

# Assessment of Value Report – as at 30 April 2021

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A report from the Board of Directors of JPMorgan Funds Limited,  
the Authorised Corporate Director (ACD) for:

- JPMorgan Fund ICVC
- JPMorgan Fund II ICVC
- JPMorgan Fund III ICVC



# A Letter from the Board

The annual assessment of fund value required by the Financial Conduct Authority (FCA) gives us an opportunity to articulate how we believe we deliver value for you, our investors.

Over the 12 months since we last reported, the Board of JPMorgan Funds Limited has continually assessed the value of the funds which you are invested in, with the results presented in this report. We continued to use an independent third party to help us make our assessments and we have reviewed further evidence to help us understand our funds against the value criteria.

We completed a review of our assessment process following completion of this report for the first time last year and have enhanced the independent third-party analysis from Broadridge Financial Limited to include a review of the quality of services that we offer.

Discussions around financial product services and costs, in the context of value received, can be complex. In this report, we have aimed to make it clear and straightforward for you to access the assessment we have made for each fund and share class in which you are invested.

Overall, we found that the majority of our funds and share classes are delivering value. We identified some areas for enhancement and the following report highlights action that we have taken or are planning to take.

We encourage you to regularly review your investments, and we believe that our assessment and this report are important in providing you with relevant information to help you in your own review and your investment choices. If you have questions or comments, please contact your financial adviser or our Investor Services team on 0800 20 40 20 (or if calling from abroad +44 1268 44 44 70).

Sincerely,

## The Board of Directors for JPMorgan Funds Limited

### Kate Jones

Chair & Independent  
Non-Executive Director

### Ruston Smith

Independent  
Non-Executive Director

### Andrew Lewis

Managing Director,  
J.P. Morgan Asset  
Management

### O'Brien Bennett

Managing Director,  
J.P. Morgan Asset  
Management

### Nicholas Bloxham

Executive Director,  
J.P. Morgan Asset  
Management

## INTRODUCTION TO THE BOARD

- Overall, the board composition is designed to bring a variety of skills and perspectives to the governance of our funds, and this composition positions us well to take an inquisitive and robust view when we assess the value our funds are delivering to you. It is each director's duty to conduct this assessment from the perspective of value for investors, regardless of any other responsibilities they may have within the firm.
- Your board's chair is independent. The board consists of four further directors, one of whom is also independent.

## YOUR BOARD IS:

- **Kate Jones.** Independent chair. Kate's background is as a senior portfolio manager in a number of asset management firms. She is chair of the Pension Protection Fund and an executive coach.
- **Ruston Smith.** Independent. Ruston has over 35 years' experience in the pension fund and investment industry. He holds senior positions on a number of boards and government advisory committees.
- **Andrew Lewis.** Andrew has been in the industry for 10 years after a long career in the British Army. He is the COO for our UK Funds businesses.
- **O'Brien Bennett.** O'Brien has over 40 years of experience in the financial services industry. He is a senior programme executive in our global asset management business.
- **Nicholas Bloxham.** Nicholas is a qualified chartered accountant with 12 years' experience in the industry. He is the UK Financial Controller in our asset management business.

# Value Assessment Summary

To complete this report we conducted a thorough process for assessing value. This included a rigorous look at costs relative to performance, as well as other important dimensions of value, such as the quality and depth of services we provide to shareholders. To support us in this review, we engaged Broadridge Financial Limited to provide independent analysis.

We found that the majority of our funds and share classes are demonstrating value, and that we are providing good value for investors overall. Details supporting our arrival at this conclusion are outlined in the following pages.

## IN ORDER TO ENHANCE VALUE BY REDUCING COSTS WE:

- Ensured our total fund fees to shareholders are competitive and that we have share class structures that systematically pass along savings to shareholders, in particular ongoing fund operating and administrative (O&A) expenses, which can have a meaningful impact on investments over time.
  - Investors are never charged more than the capped O&A expenses regardless of share class size and they benefit from lower fees systematically as funds grow and achieve economies of scale.
  - All funds benefit from the certainty of maximum rates that capped O&A expenses provide, with over 80% of assets invested in share classes charging O&A expenses that are less than their expense caps.

## IN ORDER TO CONTINUE TO DELIVER VALUE BY PROVIDING A BROAD RANGE OF QUALITY SERVICES, WE:

- Provided access to the strength and support of our global asset management business: 6358 staff, of whom 1,085 are investment professionals, enhanced by continued investment in personnel and technology.
- Reviewed and negotiated actively with service providers on both quality of service and price. In the last review we conducted, our negotiations resulted in a benefit to our shareholders of approximately £700k.
- Gave continued access to our award-winning Market Insights programme providing timely and objective insights on market events to help investors make more informed decisions, including over 450 client calls, 60 webconferences and outreach to over 25,000 clients.

## IN ORDER TO DELIVER VALUE BY CONTINUALLY ENHANCING OUR PLATFORM AND OFFERINGS, WE:

- Incorporated financially material **environmental, social and governance (ESG) factors** in our research and decision making across our active investment processes with a single objective: to deliver stronger risk-adjusted returns. In 2020, all 41 active funds in the range became ESG integrated, which means we consider the environmental, social and governance factors impacting each security in our portfolios.
- Launched the **JPM Emerging Markets Sustainable Equity Fund** in December 2020, and at the end of June 2021, we added three more sustainable funds to the line-up: **JPM UK Sustainable Equity Fund**, **JPM Global Sustainable Equity Fund** and **JPM Climate Change Solutions Fund**, our first thematic offering in the UK.

## HOW TO USE THE REPORT

- **Findings by Fund** are summarised on page 4 so you can quickly see the findings for your fund.
- The summary of findings is followed by the **Funds and Share classes Requiring Further Review**. This more detailed discussion explains why value is being demonstrated or any enhancements that are planned, as shown on page 5 onwards.
- Finally, the **Value Assessment Process** used to arrive at our findings in this report, including detail of each of the criteria we considered, is provided to ensure you have all of the information required to understand the findings.

## Terminology used in the report

- **ACD** JPMorgan Funds Limited, the authorised corporate director.
- **ACD Fee** Fee paid to the ACD for its services relating to the management of the funds.
- **Board** The board of the ACD.
- **Capped O&A Expenses** The operating and administrative expenses for each share class, which may not be exceeded. For example, if a share class has capped O&A expenses of 0.15% but actual expenses are 0.20%, only 0.15% are charged and the expenses over the cap are absorbed by the ACD. Conversely, if actual expenses are less than 0.15% the actual expenses are charged.
- **Investment Association (IA) Sector** Fund classification system which groups together funds with similar investment objectives enabling a like-for-like comparison.
- **Ongoing Charge Figure (OCF)** Published in the KIID, comprising of the ACD Fee and O&A Expenses incurred.
- **Sustainable Securities** A company demonstrating effective governance and superior management of environmental and social issues.

*All assessment information in this report applies to the 2020-21 financial year (1 May - 30 April).*

# Findings by Fund

## SUMMARY FINDINGS

The FCA requires that we evaluate our Funds according to at least seven criteria.

The findings for the criteria, reviewed at share class level, are summarised by fund in the table below. Note that if any share class of a fund has a yellow or red rating, the rating for the fund as a whole shows as the lowest rating:

■ Demonstrating Value

■ Reviewed Further and Demonstrating Value  
select the rating to see further detail for your Fund

■ Action Taken or Planned  
select the rating to see further detail for your Fund

#	Fund <i>Select Fund to review further information on the Fund website</i>	Quality of Service	Performance	AFM Costs	Economies of Scale	Comparable Market Rates	Comparable Services	Classes of Units
1	JPM Asia Growth Fund	■	■	■	■	■	■	■
2	JPM Asia Pacific Equity Fund	■	■	■	■	■	■	■
3	JPM Diversified Growth Fund	■	■	■	■	■	■	■
4	JPM Emerging Europe Equity Fund	■	■	■	■	■	■	■
5	JPM Emerging Markets Fund	■	■	■	■	■	■	■
6	JPM Emerging Markets Income Fund	■	■	■	■	■	■	■
7	JPM Emerging Markets Sustainable Equity Fund	■	■	■	■	■	■	■
8	JPM Europe (ex-UK) Research Enhanced Index Equity Fund	■	■	■	■	■	■	■
9	JPM Europe Dynamic (ex-UK) Fund	■	■	■	■	■	■	■
10	JPM Europe Fund	■	■	■	■	■	■	■
11	JPM Europe Smaller Companies Fund	■	■	■	■	■	■	■
12	JPM Global (ex-UK) Bond Fund	■	■	■	■	■	■	■
13	JPM Global Bond Opportunities Fund	■	■	■	■	■	■	■
14	JPM Global Corporate Bond Fund	■	■	■	■	■	■	■
15	JPM Global Equity Income Fund	■	■	■	■	■	■	■
16	JPM Global High Yield Bond Fund	■	■	■	■	■	■	■
17	JPM Global Macro Fund	■	■	■	■	■	■	■
18	JPM Global Macro Opportunities Fund	■	■	■	■	■	■	■
19	JPM Global Research Enhanced Index Equity Fund	■	■	■	■	■	■	■
20	JPM Global Unconstrained Equity Fund	■	■	■	■	■	■	■
21	JPM Japan Fund	■	■	■	■	■	■	■
22	JPM Multi-Asset Cautious Fund	■	■	■	■	■	■	■
23	JPM Multi-Asset Growth Fund	■	■	■	■	■	■	■
24	JPM Multi-Asset Income Fund	■	■	■	■	■	■	■
25	JPM Multi-Asset Moderate Fund	■	■	■	■	■	■	■
26	JPM Multi-Manager Growth Fund	■	■	■	■	■	■	■
27	JPM Natural Resources Fund	■	■	■	■	■	■	■
28	JPM Sterling Corporate Bond Fund	■	■	■	■	■	■	■
29	JPM UK Dynamic Fund	■	■	■	■	■	■	■
30	JPM UK Equity Core Fund	■	■	■	■	■	■	■
31	JPM UK Equity Growth Fund	■	■	■	■	■	■	■
32	JPM UK Equity Income Fund	■	■	■	■	■	■	■
33	JPM UK Equity Index Fund	■	■	■	■	■	■	■
34	JPM UK Equity Plus Fund	■	■	■	■	■	■	■
35	JPM UK Equity Value Fund	■	■	■	■	■	■	■
36	JPM UK Government Bond Fund	■	■	■	■	■	■	■
37	JPM UK Smaller Companies Fund	■	■	■	■	■	■	■
38	JPM Unconstrained Bond Fund	■	■	■	■	■	■	■
39	JPM US Equity Income Fund	■	■	■	■	■	■	■
40	JPM US Research Enhanced Index Equity Fund	■	■	■	■	■	■	■
41	JPM US Select Fund	■	■	■	■	■	■	■
42	JPM US Small Cap Growth Fund	■	■	■	■	■	■	■

## Funds and Share Classes Requiring Further Review

This section of the report explains the summary findings and conclusions for Funds that do not have a green square in each column on the previous page. We encourage you to discuss these results with your financial adviser.

The tables that follow show all funds and share classes that were subject to further review and the outcome of that review. Any share class not mentioned below earned a green square and demonstrates value.

### REVIEWED FURTHER AND ENHANCEMENTS PLANNED

As we committed in our 2020 report, we have completed further evaluation of how A share classes are used across all funds where they are available:

- We believe the share classes continue to demonstrate value for the purpose for which they are designed; namely for investors whose financial advisers earn their compensation via commissions, or return commission monies to shareholders via a rebate.
- However, as separately communicated to all impacted investors, we are simplifying the share class offering and will be closing all of the A share classes, converting all existing investors in the A share class to B or C share classes within the same fund by September 2022.
- The B or C share classes to which investors will be converted have lower ACD fees and better prospects for asset growth as legacy A share classes are used less frequently, this growth can lead to economies of scale with the potential for lower fund expenses.
- As outlined below, 29 funds will be impacted by this action. 22 of these funds had A share classes requiring further review based on their OCFs being greater than the median OCFs of comparable share classes identified by Broadridge, this was an increase of 4 funds as compared to last year.

Fund	Comparable Market Rates	Class(es)	Commentary and Summary of Action
JPM Asia Growth Fund	■	A	• The A share class OCFs on these funds were identified as greater than the median OCF of comparable funds identified by Broadridge.
JPM Emerging Europe Equity Fund	■	A	
JPM Emerging Markets Fund	■	A	• All investors in the A share classes on these funds will be converted to corresponding B or C share classes as separately communicated.
JPM Emerging Markets Income Fund	■	A	
JPM Europe Dynamic (ex-UK) Fund	■	A	• The B or C share classes to which investors will be converted have better prospects for asset growth, this growth can lead to economies of scale with the potential for lower fund expenses.
JPM Europe Smaller Companies Fund	■	A	
JPM Global (ex-UK) Bond Fund	■	A	
JPM Global Bond Opportunities Fund	■	A	
JPM Global Equity Income Fund	■	A	
JPM Global High Yield Bond Fund	■	A	
JPM Global Macro Fund	■	A	
JPM Global Macro Opportunities Fund	■	A	
JPM Global Unconstrained Equity Fund	■	A	
JPM Japan Fund	■	A	
JPM Multi-Manager Growth Fund	■	A	
JPM Natural Resources Fund	■	A	
JPM Sterling Corporate Bond Fund	■	A	
JPM UK Dynamic Fund	■	A	
JPM UK Equity Growth Fund	■	A	
JPM UK Smaller Companies Fund	■	A	
JPM US Equity Income Fund	■	A	
JPM US Small Cap Growth Fund	■	A	

## Funds and Share Classes Requiring Further Review *continued*

Fund	Comparable Market Rates	Class(es)	Commentary and Summary of Action
JPM Diversified Growth Fund	■	A	<ul style="list-style-type: none"> <li>The A share classes on these funds were not identified for further review as their OCFs were less than the median OCF of comparable funds identified by Broadridge.</li> </ul>
JPM Europe Fund	■	A	
JPM Multi-Asset Income Fund	■	A	<ul style="list-style-type: none"> <li>All investors in the A share classes on these funds will be converted to corresponding B or C share classes as separately communicated.</li> </ul>
JPM UK Equity Income Fund	■	A	
JPM UK Equity Value Fund	■	A	<ul style="list-style-type: none"> <li>The B or C share classes to which investors will be converted have better prospects for asset growth, this growth can lead to economies of scale with the potential for lower fund expenses.</li> </ul>
JPM Unconstrained Bond Fund	■	A	
JPM US Select Fund	■	A	

## Reviewed Further and Demonstrating Value

Fund	Quality of Service	Performance	AFM Costs	Economies of Scale	Comparable Market Rates	Comparable Services	Classes of Units	Class(es)	Commentary and Rationale for Demonstrating Value
JPM Europe Fund	■	■	■	■	■	■	■	All	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>Total returns over a five-year timeframe have underperformed the fund's benchmark and when compared to the performance of comparable funds identified by Broadridge.</li> <li>Total returns have been stronger more recently and above median in the IA Sector with positive excess returns over one-year. The fund is demonstrating value.</li> </ul>
JPM Global Research Enhanced Index Equity Fund	■	■	■	■	■	■	■	All	<p><b>Comparable Market Rates</b></p> <ul style="list-style-type: none"> <li>The E share class OCF is greater than the median OCF of comparable funds identified by Broadridge.</li> <li>This class is expected to pass on benefits to shareholders through the capped O&amp;A expenses model reducing the OCF below the peer group median.</li> <li>We are not recommending action but will be monitoring the fee levels.</li> </ul>
JPM Japan Fund	■	■	■	■	■	■	■	A, C	<p><b>Comparable Services</b></p> <ul style="list-style-type: none"> <li>The C share class OCF was identified as marginally higher than median versus the fees charged for comparable services (Investment Trust vehicle).</li> <li>For all three C share classes on the fund the OCF is less than the Broadridge comparator medians and our continued fee benchmarking comparable markets rates.</li> <li>We are not recommending action but will be monitoring the fees and service levels.</li> </ul> <p><b>Comparable Market Rates</b></p> <ul style="list-style-type: none"> <li>Refer to <a href="#">Reviewed Further and Enhancements Planned</a> for commentary on the comparable market rates of the A share class on this fund.</li> </ul>
JPM Multi-Asset Income Fund	■	■	■	■	■	■	■	All	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>The fund aims to provide income by investing in a global portfolio of income generating securities.</li> <li>The benchmark is used as a means of measuring risk and to give an indication of the types of asset classes the fund would expect to invest in. As a result the fund may bear little resemblance to the benchmark.</li> <li>The fund has underperformed its benchmark over one-, three- and five-year time periods. Through this time the fund has generated an income yield in line with investment expectations and comparable to peers in the IA Sector.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the performance.</li> </ul>

## Reviewed Further and Demonstrating Value

Fund	Quality of Service	Performance	AFM Costs	Economies of Scale	Comparable Market Rates	Comparable Services	Classes of Units	Class(es)	Commentary and Rationale for Demonstrating Value
JPM Natural Resources Fund	■	■	■	■	■	■	■	All	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>The fund has had a challenging period of performance over one-, three- and ten-years and underperformed its benchmark over these timeframes.</li> <li>Since March 2020 the portfolio management team have been focused on reducing the overall allocation to small and micro-cap investments within the portfolio (from ~9% to 1%), boosted the overall quality metrics of the fund and reduced the number of stocks in which the fund is invested.</li> <li>Since this change in approach the fund has outperformed its benchmark.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the performance.</li> </ul>
JPM UK Dynamic Fund	■	■	■	■	■	■	■	All	<p><b>Comparable Services</b></p> <ul style="list-style-type: none"> <li>The C share class OCF was identified as marginally higher than median versus the fees charged for comparable services (Investment Trust vehicle).</li> <li>For all three C share classes on the fund the OCF is less than the Broadridge comparator medians and our continued fee benchmarking comparable markets rates.</li> <li>We are not recommending action but will be monitoring the fees and service levels.</li> </ul> <p><b>Comparable Services</b></p> <ul style="list-style-type: none"> <li>Refer to <a href="#">Reviewed Further and Enhancements Planned</a> for commentary on the comparable market rates of the A share class on this fund.</li> </ul>
JPM UK Equity Value Fund	■	■	■	■	■	■	■	All	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>Total return for the C share class has underperformed both its benchmark and the median performance of comparable funds identified by Broadridge over a five-year timeframe.</li> <li>The fund specifically targets attractively valued UK companies that we believe are fundamentally sound. Value, as a style, has been out of favour for many years. The fourth quarter of 2020 saw an improvement for value stocks following the US election result and positive vaccine announcements. The fund is demonstrating value. We are not recommending action but will be monitoring the performance</li> </ul>



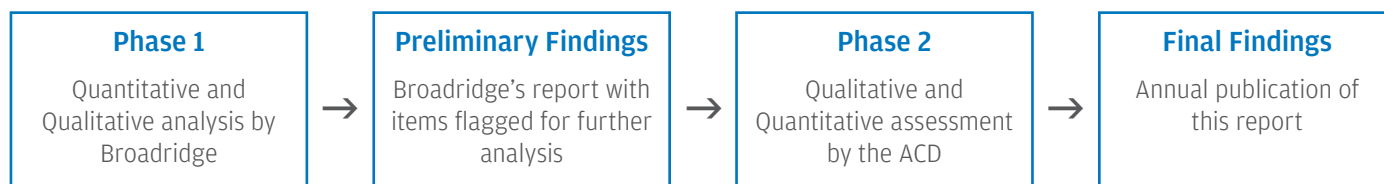
# The Value Assessment Process

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As discussed earlier, the FCA requires the value assessment to consider at least seven distinct but interconnected criteria. This section describes in detail the criteria and process that was used to arrive at our findings.

Throughout this process, the assessment has been subject to the direction and approval of the Board.

## METHODOLOGY



### PHASE 1

To support the value assessment, we began by identifying and engaging a third party independent consultant, Broadridge, to perform quantitative and qualitative analysis and evaluation. Broadridge is a large firm with experience and extensive knowledge in the areas of UK investment scheme costs, operations and performance evaluation. Broadridge also has access to a wealth of industry data that was essential to the evaluations that involved comparisons with peer groups and industry standards.

Broadridge used the following criteria to evaluate the funds and share classes and flagged those requiring further review:

- quality of service metrics utilising quantitative data from their Fund Buyer Focus solution, an ongoing interview process with fund selectors across the UK focusing on quality of products and service provided.
- performance and risk metrics for all Funds and share classes compared to the relevant Fund's objective, policy, and strategy, the relevant prospectus benchmark and a peer group of comparable funds for one-, three-, five- year and since inception time periods where available.
- comparison of published ongoing charges figures for all Funds and share classes compared to both a competitor peer group and IA Sector medians.

### PHASE 2

The ACD performed further quantitative and qualitative review, focusing on those areas Broadridge had flagged as warranting further review as well as areas identified on the Board's ongoing watch list . This review included:

- comparison of performance and OCFs to IA Sector medians for one-, three- and five-year time periods as compared to the ACD's established rigorous ongoing review metrics
- review of performance consistency through multiple time periods compared to the fund benchmark and IA Sector
- evaluation of performance of hedged share classes alongside performance of the fund
- qualitative assessment of fund performance for the review period

We reviewed these findings, considering both the findings of Broadridge and the ACD in both executive summary and detailed form, along with our qualitative analysis, to arrive at initial conclusions.

The final step was preparing this report, which includes the final findings as a single point of reference for shareholders to understand the outcome of the value assessment.

We completed the analysis of each of the criteria at the share class level, therefore this single reference point at the fund level is represented by the lowest rated share class for the relevant criteria in respect of your fund.

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Note: Funds and share classes launched during the review period were not reviewed according to the performance criteria above due to their recent approval through our product governance process and limited performance track record.



## 1. QUALITY OF SERVICE

*The range and quality of services provided to shareholders by the ACD.*

**WHAT CAN THIS ASSESSMENT TELL US** This assessment is a measurement of the quality of what is received for the amount paid. For most services provided to the funds, the main quality criteria centre around such attributes as competitiveness, responsiveness, performance/delivery level and transparency of these factors to shareholders.

**HOW WE MADE OUR ASSESSMENT** In addition to the report from Broadridge and our qualitative review, we also considered information presented throughout the year at Board meetings. This information included:

- the standards required of each service provider (such as the depositary, auditor, custodian etc.) to the funds
- risk management
- shareholder service and dealing
- complaints handling
- fund distribution
- regulatory compliance
- product governance (including investment oversight)

We also looked at initiatives to grow and maintain the business. These included the launch of new funds, material changes to processes or service providers and the progress being made in ongoing initiatives whose goal it is to keep the funds responsive to market and regulatory changes.

**WHAT WE FOUND** Overall, we found that the quality of service shareholders receive demonstrated value. Over the past three years, we have regularly reviewed the services from our providers, and where possible have taken action to benefit from lower fees and improved services.

### KEY POINTS

- Shareholders in all share classes received identical or generally comparable quality in all major service quality assessment areas.
- Our service providers were among the leaders in their areas of service within the UK asset management industry, as measured by volume of business.
- Ongoing initiatives intended to keep our offerings competitive will have a positive effect on service quality.



## 2. PERFORMANCE

*Performance over time after deduction of all costs paid from the fund.*

**WHAT THIS ASSESSMENT CAN TELL US** Many shareholders consider performance after the deduction of costs the most important assessment of all. It is the most direct measure of the shareholder's experience: what were the results relative to costs and was the expected benefit provided?

**HOW WE MADE OUR ASSESSMENT** We considered:

- each fund's performance against its investment objective, investment policy, investment strategy, benchmark and peers for the reporting period
- absolute and/or relative performance information
- total return information for the applicable one-, three-, and five-year periods
- a ranking of each fund within a universe of funds that Broadridge classified as similar as well as a closer ranking against a sub-set of these funds
- performance information and the ongoing watch list provided at regular Board meetings
- evaluation of performance of hedged share classes alongside performance of the relevant Fund

Broadridge highlighted information about certain representative share classes to help ensure appropriate comparisons.

**WHAT WE FOUND** Of our 42 funds, five warranted a closer look, the results and further commentary is provided on pages 7 to 8 of this report.

After extensive scrutiny and discussion, we agreed that all of these funds and share classes have delivered value within the context of their objectives, policies, strategies and designs, and that they remain valid as long-term investments.

### KEY POINTS

- Five funds warranted a closer look, with their underperformance fairly attributed to external factors (such as market conditions) or the objectives and design of the funds. Out of prudence, these funds are being monitored closely.
- Overall, we believe all funds have demonstrated value with respect to their performance and are designed to do so over the long-term.



### 3. AFM COSTS

*The costs a fund pays for the services it receives.*

**WHAT THIS ASSESSMENT CAN TELL US** This assessment is essentially a direct question: do you believe that fund costs are reasonable relative to the services provided? The answer to this question provides context for the evaluation of the overall expenses in assessments 5 and 6.

**HOW WE MADE OUR ASSESSMENT** We considered financial activity for the reporting period, relating to ACD fee revenue and expenses generated from managing, distributing and providing services to each fund.

We took the directly attributable revenues and expenses recorded by each fund and supplemented these with the output from an activity-based costing model.

The Board recognised it is difficult to make comparisons of this nature because peer information is not publicly available at this level. Furthermore; the review can be influenced by numerous factors, such as methodology, corporate structure and the mix of services provided.

**WHAT WE FOUND** Continued growth in assets in the X and X2 share classes, which generally have lower fee revenue, has led to a reduction in the average fee paid to us for the services we provide when compared to 2020.

Capped O&A expenses applied to all share classes (with the exception of I shares due to their fee structure) results in us absorbing costs where the actual costs are higher than the expense fee caps, thereby lowering the fees actually paid by most funds. The caps are discussed in more detail in items 4 and 5 below.

With the above in mind we believe the costs of the services provided to shareholders provide good value.

#### KEY POINTS

- Average fees paid to the ACD have decreased compared to 2020 due to continued growth in the X and X2 share classes, which generally have lower fee revenue.
- Caps on O&A expenses ensure that these costs remain reasonable, with costs in excess of the caps covered by us.



### 4. ECONOMIES OF SCALE

*Whether the fund has been able to pass along savings from economies of scale.*

**WHAT THIS ASSESSMENT CAN TELL US** It should be possible that overall costs begin to decrease when fund assets grow to a certain point. This assessment seeks to establish whether the funds have been able to achieve this type of cost efficiency and whether shareholders have benefited.

**HOW WE MADE OUR ASSESSMENT** Our overall criteria here were comparatively straightforward: are a fund's share class O&A expenses being limited by their expense caps? If not, economies of scale in O&A expenses have been achieved to the point that it no longer requires the ACD to absorb the costs to maintain the fee cap.

We make a practice of capping certain fund costs at a competitive level. We cover any costs above the caps that would otherwise have been paid by the funds. While the caps generally remain in place at all times to ensure certainty of maximum expenses if assets decline, the expectation is that they will not have any practical effect as a fund's assets grow and economies of scale bring the relevant costs below the cap.

**WHAT WE FOUND** We determined that economies of scale do exist, primarily in the largest funds, as one would expect. This is made evident in that 80% of assets invested in the share classes have benefited from economies of scale and therefore lower fees.

Even where economies of scale are not sufficient to produce any direct cost savings to pass along, shareholders benefit from economies of scale indirectly through our voluntary absorption of certain costs and are never charged more than the O&A expense caps. Our financial capacity to absorb these costs is in large part a function of efficiencies made possible by the scale of the overall fund offering.

#### KEY POINTS

- All funds benefit from the certainty of competitive fees through caps on O&A expenses where applicable
- 80% of assets invested in the share classes have benefited from O&A expenses lower than their expense caps.
- We seek to maintain and increase economies of scale through asset growth but also through strong ongoing investment in people and technology to enhance the services provided to the funds.



## 5. COMPARABLE MARKET RATES

*What the funds pay for services compared to market rate costs.*

**WHAT THIS ASSESSMENT CAN TELL US** This assessment looks at whether the funds are paying more than what similar funds elsewhere are paying for services that are comparable.

**HOW WE MADE OUR ASSESSMENT** The main factors we considered were:

- the contractual ACD Fee paid by each fund compared to the information prepared by Broadridge about management fee rates paid by other funds in the same category as each fund
- information about other expenses
- any fee waiver or expense reimbursements currently in place for each fund and the ACD Fee resulting after these expense reduction measures were taken into account

In practice, it is difficult to make comparisons of fees and expenses because there are variations in the services that are included in the fees paid by other funds.

We also noted that market rates for all funds are reviewed through our product governance process on an annual basis to identify any situations where rates are above median for the share classes which are not designed to pay compensation via commissions, or which return commission monies to shareholders via a rebate, triggering a review across all funds.

**WHAT WE FOUND** Of our 42 funds, we found 23 funds with market rate comparison data for one or more share classes that required further review. The funds are identified in the larger table on page 4. Here our findings are shown by base class. The findings apply to all forms of that base class:

- **A share classes** 22 funds had marginally higher costs compared to market rates. This is because A share classes are designed for shareholders whose financial advisers earn their compensation via commissions or, if not, return commission monies to shareholders via a rebate. We have taken the decision to convert all existing shareholders into lower fee B or C share classes, a separate communication will be sent to all impacted shareholders.
- **E share class** 1 of the 23 funds, JPM Global Research Enhanced Index Equity Fund, had marginally higher costs compared to market rates.

### KEY POINTS

- For the E share class identified as warranting further attention for having marginally higher than median costs, the current levels appear appropriate in light of the benefits and/ or incurred costs that exist in those cases.
- Fund-specific information on this topic appears from page 4.



## 6. COMPARABLE SERVICES

*What the funds pay for services compared to what the same service providers charge others.*

**WHAT THIS ASSESSMENT CAN TELL US** This assessment looks at the same basic question as item 5 above, but from a different perspective. Specifically, it looks for evidence where we may be charging the funds more for a similar level of service as compared to other accounts we manage for other clients.

**HOW WE MADE OUR ASSESSMENT** We reviewed information about the nature and extent of these services offered to other clients, and the associated costs, as relevant. This included rates offered to institutional separate accounts and to funds available for sale in the UK and outside of the UK if these are structured as “UCITS” funds whose investment management styles were substantially similar to that of each fund. We also considered the complexity of investment management for funds relative to our other clients and noted differences in the risks and responsibilities of providing services to the different clients from a regulatory, legal and market perspective.

**WHAT WE FOUND** Overall, we concluded that the fee rates charged to each fund in comparison to those charged for other clients were reasonable.

On one fund, JPM Japan Fund, we believe the marginally higher-than-median fees are justified because the services provided in the closest available comparisons are not completely parallel. We are not recommending action but will be monitoring the fees and service levels.

### KEY POINTS

- The amounts most funds are paying for services are in line with market standards.
- Fund-specific information on this topic appears on page 5.



## 7. CLASSES OF UNITS

*Are share classes what shareholders need and sufficiently differentiated in cost relative to the associated services provided?*

**WHAT THIS ASSESSMENT CAN TELL US** In effect, this assessment asks whether the share classes offered are what shareholders need and sufficiently differentiated in cost relative to the associated services required for the types of shareholders that are eligible to invest in them. It also tells us the appropriateness of shareholders holding share classes with higher costs.

Share classes exist because different shareholders have different needs and different means. A financial institution acting on behalf of thousands of individuals may invest large sums and have the ability to route orders straight into the system that processes transactions in fund shares. In exchange for its large investments and labour-saving systems, the institution quite reasonably expects lower costs.

In contrast, accounts for individual shareholders require more attention and usually have lower asset levels. The standard way of addressing these differences in needs is to create share classes that are tailored to the main categories of shareholders. Some exist to offer alternative payment options.

Others exist to offer specific features or service levels.

**HOW WE MADE OUR ASSESSMENT** Share classes are among the fund characteristics that are most closely and frequently reviewed by us. These regular reviews can lead to the launch of new share classes and the merger or liquidation of share classes that no longer meet shareholder needs as reflected in demand.

For this current assessment, we examined all share classes in all funds and compared the costs and benefits to account size and other relevant shareholder information.

**WHAT WE FOUND** Having considered shareholder's needs and eligibility for each, the share classes we offer are sufficiently differentiated in services and costs. As noted earlier, we intend on converting all remaining shareholders and closing all A share classes available in the range given their comparatively higher OCFs when compared to the OCFs of the competitor peer group identified by Broadridge.

### KEY POINTS

- The range of share classes offered meet the needs of shareholders in our funds and their costs are appropriately differentiated relative to services provided.
- A share classes have slightly above-median costs, whilst these are related to features that shareholders and their intermediaries still require, we have taken the decision to convert all existing shareholders and close the A share classes on all funds in the range. Please refer to [Reviewed Further and Enhancements Planned](#) for further information.

### COMMENTS? QUESTIONS?

If you have specific questions about this document please call our UK-based Investor Services team, with your account number to hand, on **0800 20 40 20** (or if calling from abroad +44 1268 44 44 70). Our lines are open Monday to Friday, 9am to 5.30pm.

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**J.P. MORGAN HELPLINE**

Freephone 0800 20 40 20 (or if calling from abroad +44 1268 44 44 70). Telephone lines are open Monday to Friday, 9am to 5.30pm.

Telephone calls may be recorded and monitored for security and training purposes.