

# J.P. Morgan U.S. Tech Leaders Strategy

## Separately Managed Account

### TOPLINE (2Q 2019)

Strategy ▲ 5.64%	Benchmark ▲ 3.63%
<b>Benchmark:</b> US Technology Leaders Custom Benchmark	
<b>Markets</b> U.S. equity markets ended the second quarter higher, with the S&P 500 Index returning 4.3%. It was a positive quarter for the technology sector with the Russell 1000 Equal Weight Technology Index returning 3.6%. Within the index, the information technology services (10.6% return) and semiconductors (7.1% return) sectors performed the best while the service provider (-13.9% return) and hardware (-5.2% return) sectors were the worst performers.	
<b>Helped</b> Stock selection in software (44.3% portfolio weighting) and an underweight allocation to the hardware (1.8% portfolio weighting) sector were the top contributors to portfolio performance.	
<b>Hurt</b> Stock selection in semiconductors (26.3% portfolio weighting), followed by stock selection and an underweight allocation to the information technology services (5.2% portfolio weighting) sector were the top detractors from portfolio results.	
<b>Outlook</b> From a positioning perspective, internet (13.1% portfolio weighting) and semiconductors (26.3% portfolio weighting) are the largest overweight positions, while the hardware (1.8% portfolio weighting) and information technology services (5.2% portfolio weighting) sectors are the largest underweight exposures.	

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** deliver capital appreciation over the long term through investments in technology and technology-enabled companies.

### APPROACH

- Actively invests in innovative technology companies across market capitalizations with underappreciated growth opportunities
- Seeks to capitalize on high-conviction opportunities that may emerge from technology-driven disruption
- Managed by an experienced, technology-focused team leveraging the collective insights of the broader equity research platform

### QUARTER IN REVIEW

- The **US Technology Leaders Strategy** (gross of fees) outperformed the benchmark, the Russell 1000 Equal Weight Technology Index, for the quarter ended June 30, 2019.
- **Shopify** (2.0% portfolio weighting) outperformed on the back of a strong earnings report at the end of April that showed year-over-year revenue growth of 50%. Additionally, at an annual conference in June, the company also announced it was expanding fulfillment services to reduce complexity and create cost efficiencies for online merchants. While we modestly trimmed our position on strength, we continue to believe in the sustainability in Shopify's growth rate, given its dominance in e-commerce enablement, expansion in international markets and increasing adoption for payment solutions.
- Shares of **Okta** (2.4% portfolio weighting), a provider of secure identity and access management software for enterprises, traded higher during the quarter. Outperformance was driven by a strong quarterly report that beat earnings and revenue expectations, highlighted by 53% billings growth. The company continues to see accelerated growth in subscriptions as more businesses migrate to the cloud. The company's platform strategy continues to be key to success as new integrations to important applications remain frictionless even as they become more customizable.
- An underweight position in **Qualcomm** (1.2% portfolio weighting) detracted from performance after shares traded higher following its lawsuit settlement with Apple. The companies also announced a licensing agreement, confirming Qualcomm's strong 5G positioning. We subsequently initiated a neutral position in the company.
- **SailPoint Technologies** (0.6% portfolio weighting) is a provider of digital identity verification and governance software for cloud information technology environments. The stock underperformed after reporting a soft first quarter. Management disappointed with an unexpected reduction in full-year revenue guidance due to a slowdown in its customer pipeline. We have maintained our position as we assess the company's ability to move past these execution issues in addition to recent changes in the management team.

### LOOKING AHEAD

- From a positioning perspective, internet (13.1% portfolio weighting) remains the largest overweight despite narrowing after trimming select positions and eliminating a position. The semiconductor (26.3% portfolio weighting) sector is the second-largest overweight after adding to select positions and initiating a new position. While the portfolio has trimmed its software (44.3% portfolio weighting) exposure on strength, it continues to be an area of high conviction and a large overweight. The hardware (1.8% portfolio weighting) and information technology services (5.2% portfolio weighting) sectors represent the largest underweight exposures.

**HOLDINGS****EQUITY SECTORS (%)**

Sector	Weighting
Software	44.3
Semiconductors	26.3
Internet	13.1
Data-Comm/Tele-Comm	7.3
IT Services	5.2
Service Provider	2.0
Hardware	1.8
Other Assets	0.0

**TOP 10 (%)**

Synopsys Inc	3.7
Microsoft Corp	3.3
Paypal Hldgs Inc	3.3
Analog Devices Inc	3.0
Servicenow Inc	2.7
Xilinx Inc	2.7
Salesforce Com Inc	2.6
Marvell Technology G	2.5
Okta Inc	2.3
Zendesk Inc	2.3

**RETURN (%)**

	3 MOS	YTD	1 YR	3 YRS	5 YRS	10 YRS
<b>Strategy</b> (gross of fees)	5.64	32.67	21.04	33.18	21.02	20.46
<b>Strategy</b> (net of max. allowable fees - 300 bps)	4.86	30.78	17.50	29.33	17.49	16.94
<b>Benchmark</b>	3.63	26.76	16.42	25.21	16.59	17.80

Benchmark: US Technology Leaders Custom Benchmark.

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

**PORTFOLIO ANALYSIS**

	Portfolio	Benchmark
Market capitalization	\$122.1bn	\$51.3bn
Earnings growth (5 Year)	16.9%	15.5%
Beta - 3yr	1.05	1.00
Tracking error - 3yr	4.09	N/A
Turnover - 3yr	61.35	N/A
Active share	67.60	N/A
Number of holdings	64	121

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.

**GENERAL DISCLOSURES**

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.

**Sector risk:** The chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme or volatile than fluctuations in the overall market. Because the Strategy invests all, or substantially all, of its assets in the information technology sector, the Strategy's performance largely depends – for better or for worse – on the general condition of that sector. Companies in the information

technology sector could be affected by, among other things, overall economic conditions, short product cycles, rapid obsolescence of products, competition, and government regulation. **Sector risk** is expected to be high for the Strategy. **Non-diversification risk:** The chance that the Strategy's performance may be hurt disproportionately by the poor performance of relatively few stocks or even a single stock. The Strategy is considered non diversified, which means that it may invest a greater percentage of its assets in the securities of a small number of issuers as compared with other Strategies. Because the Strategy tends to invest a relatively high percentage of its assets in its ten largest holdings, fluctuations in the market value of a single Strategy holding could cause significant changes to the Strategy's value. **Non-diversification risk** is expected to be high for the Strategy.

**PORTFOLIO ANALYSIS DEFINITIONS**

Exclusive of negative earners.

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

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

**INDEXES**

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

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

*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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