

21 February 2019

Dear Investor(s),

Updates on risk rating methodology and suitability assessment framework

We are writing to inform you about a few upcoming enhancements which we will implement, in phases, this year. These enhancements are made in light of new regulatory requirements in Hong Kong, and are aimed to ensure that you are well informed about the nature, risks and features of the funds you are investing in, and that they are reasonably suitable for you.

(i) Enhanced Suitability Assessment

Suitability assessment involves determining your risk tolerance levels and comparing them against the risk levels of your portfolio and the funds that you are looking to invest in. The assessment is conducted based on 3 risk ratings – Client Risk Rating, Fund Risk Rating and Portfolio Risk Rating.

Client Risk Rating

Financial Health Check Questionnaire is a tool we use to evaluate your risk tolerance. With consideration of your ability to take risk (based on factors such as your investment knowledge, investment horizon and capacity to make regular contributions) and willingness to take risk (based on your risk appetite), a score is derived based on your answers to the questionnaire. The score will then be compared to predefined score bands to derive your Client Risk Rating. The ratings, from the lowest risk level to the highest risk level, are: Conservative, Stable, Balanced, Growth and Aggressive.

Fund Risk Rating

Qualitative factors (such as asset class and geographical coverage of the fund's investments) and quantitative factors (such as 3-year annualised volatility of the fund) are taken into account to derive the Fund Risk Rating of a fund. For example, a fund investing primarily in equities in emerging markets will generally be considered to be of higher risk than a fund investing primarily in investment-grade fixed income products. A fund with historically lower volatility will be considered to be of lower risk than a product with higher volatility. Based on these qualitative and quantitative factors, a Fund Risk Rating between 1 and 5 is then assigned - 1 is the lowest risk rating and 5 is the highest risk rating. In general, a risk 1 fund is suitable for clients with "Conservative" Client Risk Rating or above, a risk 2 fund is suitable for clients with "Stable" Client Risk Rating or above, and so forth.

Portfolio Risk Rating

In addition to Fund Risk Rating, considering that investors may construct diversified portfolios with funds of different risk ratings, a holistic view will be taken to assess the risk of your portfolio. The weighted average of the risk ratings of the funds in your portfolio is compared to predefined score bands to derive your Portfolio Risk Rating. The ratings, from lowest risk level to highest risk level, are Conservative, Stable, Balanced, Growth and Aggressive. In general, a Conservative portfolio is suitable for clients with "Conservative" Client Risk Rating or above, a Stable portfolio is suitable for clients with "Stable" Client Risk Rating or above, and so forth.

In assessing whether a particular fund is suitable for you, we compare your Client Risk Rating against both the fund's Fund Risk Rating and your Portfolio Risk Rating (including the fund that you intend to invest in) to identify whether there are any mismatches.

(ii) Complex Products

Complex Products refer to investment products whose terms, features and risks are not reasonably likely to be understood by a retail investor because of their complex structure. Various factors are considered to determine whether a fund is a complex product, such as whether the fund uses derivatives extensively for investment purposes, whether any features or terms of the fund could fundamentally alter the nature or risk of the investment, etc. Enhanced disclosure, warning statements and suitability checks are put in place for transactions involving complex products.

Risk Mismatch and Suitability Assessment

For the protection of investors' interest, please be reminded that if we identify a mismatch in risk ratings for a particular order from you (which may include subscription, switching and regular investment instructions) based on our holistic assessment above, we may ask you to provide additional information (e.g., percentage of investments in J.P. Morgan funds out of your total assets, specific reasons for proceeding with the order despite the risk mismatch, etc.) and in some cases we may reject the order.

Thank you very much for your attention to this matter. If you have any further questions, please contact our J.P. Morgan Funds InvestorLine at (852) 2265 1188 or email at investor.services@jpmorgan.com.

Yours faithfully,



Elisa Ng
Head of Funds Business, Hong Kong & China
JPMorgan Funds (Asia) Limited