideration when lending in Russia.

J.P. Morgan's extensive on the ground knowledge and ability to tap into our local market expertise has been crucial throughout this development.

The end result is a solution that largely follows the standard securities loan structure recognized by clients today when lending in developed markets.

With that said, it is important to highlight that specific nuances in relation to foreign ownership limits and corporate actions with back dated record dates do exist and should be discussed further if considering entry into Russia.

- Trading activity with borrowers will be governed under standard U.K. law securities lending counterparty agreements, with an additional market addendum that harmonizes operational practices for Russian loans with other lending markets, and seeks safeguards from borrowers in relation to foreign ownership limit regulations and back dated corporate actions
- Loans will be collateralized using non-Russian securities, in line with program standard collateral margins and schedules (cash and non-cash, including bonds and equities)
- Only equity securities held at the CSD and traded on an organized exchange will be eligible for lending
- There is no requirement for pre-trade date sale notifications, therefore, fund managers are not restricted in their ability to sell securities

Current demand and revenue spreads

As the market continues to evolve and the level of hedge fund activity begins to grow, we expect stock lending volumes to also rise accordingly.

Current demand in Russia includes both directional shorts and the Equity vs. the ADR trade, for which funds may go short the equity and long the ADR. Spreads in Russia are currently trading between 50-75bps and will increase depending on the demand of the stock.

Sectors of interest include Financials, Consumer, Natural Gas and Oil and Mining. Securities that are currently in demand include Gazprom, Lukoil, SBERBANK, Rosneft and Mobile Telesystem.

Corporate actions do not tend to generate lending activity as M&A events are mainly all cash deals and companies wishing to raise capital do not tend to issue rights issues, but instead generate funds through private investors.

Collateral Expansion – Japanese Government Bonds

J.P. Morgan's Agent Lending team is now actively accepting Japanese Government Bonds (JGBs) as collateral. The addition of JGBs is part of a broader initiative to expand our eligible collateral set, which has over the past two years seen the inclusion of equities collateral and sovereign debt from seven additional OECD member states.

As JGBs are currently a cheaper form of collateral relative to U.S. Treasuries / Agencies and EUR sovereign debt, loans collateralized with JGBs demand a slight premium over those collateralized with these asset types.

The premium for Japanese equity GC loans is on average eight to 13 basis points; for loans of U.S. treasuries and EUR sovereign debt, borrowers are indicating a premium of up to five bps. It should be noted, however, that the premium for government bond loans is driven primarily by a requirement for term loans, as borrowers are matching the loan maturity to currency swaps executed in connection with the purchase/sale of the bonds.

Client Considerations

- To minimize the requirements for potential tax withholding and reporting, clients accepting JGBs must be exempt from Japanese withholding tax.
- J.P. Morgan must set up a segregated collateral account for each participating beneficial owner that would be used solely for collateral liquidation in the situation of a borrower default.

To satisfy both of these requirements, clients must complete a "Confirmation and Application for Withholding Tax Exemption" (also know as a "Japan Letter"). Clients who have already completed a "Japan Letter" in connection with custody holdings of JGBs do not need to resubmit it.

For more information, please contact your Agent Lending relationship manager

Technology Update

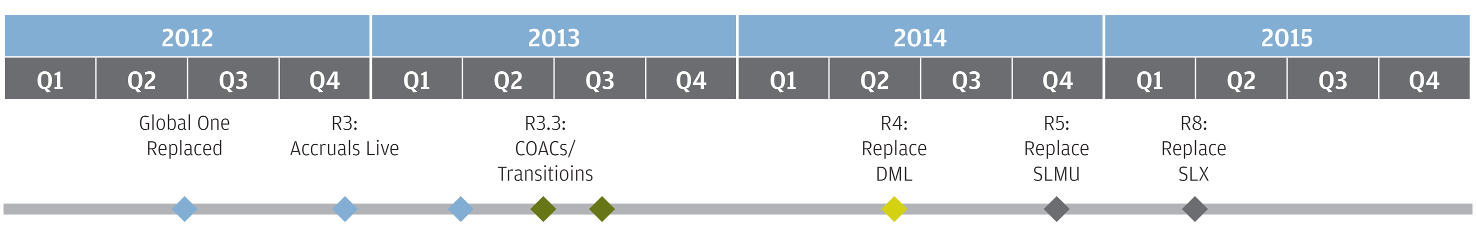
J.P. Morgan continues its commitment to technology enhancements. On the Agent Lending front, we've implemented STAR, which is a technology project that consolidates the lending platform from four back end systems into one.

The project was off to a good start in 2012 with the take down of one system at the end of the first quarter. In the first quarter of 2013, the STAR continued to progress with the delivery of a key release that will enable us to meet our target of a second system take down at the end of the year or the beginning of 2014.

Throughout the project we continue to build efficiencies and streamline our processes to provide a more robust operating platform and product offering.

For more information, please contact your Agent Lending relationship manager.

STAR Timeline



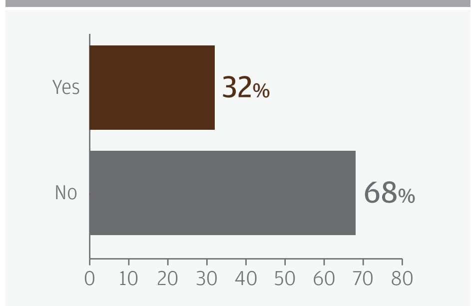
Securities Lending Experts Discuss 2013 Outlook and Regulation

Over 100 key industry figures recently gathered in London for the first J.P. Morgan European Investor Services Securities Lending Forum to discuss regulation and the opportunities and challenges for the year ahead.

Global Head of Securities Lending Product and Portfolio Analysis at J.P. Morgan, Paul Wilson, kicked off the event with his opening remarks before David Mackie, Head of Western Europe Economic Research, examined the global economic outlook. Mackie questioned whether improved unemployment rates could be a stimulus for the country and whether an increase in long-term inflation could boost spending and spur growth. Kevin McNulty, Chief Executive of the International Securities Lending Association (ISLA), described the ISLA's role and activities and the evolution of the securities lending marketplace. "I'm currently seeing agents like J.P. Morgan doing a lot to make sure their clients have access to enough information about securities lending and that they are kept up-to-date with the latest developments," McNulty said.

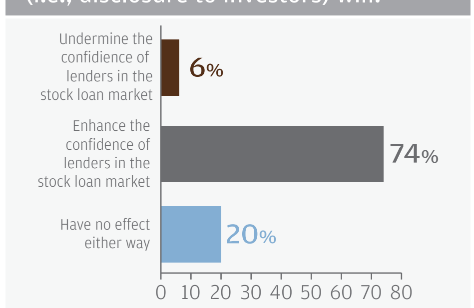
Two panel discussions took place over the course of the day, the first of which was a lively debate on the regulatory environment. Chaired by the Editor-in-Chief of *Global Custodian* magazine, Dominic Hobson, the session included live polling, with the audience providing insights into their opinions on short selling, central clearing counterparties (CCPs), transparency, mandatory haircuts and the Dodd-Frank Act. When asked to vote, 68% of the audience believed that the use of CCPs for securities lending was not desirable. One panelist said, "This doesn't surprise me at all. The challenge of getting CCPs to work in such a heterogeneous market is huge."

The use of CCPs for Securities Lending is Desirable



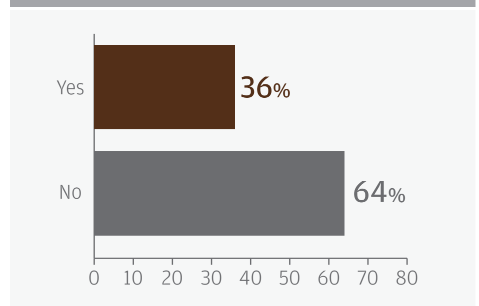
Transparency was another topic that provoked much discussion, as 74% of the audience believed that better disclosure to investors would enhance the confidence of lenders in the stock loan market. "Profits will likely go down but volumes will go up," said Furio Pietribiasi, Managing Director of Mediolanum International Funds and Mediolanum Asset Management. "Any increase in transparency will build trust, which in the longer term will help grow the market."

Increased transparency (i.e., disclosure to investors) will:



A surprise emerged when 36% of the audience believed mandatory haircuts to be desirable. David Rule, Director of International U.K. Banks, Financial Services Authority, made it clear that such haircuts are not aimed at the typical beneficial owners lending to a bank which is then lending to a bank.

Mandatory haircuts are desirable for securities lending transactions:

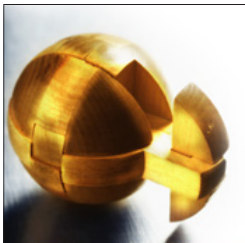


The final panel event of the day considered the opportunities and challenges of 2013. While the overall consensus was that the lack of demand is unlikely to change in the short-term, John Shellard, Global Co-Head Agent Lending Trading at J.P. Morgan, was relatively optimistic about the outlook for the year ahead. "If markets improve and stability continues, we should see more deal activity, and beneficial owners will likely add a bit more risk into their securities lending programs."

European Securities Lending Forum Highlights

Agenda

J.P.Morgan



European Securities Lending Forum

Tuesday February 12, 2013

J.P. Morgan, Auditorium, 25 Bank Street,
Canary Wharf, London E14 5JP

13:30	Registration
14:00	Opening Remarks *Paul Wilson, Head of Client Management & Sales, Trading Services, J.P. Morgan*
14:15	Global Economic Outlook *David Mackie, Head of Western Europe Economic Research, J.P. Morgan*
14:45	An Industry Perspective *Kevin McNulty, Chief Executive, International Securities Lending Association (ISLA)*
15:15	Coffee Break
15:30	Panel discussion: A Regulatory Update and Outlook Moderator: *Dominic Hobson, Editor in Chief, Global Custodian Magazine* Panellists: *David Rule, Director, International UK Banks, Financial Services Authority* *Andrew Hauser, Head of Sterling Markets, Bank of England* *Anita Wieja, Member of Cabinet of Commissioner Michel Barnier, European Commissioner for Internal Market and Services, European Commission* *Judy Polzer, Global Business Executive, Securities Lending, J.P. Morgan* *Duncan Drummond, Executive Director, Legal, Morgan Stanley* *Furio Pietribiasi, Managing Director, Mediolanum International Funds Ltd and Mediolanum Asset Management Ltd*
16:30	Panel discussion: Opportunities and Challenges 2013 Moderator: *Paul Wilson, Head of Client Management & Sales, Trading Services, J.P. Morgan* Panellists: *John Shellard, Global Co-Head Securities Lending Trading, J.P. Morgan* *Matthew Chessum, Securities Lending and Repo Specialist, Aberdeen Asset Management Plc* *Leandros Kalisperas, Credit, USS Investment Management Limited* *Duncan Wilson, Head of EMEA Equity Finance Sales Trading, Prime Brokerage, J.P. Morgan*
17:30	Closing Remarks *Paul Wilson, Head of Client Management & Sales, Trading Services, J.P. Morgan*
17:45	Drinks Reception

Agenda subject to change