JPMorgan Funds – China Bond Opportunities Fund

Navigating the World of Chinese Bonds Needs Versatility

Access to sizeable bond market:
Uncovers the hidden gems and opportunities in China’s vast fixed income market

Focus on flexibility and quality:
Invests dynamically across different sectors with at least 50% of the portfolio allocated to investment-grade debt securities

Attractive income potential:
Offers monthly distributing share classes*, giving investors attractive income opportunities
(* Aim at monthly distribution. Dividend rate is not guaranteed. Distributions may be paid from capital. Refer to important information 3)
Where are the opportunities in China bonds?

- **An enormous market not to be overlooked**

  Investors are long familiar with the major role China plays in the global economy and the vast potential of its domestic capital markets. Over the past 20 years, China’s bond market has grown more than sixfold and has overtaken Japan as the second largest in the world. The launch of Bond Connect and inclusion in major indices have brought about ample opportunities for China bonds, with foreign ownership still at relatively low levels and set to benefit from the potential inflows.

  Different segments of China bonds come with distinct characteristics. Relatively small in size, China’s offshore bond markets have seen issuers of higher quality in general, with a forecasted default rate similar to that of Asia and lower than those of Emerging Markets and the US.

  Chart source: J.P. Morgan, as of 31.03.2020.  
  # It refers to corporate bonds which are given ratings below investment grade and are deemed to have a higher risk of default. For illustrative purposes only, exact allocation of portfolio depends on each individual’s circumstances and market conditions. Yield is not guaranteed. Positive yield does not imply positive return.

- **Potential diversification benefits**

  The market volatility in recent years has proved the importance of diversification in investor portfolios. Both onshore and offshore China bonds exhibit a lower correlation with global aggregate and developed market bonds when compared with those in Emerging Markets, while offering relatively attractive risk-adjusted returns.

  In times of uncertainty, allocating to lowly or negatively correlated assets may help increase sources of diversification.


  Past performance is not indicative of future performance. Investors should note that different asset classes have varying risk/return profiles.

- **Income potential looking more appealing**

  Amid rising economic risks, the US Federal Reserve has cut rates aggressively and renewed quantitative easing to help tackle ongoing uncertainties and volatility. With yields across the curve under pressure in an environment of low or even zero interest rates, it has become more challenging for global investors to find income, making the income potential of China bonds more appealing.


  Yield is not guaranteed. Positive yield does not imply positive return.

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**China’s bond yield levels look appealing in the USD Asian credit market**

<table>
<thead>
<tr>
<th>Country</th>
<th>Yield to Maturity (%)</th>
<th>Interest Rate Duration (Year)</th>
<th>S&amp;P Rating</th>
<th>Moody’s Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>7.49</td>
<td>4.23</td>
<td>BB+</td>
<td>Baa3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.11</td>
<td>7.57</td>
<td>BBB</td>
<td>Baa2</td>
</tr>
<tr>
<td>China</td>
<td>4.88</td>
<td>3.62</td>
<td>BBB+</td>
<td>Baa1</td>
</tr>
<tr>
<td>Philippines</td>
<td>4.19</td>
<td>7.38</td>
<td>BBB+</td>
<td>Baa2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.77</td>
<td>4.78</td>
<td>BBB+</td>
<td>A3</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.61</td>
<td>7.13</td>
<td>BBB+</td>
<td>Baa2</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.98</td>
<td>4.51</td>
<td>A+</td>
<td>Aa3</td>
</tr>
<tr>
<td>Korea</td>
<td>2.76</td>
<td>3.66</td>
<td>A+</td>
<td>A1</td>
</tr>
<tr>
<td>Asia</td>
<td>4.86</td>
<td>4.47</td>
<td>BBB+</td>
<td>Baa1</td>
</tr>
</tbody>
</table>

Source: J.P. Morgan, Moody’s, S&P, data of J.P. Morgan Asia Credit Index as of 31.03.2020. Yield is not guaranteed. Positive yield does not imply positive return.

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**Default rates of high yield bonds across different regions (%)**

**Relatively low correlation between China and global aggregate bonds**

**China’s bond market is the second largest in the world**

The world’s top five bond markets (market size in USD trillion)

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>China</th>
<th>Japan</th>
<th>UK</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>40.8</td>
<td>13.9</td>
<td>12.8</td>
<td>5.9</td>
<td>4.7</td>
</tr>
<tr>
<td>2019</td>
<td>3.3</td>
<td>3.8</td>
<td>1.8</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>0.1</td>
<td>0.0</td>
<td>0.2</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2017</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>2016</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>2015</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: J.P. Morgan Asset Management, BIS, as of 3Q 2019.
Benchmark-agnostic, the Fund invests flexibly across the onshore and offshore CNY-, CNH- and USD-denominated China bond markets. The portfolio may include bonds and debt securities issued by governments and their agencies, financial institutions as well as corporates to capture the diverse opportunities in varying market conditions.

With a focus on quality, the Fund allocates at least 50% of the portfolio in securities that are rated investment grade at the time of purchase.

Within a macro framework, the investment team seeks to achieve competitive total returns by combining top-down strategies and sector views with bottom-up security selection. The portfolio managers may also take active currency positions to maximise returns, offering potential advantages in foreign exchange terms.

Central banks across the globe are adopting accommodative measures to better mitigate recession risks and market volatility. In particular, the US and Europe restarted quantitative easing in the first quarter, which may support CNH strengthening in the medium term.

The Fund offers monthly distributing “(mth)” and “(irc)” share classes, providing attractive income opportunities. It is also available in USD, HKD and RMB Hedged classes to help meet investors’ need for different currencies.

(* Aim at monthly distribution. Dividend rate is not guaranteed. Distributions may be paid from capital. Refer to important information.)

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**Focus on flexibility and quality**

**Active currency management**

**Attractive income opportunities**

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**Why invest in the JPMorgan Funds – China Bond Opportunities Fund?**

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**J.P. Morgan Asset Management’s Asian Fixed Income Team**

10+ investment professionals
USD 7.2 billion of AUM
Located in Hong Kong, Taipei and Shanghai

Source: J.P. Morgan Asset Management, as of end-May 2020.

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**SECTOR BREAKDOWN**

- Government and Policy Bank Bonds: 16.8%
- Investment Grade Corporate Bonds: 35.3%
- High Yield Corporate Bonds: 44.9%

**BOND RATING BREAKDOWN**

- Investment Grade
  - BBB: 7.9%
  - A: 36.9%
  - AA: 7.3%
  - A+: 16.4%
- High Yield
  - BB: 27.6%
  - BB+: 0.9%
- Unrated
  - 3.0%
- Net Liquidity
  - BBB: 3.0%
  - A: 3.0%
  - AA: 7.3%

^ Source: J.P. Morgan Asset Management, Moody’s, S&P, Fitch, as of end-May 2020. The credit rating is based on the highest of Moody’s, S&P and Fitch. Average rating is the weighted average of the credit ratings of bond holdings (including non-rated bonds) and net liquidity.

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**CURRENCY BREAKDOWN**

- USD: 52.7%
- CNY and CNH: 47.2%
- HKD: 0.1%

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**HISTORICAL DISTRIBUTIONS**

<table>
<thead>
<tr>
<th>Currency</th>
<th>Annualised Yield^ (Ex-dividend date 08.05.2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD (mth) Class</td>
<td>5.67%</td>
</tr>
<tr>
<td>HKD (mth) Class</td>
<td>5.68%</td>
</tr>
</tbody>
</table>

^ Positive distribution yield does not imply positive return. Annualised yield = [(1+distribution per unit/ex-dividend NAV)^12]-1. The annualised dividend yield is calculated based on the monthly dividend distribution with dividend reinvested, and may be higher or lower than the actual annual dividend yield.
NEXT STEPS
For further information on the JPMorgan Funds – China Bond Opportunities Fund, please contact your bank or financial adviser.
am.jpmorgan.com/hk

Unless stated otherwise, all fund information is sourced from J.P. Morgan Asset Management, as of end-May 2020.
The information contained in this document does not constitute investment advice, or an offer to sell, or a solicitation of an offer to buy any security, investment product or service. Informational sources are considered reliable but you should conduct your own verification of information contained herein. The RMB Hedged Class is not recommended for investors whose base currency of investment is not in RMB.
The “(mth)” and “(irc)” classes aim at monthly distribution. Dividend rate is not guaranteed. Distributions may be paid from capital. Refer to important information 3
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