



J.P. Morgan Asset Management

## JPMorgan European Equity Group

Fourth Quarter 2014

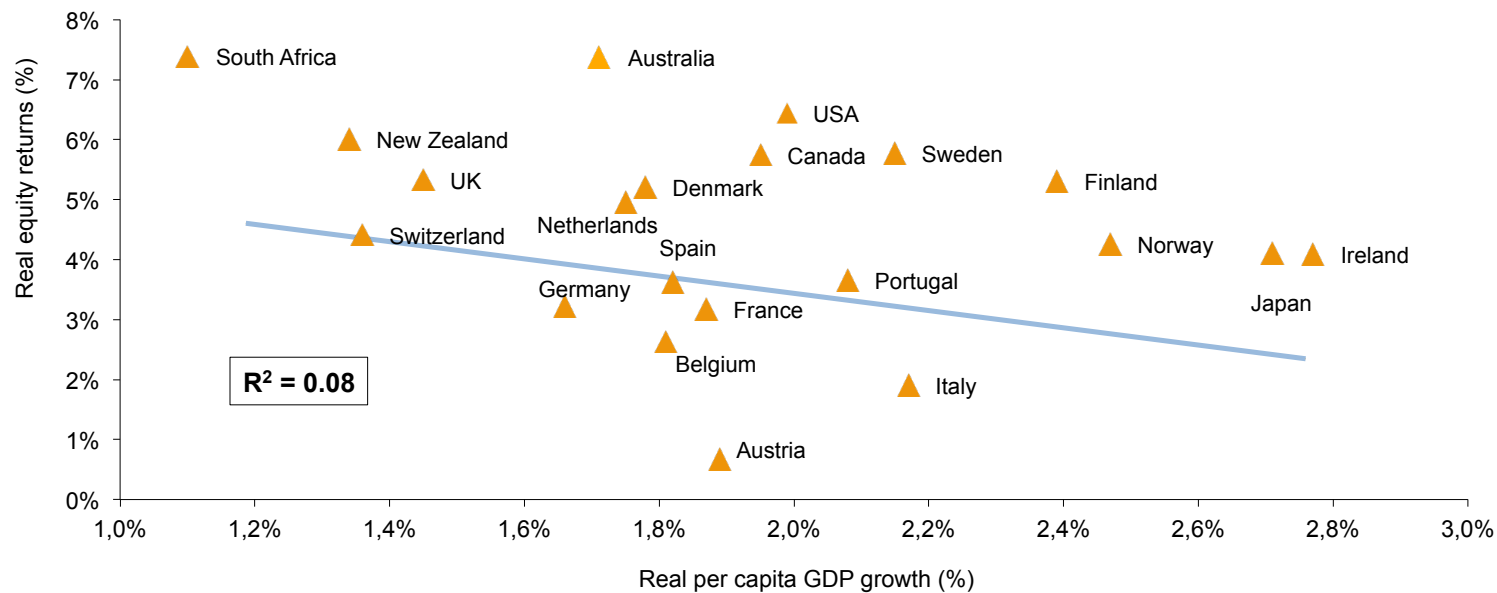
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**J.P.Morgan**  
Asset Management

## Equities are not driven by economic growth

### Real GDP growth versus real equity returns

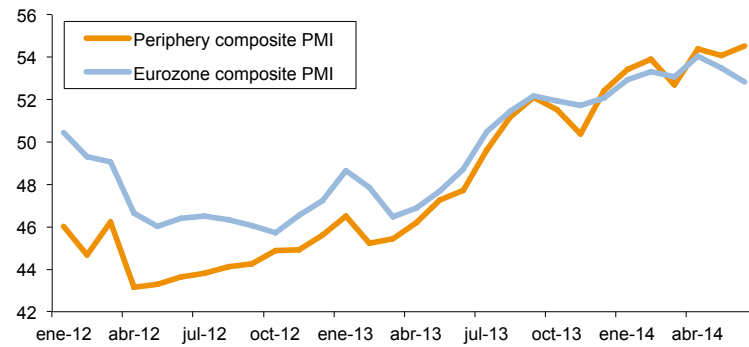
Developed Markets (1900 – 2013)



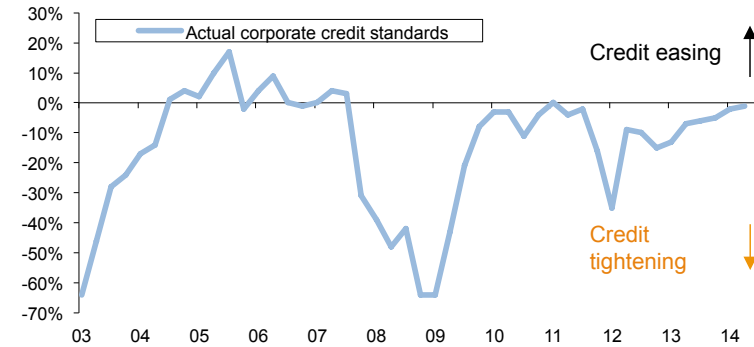
Source: Dimson, Marsh, Staunton, Barro and Maddison. "The Growth Puzzle", Credit Suisse Global Investment Returns Yearbook 2014. Past performance is not a guide to future performance.

## Economic and consumer sentiment are improving

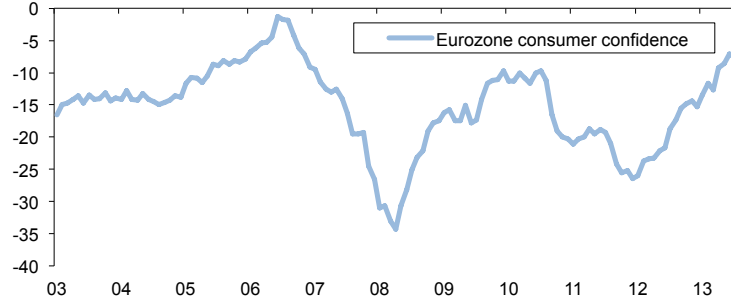
Core versus periphery composite PMIs



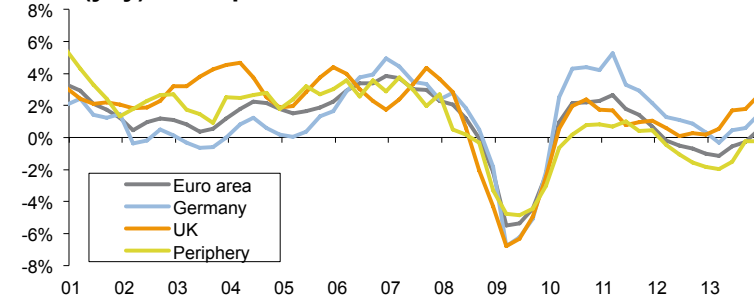
Corporate credit standards



Euro area consumer confidence



GDP (yoy) - Europe

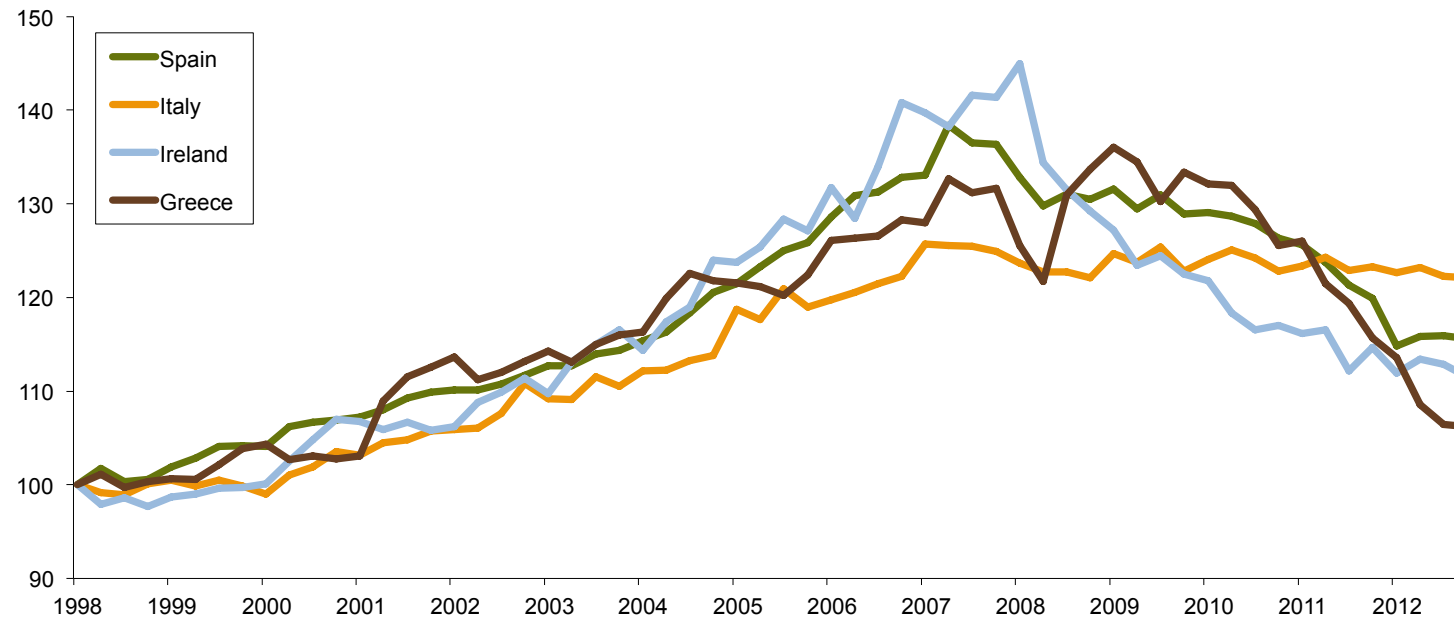


Source: J.P. Morgan Cazenove, Eurostat, EC, data as at 30 June 2014.

## Peripheral labour is getting much more competitive

### Unit labour costs

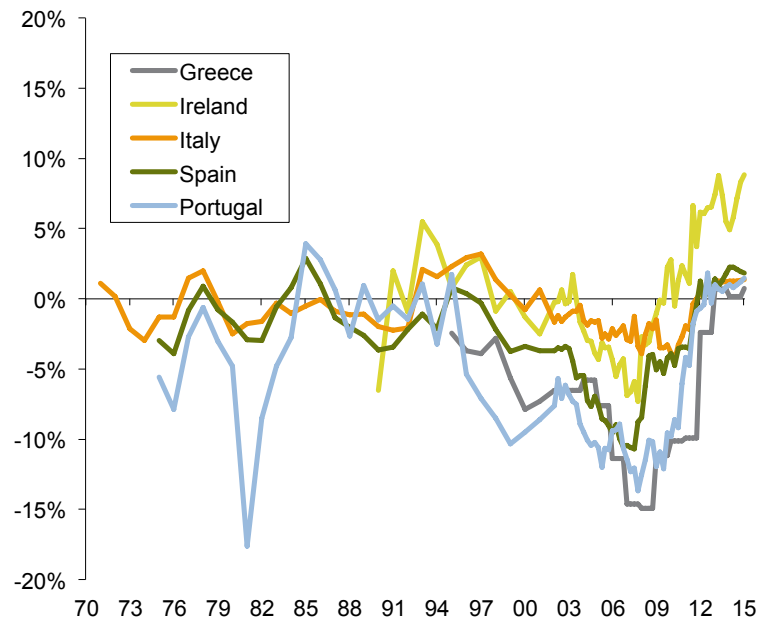
Relative to Germany, rebased to 100 at December 1998



Source: ECB, FactSet, J.P. Morgan Asset Management "Guide to the Markets – Europe". Data as at 31 December 2013.

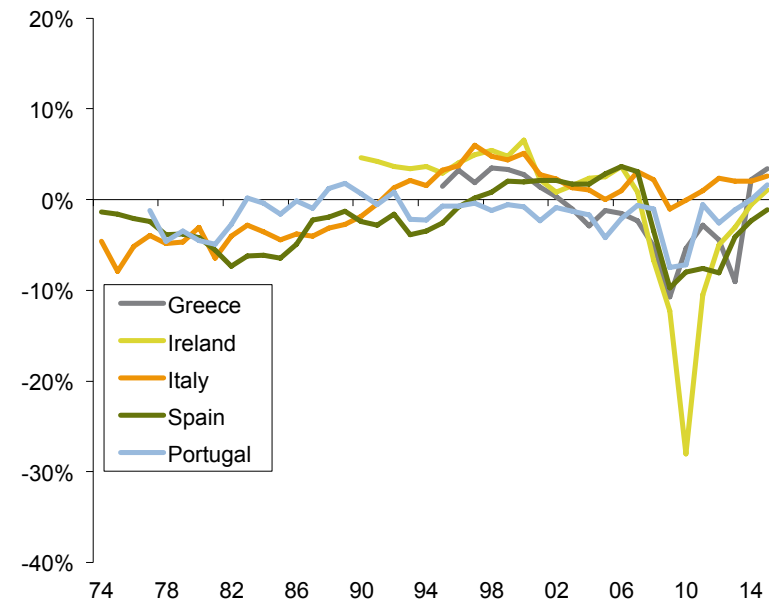
## Strong current account and primary balances in the periphery of Europe

Current account as a % of GDP



Source: Bloomberg, J.P. Morgan Asset Management as at 30 June 2014.

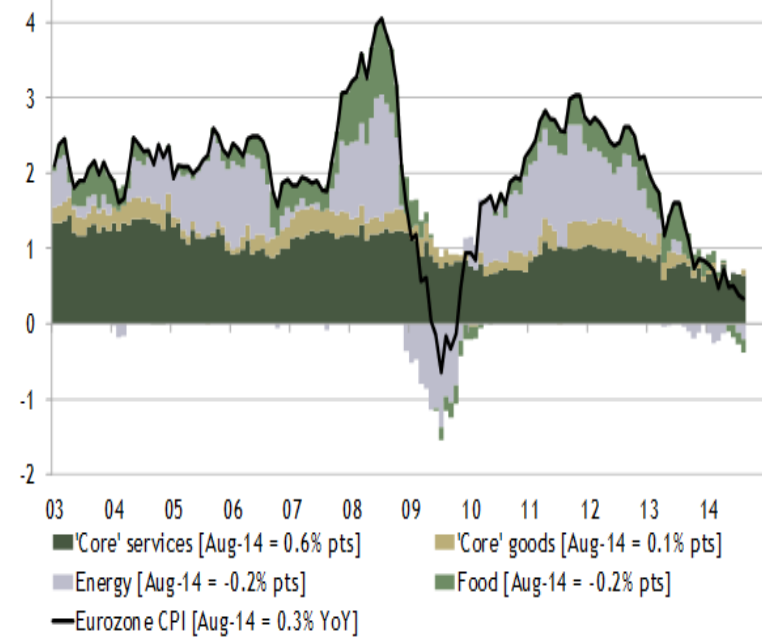
Primary balance as a percentage of GDP



Source: Bloomberg, J.P. Morgan Asset Management as at 30 June 2014.

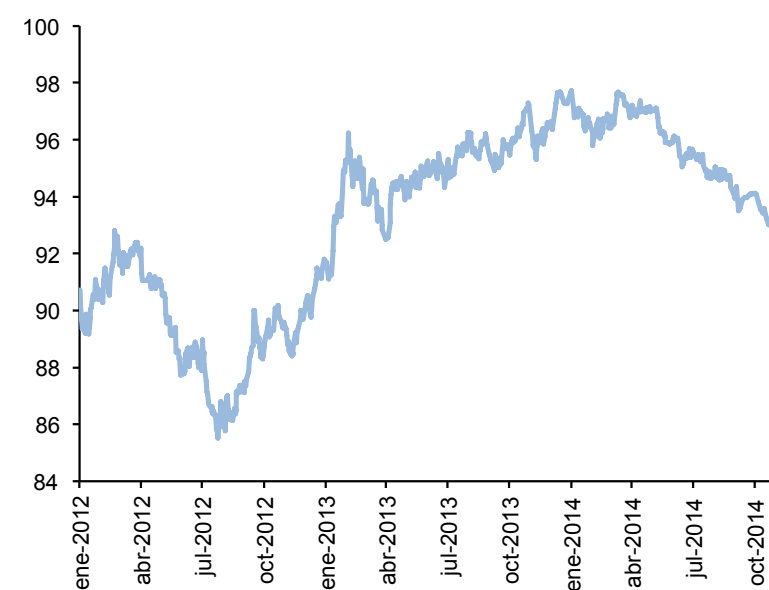
## Inflation and the Euro

Contributions to 12m change (%pts)



Source: ASR Ltd / Thomson Reuters Datastream as at September 2014

Trade weighted Euro exchange rate



Source: Bloomberg, September 2014. 1990= base year 100

## Comprehensive assessment

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The ECB is performing a comprehensive assessment prior to assuming full responsibility for supervision under the Single Supervisory Mechanism (SSM) in November 2014

- An **asset quality review** (AQR) – to enhance the transparency of bank exposures by reviewing the quality of banks' assets
- A **stress test** – will examine the resilience of banks' balance sheets to stress scenarios
- Potential for an additional **supervisory risk assessment**

### Goals of the assessment:

1. transparency
2. repair
3. confidence building

### Coverage

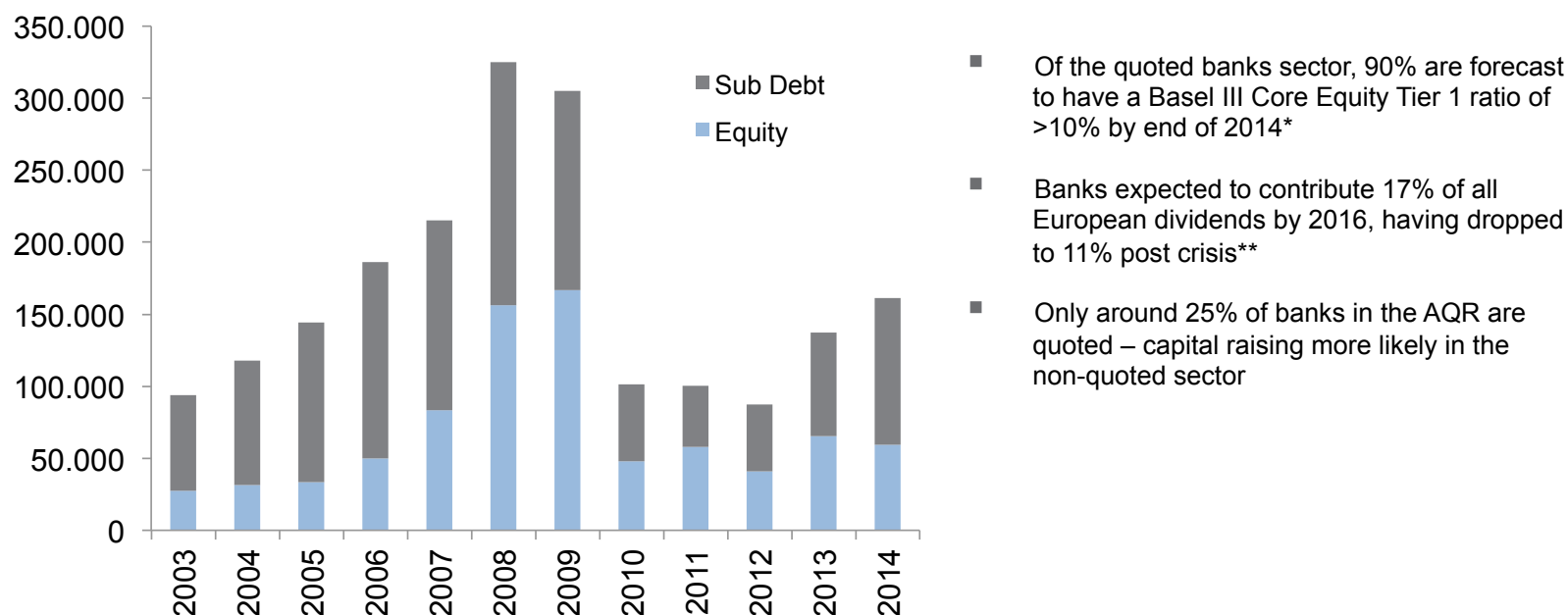
122 banks  
41 quoted  
19 subsidiaries of other entities  
62 private companies

Source: European Central Bank June 2014

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## Banks – less of a cause for concern

Total capital raised by pan European banks (USD m)



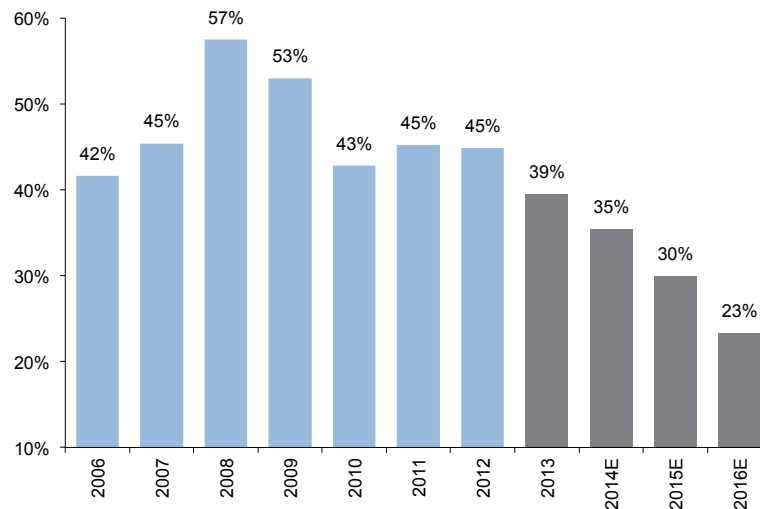
*... a vastly improved capital position and outlook post extensive de-risking and de-gearing*

Source: BoAML, UBS. Data as at 1 October 2014. \*Based on BoAML coverage and forecasts. \*\* Based on UBS estimates



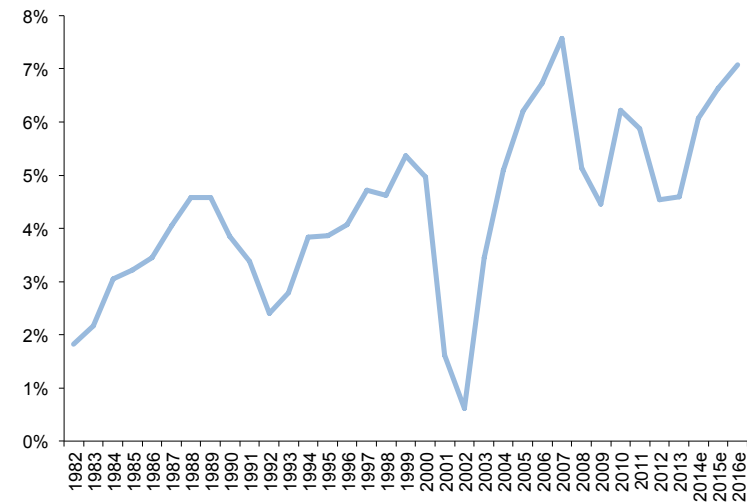
## European companies are underleveraged and have high margins

**Leverage ratio (net debt to equity)**



Source: UBS, Based on UBS European Universe ex-Financials, as at 30 September 2014.

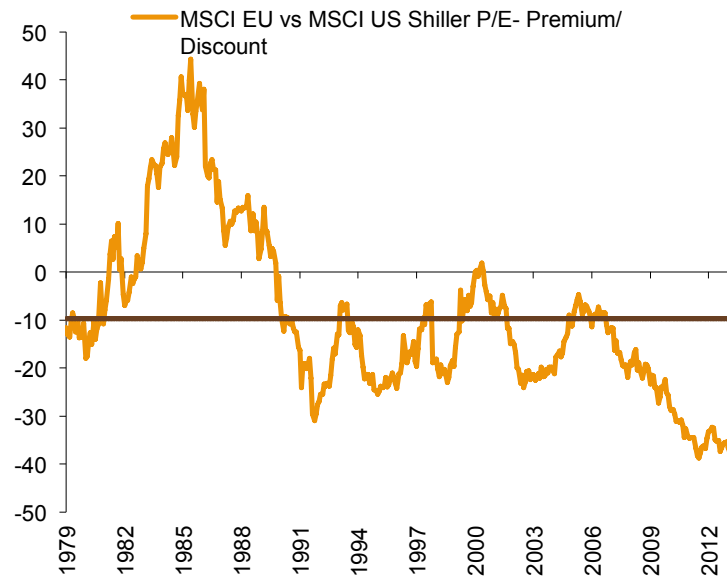
**Net income margin %**



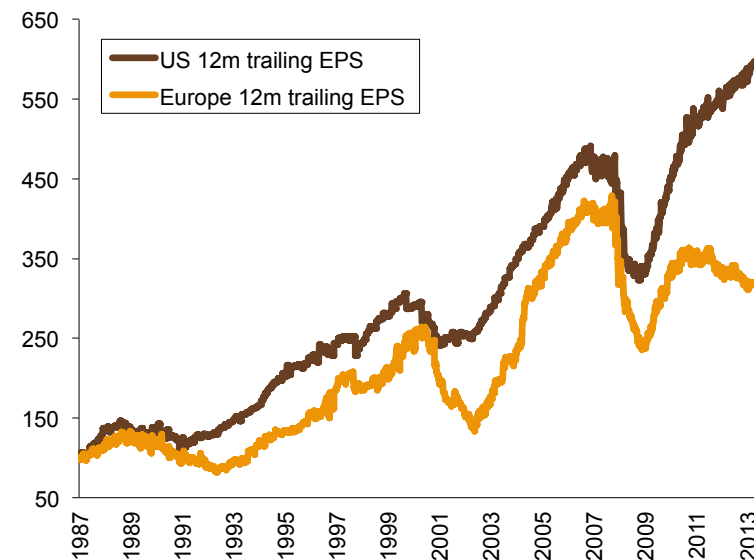
Source: MSCI, Worldscope, IBES, Morgan Stanley Research, at 30 September 2014, ex Financials, e = IBES forecasts.

## European companies are cheaper than US equities and fundamentally are catching up

European valuations relative to US (Shiller)



Earnings gap between Europe and U.S.



Source: (Left) UBS; as of 6/30/14. Based on UBS European Universe ex-Financials. (Right) UBS, 6/30/14. Blue line represents trailing 12 month EPS for US universe, grey line for European universe. Rebased to 100 at 12/31/87. Shown for illustrative purposes only. **Past performance is no guarantee of future results.** Please see disclosure page for index definitions.

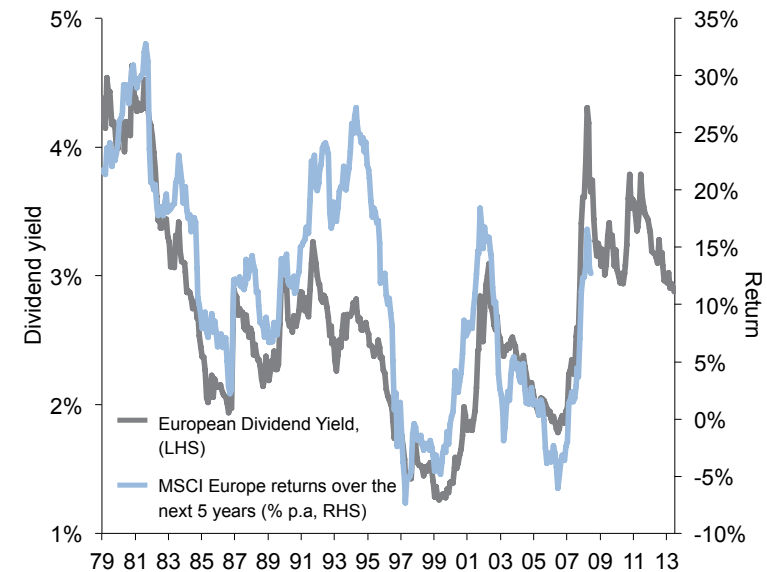
## European equities continue to recover with an improving macro economic environment

**Performance of MSCI Europe**



Source: Thomson Reuters Datastream. Data from 9 March 2009 to 30 June 2014. Includes reinvested dividends, in EUR. Past performance is not a guide to future performance.

**Dividend yield & subsequent 5 year annualised returns**



Source: MSCI, SG Cross Asset Research. European Dividend Yield is the Cyclically Adjusted Dividend Yield for MSCI Europe factoring in the 10 year average. Data as at 30 June 2014, in EUR. Past performance is not a guide to future performance.

## Summary of market outlook

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- It is unanticipated growth and change in expectations that drive returns
- Expectation that European corporate earnings growth will strengthen over the next year
- Valuations still look attractive relative to other asset classes and other equity regions

## Rewards for successful active management

### Behavioural Finance team



**Michael Barakos** CIO  
**Industry experience** 15 yrs  
**Firm experience** 15 yrs

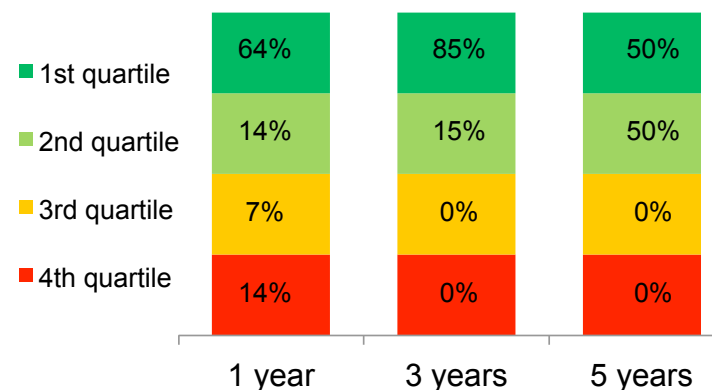
- 45 portfolio managers / investment professionals
  - 15 years average industry experience
- Investment approach focus on “style” returns
- AUM: US \$29.2bn

### Behavioural Finance performance

#### % of funds ahead of benchmark

	1 year	3 years	5 years
	96%	100%	100%

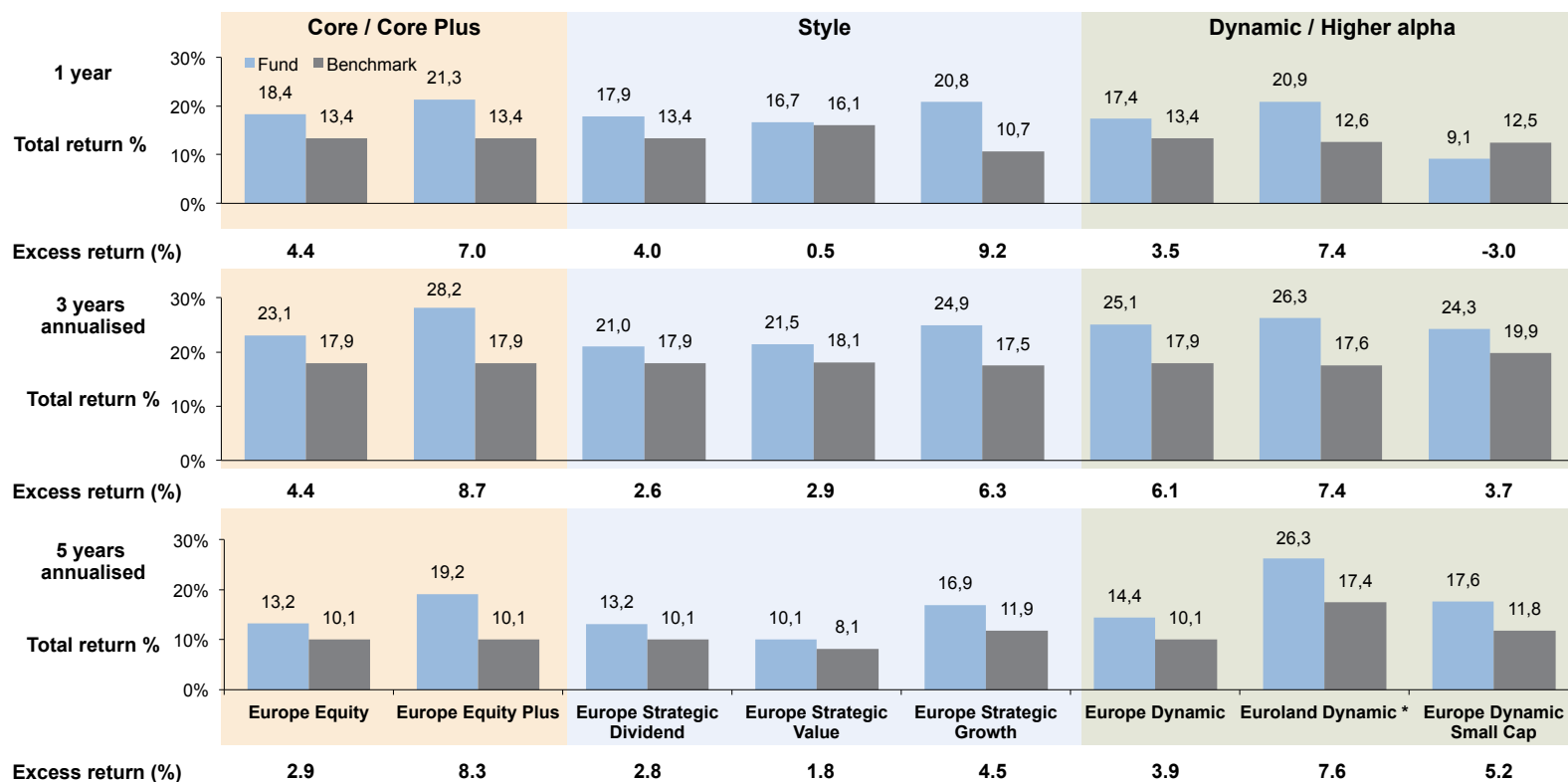
#### Morningstar peer rankings



*... wealth of experience from over 40 investment professionals managing just under \$30bn*

Source: J.P. Morgan Asset Management as at 30 September 2014. SICAV ahead of benchmark AUM weighted, gross of fees. Quartile rankings for SICAV funds against each fund's respective Morningstar category as at 30 September 2014. AUM data as at 31 August 2014. Morningstar Ratings™ and Morningstar Universe: © Morningstar. All Rights Reserved. Past performance is no guarantee of future results.

## Performance of European equities range (BF) as at 30 September 2014



Source: J.P. Morgan Asset Management. Gross of fees in EUR to 30 September 2014. Excess returns calculated geometrically. Past performance is not a guide for the future.

\* Euroland Dynamic 5 year return is shown from inception on 20 September 2011.

## Fund overview

### JPMorgan Funds – Europe Equity Plus Fund

#### Management team



Michael Barakos  
Chief Investment Officer &  
Portfolio Manager



Nicholas Horne  
Portfolio Manager & Head of  
Research

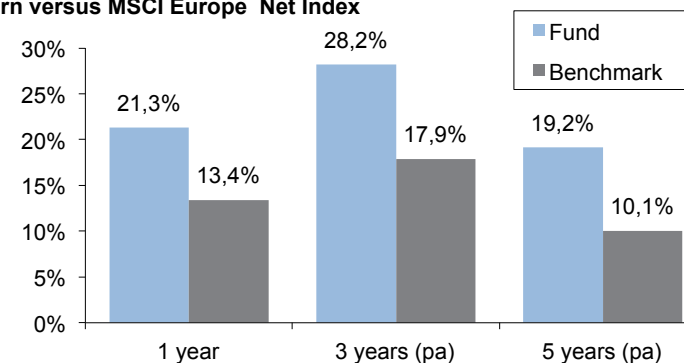
- Part of a team of 45 European equity investment professionals
- 15 years average experience

#### Portfolio characteristics

- Target number of holdings: 200-400
- Market capitalisation: Multi-cap
- Morningstar \* ★★★★★
- Fund AUM: EUR 3.7bn

#### Annualised performance

##### Return versus MSCI Europe Net Index



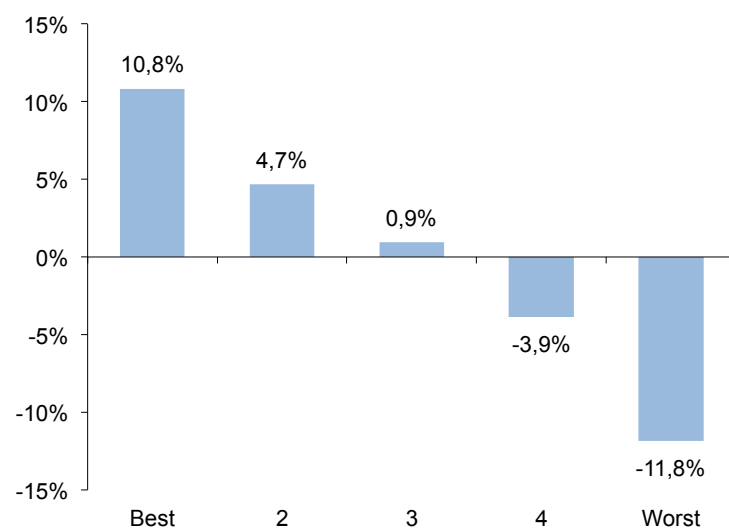
Excess (%)	7.0	8.7	8.3
Peer decile *	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
Tracking error (%)	-	2.6	2.1
Information ratio	-	3.3	4.0

There can be no assurance that the professionals currently employed by J.P. Morgan Asset Management will continue to be employed by J.P. Morgan Asset Management or that the past performance or success of any such professional serves as an indicator of such professional's future performance or success. The targets and aims provided above are the Investment Manager's targets and aims only and are not necessarily part of the Fund's investment objectives and policies as stated in the prospectus. There is no guarantee that these will be achieved.

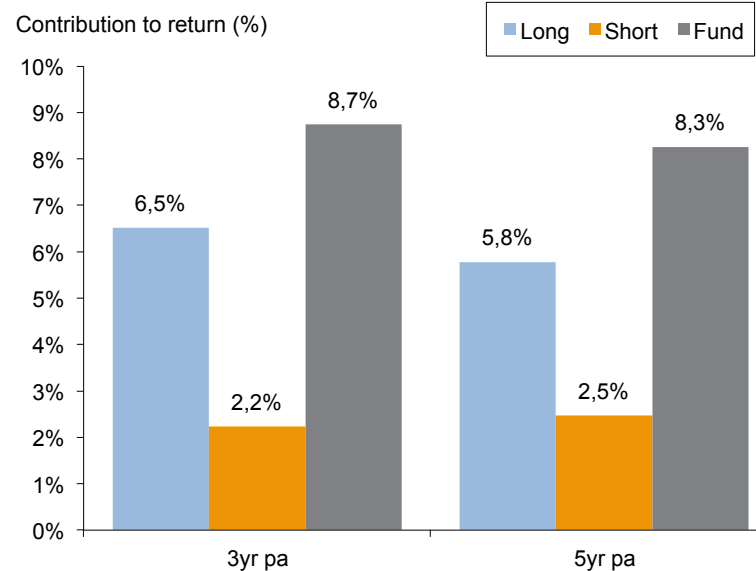
Source: J.P. Morgan Asset Management. Returns are in EUR, gross of fees, excess returns are calculated geometrically. Past performance is not an indication of future performance. Figures to 30 September 2014. AUM as at 8 October 2014. \*Morningstar Europe large cap blend universe. Morningstar Ratings™ and Morningstar Universe: © Morningstar. All Rights Reserved. As at 30 September 2014

## A natural long short investment approach – in theory and practise

**Annual relative returns to investment approach**



**Attribution of excess return**



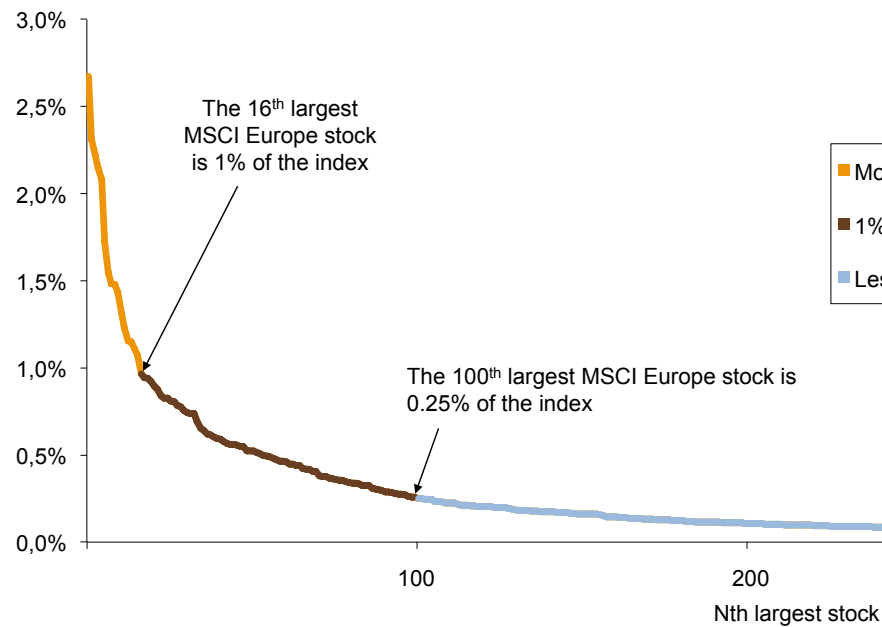
Source: Factset, J.P. Morgan Asset Management. The left hand chart shows annual returns relative to an equal weighted universe from 1 January 1990 to 30 September 2014. The right hand chart shows returns gross of fees as at 30 September 2014.



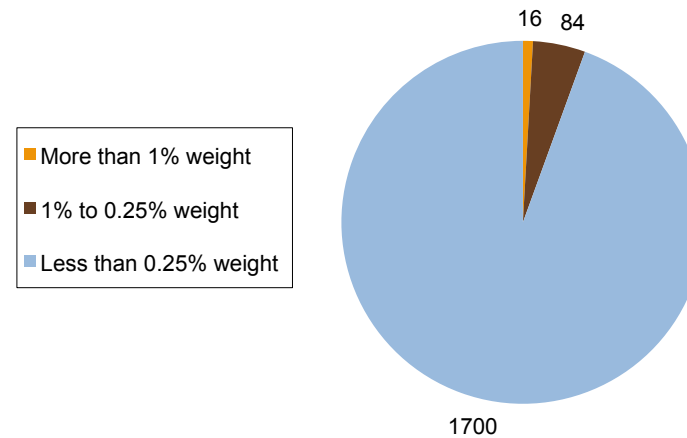
## High concentration of the index...

...makes it difficult to take meaningful underweight positions

Index weights



European Universe – number of stocks by weight

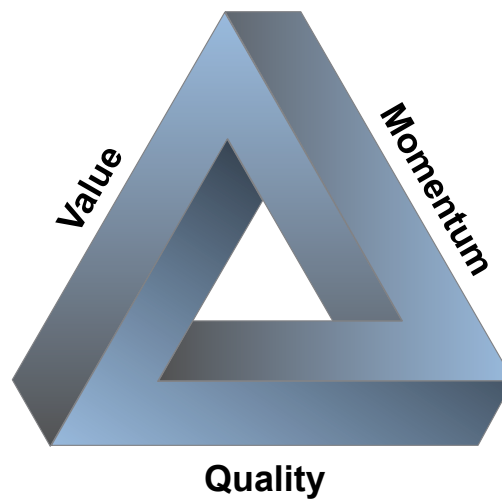


Source: J.P. Morgan Asset Management, FactSet. MSCI Europe Index as at 31 December 2013.

## What do we believe?

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Attractively valued, high quality stocks with positive momentum outperform the market



*... our investment philosophy*

## What are we looking for?

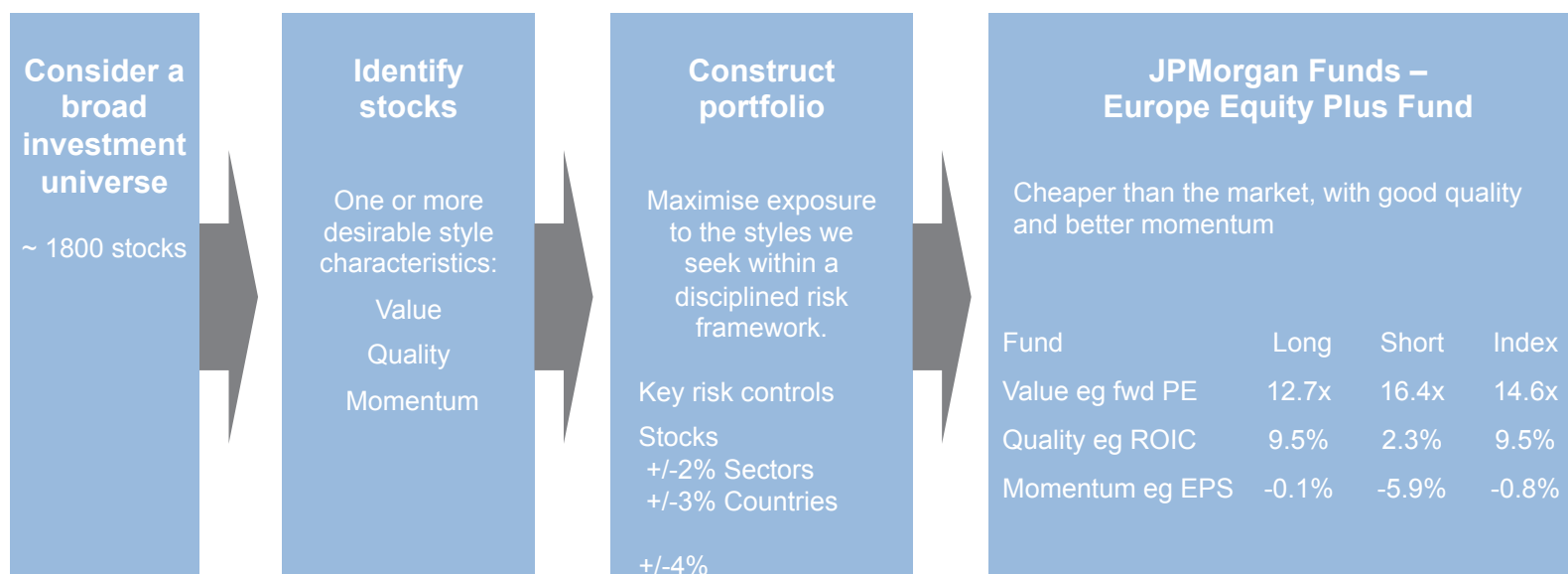
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- Value
  - Stocks that are **attractively valued** and are **fundamentally sound**
- Quality
  - **Profitable** companies with **sustainable earnings** and **disciplined capital management**
- Momentum
  - Stocks that are supported by positive **earnings momentum** and positive **price momentum**

*... identifying attractively valued, high quality stocks, with positive momentum*

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## Building a style driven portfolio



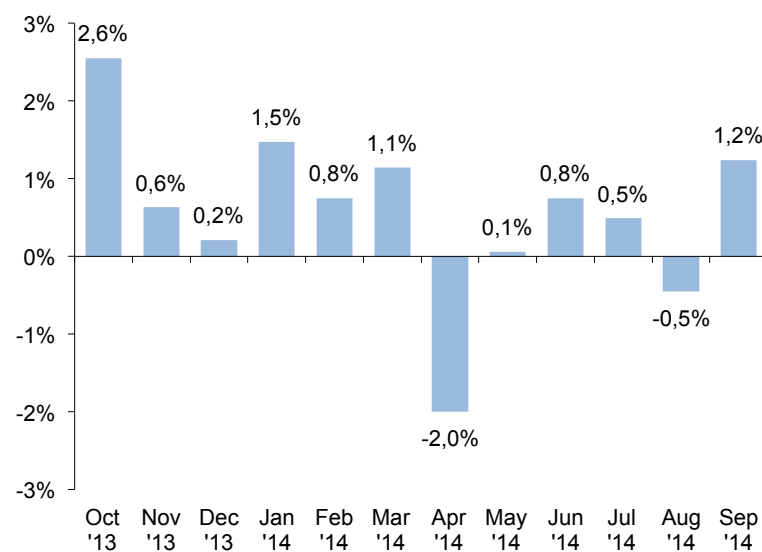
*... attractively valued, with high quality and positive momentum*

Source: J.P. Morgan Asset Management, Factset, as at 1 October 2014. Figures shown are Value = 12 month forward price earnings ratio, Quality = returns on invested capital (ROIC), Momentum = 3 month historic earnings per share (EPS) revisions. All figures are a weighted median. The targets and aims provided are the investment manager's targets and aims only. There is no guarantee that these targets and aims will be achieved.

## Attribution of excess returns

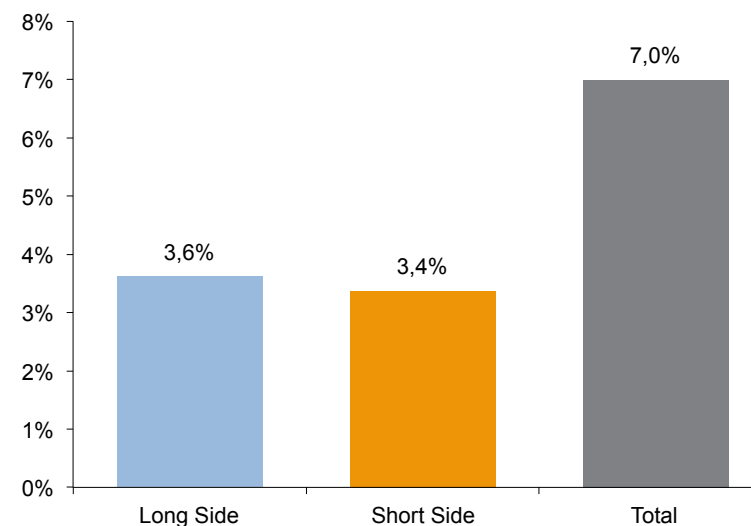
### Monthly

Contribution to return (%)



### 12 months

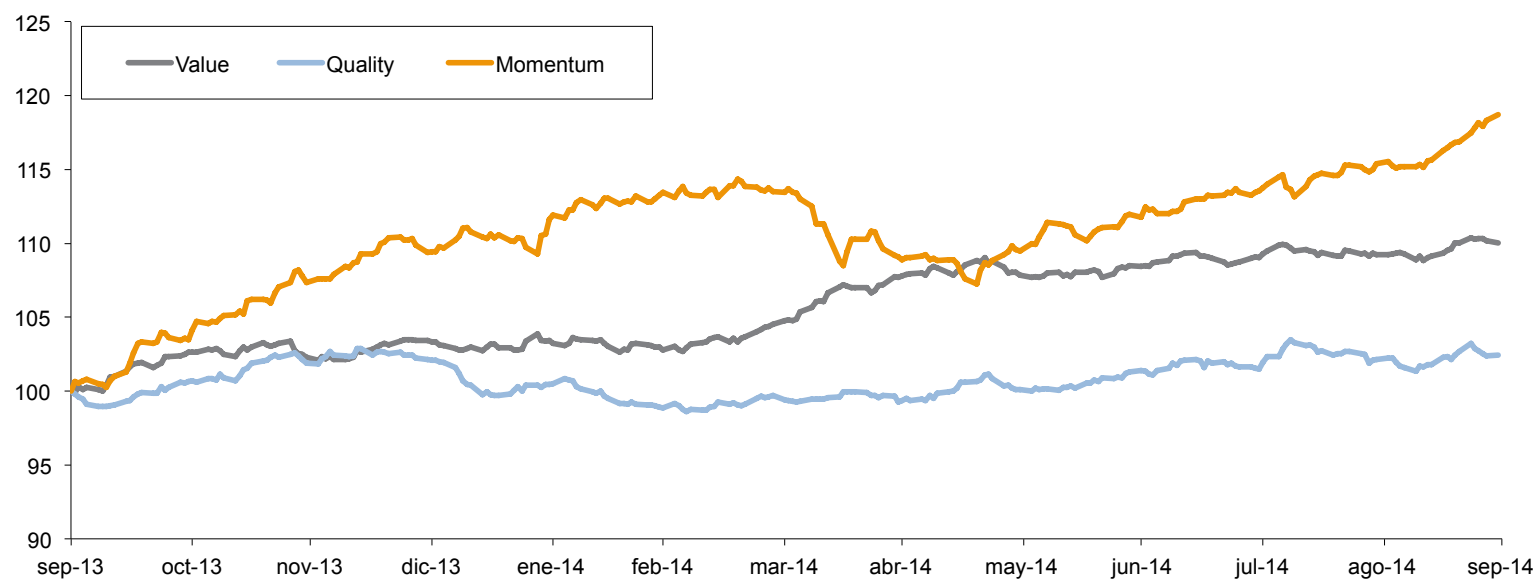
Contribution to return (%)



Source: Factset, J.P. Morgan Asset Management. Returns are gross of fees as at 30 September 2014. Allocations are made at the manager's discretion and can be changed without notice.

## Which styles have driven returns?

Cumulative returns – 12 months to 30 September 2014

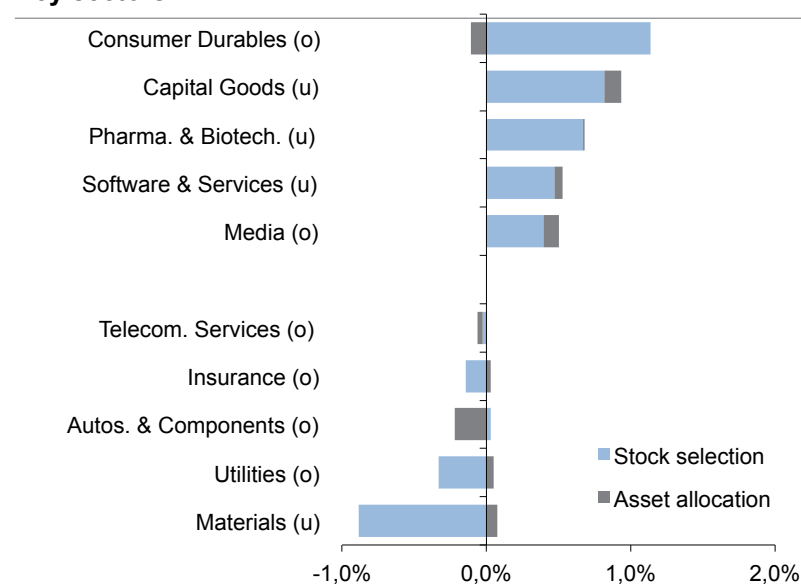


Source: J.P. Morgan Asset Management. Chart shows the cumulative performance (rebased to 100) of inter-quintile spreads for each measure. Returns are in euro and are presented net of transaction costs. Universe is the Citi BMI Europe Index. Past performance is not indicative of future performance.

## Major stock and sector contributors to returns

JPMorgan Funds - Europe Equity Plus Fund - 9 months to 30 September 2014

### Key sectors



### Key stock contributors

Pandora (o), Electrolux (o)
Bouygues (o), Imtech (s)
Shire (o)
Monitise (s), SAP (u)
Mediaset (s), Eniro (s), Technicolor (o)

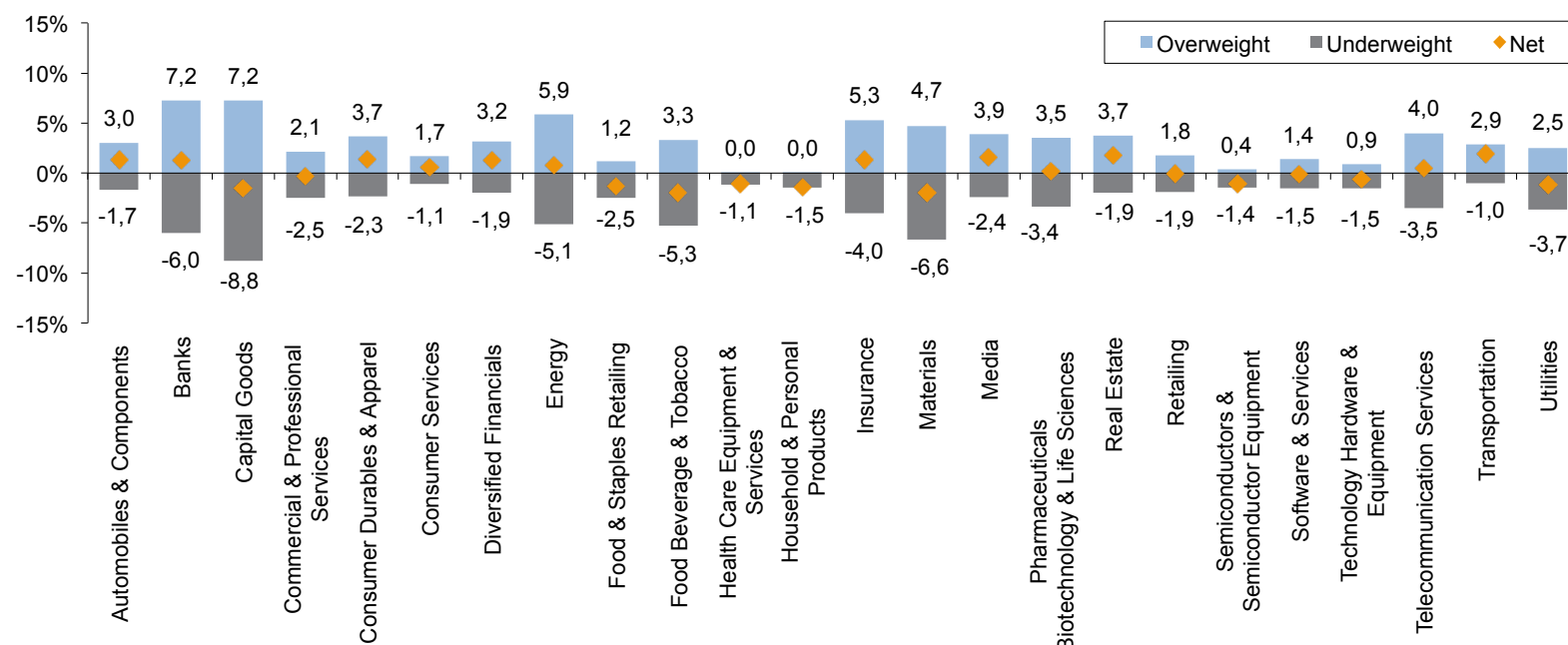
### Key stock detractors

TDC (o)
Unipol Gruppo Finanziario (o)
Leoni (o)
Drax (o), National Grid (u)
ArcelorMittal (o), Stora Enso (o)

Source: FactSet. The Fund is an actively managed portfolio; holdings, sector weights, allocations and leverage as applicable, are subject to change and the Fund is managed to internal guidelines which are not absolute and can change over time. The inclusion of the securities mentioned above is not to be interpreted as recommendations to buy or sell.

## Maximise exposure to best ideas whilst minimising incidental risks

### Sector exposure & net positioning

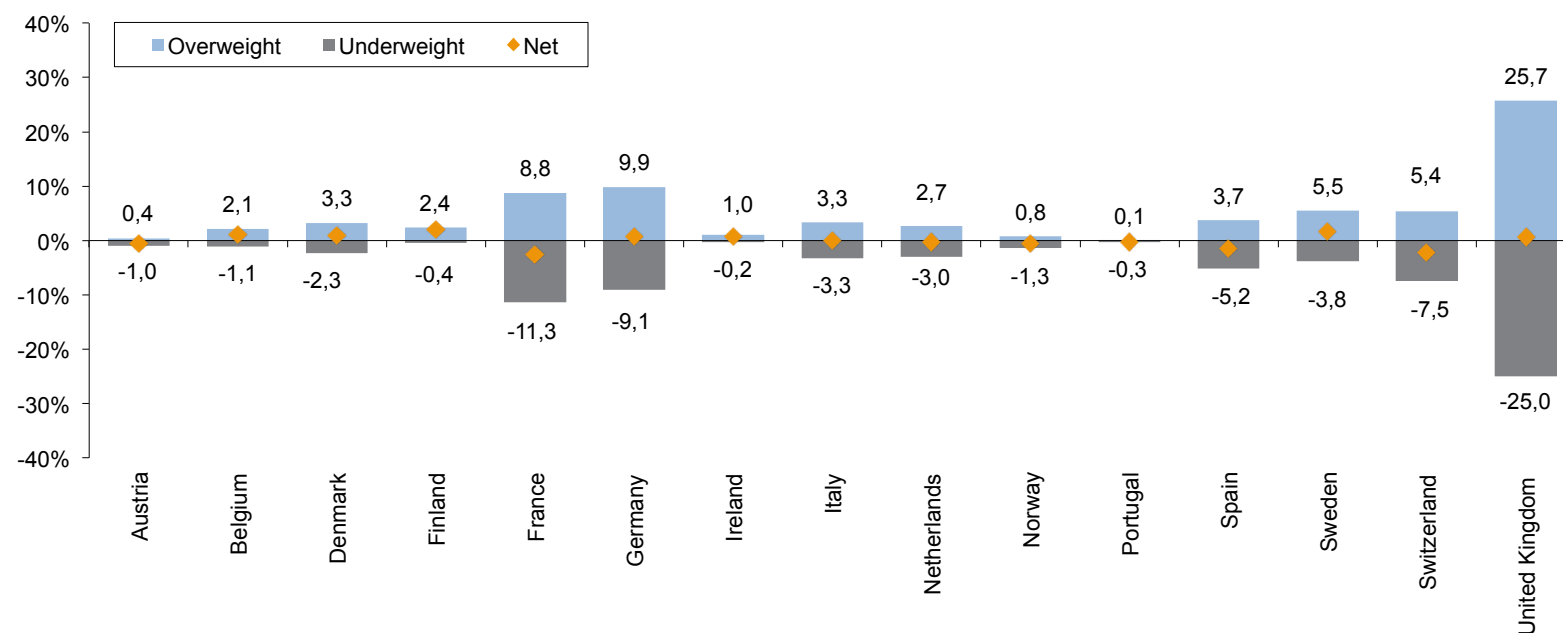


Source: J.P. Morgan Asset Management as at 31 August 2014. Allocations are made at the manager's discretion and can be changed without notice.



## Maximise exposure to best ideas whilst minimising incidental risks

### Country exposure & net positioning



Source: J.P. Morgan Asset Management as at 31 August 2014. Allocations are made at the manager's discretion and can be changed without notice.

## Summary: JPMorgan Funds – Europe Equity Plus Fund

### FUND FACTS

- The only fund in the European universe to be top decile in each of the last 5 calendar years\*
- Returned over 140% over 5 years\*\*
- Morningstar rating\*\*\* ★★★★★

### FUND STATISTICS

- Almost EUR 4bn in AUM
- Always 100% net exposure
- Gross exposure of between 140% - 180%

### ACTIVE EXTENSION

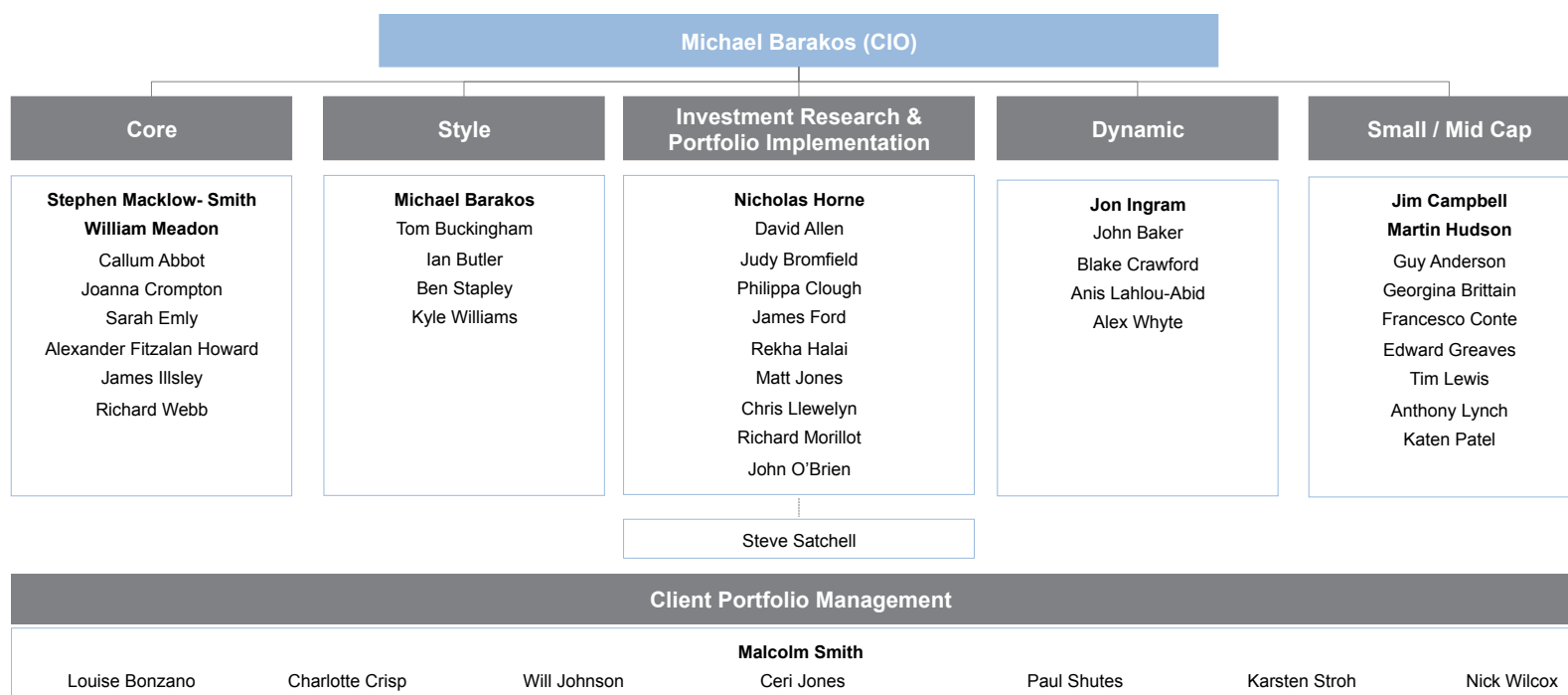
- Making your money work harder for you
- We have just as many high conviction short ideas as we do long ideas
- Investment team have managed long & short positions successfully since 2003

Source: \* Based on Morningstar Europe large cap blend, value and growth universes as at 30 September 2014. \*\* Source: J.P. Morgan Asset Management, data gross of fees as at 30 September 2014.

\*\*\* Source: Morningstar as at 30 September 2014. Morningstar Ratings™ and Morningstar Universe: © Morningstar. All Rights Reserved. Past performance is no guarantee of future results.

## Appendix

## Specialist investment teams with an average of 15 years experience

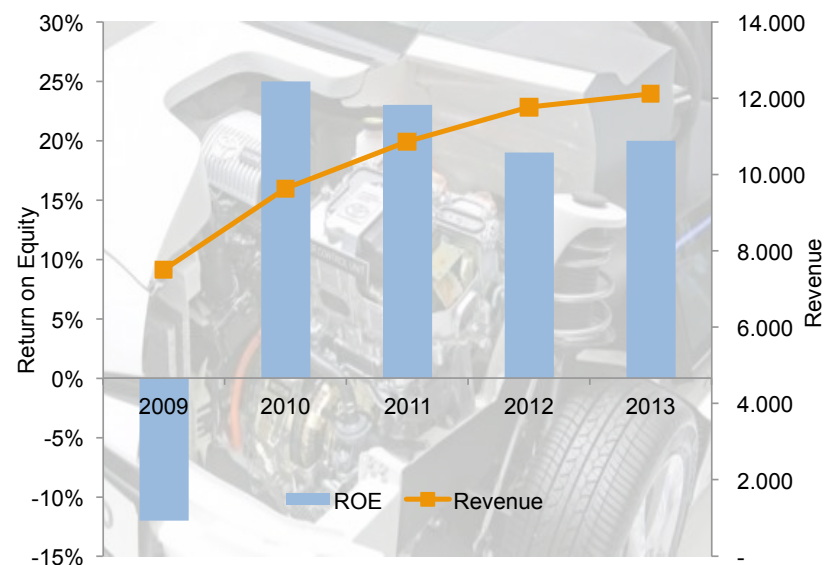


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## Valeo – attractively valued with strong operational momentum

Automobile Components – provides technology for CO<sub>2</sub> emission reduction

- 70% of Valeo's products reduce CO<sub>2</sub> emissions
- EU legislation requires 18% reduction in CO<sub>2</sub> by 2015 and 40% reduction by 2021
- 13% year on year sales volume growth in European autos
- Strong operational momentum, forecast earnings up by 15% over 12 months
- ROE of 20%
- Only trades at a forward P/E of 13



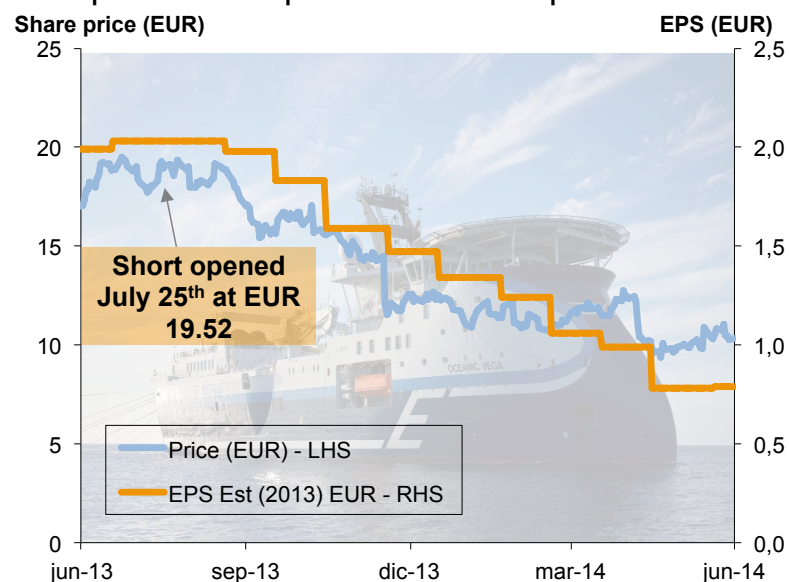
*...exposure to key automotive trends at an attractive valuation*

The inclusion of the securities mentioned above is not to be interpreted as recommendations to buy or sell. Forecasts, projections and other forward looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated. Source: Bloomberg, Factset, Societe Generale, Cross Asset Research, 4 February 2014, Redburn Fundamental Research, Automotives, 5 February 2014.

## CGG Veritas – short example

Oil services– seismic imaging provider for oil & gas companies to explore and develop reserves

- French listed
- Oil company capex spend in decline which limits CGG's growth potential
- Over capacity in the industry means margin pressure
- Company has seen its earnings downgraded by more than 60% in the last 12 months with two recent profit warnings
- Stock is not cheap, trading at more than 19x P/E for 2013
- Low quality business with a ROIC of just -11%



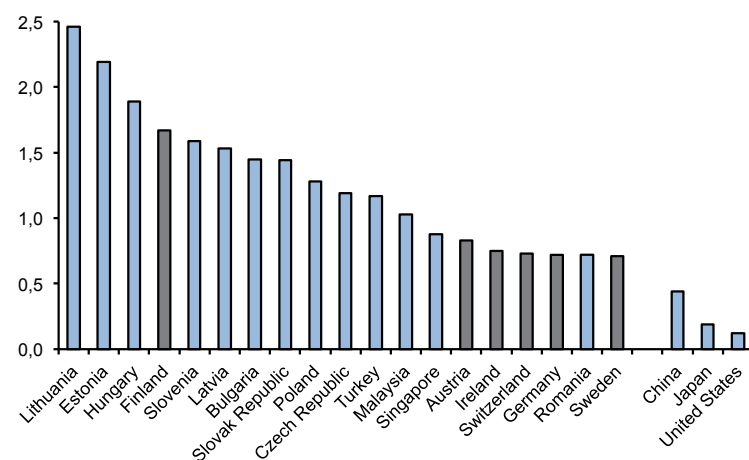
Source: Datastream as at 30 June 2014.

*...industry headwinds coupled with expensive valuation and low quality...*

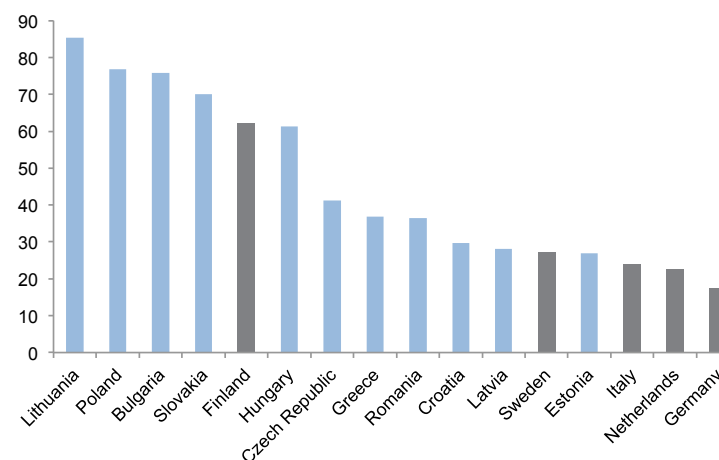
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## Russian sanctions have little impact on Europe

Export Exposure to Russia (% of national GDP)



Imports of Russian energy as % of total energy imports

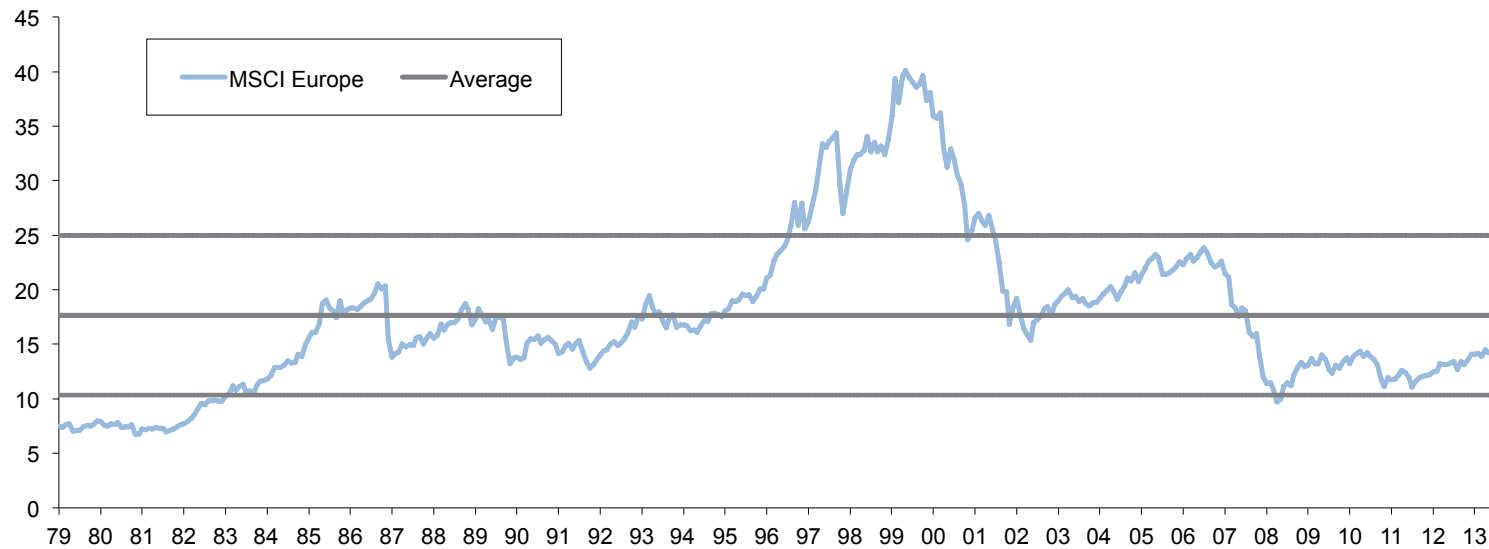


Source: Credit Suisse as at 31/7/14

## European equity valuations are attractive relative to history

### Cyclically adjusted Price to Earnings (Shiller)

P/E ratio (X)

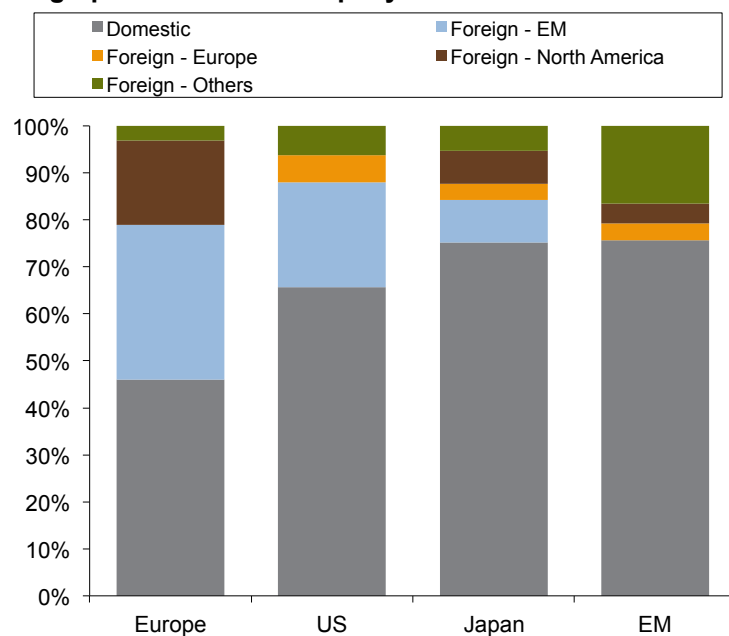


Source: MSCI, OECD, Morgan Stanley, Data as at 30 June 2014. Grey solid line represents average, dotted lines represent +/- 1 standard deviations from time series average.



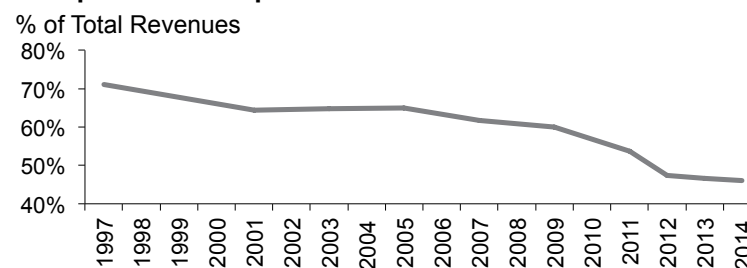
## The importance of international markets to European revenues

**Geographic source of company revenues**

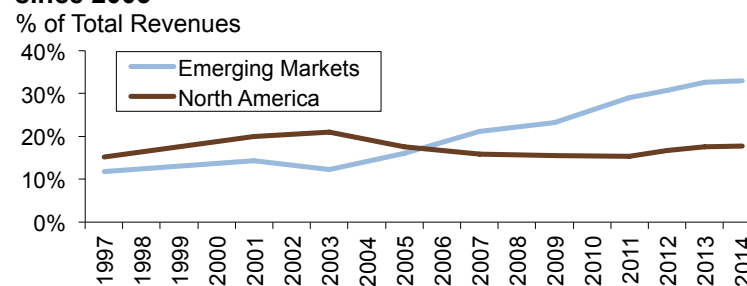


Source: Morgan Stanley, 19 May 2014.

**European Sales exposure to domestic market**



**Sales exposure to Emerging Markets has taken off since 2003**



## JPMorgan Funds – Europe Equity Plus Fund

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### Fund objective and risk profile

#### Investment objective

To provide long term capital growth, through the exposure to European companies by direct investments in securities of such companies and through the use of financial derivative instruments

#### Risk profile

- The value of your investment may fall as well as rise and you may get back less than you originally invested.
- There is no guarantee that the use of long and short positions will succeed in enhancing investment returns.
- The value of equity securities may go down as well as up in response to the performance of individual companies and general market conditions.
- The value of financial derivative instruments can be volatile. This is because a small movement in the value of the underlying asset can cause a large movement in the value of the financial derivative instrument and therefore, investment in such instruments may result in losses in excess of the amount invested by the Sub-Fund.
- The possible loss from taking a short position on a security may be unlimited as there is no restriction on the price to which a security may rise. The short selling of investments may be subject to changes in regulations, which could adversely impact returns to investors.
- Movements in currency exchange rates can adversely affect the return of your investment. The currency hedging that may be used to minimise the effect of currency fluctuations may not always be successful.
  - Further information about risks can be found in “Appendix IV – Risk Factors”.

Prior to 1 January 2013, the fund was called JPMorgan Funds – Europe 130/30 Fund.

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# J.P. Morgan Asset Management

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