



# Assessment of Value Report

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

As at 30 April 2022

# A Letter from the Board

This is our third report setting out the Board's assessment of the value our funds deliver to investors.

The Board has a duty to you, our investors, to manage our funds in your best interests. Our ongoing oversight and governance of the funds has been robust and focused on client outcomes. In December 2021, we lowered the fees on the JPMorgan Fund ICVC I - JPM Global High Yield Bond Fund. We identified the need to adjust the way the JPMorgan Fund ICVC I - Sterling Corporate Bond Fund is managed, a change which has recently been implemented. And, we have overseen the switch of A share class unitholders into the less expensive B share class and will complete the A share class closure later this year with the move of remaining unitholders to the C share class.

This year we have again employed Broadridge Financial Solutions, an independent third-party firm, to conduct detailed reviews of the funds; this gives us an independent perspective, and provides us with objective data on the funds. Assessment of Value (AoV) considerations are now at the forefront of every Board review. We also source further independent analysis from Broadridge, relating to Quality of Service, to inform our overall findings and review framework.

The primary objective of our ongoing work is to assess the value each fund provides against a list of prescribed elements, and to take action if we conclude that a fund does not offer value. Our aim in this report is to set out the work we have done, the conclusions we have drawn, and the actions we have taken or are planning to take.

We have aimed to make this report clear and readable. We have tried to make it easy for you to identify the fund or funds you are an investor in, and to see our conclusions in a straightforward traffic light format. 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 additional directors, one of whom is also independent.

## Your board is:

- **Kate Jones.** Independent chair. Kate has been a senior portfolio manager at 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 of experience in the pension fund and investment industry. He holds senior positions on a number of boards and government advisory bodies.
- **Andrew Lewis.** Andrew has been in the industry for 11 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 13 years of 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 Solutions to provide independent analysis.

We found that all of our funds and share classes are demonstrating value. The detail supporting our arrival at this conclusion is outlined in the following pages. Taken together, we concluded overall that we provide good value to our investors.

## 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 share classes grow and achieve economies of scale.
  - All funds benefit from the certainty of maximum rates that capped O&A expenses provide, with over 82% of assets invested in share classes charging O&A expenses that are less than their expense caps.

## In order to continue to deliver value through a broad range of quality services, we:

- Provided access to the strength and support of our global asset management business: 7,527 staff of whom 1,163 are investment professionals, enhanced by continued investment in personnel and technology.
- Gave continued access to our award-winning Market Insights programme providing timely and thought-provoking insights on market events, including over 382 client calls, 75 web conferences and outreach to over 32,250 clients.

## In order to deliver value by continually enhancing our platform and offerings, we:

- Added to our offering by launching two new funds: JPM China Fund and JPM US Sustainable Equity Fund.
- Enhanced our sustainable offering by restructuring two existing funds: JPM Europe (ex-UK) Sustainable Equity Fund and JPM Global Macro Sustainable Fund.

## How to use this report

- **Findings by Fund** are summarised on pages 4 and 5 so you can quickly see the findings for your fund.
- The summary of findings is followed by a more detailed discussion of the **Reviewed Further and Demonstrating Value**. This explains how value is being demonstrated or any enhancements that are planned, as shown on page 6 onwards.
- Finally, a detailed discussion of 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 Key Investor Information Document (KIID), comprising of the ACD Fee and Capped O&A Expenses incurred.
- **Sustainable Companies** Companies demonstrating effective governance and superior management of environmental and social issues.

All assessment information in this report applies to the 2021-22 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 the 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
- Not Demonstrating Value, select the rating to see further detail for your fund

Fund Select Fund to review further information on the Fund website	Quality of Service	Performance	AFM Costs	Economies of Scale	Comparable Market Rates	Comparable Services	Classes of Units
JPM Asia Growth Fund	■	■	■	■	■	■	■
JPM Asia Pacific Equity Fund	■	■	■	■	■	■	■
JPM Climate Change Solutions Fund	■	■	■	■	■	■	■
JPM Diversified Growth Fund	■	■	■	■	■	■	■
JPM Emerging Europe Equity Fund	■	■	■	■	■	■	■
JPM Emerging Markets Fund	■	■	■	■	■	■	■
JPM Emerging Markets Income Fund	■	■	■	■	■	■	■
JPM Emerging Markets Sustainable Equity Fund	■	■	■	■	■	■	■
JPM Europe (ex-UK) Research Enhanced Index Equity Fund	■	■	■	■	■	■	■
JPM Europe (ex-UK) Sustainable Equity Fund (Restructured from JPM Europe Fund on 6 December 2021)	■	■	■	■	■	■	■
JPM Europe Dynamic (ex-UK) Fund	■	■	■	■	■	■	■
JPM Europe Smaller Companies Fund	■	■	■	■	■	■	■
JPM Global (ex-UK) Bond Fund	■	■	■	■	■	■	■
JPM Global Bond Opportunities Fund	■	■	■	■	■	■	■
JPM Global Corporate Bond Fund	■	■	■	■	■	■	■
JPM Global Equity Income Fund	■	■	■	■	■	■	■
JPM Global High Yield Bond Fund	■	■	■	■	■	■	■
JPM Global Macro Opportunities Fund	■	■	■	■	■	■	■
JPM Global Macro Sustainable Fund (Restructured from JPM Global Macro Fund on 29 April 2022)	■	■	■	■	■	■	■
JPM Global Research Enhanced Index Equity Fund	■	■	■	■	■	■	■
JPM Global Sustainable Equity Fund	■	■	■	■	■	■	■

# Findings by Fund continued

Fund Select Fund to review further information on the Fund website	Quality of Service	Performance	AFM Costs	Economies of Scale	Comparable Market Rates	Comparable Services	Classes of Units
JPM Global Unconstrained Equity Fund	■	■	■	■	■	■	■
JPM Japan Fund	■	■	■	■	■	■	■
JPM Multi-Asset Cautious Fund	■	■	■	■	■	■	■
JPM Multi-Asset Growth Fund	■	■	■	■	■	■	■
JPM Multi-Asset Income Fund	■	■	■	■	■	■	■
JPM Multi-Asset Moderate Fund	■	■	■	■	■	■	■
JPM Multi-Manager Growth Fund	■	■	■	■	■	■	■
JPM Natural Resources Fund	■	■	■	■	■	■	■
JPM Sterling Corporate Bond Fund	■	■	■	■	■	■	■
JPM UK Dynamic Fund	■	■	■	■	■	■	■
JPM UK Equity Core Fund	■	■	■	■	■	■	■
JPM UK Equity Growth Fund	■	■	■	■	■	■	■
JPM UK Equity Income Fund	■	■	■	■	■	■	■
JPM UK Equity Index Fund	■	■	■	■	■	■	■
JPM UK Equity Plus Fund	■	■	■	■	■	■	■
JPM UK Equity Value Fund	■	■	■	■	■	■	■
JPM UK Government Bond Fund	■	■	■	■	■	■	■
JPM UK Smaller Companies Fund	■	■	■	■	■	■	■
JPM UK Sustainable Equity Fund	■	■	■	■	■	■	■
JPM Unconstrained Bond Fund	■	■	■	■	■	■	■
JPM US Equity Income Fund	■	■	■	■	■	■	■
JPM US Research Enhanced Index Equity Fund	■	■	■	■	■	■	■
JPM US Select Fund	■	■	■	■	■	■	■
JPM US Small Cap Growth Fund	■	■	■	■	■	■	■
JPM US Sustainable Equity Fund	■	■	■	■	■	■	■

# Reviewed Further and Demonstrating Value

This section of the report gives you more information to understand 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 advisor.

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.

## Enhancements in Progress

We communicated in our 2021 Assessment of Value report our plan to simplify the share class offering by closing all of the A share classes and converting all investors in the A share class to the B or C share classes within the same fund, both of which have a lower OCF than the A share class. This action is in progress and the A to B conversion has already taken place.

The remaining A share classes on the funds identified below will be converted into C share classes before the end of 2022.

Fund	Comparable Market Rates	Class(es)	Commentary and summary of Action
JPM Asia Growth Fund	■	A	<ul style="list-style-type: none"> <li>● The A share class OCFs on these funds were identified as greater than the median OCF of comparable funds identified by Broadridge.</li> <li>● All investors in the A share classes of these funds will be converted into the equivalent C share classes by the end of 2022.</li> <li>● The C share classes to which investors will be converted, as well as having lower OCFs, offer better prospects of asset growth, which can lead to economies of scale with the potential for lower fund expenses.</li> </ul>
JPM Emerging Europe Equity Fund	■	A	
JPM Emerging Markets Fund	■	A	
JPM Emerging Markets Income Fund	■	A	
JPM Europe Dynamic (ex-UK) Fund	■	A	
JPM Europe Smaller Companies Fund	■	A	
JPM Global Bond Opportunities Fund	■	A	
JPM Global Equity Income Fund	■	A	
JPM Global High Yield Bond Fund	■	A	
JPM Global Macro Opportunities Fund	■	A	
JPM Global Macro Sustainable Fund (Restructured from JPM Global Macro Fund on 29 April 2022)	■	A	
JPM Global Unconstrained Equity Fund	■	A	
JPM Japan 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	

# Reviewed Further and Demonstrating Value

Fund	Quality of Service	Performance	AFM	Economies of Scale	Comparable Market Rates	Comparable Services	Classes of Units	Class(es)	Commentary and Rationale for Demonstrating Value
JPM Emerging Europe Equity Fund	■	■	■	■	■	■	■	All	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>On 24 February 2022, Russia invaded Ukraine and Russian shares fell sharply. As a result of the Russian law banning foreigners from selling shares or receiving dividends, the JPM Emerging Europe Equity fund was suspended.</li> <li>The ACD is actively exploring options to provide access to shareholders to the liquid portions of the fund.</li> <li>We are not proposing any additional action but we will be monitoring the performance.</li> </ul> <p><b>Comparable Market Rate</b></p> <ul style="list-style-type: none"> <li>Refer to <b>Enhancements In Progress</b> section for commentary on comparable market rates of the A share class on this fund.</li> </ul>
JPM Global Macro Sustainable Fund (Restructured from JPM Global Macro Fund on 29 April 2022)	■	■	■	■	■	■	■	All	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>The fund has underperformed versus the median performance of comparable funds identified by Broadridge over a five-year time periods.</li> <li>However, on a risk adjusted basis, the fund has outperformed versus the median performance of comparable funds identified by Broadridge over a five-year period and the fund has delivered a positive total return over three- and five-years.</li> <li>The fund was restructured to align to a sustainable investment approach on 29 April 2022.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the performance.</li> </ul> <p><b>Comparable Market Rates</b></p> <ul style="list-style-type: none"> <li>Refer to <b>Enhancements In Progress</b> section for commentary on comparable market rates of the A share class on this fund.</li> </ul>
JPM Global Research Enhanced Index Equity Fund	■	■	■	■	■	■	■	E	<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 as the share class grows.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the fees.</li> </ul>

# Reviewed Further and Demonstrating Value

## continued

Fund	Quality of Service	Performance	AFM	Economies of Scale	Comparable Market Rates	Comparable Services	Classes of Units	Class(es)	Commentary and Rationale for Demonstrating Value
JPM Global Unconstrained Equity Fund	■	■	■	■	■	■	■	All	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>The fund has underperformed versus the median performance of comparable funds identified by Broadridge over a five-year time period.</li> <li>The fund's overweight to growth style has negatively contributed to performance as a result of recent market rotation. The investment manager will look to add to the fund's performance through continuing with the fund's fundamental bottom-up stock selection process.</li> <li>Although the recent underperformance has been significant, the fund ranked in the second quintile of comparable peers identified by Broadridge over three-years.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the performance.</li> </ul> <p><b>Comparable Market Rates</b></p> <ul style="list-style-type: none"> <li>Refer to <b>Enhancements In Progress</b> section for commentary on comparable market rates of the A share class on this fund.</li> </ul>
JPM Japan Fund	■	■	■	■	■	■	■	C	<p><b>Comparable Services</b></p> <ul style="list-style-type: none"> <li>The C share class OCF was identified as higher than the fees charged for comparable services (UK Investment Trust Vehicle).</li> <li>For all three C share classes of the fund, the OCF is less than the Broadridge comparator medians.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the fees.</li> </ul> <p><b>Comparable Market Rates</b></p> <ul style="list-style-type: none"> <li>Refer to <b>Enhancements In Progress</b> section for commentary on 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 has underperformed versus the median performance of comparable funds identified by Broadridge over a five-year time period. However, 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 that 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 the three-, five- and ten-year time periods. However 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

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Fund	Quality of Service	Performance	AFM	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 underperformed its benchmark over the three-, five- and ten-year time periods.</li> <li>However, it has outperformed versus the median performance of comparable peers identified by Broadridge, ranking first quintile over a five-year time period, and the fund also ranks in the first quartile in its IA sector over the same time period.</li> <li>The fund benefitted from the rise in commodity prices in the first quarter of 2022 and has outperformed its benchmark year-to-date and over one-year.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the performance.</li> </ul>
JPM Sterling Corporate Bond Fund	■	■	■	■	■	■	■	All  A	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>The fund has underperformed versus the median performance of comparable funds identified by Broadridge over a five-year time period. However, the fund has positive excess returns over three-years and ranks in the second quartile versus IA sector peers over 10 years.</li> <li>The fund's underperformance in 2021 was mainly attributed to its overweight of shorter dated bonds relative to its benchmark and peers. This positioning was partly attributed to the Investment Manager's research coverage, definition and approach versus the non-gilt universe. As a result the fund was underweight longer dated bonds relative to the benchmark which negatively impacted performance during the recent period of rising inflation and repricing of central bank expectations.</li> <li>In response to this underperformance, during the review period, the Investment Manager reviewed and expanded the definition of its research coverage universe to include issuers in the non-gilt universe that are covered by the Investment Manager's broader team. This expanded definition enabled and will continue to enable the Investment Manager to have greater flexibility when positioning the fund.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the performance.</li> </ul> <p><b>Comparable Market Rates</b></p> <ul style="list-style-type: none"> <li>Refer to <b>Enhancements In Progress</b> section for commentary on comparable market rates of the A share class on this fund.</li> </ul>

# Reviewed Further and Demonstrating Value

## continued

Fund	Quality of Service	Performance	AFM	Economies of Scale	Comparable Market Rates	Comparable Services	Classes of Units	Class(es)	Commentary and Rationale for Demonstrating Value
JPM UK Dynamic Fund	■	■	■	■	■	■	■	All	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>The fund has underperformed its benchmark over the one-, three- and five-year time periods.</li> <li>However, the fund ranks in the second quintile over the three-year, five-year and since inception time periods versus comparable peers identified by Broadridge and also has outperformed versus the median performance of comparable peers identified by Broadridge over a five-year time period.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the performance.</li> </ul> <p><b>Comparable Market Rates</b></p> <ul style="list-style-type: none"> <li>Refer to <b>Enhancements In Progress</b> section for commentary on 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>The fund has underperformed versus the median performance of comparable funds identified by Broadridge over a five-year time period and has underperformed its benchmark over the one-, three- and five-year time periods.</li> <li>The fund specifically targets attractively valued UK companies that the Investment Manager believes are fundamentally sound. Although value, as a style, has recovered to a degree in recent periods versus growth, the broad market is still in transition.</li> <li>The fund ranks in the first quintile over one-year versus comparable funds identified by Broadridge.</li> <li>The fund is demonstrating value. We are not recommending action but we will be monitoring the performance.</li> </ul>

# The Value Assessment Process

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 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 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, with respect to your fund.

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

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## 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)
- treating clients fairly post sales reviews

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 where the 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 received demonstrated value. We regularly review the services from our providers, and where possible, we have taken action to benefit from lower fees and improved service offerings.

### Key points

- According to the Broadridge Fund Buyer Focus survey data, our rankings have improved relative to peers in 2021 across product quality, in 2021 placing us as one of the leaders across marketing, and sales and account management.
- Shareholders in all share classes continued to receive identical or generally comparable quality of service in all major areas of assessment.
- Within the UK asset management industry our service providers were among the leading organisations within their areas of expertise.

## 2. Performance

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### 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 subset 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 46 funds, eight warranted a closer look, and the results and further commentary are provided on pages 7 to 10 of this report.

After extensive scrutiny and discussion, we concluded 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

- Overall, we believe all funds have demonstrated value with respect to their performance and are designed to do so over the long term.
- Eight funds warranted a closer look and upon further review these funds were identified as demonstrating value when taking all described relevant performance considerations into account. Out of prudence, these funds are being monitored closely.

# 3. AFM Costs

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## The costs a fund pays for the service 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** 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

- During this period, revenues fluctuated, primarily due to markets and asset allocation and average basis point management fees fell during the period.
- Caps on O&A expenses ensure that these costs remain reasonable, with costs in excess of the caps covered by the ACD.

## 4. Economies of Scale

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**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 funds' 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 evidenced by the fact that 82% 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 via the fee 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.
- 82% 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

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## 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 comparable services.

**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 46 funds, we found 20 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 pages 4 and 5. Here are our findings are shown by base class and apply to all forms of that base class:

- **A share classes:** 19 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. In 2021, we took the decision to convert all existing shareholders into lower fee B or C share classes; a separate communication was sent to all impacted shareholders.
- **E share class:** One of the 20 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, we have determined the current levels are appropriate in light of the benefits and/ or incurred costs that exist in those cases.
- Fund-specific information on this topic can be found on pages 6 to 10.



## 6. Comparable Services

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**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, as well as to funds available for sale in the UK and outside of the UK, if they are structured as “UCITS” funds with investment management styles 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.

We identified that the fees for JPM Japan Fund are marginally higher than median fees charged for comparable services.

### Key points

- The amounts most funds are paying for services are in line with market standards.
- We believe the marginal fee differential between JPM Japan Fund and comparable services is justified when we look at differences in vehicle structures, investment objectives and approaches and competitive dynamics.
- Fund-specific information on this topic can be found on pages 7 to 10.

## 7. Classes of Units

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### 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 whether they are sufficiently differentiated in cost relative to the associated services required for the types of shareholders that are eligible to invest in them. It also explores 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 to convert all remaining shareholders and close all A share classes available in the range given their comparatively higher OCFs versus OCFs of comparable funds 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.
- While A share classes have slightly above-median costs, whilst these are related to features that shareholders and their intermediaries still require, we have committed to converting all existing shareholders and closing the A share classes for all funds in the range. Please refer to Enhancements in Progress for further information.



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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.

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