

Q&A – Changes to JPMorgan Funds – Emerging Middle East Equity Fund

August 2017

Increased exposure to the Saudi Arabian market and change of benchmark index.

Benchmark index change effective: 1st August 2017

1 What has changed to allow increased exposure to the Saudi Arabian market?

The JPMorgan Funds – Emerging Middle East Equity Fund (“the Fund”) has historically only been able to invest in Saudi Arabia via participation notes (“P-notes”) as the Saudi Arabian market was not open to direct foreign investment. When investing in P-notes, the Fund is exposed not only to movements in the value of the underlying equity but also to counterparty risks arising from transacting with a third party. P-note exposure for this Fund was historically restricted to 10%. In September 2014 the investment policy of the Fund was amended to permit greater use of P-notes to achieve the investment objective. The P-note limit was increased to 20% which allowed a gradual increase in the exposure to Saudi Arabia in anticipation of the opening of the market to direct investment. This market opening finally occurred in early-2017.

In May 2017, following an application to the Capital Markets Authority of Saudi Arabia, the Fund was granted Qualified Foreign Investor (QFI) status which allows the Fund to invest in Saudi Arabian equities directly rather than via P-notes. This means that the Fund is no longer constrained by the 20% P-note limit when investing in the Saudi Arabian market and can take greater advantage of investment opportunities in this important market which forms a large part of the Fund’s investment universe.

2 When and how will the expected increase in the Fund’s exposure to the Saudi Arabian market take place?

As at 30th June 2017, the Fund held 25% in Saudi Arabian investments and 24% in Turkish investments. The exposure to Turkey was initially introduced to add liquidity, diversification and depth to the Fund whilst it was not possible to invest directly in Saudi Arabia. The current benchmark includes Turkey but the new benchmark will not (see Question 5 below). Now that the Fund has received Saudi Arabia QFI status allowing direct access to that market, any exposure to Turkey will be used as off-benchmark exposure and it is likely that the Fund will further increase its allocation to Saudi Arabia in the near future now that it is no longer constrained by the 20% limit for P-notes.

3 What is the new benchmark for the Fund from 1st August 2017?

From 1st August 2017, the benchmark for the Fund has changed as follows:-

From: MSCI Middle East Index (Total Return Net)

To: S&P Pan Arab Composite Index (Total Return Net)

It is important to note that the benchmark is used as a comparator for the investment universe and that it does not drive the portfolio construction of the Fund.

4 Why has the benchmark changed?

The new benchmark better represents the Fund’s investment universe now that the Saudi Arabian market is open to foreign investors. The new benchmark excludes Turkey but includes Saudi Arabia at an unconstrained free float weighting.

5 What is the difference in the geographical breakdown of the old and new benchmarks?

As at 30th June 2017, the geographical breakdown was as follows:-

Benchmark Holdings	MSCI Middle East Index	S&P Pan Arab Composite Index	Difference
Turkey	30.5%	0.0%	-30.5%
United Arab Emirates	19.2%	14.6%	-4.6%
Saudi Arabia	11.0%	49.9%	+38.9%
Qatar	17.3%	10.4%	-6.9%
Kuwait	10.7%	9.0%	-1.7%
Egypt	3.4%	3.3%	-0.1%
Lebanon	0.0%	1.3%	+1.3%
Morocco	5.1%	4.7%	-0.4%
Oman	2.0%	2.0%	0.0%
Jordan	0.8%	2.0%	+1.2%
Bahrain	0.0%	2.3%	+2.3%
Tunisia	0.0%	0.4%	+0.4%

It is important to note that the benchmark is used as a comparator for the investment universe and that it does not drive the portfolio construction of the Fund.