

# J.P. Morgan International ADR Strategy

## Separately Managed Account

### TOPLINE (2Q 2019)

Strategy ▲ 6.32%	Benchmark ▲ 3.68%
<b>Benchmark:</b> MSCI EAFE Index (net of foreign withholding taxes)	
<b>Markets:</b> International equity markets continued their bounce back from the lows reached late last year.	
<b>Helped:</b> Stock selection in industrials and consumer staples contributed to performance.	
<b>Hurt:</b> Stock selection in health care and communication services detracted from performance.	
<b>Outlook:</b> Markets have moved quickly in 2019 to close the valuation discount we saw moving into the year. Economic growth and inflation remain positive but below trend and, combined with high geopolitical risk and the very nature of being later in the economic cycle, earnings expectations have lowered going forward.	

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 total return from a portfolio of foreign companies across a range of countries and sectors.

#### APPROACH

- Invests in foreign developed markets and, opportunistically, in emerging markets
- Leverages insights generated by a team of global sector specialists
- Employs a bottom-up, active approach focusing on proprietary fundamental research at the local and global sector levels
- Purchases securities through American Depositary Receipts (ADRs) which represent shares of foreign stocks in U.S. dollars

### QUARTER IN REVIEW

The **J.P. Morgan International Equity ADR Strategy** outperformed the benchmark, the MSCI EAFE Index, for the quarter ended June 30, 2019.

Our position in **SAP** (Europe, information technology), a German-based, multi-national business management software company, contributed to performance over the quarter. The company released strong first-quarter results with traditional software license revenues growing 6% ahead of consensus estimates, while cloud revenues were in line at 41% growth year on year. The company also announced a new operational plan to improve operating margins by 1% a year until 2023, a buyback plan and a more focused merger-and-acquisition strategy.

Our holding in **HDFC Bank Limited** (Emerging Markets, financials), an Indian banking and financial services company, contributed to performance over the quarter. The company reported strong performance, with profit growth advancing above the consensus estimate by 23% year on year due to an improved loan book and higher deposit growth. Higher-than-expected net interest income, lower provisioning for bad loans and a decreasing portion of non-performing loans also boosted its business dynamics.

Our position in **Burberry** (U.K., consumer discretionary), the luxury retail brand, detracted from performance in the quarter. Shares of the company fell due to short-term disappointments in its turnaround story. At the end of 2018, Burberry started to execute upon a significant initiative to reinvigorate growth under the new CEO, which did not materialize in the first quarter, leading to disappointment. Nevertheless, we remain confident in the long-term trajectory of the company, as we believe the brand is well-placed to capitalize on the demand for innovation in luxury thanks to its apparel exposure.

Our position in **Svenska Handelsbanken** (Europe, financials), a Swedish bank providing universal banking services, detracted from performance this quarter. A report on the Swedish commercial real estate (CRE) market was released by the Swedish Financial Supervisory Authority (FSA,) which concluded that banks do not set aside enough capital to cover for the risks of losses in CRE lending. This negatively impacted Svenska's earnings outlook and thus lowered the firm's value, with the FSA planning to take action to raise banks' capital cover.

### LOOKING AHEAD

Economic growth and inflation remain positive but below trend and, combined with high geopolitical risk and the very nature of being later in the economic cycle, earnings expectations have lowered going forward. However, markets have factored much of this in and, despite the downgrades, expectations are still for positive earnings growth in each region this year. Valuations meanwhile are reasonable: moreover, international and emerging market stocks are at an unusually wide discount to U.S. equities, while valuation spreads within both sectors and countries remain at historical extremes. It is clear that we are later in the economic cycle and investors need to be increasingly selective, given the financial quality and valuations in certain areas of the market, especially considering the rate of technological change and disruption facing many industries. One of the main questions for markets for the rest of the year is how much damage trade tensions have caused business confidence and how this will feed into consumer confidence.

## PERFORMANCE

### RETURN (%)

	3 MOS	YTD	1 YR	3 YRS	5 YRS	10 YRS
<b>Strategy</b> (gross of fees)	6.32	18.13	2.49	10.62	3.73	7.32
<b>Strategy</b> (net of max. allowable fees - 300 bps) <sup>1</sup>	5.53	16.42	-0.54	7.37	0.66	4.16
<b>Benchmark</b>	3.68	14.03	1.08	9.11	2.25	6.90

Benchmark: MSCI EAFE Index (net of foreign withholding taxes).

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

<sup>1</sup>Please note, actual fees associated with this strategy may be lower.

## PORTFOLIO ANALYSIS

Market capitalization	\$102.7bn
P/B ratio	2.1x
Dividend yield	3.2%
Earnings growth (5 Year)	3.8%
Return on assets	9.1%
Return on equity	21.5%
Trailing 12-month turnover	29.0%
Number of holdings	66
Beta <sup>2</sup>	1.09
Standard deviation <sup>2</sup>	12.33
Information ratio <sup>2</sup>	0.20
Tracking error <sup>2</sup>	2.78
Sharpe ratio <sup>2</sup>	0.73

<sup>2</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

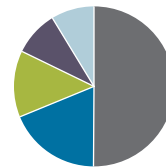
### EQUITY SECTORS (%)

Sector	Weighting	Compared to benchmark
Financials	23.9	19.7
Industrials	13.8	15.3
Consumer Staples	13.4	12.1
Health Care	13.7	11.6
Consumer Discretionary	13.6	11.5
Materials	4.4	7.5
Information Technology	8.2	7.0
Energy	4.6	5.8
Communication Services	3.6	5.5
Real Estate	0.9	3.6
Utilities	0.0	3.6
Cash	0.0	-3.1

### TOP 10 (%)

Nestle S.A.	4.3
Diageo plc	3.1
SAP SE	3.0
Royal Dutch Shell Plc	2.8
Unilever NV	2.8
Novartis AG	2.7
BHP Group Ltd	2.6
AIA Group Limited	2.5
GlaxoSmithKline plc	2.3
Roche Holding AG	2.3

### REGIONS (%)



50.1	Europe & Middle East Ex Uk
18.7	United Kingdom
13.4	Japan
9.1	Emerging Markets
8.7	Pacific Ex Japan

## 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.

International investing has a greater degree of risk and increased volatility due to political and economic instability of some overseas markets. Changes in currency exchange rates and different accounting and taxation policies outside the U.S. can affect returns.

### PORTFOLIO ANALYSIS DEFINITIONS

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

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

**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 MSCI EAFE (Europe, Australia, Far East) Index (net of foreign withholding taxes) is a free float-adjusted market capitalization weighted index measuring equity market performance of developed markets, excluding the U.S. and Canada.

*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.

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