

# J.P. Morgan Equity Income Strategy

## Separately Managed Account

### TOPLINE (2Q 2019)

Strategy ▲ 4.53%	Benchmark ▲ 3.84%
<b>Benchmark:</b> Russell 1000 Value Index	
<p><b>Markets</b> The S&amp;P 500 Index ended the quarter up 4.30%. Despite a dovish shift from the Federal Reserve (Fed) alleviating some recessionary fears, volatility escalated in May with increased tensions surrounding tariffs between the U.S. and China. However, the numbers for June largely deviated from the increasingly downbeat environment of the previous few months. Driven mostly by increased hopes of a trade deal between the U.S. and China at the G20 Summit, the strong performance in equities provided both relief and hope to investors who piled back into the market and drove the S&amp;P 500® to fresh highs during June.</p>	
<p><b>Helped</b> Stock selection in information technology and financials contributed to performance.</p>	
<p><b>Hurt</b> Stock selection in health care and communication services detracted from portfolio results.</p>	
<p><b>Outlook</b> While continued earnings growth should provide support to the equity market, we are monitoring the incremental risks that could represent headwinds for U.S. stocks. In particular, we continue to watch closely the state of trade relations, movements in global economic growth and the implications of Fed policy, all of which have the potential to heighten volatility.</p>	

Past performance is not indicative of future returns. Performance is shown gross of fees. If fees were included, returns would be lower. Please see following page for additional performance.

### STRATEGY OVERVIEW



**Designed to** provide a blend of long-term growth and current income through the consistent payment of dividends.

#### APPROACH

- Invests primarily in large cap stocks, but may invest in companies across all market capitalizations
- Employs bottom-up stock selection to invest in common stock of corporations that regularly pay dividends and have favorable long-term fundamental characteristics
- Looks for undervalued companies with durable franchises, strong management and the ability to grow their intrinsic value per share

### QUARTER IN REVIEW

- **The JPMorgan Equity Income Strategy outperformed the benchmark**, the Russell 1000 Value Index, for the quarter ended June 30, 2019.
- **CME Group, Inc. bucked the financial sector downdraft and rallied in a volatile May**, proving resolute in an adverse environment. As a defensive name with a counter-cyclical earnings pattern, CME Group, Inc. highlights why it's so important to have diversity underlying our portfolio, especially intra-sector. CME Group, Inc. offers best-in-class distribution/clearing platforms, has seen growth via new initiatives and offers a healthy dividend yield. Lastly, we think CME Group, Inc. should continue to benefit from regulatory tailwinds, as lawmakers are keen to drive the market-making business away from banks and onto their more transparent exchanges.
- **Microsoft Corp. reported solid earnings and raised guidance**, building on last quarter's positive momentum, and appears to be firing on all cylinders. Importantly, Microsoft Corp. has a steady subscription-based revenue stream, diversified product mix and advantageous competitive position in cloud computing through Azure. In addition to a healthy dividend, Microsoft Corp. has a driven management team, which we believe should bode well for sustained growth and margin expansion going forward.
- **Shares of Occidental Petroleum dropped** after the company topped Chevron's bid to acquire Anadarko Petroleum. The deal was not consistent with the strategy management has laid out over the last few years. At this time and price, we did not view the move as a prudent allocation of capital and, therefore, this decision led us to lose confidence in Occidental Petroleum's management and exit the position.
- **Eli Lilly & Co. detracted** as commentary related to Medicare for All and changes to drug pricing and reimbursement continues to grow. We believe this could act as an overhang to the sector for the time being. While we've reduced our exposure to names that could be most vulnerable, we remain invested in pharmaceutical companies with prudent management teams, limited near-term patent expirations, robust and diversified pipelines, strong research-and-development budgets and innovative products.

### LOOKING AHEAD

- **While financials still represent a good opportunity**, we are increasingly wary of the upside potential, which is why we have a smaller allocation in the portfolio today than we did a year ago.
- **As political discourse regarding health-care costs, universal health care and international drug pricing continues to grow**, we've materially reduced our health-care exposure. That said, we remain invested in pharmaceutical companies with prudent management teams, limited near-term patent expirations, robust and diversified pipelines, strong research-and-development budgets, and innovative products.
- **As merger-and-acquisition activity alters the energy landscape**, we've re-adjusted our positioning accordingly. In this inherently volatile sector, we invest in defensive companies with strong balance sheets, shareholder-aligned management teams and quality asset portfolios.

## PERFORMANCE

### RETURN (%)

	3 MOS	YTD	1 YR	3 YRS	5 YRS	10 YRS
<b>Strategy</b> (gross of fees)	4.53	16.03	12.00	12.71	9.92	15.23
<b>Strategy</b> (net of max. allowable fees - 300 bps) <sup>2</sup>	3.76	14.34	8.72	9.40	6.69	11.86
<b>Benchmark</b>	3.84	16.24	8.46	10.19	7.46	13.19

Benchmark: Russell 1000 Value Index.

Past performance is not indicative of future returns. Performance includes the reinvestment of any income.

<sup>2</sup>Please note, actual fees associated with this strategy may be lower.

## PORTFOLIO ANALYSIS

Market capitalization	\$145.9bn
P/E ratio (1 yr forecast)	15.5x
P/B ratio	2.6x
Dividend yield	2.6%
Earnings growth (5 Year)	6.7%
Return on assets	9.1%
Return on equity	19.5%
Trailing 12-month turnover	20.9%
Number of holdings	86
Beta <sup>3</sup>	0.91
Standard deviation <sup>3</sup>	11.18
Information ratio <sup>3</sup>	1.25
Tracking error <sup>3</sup>	2.20
Sharpe ratio <sup>3</sup>	1.01

<sup>3</sup>Based on three-year data points.

Source: J.P. Morgan Asset Management, FactSet.

The above characteristics are from a representative portfolio. Actual account characteristics of individual accounts may be different. Portfolio characteristics are as of 6/30/2019 and are based on individual securities in the Portfolio on that date. Securities in the Portfolio are subject to change. Statistics shown are not indicative of future statistics and are not representative of future Portfolio performance.

## HOLDINGS

### EQUITY SECTORS (%)

Sector	Weighting	Compared to benchmark
Financials	26.8	3.3
Health Care	11.7	-1.2
Information Technology	10.9	4.9
Industrials	10.2	0.5
Consumer Discretionary	7.9	2.0
Energy	7.8	-1.4
Consumer Staples	7.6	-1.2
Utilities	5.3	-1.2
Materials	4.6	0.1
Communication Services	4.1	-3.9
Real Estate	3.2	-1.9

### TOP 10 (%)

Chevron	3.5
Bank of America	3.1
Microsoft	2.9
CME	2.7
Comcast	2.4
Pfizer	2.4
PNC Financial Services	2.3
Blackrock	2.2
ConocoPhillips	2.2
Merck & Co	2.1

## GENERAL DISCLOSURES

The Strategy might not achieve its objectives. Asset allocation/diversification does not prevent investment loss. Nothing in this document is an investment recommendation. Total return figures (for the Strategy and any index quoted) assume payment of fees and reinvestment of dividends (after the highest applicable foreign withholding tax) and distributions. Without fee waivers, strategy returns would have been lower. Due to rounding, some values may not total 100%.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be a recommendation for any specific investment product, strategy, plan feature or other purpose. Any examples used are generic, hypothetical and for illustration purposes only. Prior to making any investment or financial decisions, an investor should seek individualized advice from a personal financial, legal, tax and other professional advisors that take into account all of the particular facts and circumstances of an investor's own situation.

### RISK SUMMARY

The following risks could cause the Strategy's portfolio to lose money or perform more poorly than other investments.

The prices of equity securities are sensitive to a wide range of factors, from economic to company-specific news, and can fluctuate rapidly and unpredictably, causing an investment to decrease in value.

There is no guarantee that companies will declare, continue to pay or increase dividends.

### PORTFOLIO ANALYSIS DEFINITIONS

**P/E ratio** is the number by which earnings per share is multiplied to estimate a stock's value.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

**P/B ratio** is the relationship between a stock's price and the book value of that stock.

**Dividend yield** is a ratio that shows how much a company pays out in dividends each year relative to its share prices. In the absence of any capital gains, the dividend yield is the return on investment for a stock.

**Earnings growth** is a measure of growth in a company's net income over a specific period.

**Return on equity (ROE)** is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

**Return on assets** is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.

**Trailing 12-month turnover** is a percentage of holdings that are sold in a specific period.

### RISK ANALYSIS DEFINITIONS

Risk measures are calculated based upon the broad-based index as stated in the prospectus.

**Beta** measures a Strategy's volatility in comparison to the market as a whole. A beta of 1.00 indicates a Strategy has been exactly as volatile as the market.

**Standard deviation** is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The greater the degree of dispersion, the greater the risk.

**Information ratio** is a ratio of portfolio returns above the returns of a benchmark to the volatility of those returns.

**Tracking Error** The active risk of the portfolio, which determines the annualized standard deviation of the excess returns between the portfolio and the benchmark.

**Sharpe ratio** measures the fund's excess return compared to a risk-free investment. The higher the Sharpe ratio, the better the returns relative to the risk taken.

### INDEXES

Managed Accounts have fees that reduce their performance; indexes do not. You cannot invest directly in an index.

The Russell 1000 Value Index is an unmanaged index measuring the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

*Past performance is no guarantee of future results.*

### TOP HOLDINGS

The top 10 holdings listed reflect only the Strategy's long-term investments. Short-term investments are excluded. Holdings are subject to change. The holdings listed should not be considered recommendations to purchase or sell a particular security. Each individual security is calculated as a percentage of the aggregate market value of the securities held in the Strategy and does not include the use of derivative positions, where applicable.

### ENTITIES

J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co and its affiliates worldwide.

Issued by: J.P. Morgan Asset Management, 277 Park Avenue, Floor 8, New York, NY 10172, dedicated broker support 1-800-556-8103.

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