Total Return Investing, Diversified Growth and the Default Option for DC Schemes

2008

The growth in the DC market

- Growing trend for closure of DB schemes has created a boom in DC plans
- Of all pension plans offered to new employees, 83% are DC plans, compared with 74% in 2006*
- The median DC scheme size was just under £4 million in 2006 and has doubled to just over £8 million in 2007**
- UK pension market is currently valued at approximately £650 billion, £40 billion in DC
  - By 2015 this is expected to rise from 6% to 22%

* Watson Wyatt FTSE 100 Defined Pension Plan 2007/2008 Survey Results

** Hewitt 2007 DC and AVC survey

Scheme review and the dominance of the default option in DC

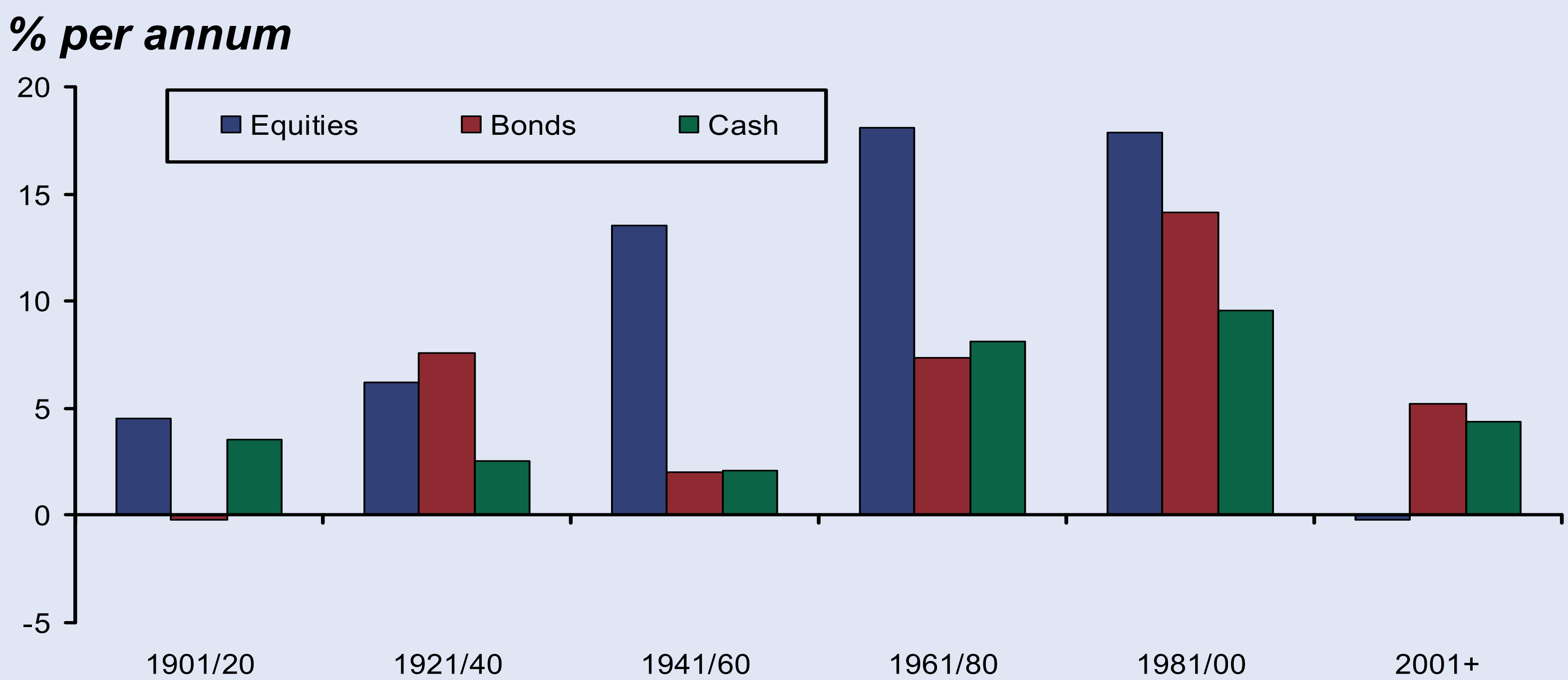
- DC investing shifts the onus of investment decision-making onto the members shoulders
- 88% of schemes have reviewed their scheme in the last three years with 51% doing so in the last 12 months*
- 80% of members select the default fund in the 70% of schemes where a default is offered*
- 69% of schemes offer a passive managed lifestyle fund as a default investment option**
- 41% describe alternative or diversified funds as being suitable for the default though few in reality have implemented such a strategy*

* Engaged Investor & JPMorgan Asset Management DC Trustee Survey 2008

** Watson Wyatt FTSE 100 Defined Pension Plan 2007/2008 Survey Results

Asset class returns

Equities have usually performed better than bonds or cash



Sources: ABN Amro, JPMAM (UK market)

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Equity returns are rarely "average"

U.S. Large Cap Equity
Inflation-adjusted annualized returns

1950 – 1965	14%
1965 – 1982	0%
1982 – 1999	15%
1999 – 2016	?

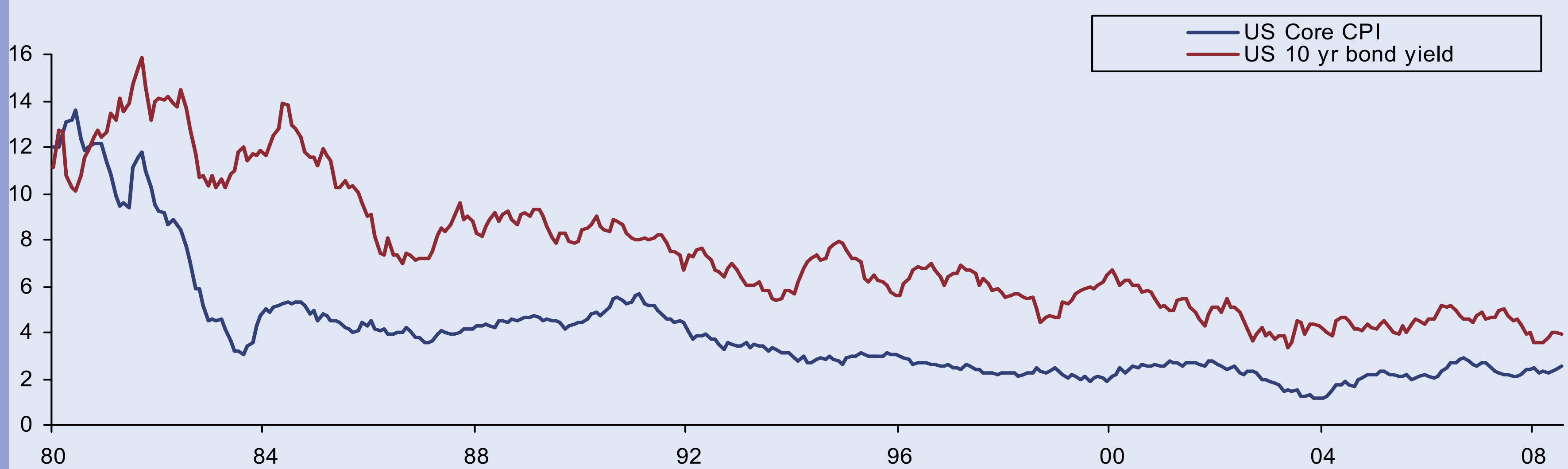
Sources: S&P, Ibbotson Associates, JPMorgan

Lower risk portfolios can take a different approach

- Individual investors have an asymmetric approach to risk – their real risk is losing money
- They care increasingly less about index benchmarks
- In a low nominal return environment beta is not enough
- Absolute return is attractive but liquid sources are in short supply

Traditional total return *was* fixed income oriented

Past: ■ **During declining inflation and yields, bonds exhibited an attractive total return profile**



Source: MacData, JPMAM, Datastream

Now: ■ **Interest rates low, credit spreads have narrowed**
■ **Equity dividends should increase**

Traditionally growth *has been* equity oriented

But can individual investors tolerate this kind of volatility?

Source: JPMorgan Asset Management. As at 31st May 2008

Equities – MSCI World (in GBP)

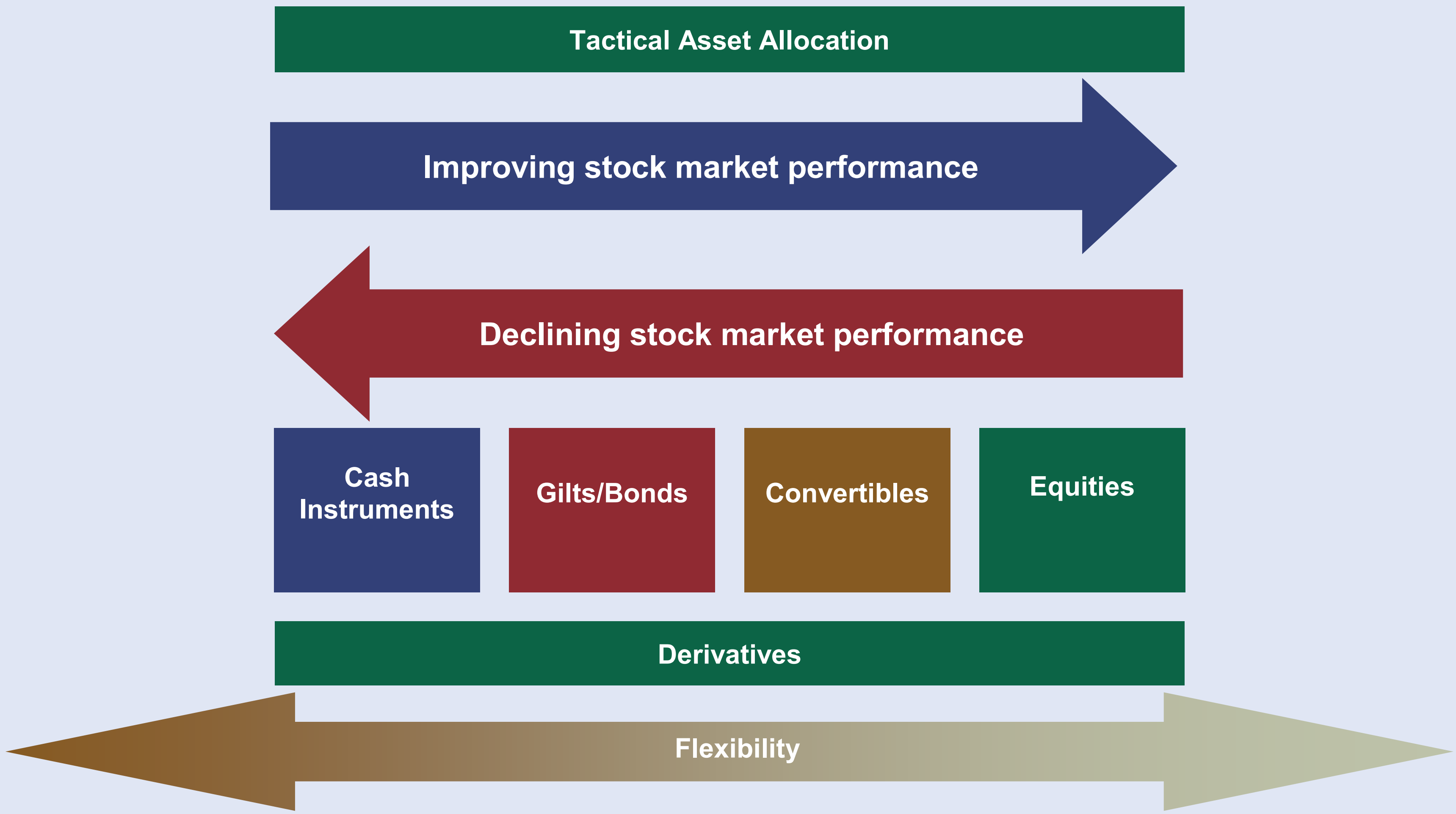
The building blocks for managing total return funds

- Agnostic to choice of investment assets
- Top down/bottom up
- Identify sources of return
  - sectors
  - regions/countries
  - themes
  - equities
  - bonds
  - convertibles
  - currencies

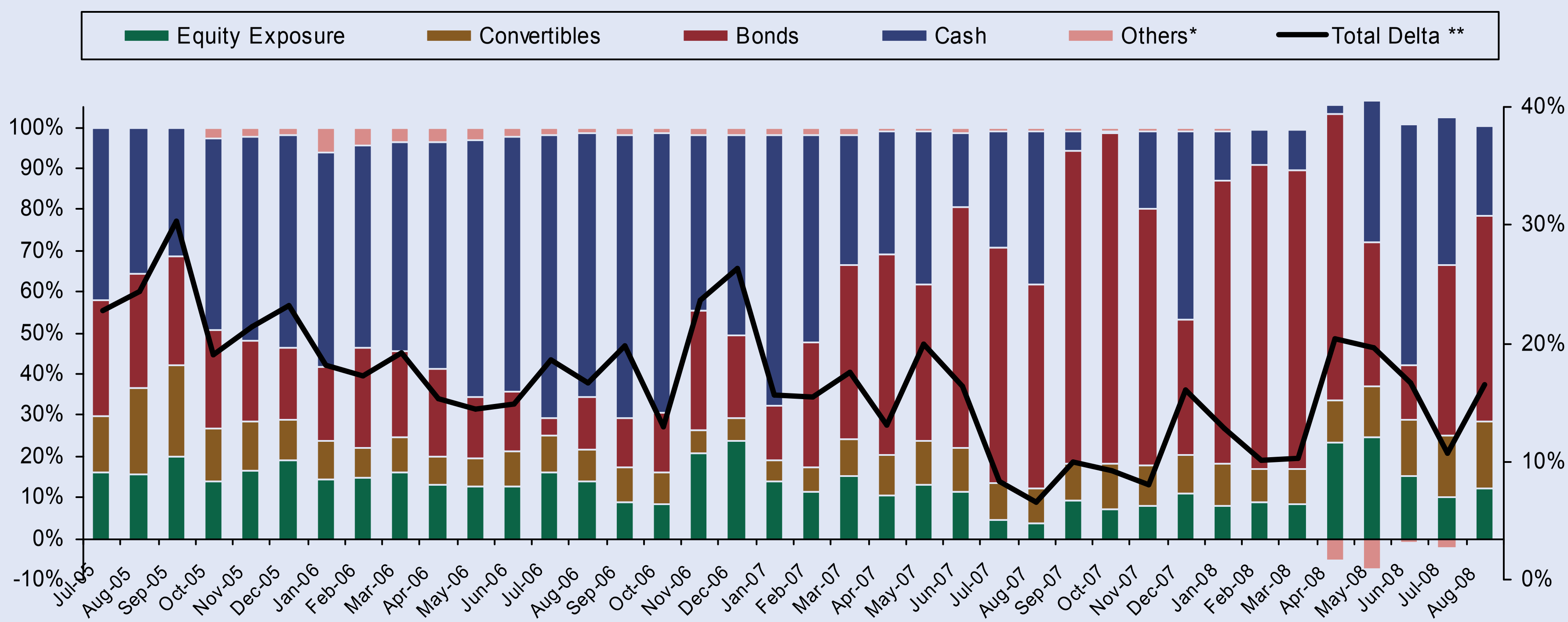
- Active risk control
  - economic factors
  - security specific factors
  - market and security exposures
  - diversification
  - “Value at Risk”
  - stress testing
  - hard controls

... effective management of downside risk

The flexibility to adapt to all markets



Fund allocation to different asset classes

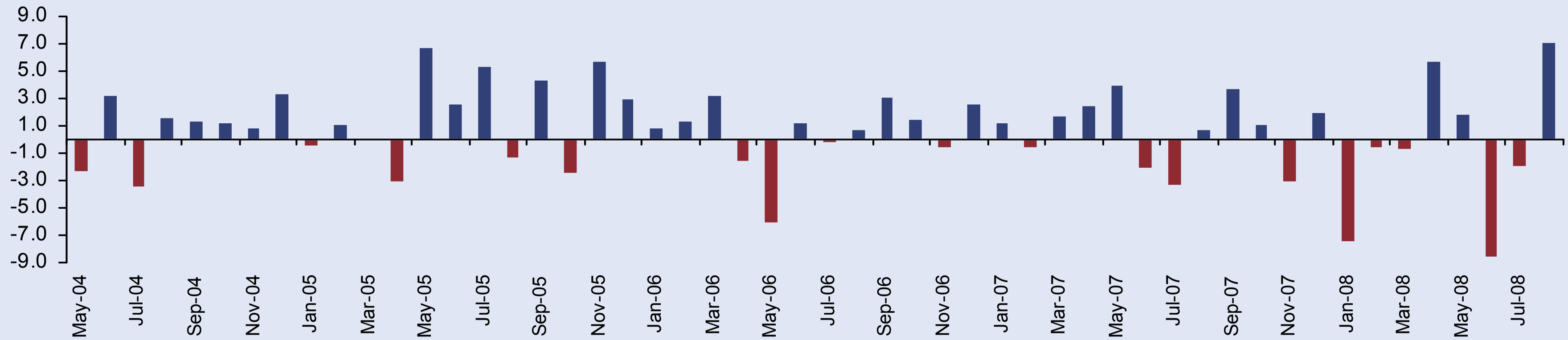


* Money Market Funds, Options and FRN

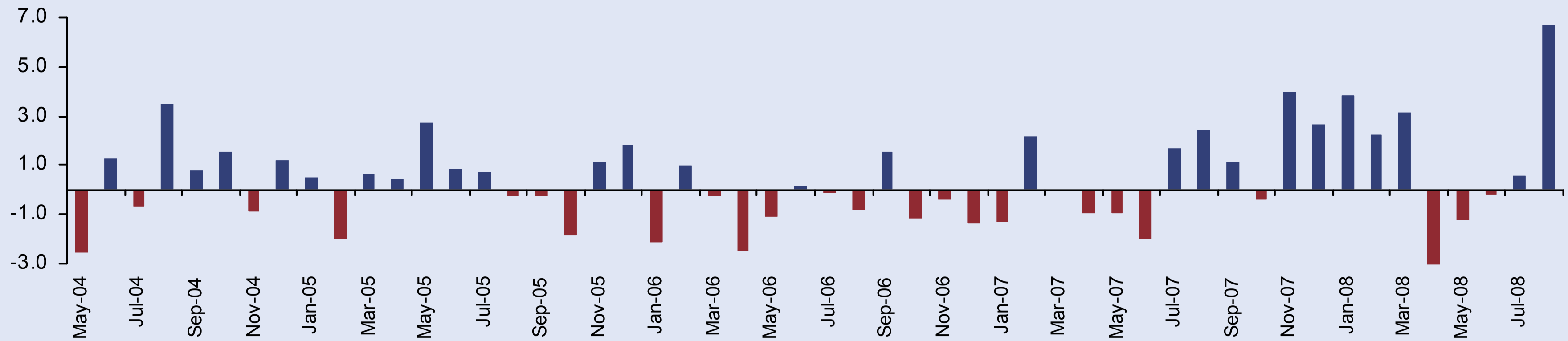
** Equity specific risk from stock and convertibles

Monthly performance – Equity & Bond markets

MSCI World



JPM GBI

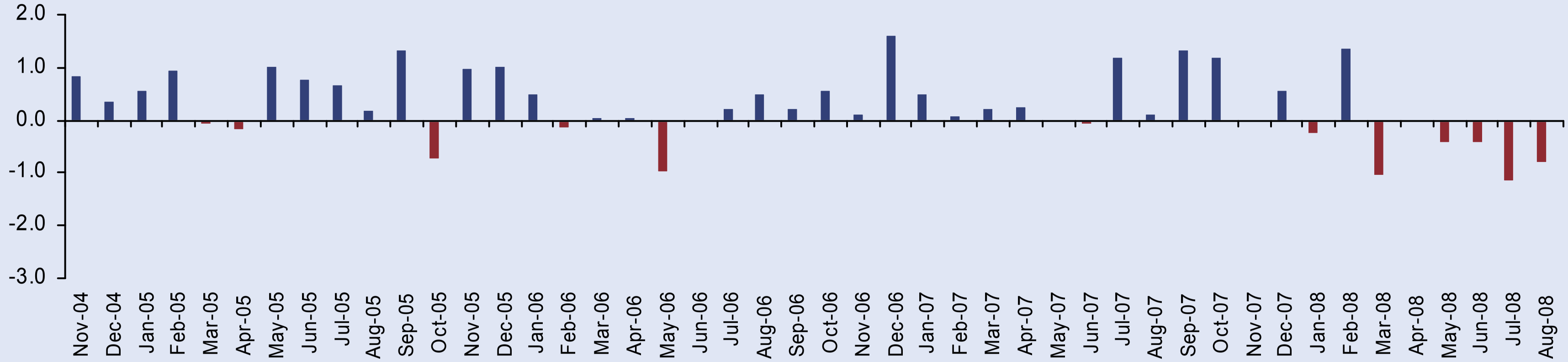


Source: Datastream, Sterling

JPMorgan Asset Management

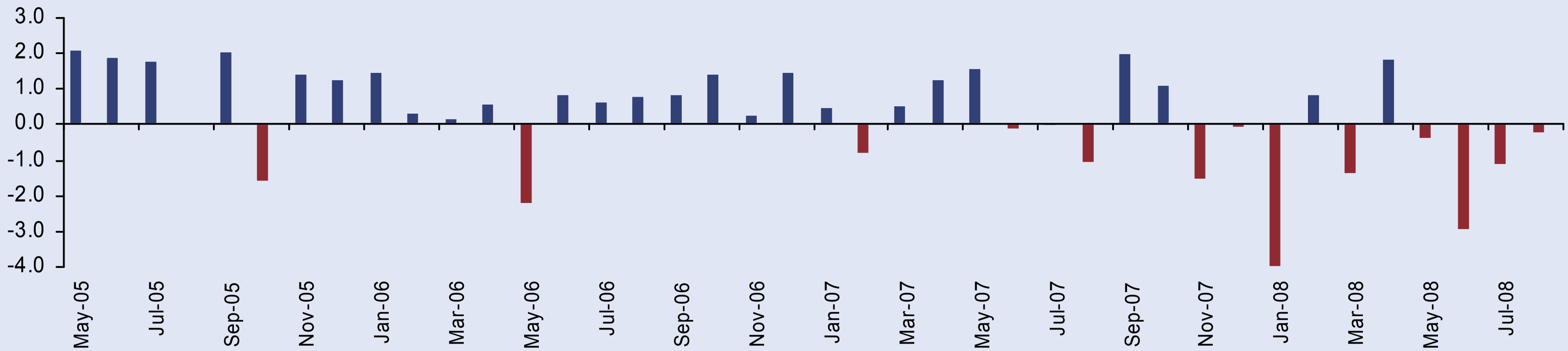
Monthly performance – Total Return funds

Cash plus 3 fund net performance



Performance is for A share class, EUR – JPM Capital Preservation Fund

Cash plus 5 fund net performance



Performance is for A share class, EUR – JPM Capital Appreciation Fund

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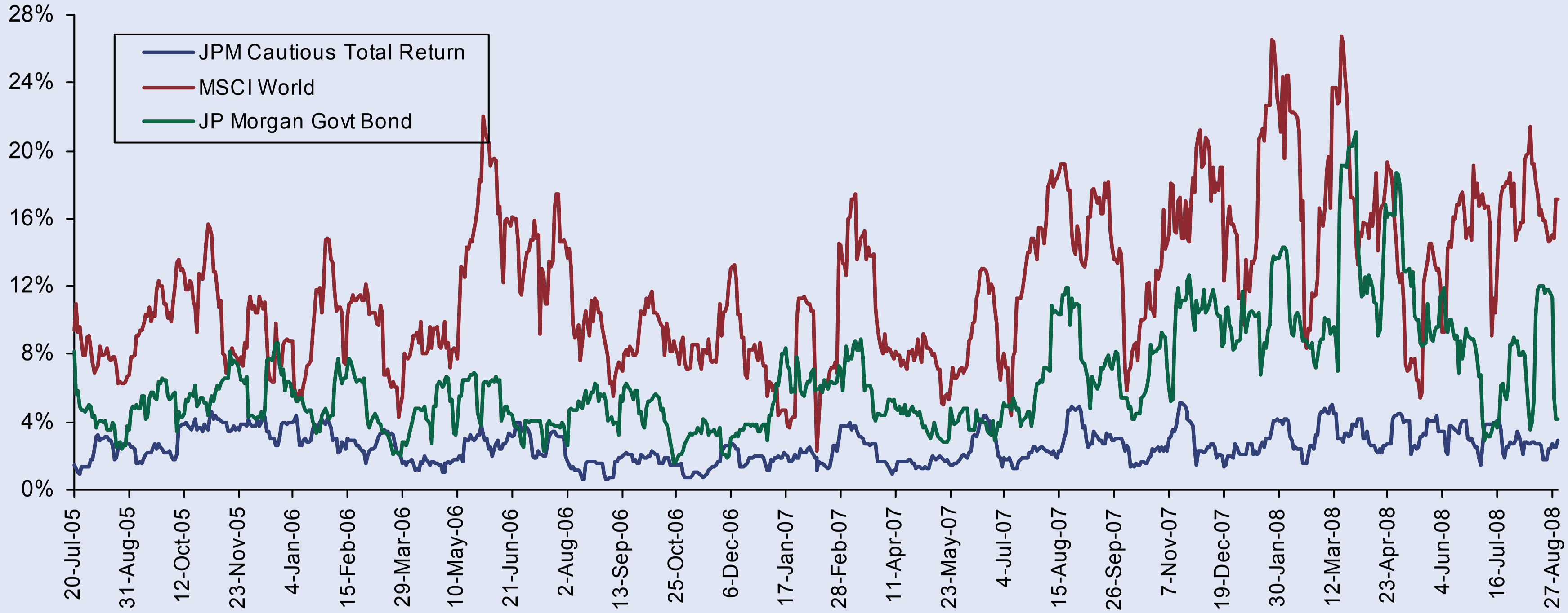
Asset Management

Low volatility

10 days volatility (%), 19 July 05 – 31 August 08



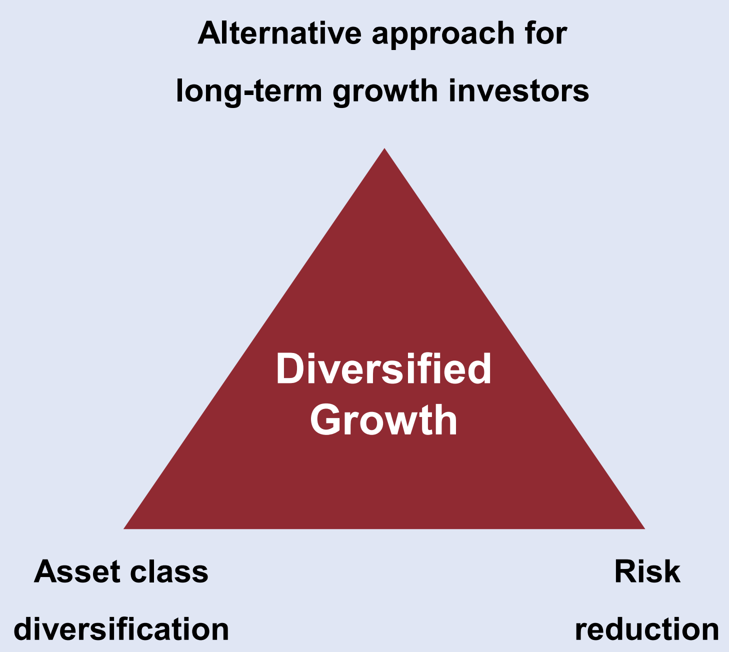
Source: Bloomberg, Datastream
Currency: GBP

CTR volatility is more in-line with bonds than equities

Benefits of Total Return funds

- A core holding
- An alternative to alternatives
- Getting the best from an active manager
- A flexible alternative to balanced funds

Diversified Growth



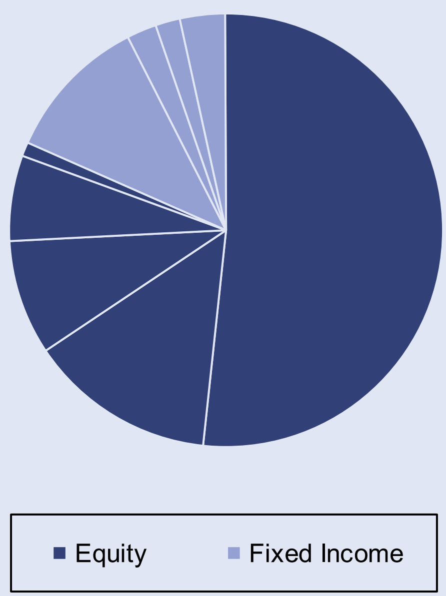
To achieve an equivalent level of return to a global equity portfolio with a lower level of volatility

… diversification of equity risk into sources of long-term growth

Diversified Growth - Asset allocation

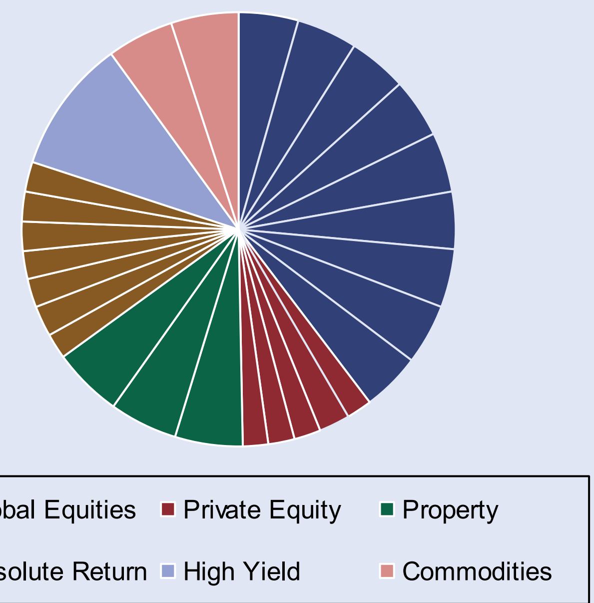
Traditional balanced

(%)



Diversified growth

(%)



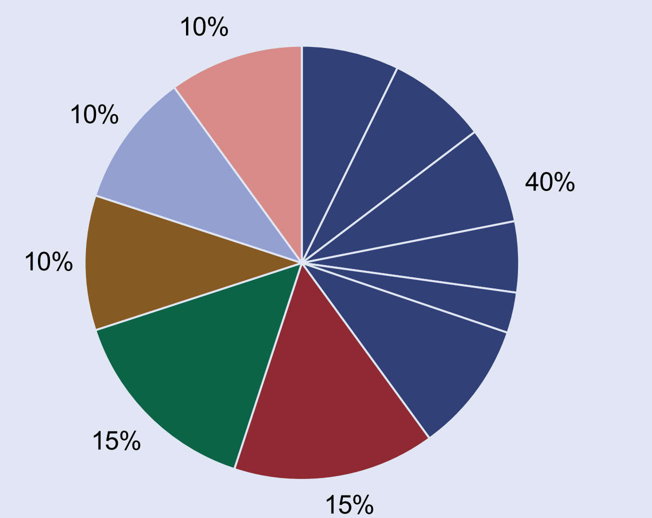
… different from typical balanced or global equity portfolios

Diversified Growth Fund

- Short term customised benchmark
  - Reflects strategic asset allocation
- Long term return expectations
  - 8-10% p.a. over long term (net of fees)
- Expected total portfolio volatility lower than equities
  - 8-10% over long-run
- Tactical asset allocation
  - +/-10% of benchmark
- Typically never go to 0% in any asset class
  - essential to maintain diversified exposure within fund at all times
- Highly liquid for DC investors

Strategic Asset Allocation

(%)



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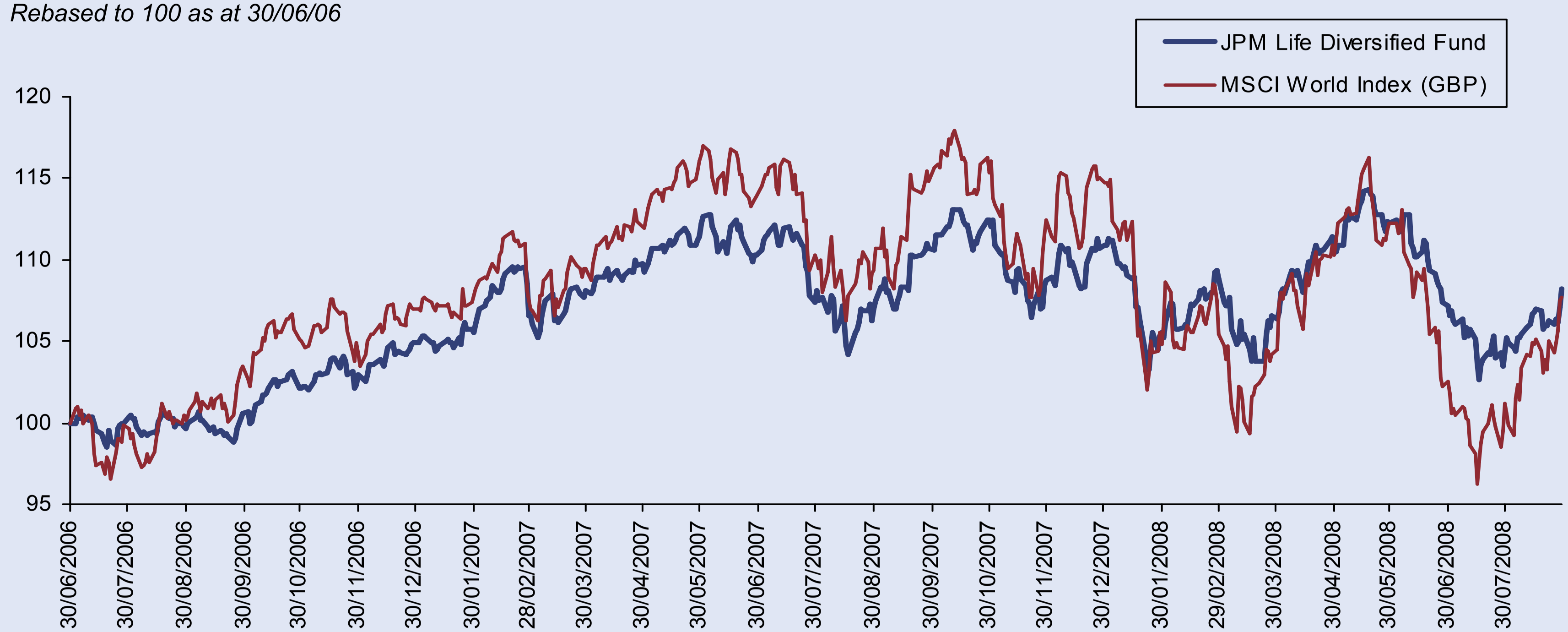
Performance versus equities

Rebased to 100 as at 30/06/06



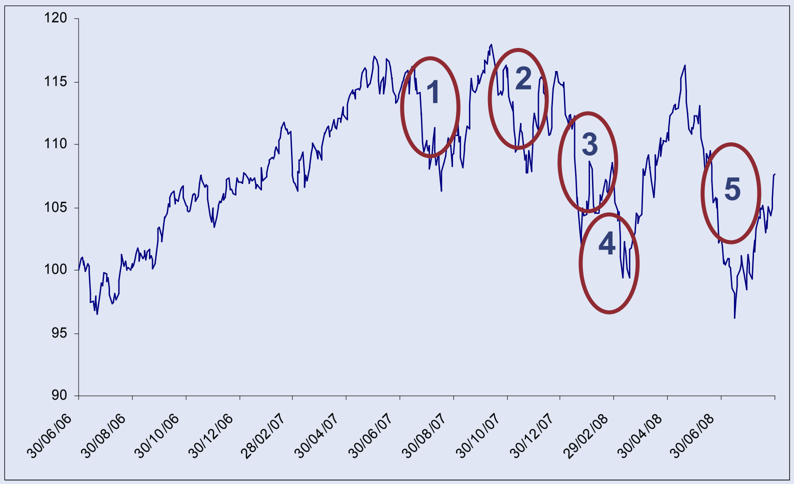
Source: JPMAM JPM Life Diversified Growth Fund

Volatility - MSCI: 13.6% JPM Life Diversified Growth Fund: 8.7%

Lower risk than global equities

Cumulative daily performance to 31st August 2008

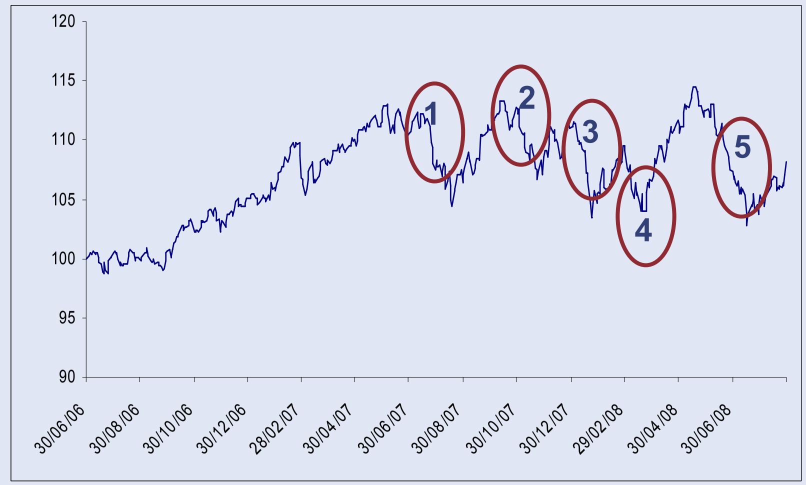
MSCI World (NDR)



Negative performance

1. 13/07/07 – 16/08/07 -8.51%
2. 31/10/07 – 22/11/07 -7.18%
3. 15/01/08 – 23/01/08 -9.16%
4. 26/02/08 – 10/03/08 -8.42%
5. 05/06/08 – 27/06/08 -9.60%

JPM Life Diversified Growth



Negative performance

1. 13/07/07 – 16/08/07 -6.48%
2. 31/10/07 – 22/11/07 -4.96%
3. 15/01/08 – 23/01/08 -5.18%
4. 26/02/08 – 10/03/08 -2.94%
5. 05/06/08 – 27/06/08 -3.89%

Data source: Bloomberg, GBP

JPMorgan Asset Management