Swing pricing: The J.P. Morgan Asset Management approach

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Swing pricing protects existing shareholders from the performance dilution effects they may suffer as a result of transactions by other investors in a sub-fund. For those funds where it is deemed appropriate i Swing Pricing is implemented in a clear and systematic fashion.

Trading activity impact on fund performance

Trading activity incurs costs that dilute the value of existing shareholders' investments in single-priced funds. For funds valued on a single-priced mid-price basis, when the investment manager is required to transact in the market as a result of subscriptions or redemptions in a sub-fund, the costs associated with this activity (transaction costs, spread, taxes such as stamp duty) are charged to the sub-fund. This causes performance to be diluted for all existing shareholders invested in the sub-fund.

To lessen the impact of dilution, a sub-fund's net asset value (NAV) can be adjusted to make a contribution to the cost of transactions in the sub-fund. In essence, the sub-fund's single price is adjusted upwards in the case of large inflows and downwards in the case of large outflows, impacting the investors who are buying or selling rather than ongoing investors in the sub-fund.

The mechanics of swing pricing

The swing threshold is a pre-determined level currently set as a percentage of the sub-fund's net asset value, as described in more detail later. If net inflows into a sub-fund exceed this level, the NAV per share will be swung upwards by a predetermined amount (the swing factor). The price swing means that subscribing investors contribute to the cost of their transactions by paying more to enter the sub-fund.

In certain situations, it might be in the interests of shareholders in a particular sub-fund to grow the assets under management. In order to attract inflows, the Management Company may suspend the swing to offer factor, and allow investors to subscribe at mid, until such time that the sub-fund reaches a certain size or for a specific period of time (e.g. 6 months), whichever comes first. Existing investors would remain protected as the dilution arising from large inflows would be compensated to the sub-fund by the Management Company. Where

this happens any shareholders that redeem may receive redemption proceeds that will be lower than would have been the case if the swing pricing mechanism had been applied. In these situations the Management Company will continue to swing the price in the event of net outflows as normal.

If the net outflows from the sub-fund exceed the swing threshold, the NAV per share will be swung downwards by the swing factor and exiting shareholders will take a reduced amount out of the sub-fund.

The decision to swing is based on the overall net flows into the sub-fund from all investors, not per client or per share class. The NAV per share shifts for all share classes of a sub-fund, not just for those share classes experiencing inflows or outflows on a given day.

The performance benefits of swing pricing

Swing pricing aims to protect the overall performance of sub-funds, to the benefit of existing shareholders. Investors should be aware that swinging the NAV per share is likely to increase the tracking error of sub-funds and may introduce volatility into the daily prices. This should not be interpreted as an increase in the inherent level of portfolio risk, though.

J.P. Morgan Asset Management governance on swing pricing

The swing factor for each sub-fund is determined by the J.P. Morgan Asset Management Swing Pricing Committee (the "Committee"), which typically meets quarterly to ensure the appropriate level of protection. In exceptional market conditions the Committee will meet and review more frequently.

The Committee analyses the bid/offer spreads, transaction costs and potential taxes for each market in which the portfolio of each in-scope sub-fund is invested in order to determine the appropriate level

of the swing factor. This means that the swing factor will vary from one sub-fund to another, depending on the asset class(es) in which they invest, the geographical focus of the sub-fund, etc. Under normal market conditions, the swing factor will not exceed 2% of the original NAV per share in any sub-fund. In exceptional market circumstances, however, this maximum level may be increased up to 5% to protect the interests of shareholders.

In order to prevent additional dilution to shareholders and to protect fund performance for ongoing investors, the Committee reviews the swing factors of each fund, at least quarterly, or as frequently as required to appropriately protect each fund.

The swing thresholds are set by the Committee at a level to ensure that those flows that would represent a significant amount of dilution in the sub-fund are captured. Small net inflows or outflows may not require any trading activity and would not justify swinging the NAV.

. Details of the both the swing factors applied are available from the registered office of the Management Company.

Funds where swing pricing is not applied

Swing pricing is not applied to Money Market Funds, fund of funds that already have an alternative anti-dilution protection mechanism in place, funds that do not suffer from dilution, or funds where dilution does not harm other investors.

Details of the sub-funds subject to the swing waiver are located on the Swing Pricing page on the website: www.jpmorganassetmanagement.com

Further information

For additional information, please refer to the respective funds' prospectuses or contact your usual local representative.