Emerging Markets Debt and it’s solvency capital requirements under QIS5 / Solvency II

Emerging Market Investment Grade Strategy

Emerging Market Local Currency Fund
Emerging Market Corporate Bond Fund
Emerging Market Bond Fund
Emerging Market “A Strategy”

September 2010

Executive Summary

- Goal: Increase target yield of fixed income portfolio, keeping risk control in mind, i.e. risk-return-optimization
- Background: Developed markets bond yields are currently insufficient to meet return targets of around 4%
- Emerging Markets Debt may be an alternative source for yield diversification
  - EMD is moving towards becoming an Investment Grade asset class
  - EMD can already be implemented as Investment Grade only
- Advantages of EMD as an Investment Grade only Strategy
  - Invest in a continuously developing asset class
  - Diversifier in developed markets bond portfolio
  - Risk controlled EMD strategy
  - Efficient use of capital regarding Solvency II
- J.P. Morgan Asset Management
  - Leading manager in Emerging Markets Debt
    - Global team with single investment process
  - Extensive experience with institutional clients in this asset class

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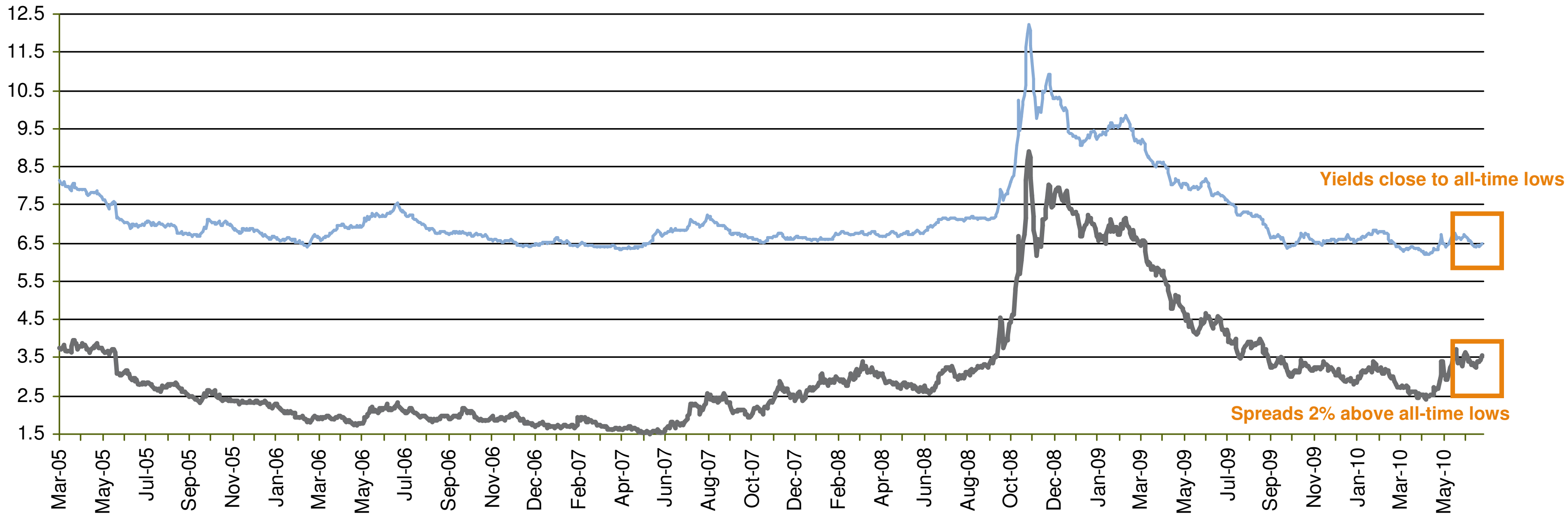
Agenda

- Why consider Emerging Markets Debt?
- EMD Investment Grade Strategy
- Strategy Proposal and Investment Process

Emerging Markets:
After the recent rally – where do we stand ?

EMBI Global Sovereign Spread and Yield

In %



Source: J.P. Morgan Securities Inc., June 2010

The above information is shown for illustrative purposes only and should not be relied upon by you in evaluating the merits of investing in any securities or strategies mentioned herein.

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Conclusion - Yield Compression in all fixed income asset classes

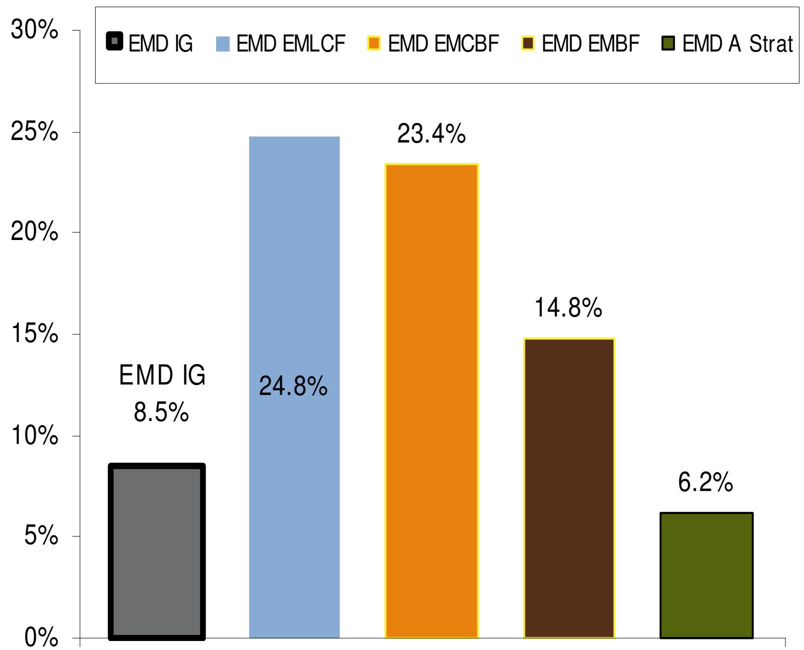
- Reasons – Developed Markets:
  - Slow growth, low inflation, low interest rates
  - Decrease of event-risks; Increase of credit quality in many sectors
- Increase in Credit quality especially true for Emerging Markets
  - 2000 Rating average for EMBI Global was B+/BB-
  - 2010 Rating average for EMBI Global is BB+/BBB-
- Trend for further credit improvement in Emerging Markets bonds
  - Stronger Growth, mostly independent Central Banks, focus on inflation
  - Development of social security systems, stronger democracies, greater fiscal discipline
- Is Emerging Markets Debt becoming a pure Investment Grade investment class?

Source: J.P. Morgan Securities Inc., June 2010

Summary – Solvency capital charges (SCR) under QIS5

Fund calculation for the Emerging Market accounts

Estimated market SCR requirements*1



Yield	4.8%	6.4%	5.8%	5.7%	4.2%
Risk Adjusted Yield	4.3%	4.8%	4.5%	4.8%	3.9%

EMD IG : Holds only investment grade securities and is fully hedged*2. The biggest contributor is spread risk

EMD EMLCF : Holds mainly investment grade securities however is unhedged*3. The biggest contributor is currency risk

EMD EMCBF : Fully hedged into USD, holds more lower grade securities*4; biggest driver is spread risk

EMD EMBF : Hedged into USD, holds mainly lower grade securities*5; biggest driver is spread risk.

EMD A Strat : Hedged into USD Holds Upper Grade securities*6 and fully hedged currency exposure

Spread Charge was calculated as a function of the credit rating and duration*7 of the position distinguishing between Corporate and Government bonds.

*1 Calculations are based on holdings as of the 18th of August 2010, SCR is correlated
*2 EMIG: Holds Government and Corporate bonds
*3 EMLCF: Holds Government and Corporate bonds
*4 EMCBF: Holds Corporate bonds
*5 EMBF: Holds Government, Corporate bonds and Futures
*6 A Strat: Holds Government and Corporate bonds
*7 Duration was based on modified duration derived by JPMorgan Fixed income System FIS II

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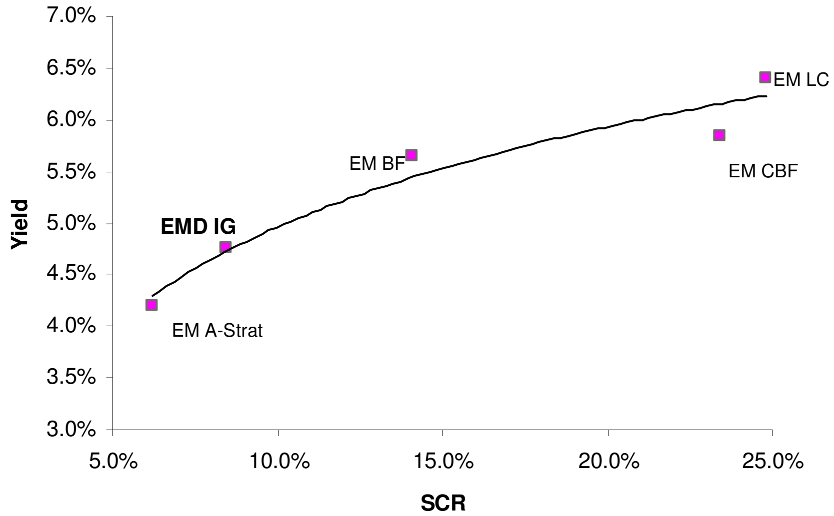
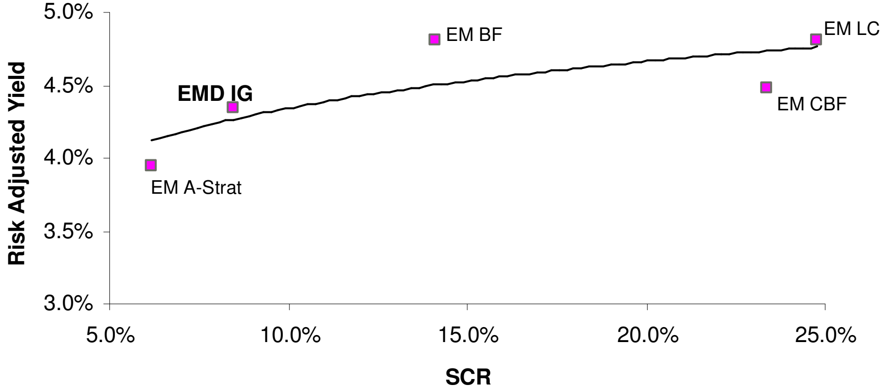
Optimum Portfolio – Risk Adjusted Yield





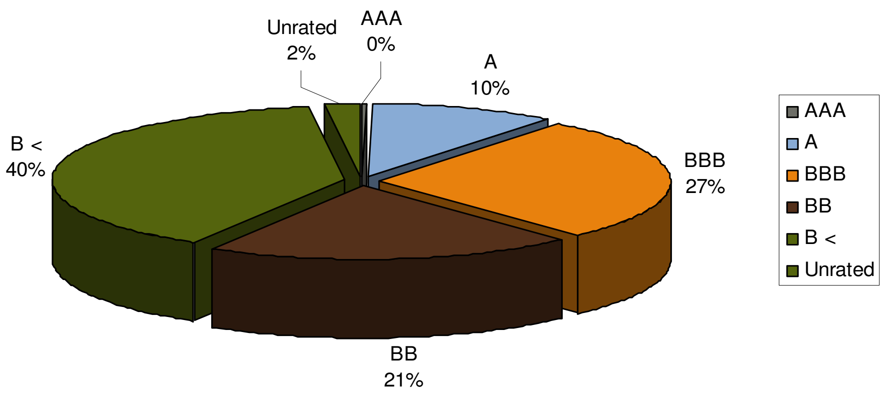
- EMD IG is the optimum portfolio y risk adjusted yield.*1
- Both EMD IG and EMD BF have lower exposure to corporates as compared to Government bonds. Ratios of Corporate bonds to Government bonds; EMD IG (30:70) and EMD BF (18:78) .*2
- EMD IG holds 14% of OECD Government bonds and EMD BF hold 9% of OECD Government bonds.*3
- The key determinant for the lower charge is the quality of bonds held in the EMD IG

*1 Risk adjusted Yield is a proportional reduction in yield by the SCR calculated as Y_r =Y(1-SCR) where Yr is the risk adjusted return and Y the yield

*2 QIS5 has higher SCR for Corporate bonds than for Government Bonds
*3 OECD Government bonds have no spread charge

Emerging Market Corporate Bond fund – Spread risk

Fund composition - Corp Bonds Credit exposure



- Investing in this fund will require **23.4% capital charge**
- The Yield = 5.8%
- Risk Adjusted Yield*1 = 4.5%
- There is no Govt bond exposure
- Corporate bonds make up 90% of Portfolio
- Portfolio is fully hedged hence no currency exposure
- 37% of bonds are investment grade

*1 Risk adjusted Yield is a proportional reduction in yield by the SCR calculated as Y_r =Y(1-SCR) where Yr is the risk adjusted return and Y the yield

Source: JPMAM calculations; Positions based on fund/portfolio holdings as of 18th August 2010,

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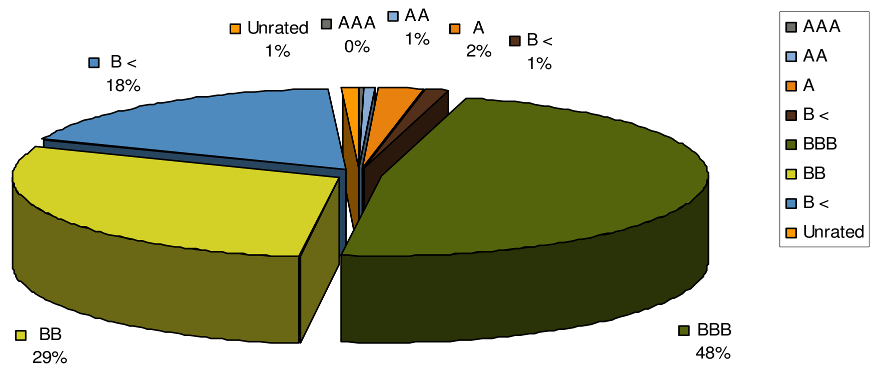
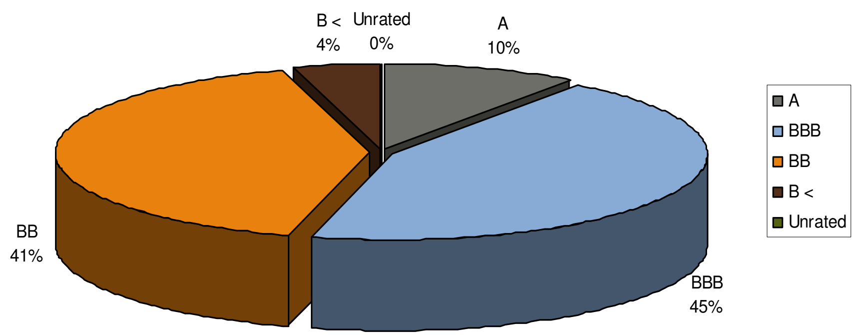
Emerging Market Bond fund

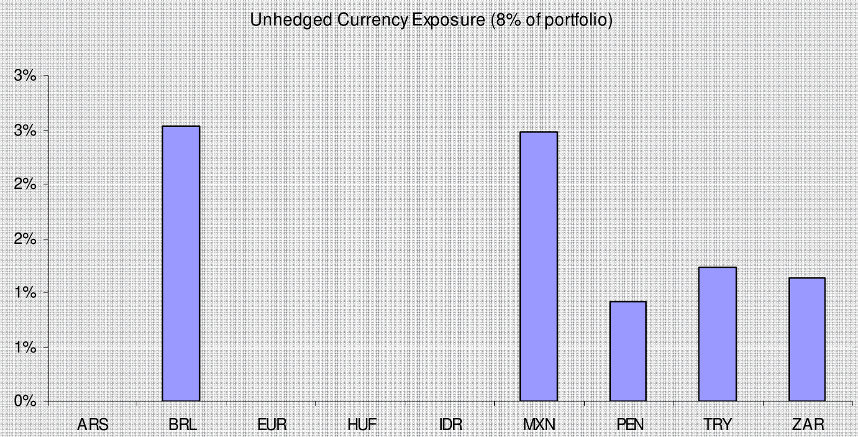
Fund composition – Government Bonds Credit exposure



Fund composition – Corporate Bonds Credit exposure



- Investing in this fund will require **14.8% capital charge**
- The Yield = 5.7%
- Risk Adjusted Yield*1 = 4.8%
- Government bonds make up 78% of Portfolio
- Corporate bonds make up 18% of Portfolio
- Portfolio is not fully hedged. There is a 2% charge for the currency exposure



*1 Risk adjusted Yield is a proportional reduction in yield by the SCR calculated as $Y_r = Y(1\text{-}SCR)$ where Yr is the risk adjusted return and Y the yield

Source: JPMAM calculations; Positions based on fund/portfolio holdings as of 18th August 2010,

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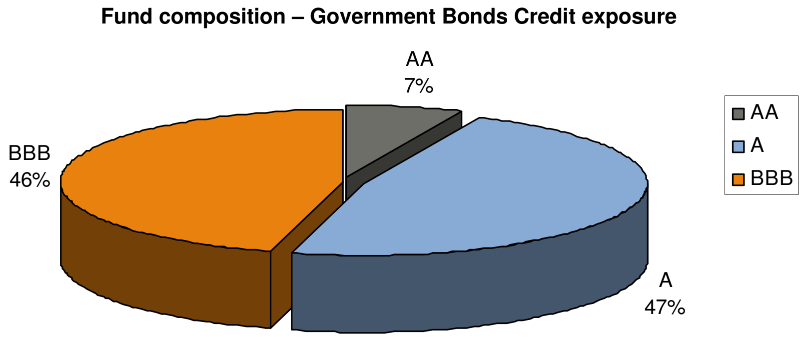
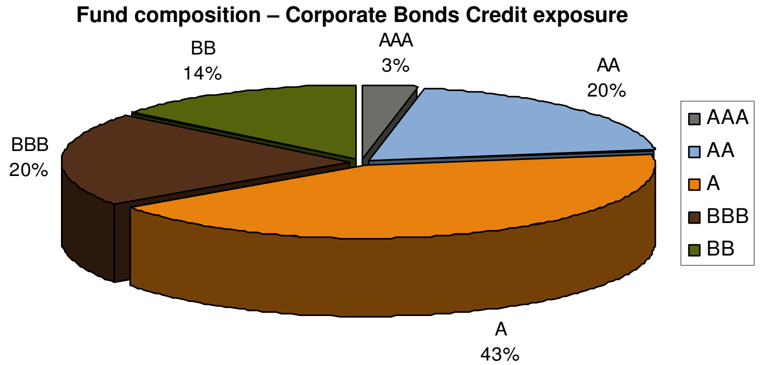
Emerging Market "A Strategy" mandate – Spread risk





- Investing in this fund will require **6.2% capital charge**
- The Yield = 4.2%
- Risk Adjusted Yield*[1] = 3.9
- Government bonds make up 64% of Portfolio
- Corporate bonds make up 33% of Portfolio
- Portfolio is fully hedged hence no currency exposure

*[1] Risk adjusted Yield is a proportional reduction in yield by the SCR calculated as Y_r =Y(1-SCR) where Yr is the risk adjusted return and Y the yield

Source: JPMAM calculations; Positions based on fund/portfolio holdings as of 18th August 2010,

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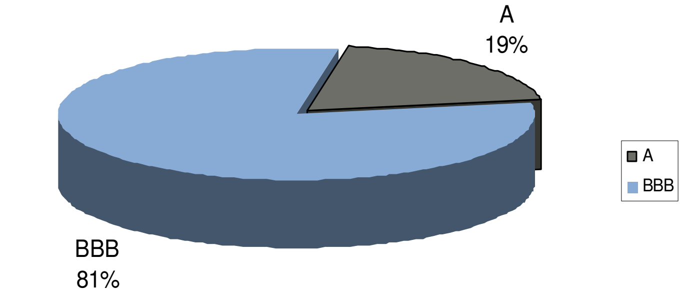
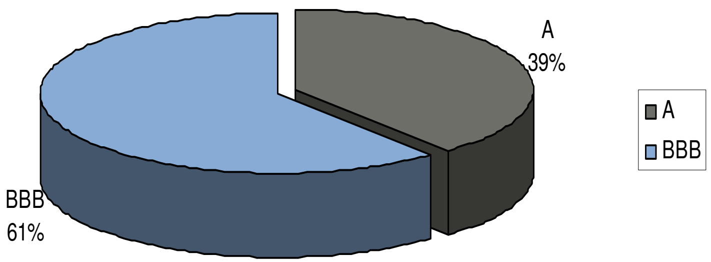
Emerging Market IG Strategy / Mandate / Fund – Spread risk

Fund composition – Government Bonds Credit exposure

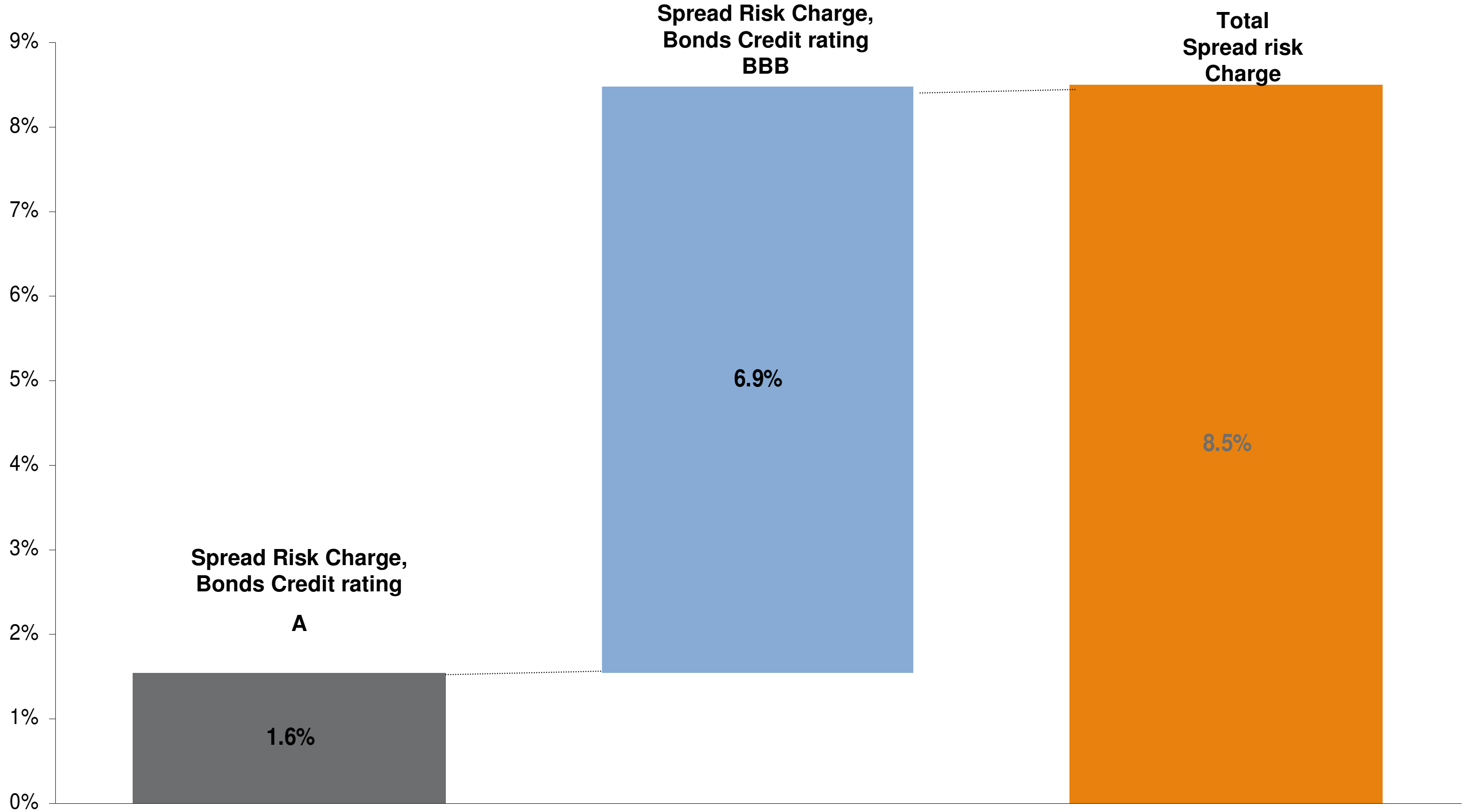


Fund composition - Corporate Bonds Credit exposure



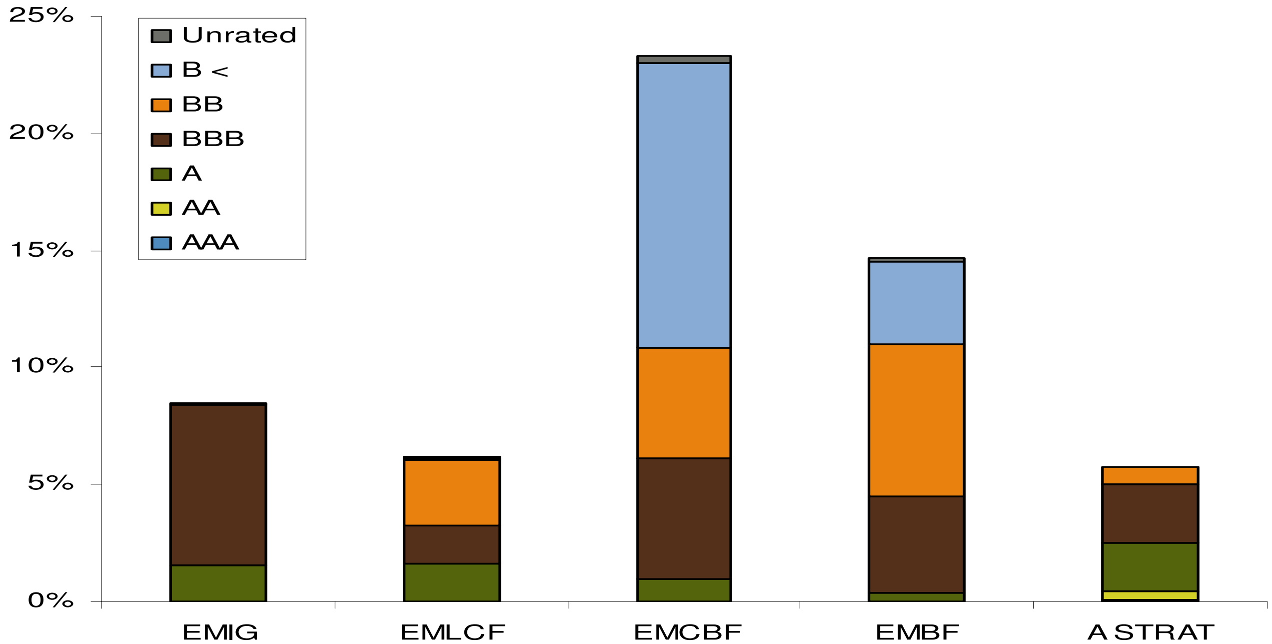
- Investing in this fund will require **8.5% capital charge**
- The Yield = 4.8%
- Risk Adjusted Yield*[1] = 4.3%
- Govt bonds make up 70% of portfolio
- Corporate bonds make up 30% of Portfolio
- Portfolio is fully hedged hence no currency exposure

Emerging Market Investment Grade fund / mandate – Spread risk



Source: JPMAM calculations; Positions based on fund/portfolio holdings as of 18th August 2010,

Summary – SCR Charge by Credit Grade Exposure (EX – currency)



	EMIG	EMLCF	EMCBF	EMBF	A STRAT
Spread Charge	8.5%	6.2%	23.4%	14.7%	6.2%
Currency	-	24.0%	-	2%	-
Total Charge*1	8.5%	24.8%	23.4%	14.8%	6.2%
Yield	5.3%	6.4%	5.8%	5.7%	4.2%
Duration	6.30	8.38	5.89	7.23	6.54

*1 Total Charge includes the benefits of correlations

Source: JPMAM calculations; Positions based on fund/portfolio holdings as of 18th August 2010,

Solvency capital (SCR) - sub market modules

	EMD IG	EMD EMLCF	EMD EMCBF	EMD EMBF	EMD A Strat
Duration*1	6.3	8.38	5.89	7.23	6.54
Equity	-	-	-	-	-
Property	-	-	-	-	-
Spread	8.5%	6.2%	23.4%	15.0%	6.2%
Currency	-	24.0%	-	2.0%	-
Concentration	-	-	-	-	-
Illiquidity	-	-	-	-	-

Total SCR uncorrelated	8.5%	30.2%	23.4%	16.8%	6.2%
Total SCR correlated	8.5%	24.8%	23.4%	14.8%	6.2%
Benefit of correlation	0.0%	5.42%	0.0%	1.9%	0.0%

*1 Duration was based on modified duration derived by JPMorgan Fixed income System FIS II

Source: JPMAM calculations; Positions based on fund/portfolio holdings as of 18th August 2010,

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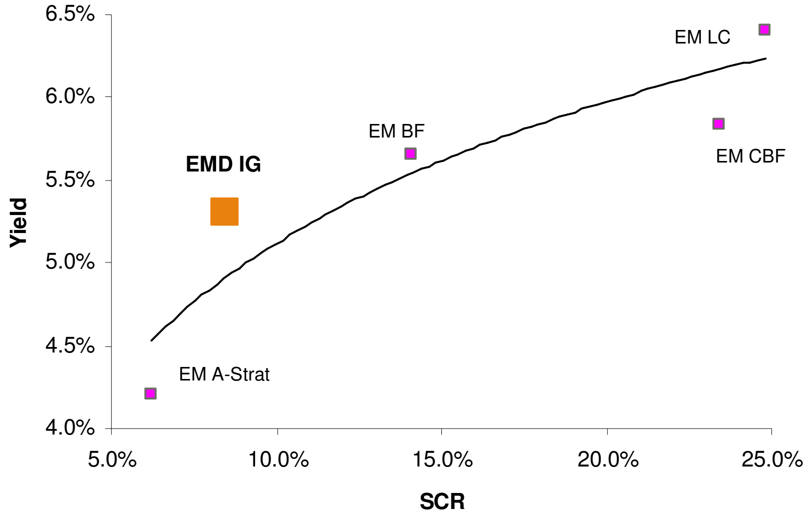
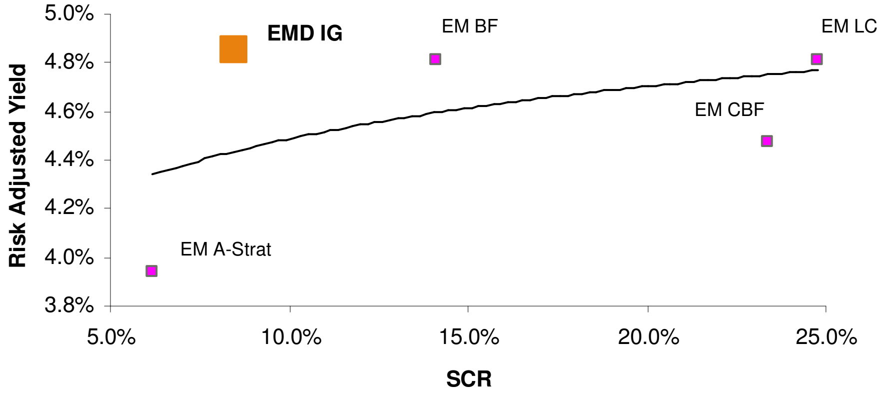
Optimum Portfolio – Yield and Risk Adjusted Yield vs. SCR





- EMD IG is the optimum portfolio. It has the highest Risk adjusted Yield.*1
- Both EMD IG and EMD BF have lower exposure to corporates as compared to Government bonds. Ratios of Corporate bonds to Government bonds; EMD IG (30:70) and EMD BF (18:78) .*2
- EMD IG holds 14% of OECD Government bonds and EMD BF hold 9% of OECD Government bonds.*3
- The key determinant for the lower charge is the quality of bonds held in the EMD IG

*1 Risk adjusted Yield is a proportional reduction in yield by the SCR calculated as Y_r =Y(1-SCR) where Yr is the risk adjusted return and Y the yield

*2 QIS5 has higher SCR for Corporate bonds than for Government Bonds
*3 OECD Government bonds have no spread charge in Germany, other jurisdictions tbd

Source: JPMAM calculations; Positions based on fund/portfolio holdings as of 18th August 2010,

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Emerging Market Debt Investment Grade strategy

How to construct an EMD Investment Grade strategy

- Government bonds in hard currency – EMBI Global Diversified IG
  - Investment Grade Index exists since Jan 2002, makes up 56.4% of EMBI Global Div (BB+/Baa3)
  - Current yield of EMBI Global Diversified IG @ 5,3%
- Corporate bonds in hard currency – CEMBI Broad Diversified IG
  - Investment Grade Index exists since Jan 2002 and today makes up 70.6% of the CEMBI Broad Diversified (BBB/Baa2)
  - Current yield of CEMBI Broad Diversified IG @ 5,4%
- Global Emerging Markets bonds in local currency – GBI EM Global Diversified
  - Average rating of the GBI-EM Global Diversified is BBB
  - Current yield of GBI-EM Global Diversified @ 6,8%
  - But we recommend excluding local currencies despite their yield attractiveness
    - Regulatory issues possible
    - Higher turnover strategy
    - Set-up constraints possible with custodians
    - High FX Volatility
- Conclusion: IG strategy in EMD should be made up of hard currency government and corporate bonds

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Emerging Markets Bond Index Characteristics

Index characteristics as of June 30th 2010

Index	Market Cap (USD bn)	No. of issuers	# of Securities	Average Quality	Duration in Years	Yield in % (Jun 30th)
EMBI Global Div.	232	58	233	BB+ /BBB-	6.60	6.42
EMBI Global Div. IG	132	29	117	BBB	6.56	5.28
CEMBI Broad Div	113	219	404	BBB	5.15	6.43
CEMBI Broad Div. IG	80	131	282	BBB+	5.52	5.42

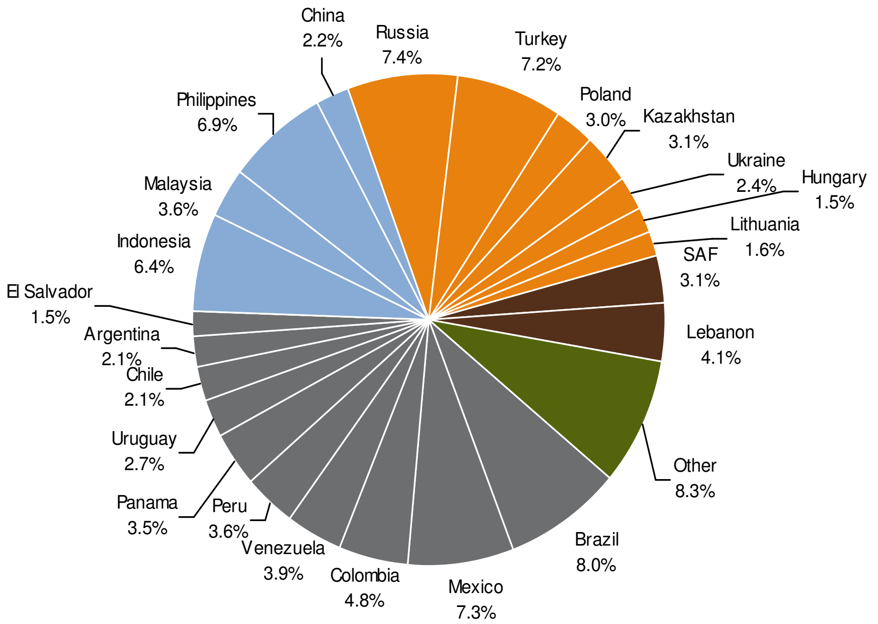
Source: J.P. Morgan Securities Inc., June 2010

EMBI Global Diversified & IG – Country Allocation

As at 30 June 2010

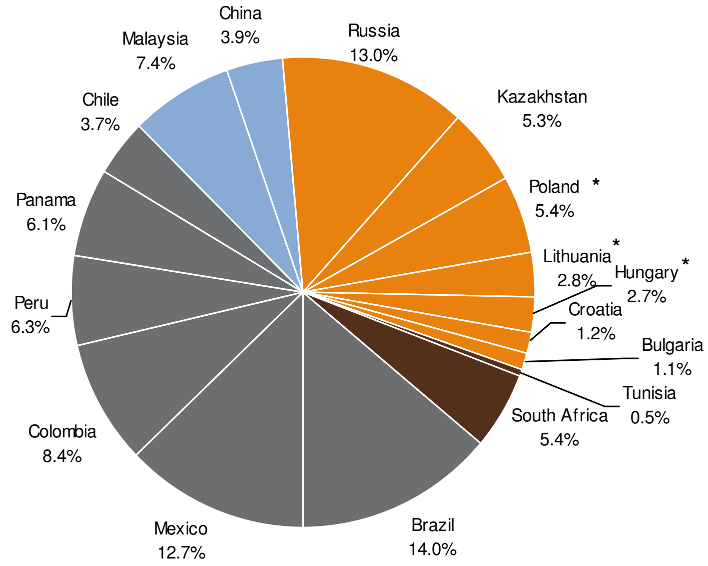
Country allocation – EMBI Global Diversified

(OECD: 14%)



Country allocation – EMBI Global Diversified IG

(56% of EMBI Gl. Div.; OECD: 25%)

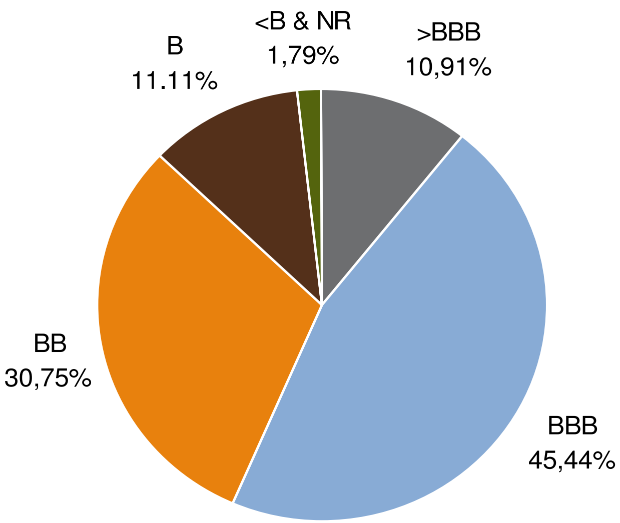


Source: J.P. Morgan Securities Inc., June 2010; Emerging Markets Bond Index (EMBI)

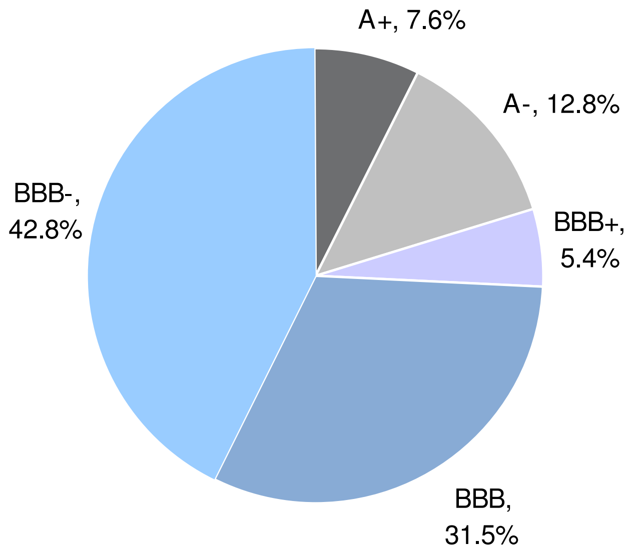
* OECD & EER countries

EMBI Global Diversified & IG – Rating Characteristics

Rating allocation – EMBI Global Diversified



Rating allocation – EMBI Global Diversified IG
(56% of EMBI Gl. Div.)

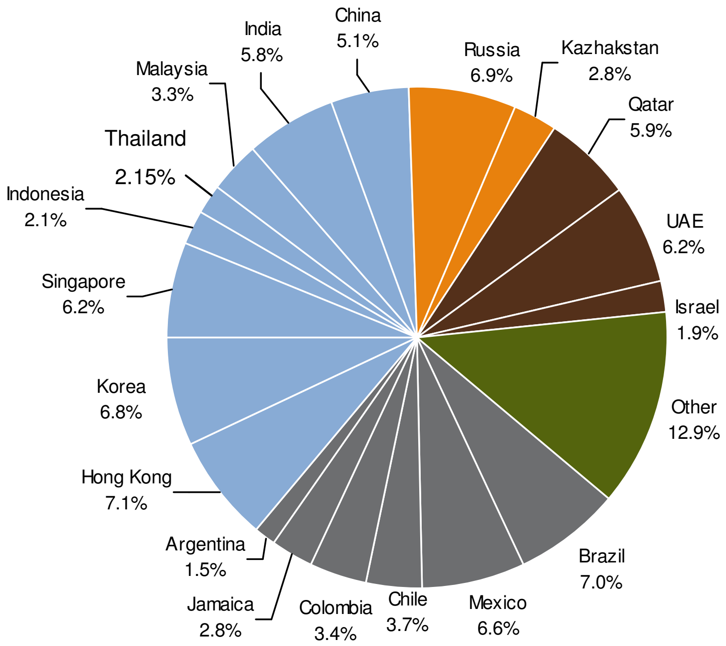


Source: J.P. Morgan Securities Inc., June 2010; Emerging Markets Bond Index (EMBI)

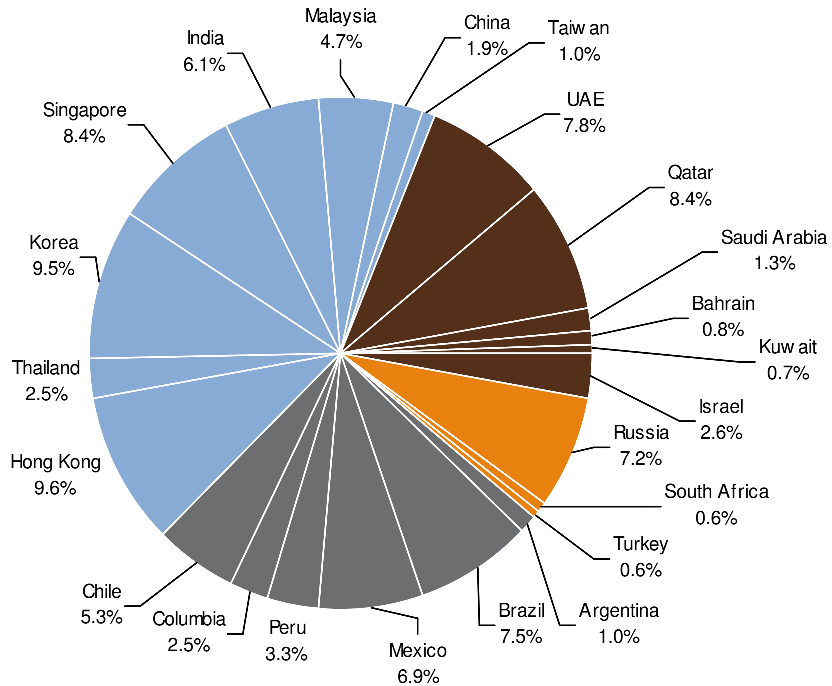
CEMBI Broad Diversified & IG – Country Allocation

As at 30 June 2010

Country allocation – CEMBI Broad Diversified



Country allocation – CEMBI Broad Diversified IG
(70% of CEMBI Broad Div.)



Source: J.P. Morgan Securities Inc., June 2010; Coprorates Emerging Markets Bond Index (CEMBI)

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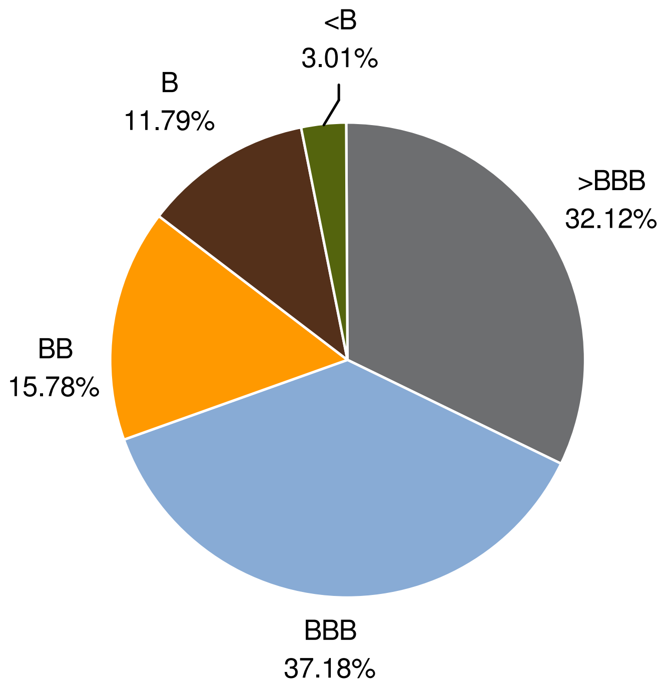
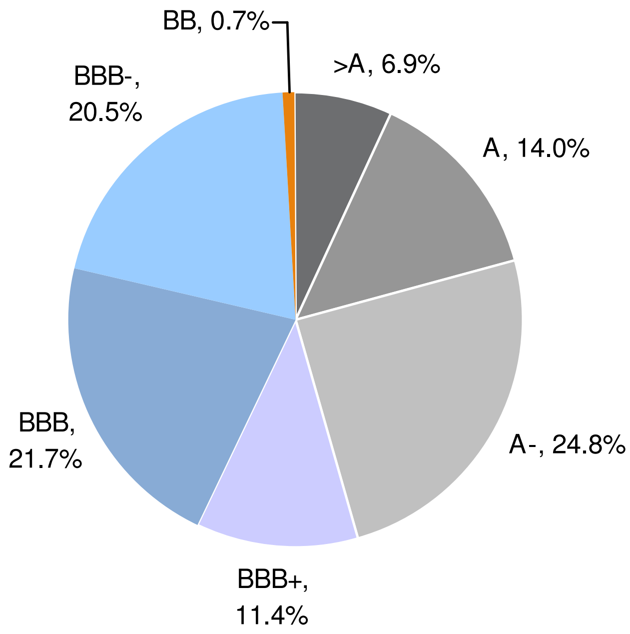
CEMBI Broad Diversified & IG – Rating Characteristics

Ratings allocation – CEMBI Broad Diversified



Ratings allocation – CEMBI Broad Diversified IG

(70% of CEMBI Broad Div.)



Source: J.P. Morgan Securities Inc., June 2010; Corporates Emerging Markets Bond Index (CEMBI)

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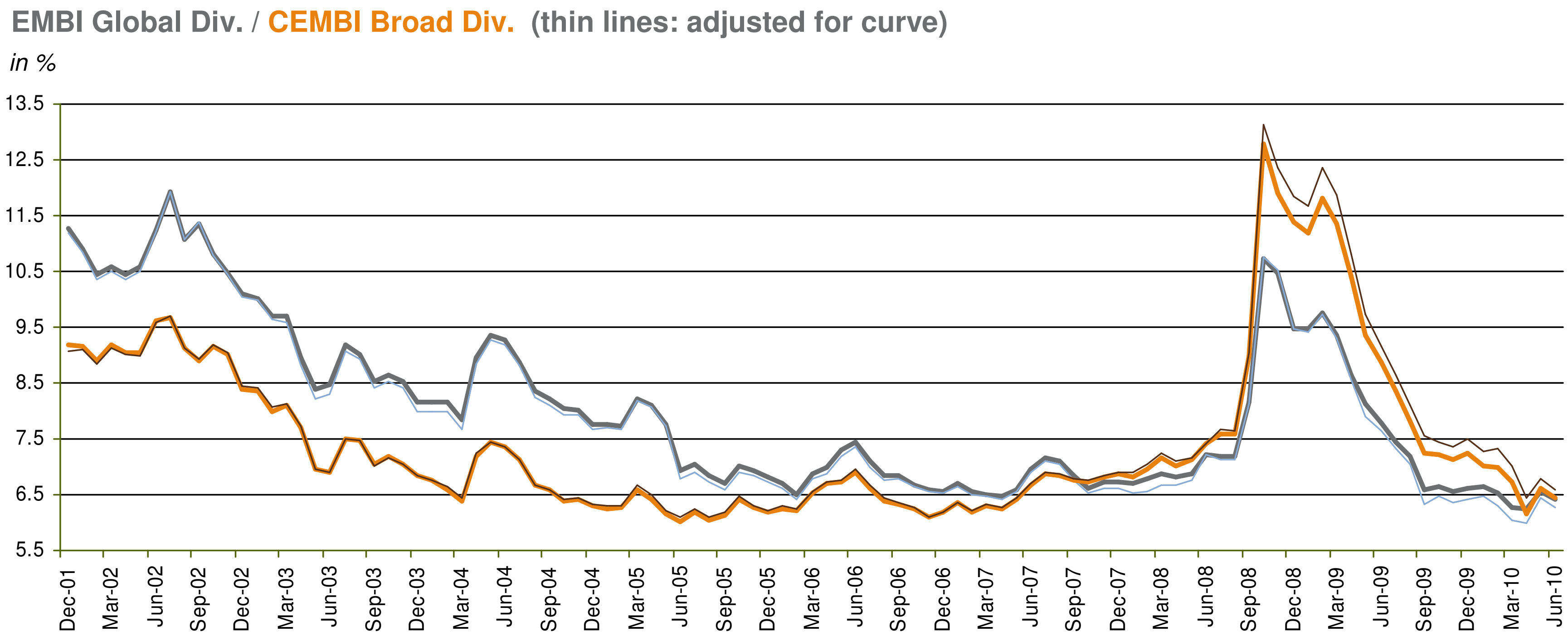
Top 10 issuers for EMBI Global Div. IG and CEMBI Broad Div. IG

J.P. Morgan EMBI Global Diversified IG		J.P. Morgan CEMBI Broad Diversified IG	
BR Republic - Brazil	12.15%	QA Raslaf – Oil	4.95%
MX UMS – United Mexican States	9.44%	HK Hutchison – Telecom	4.34%
CO Republic - Colombia	8.52%	MX America Movil – Telecom	4.19%
RU Republic - Russia	8.18%	AE Taqa Abu Dhabi – Oil	3.97%
PE Republic - Peru	6.43%	PE Southern – Copper	3.26%
PA Republic - Panama	6.15%	IN ICICI – Financials	3.04%
MY Petronas - Oil	5.58%	SG DBS – Financials	3.00%
ZA Republic – South Africa	5.46%	IL Electric Corp – Utility	2.76%
PL Republic – Poland	5.39%	RU Gazprom – Oil	2.54%
KZ Kazmunaigaz - Energy	5.11%	BR Petrobas – Oil	2.14%

Source: J.P. Morgan Securities Inc., June 2010; EMBI + CEMBI

Yields on the broad indices are still generous, hovering around 6.5%

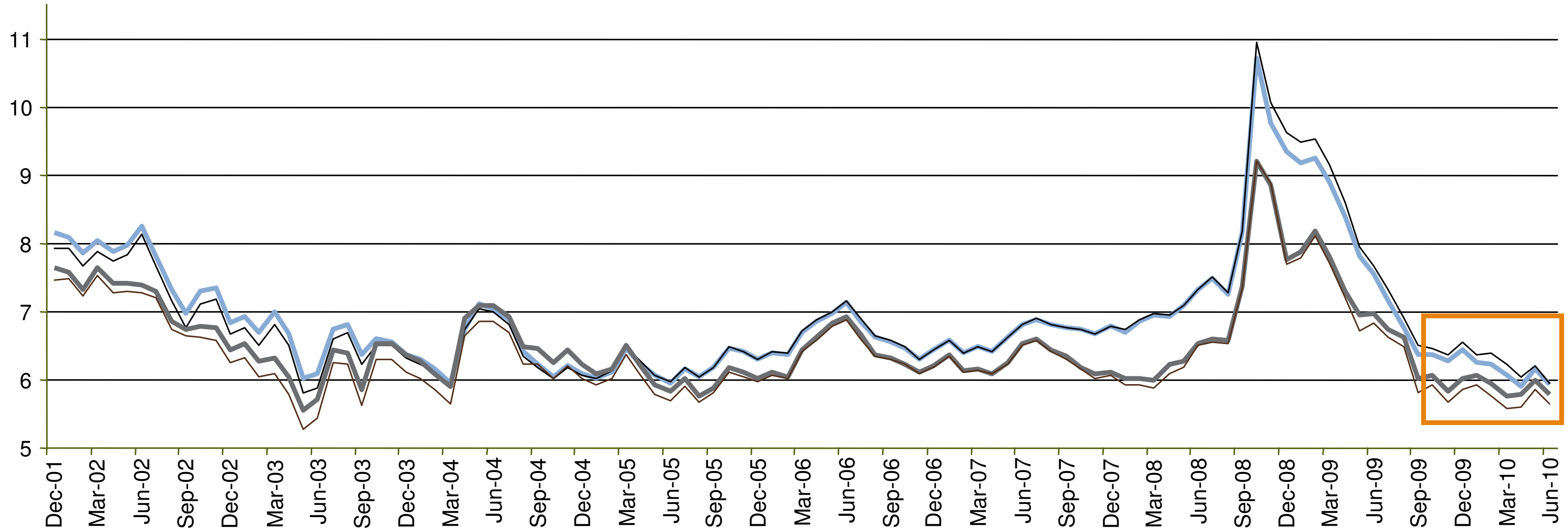


Source: J.P. Morgan Securities Inc., June 2010; EMBI + CEMBI

Yields on Investment Grade indices still within the perceived "window of opportunity" above 5%

EMBI Global Div. IG / **CEMBI Broad Div. IG**

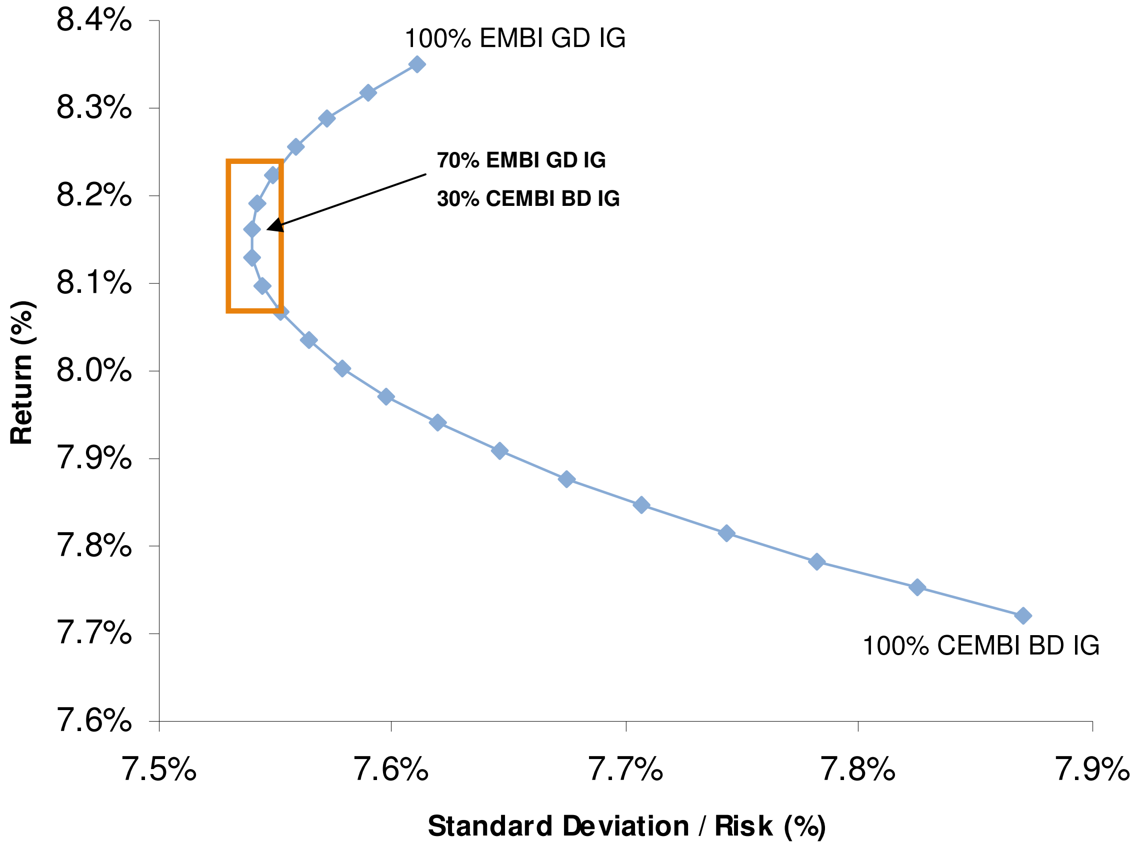
In %



Source: J.P. Morgan Securities Inc., June 2010; EMBI + CEMBI

Historical efficient frontier EMBI Global Div. IG and CEMBI Broad Div. IG

Historical efficient frontier



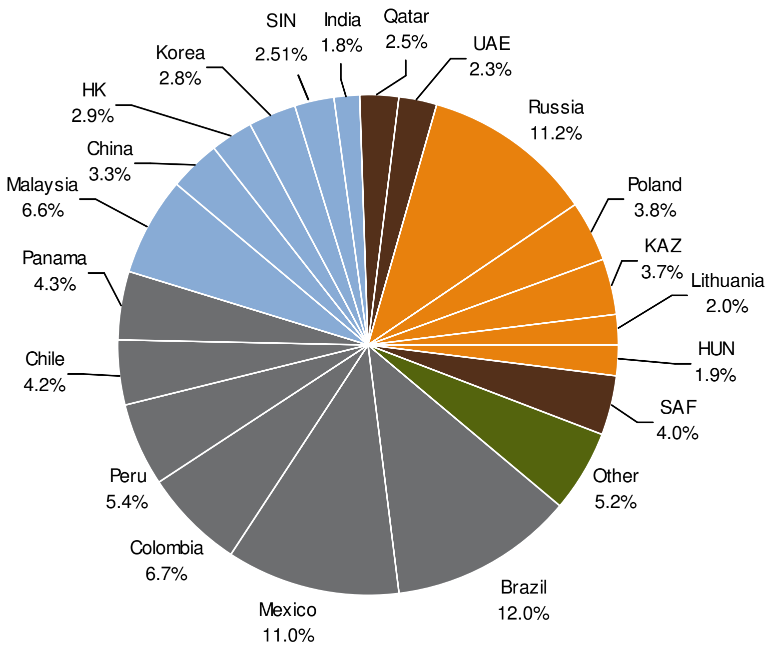
- Minimum variance portfolio at 70% EMBI IG, 30 % CEMBI IG
- Efficient allocations range from 75/25 to 50/50
- To achieve a diversified CEMBI portion a volume of $40 million is needed
- AUM needed to implement the EMD IG strategy starts at EUR 70m
- Launch of a mutual fund planned for December 2010

Source: J.P. Morgan Securities Inc., data since inception of the indices (31.12.2001)

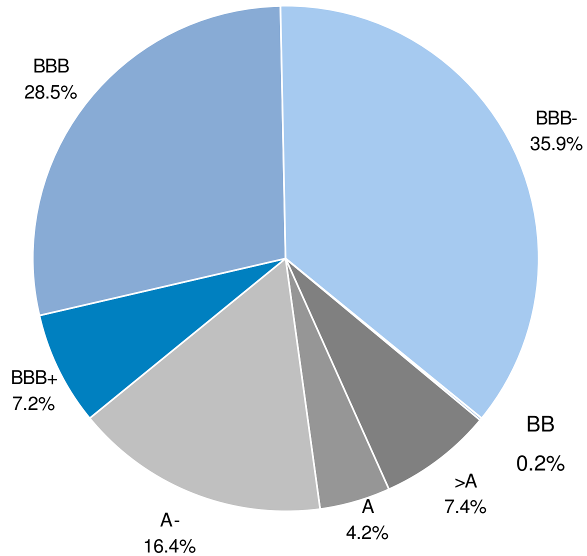
EMD IG (70/30):
EMBI Global Div. IG & CEMBI Broad Diversified IG – Countries / Ratings

As at 30th June 2010

Country allocation – EMD IG (70/30)



Rating allocation – EMD IG (70/30)



Source: J.P. Morgan Securities Inc., March 2010; Coprorates Emerging Markets Bond Index (CEMBI)

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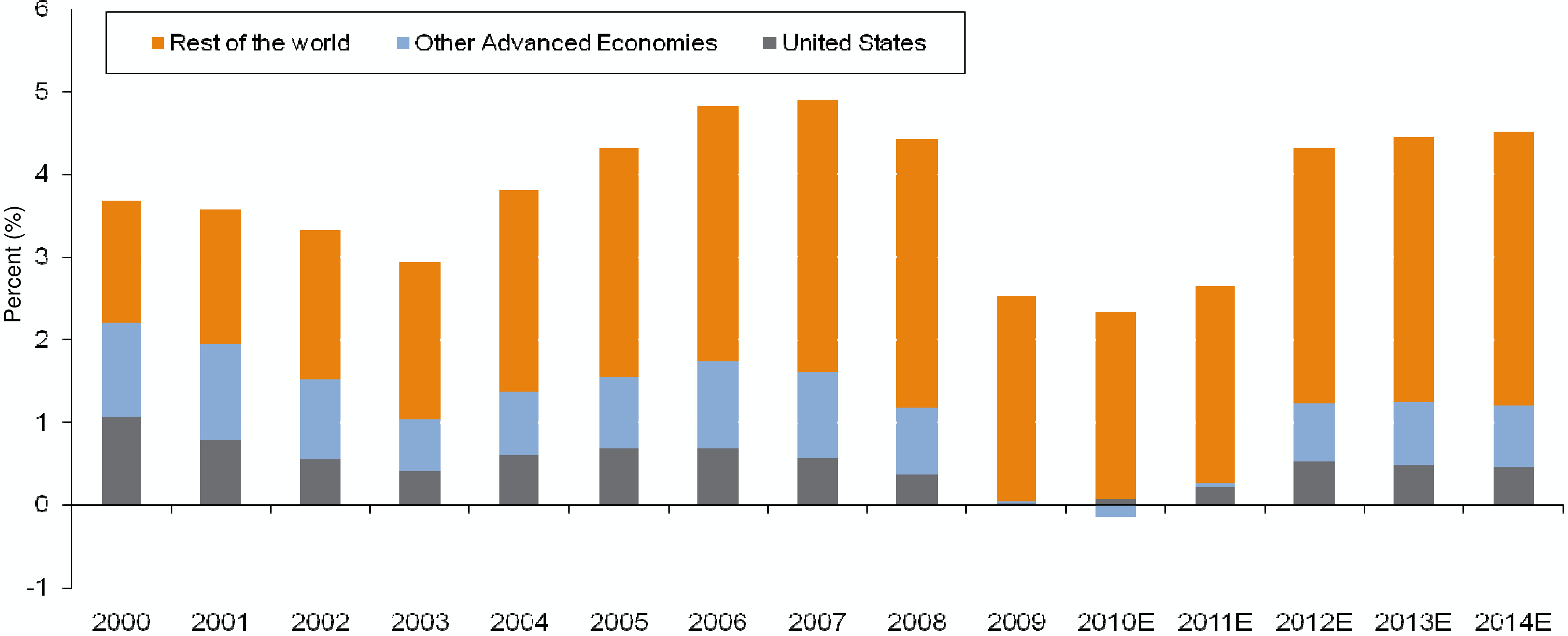
Outlook for Emerging Markets Bonds Investment Grade

- Strong Growth
- Mostly independent Central Banks with focus on inflation
- Development of social security systems
- Strong demographics
- Fiscal discipline

Emerging markets driving global growth

Contributions to Global GDP Growth, 2000-2014



Source: IMF World Economic Outlook 2010, J.P.Morgan Asset Management

Note: Data for 2010–2014 are forecasts. Forecasts are based on current market conditions and are subject to change without notice.

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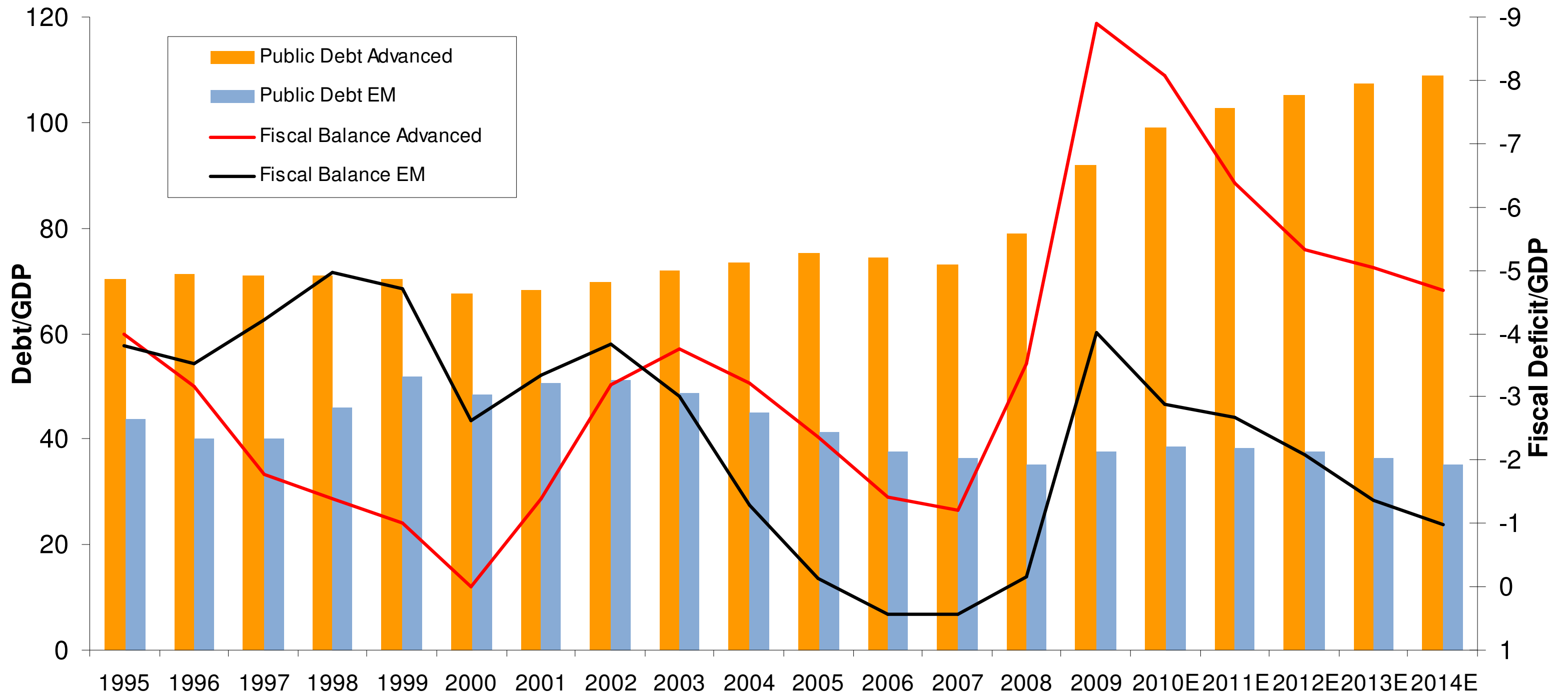
EM will continue to have a much stronger fiscal position relative to advanced economies

Public Debt to GDP (%) and Fiscal Balance (%)

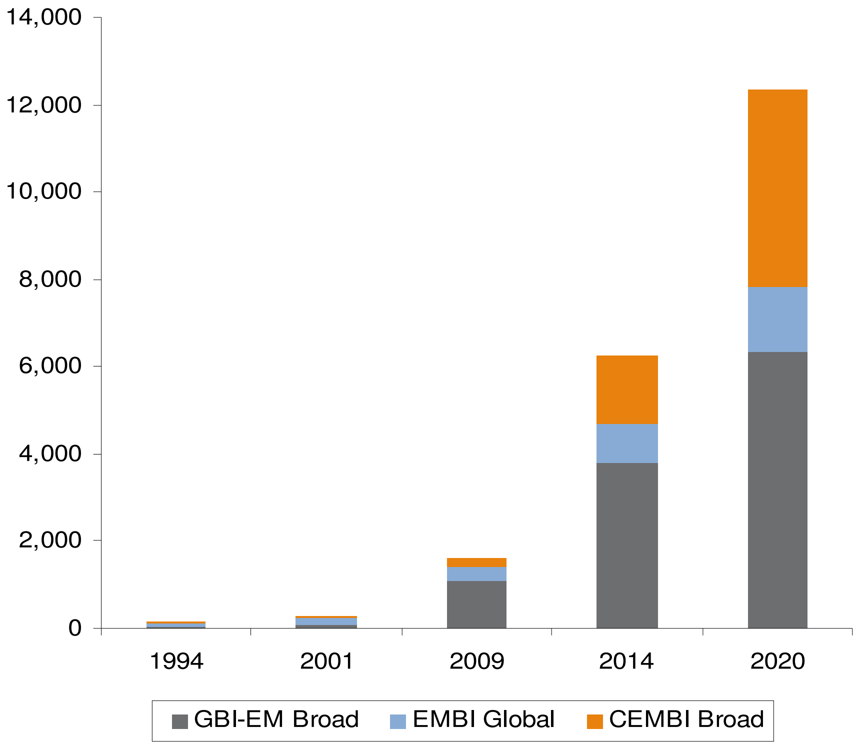


Source: IMF World Economic Outlook 2010.

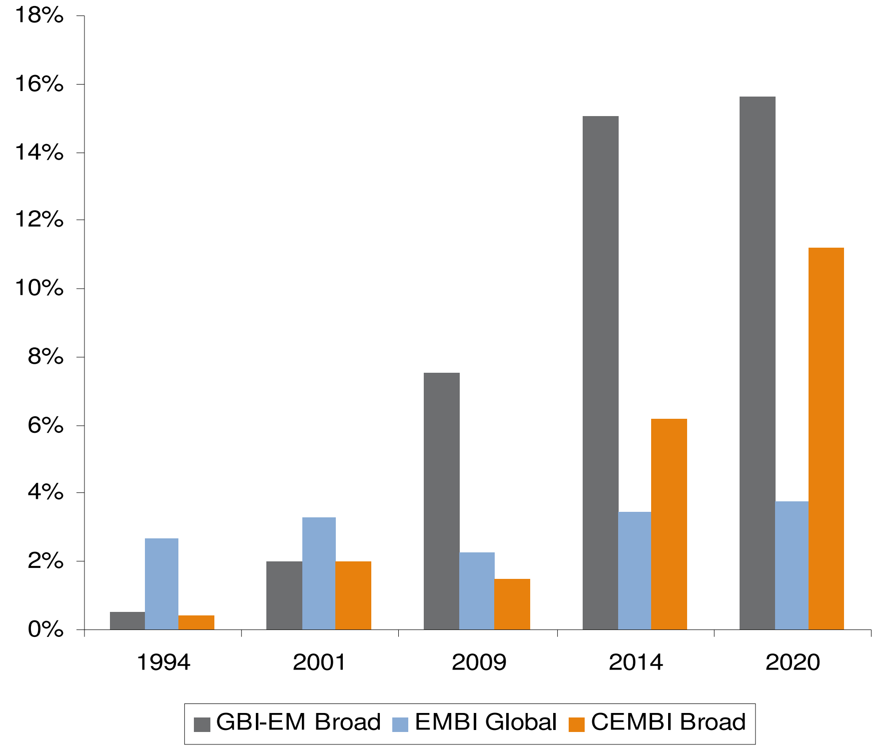
Note: Data for 2010–2014 are forecasts. Forecasts are based on current market conditions and are subject to change without notice.

Growth in emerging markets is expected to outpace the developed world in the years ahead

Market Capitalization Projections (US$ billion)



Market Capitalization Projections (% of EM GDP)



Source: J.P. Morgan Asset Management.

Note: 2009 data as of September 30, 2009. Data for 2014 and 2020 are forecasts. Forecasts are based on current market conditions and are subject to change without notice. The J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) is representative of the local currency market. The J.P. Morgan Emerging Markets Bond Index Global (EMBI Global) is representative of the sovereign debt market. The J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI) is representative of the corporate debt market.

Inclusion of EMD IG in the overall Fixed Income Portfolio

Risk- Return Parameters of EMD IG vs. Developed Bond Markets

Dec 01 to June 10	EMD IG (in$)	Euro Tsy	Euro Corp	Euro Corp Baa
Risk	7.53%	3.52%	3.62%	4.30%
Return	8.16%	5.19%	4.91%	5.43%

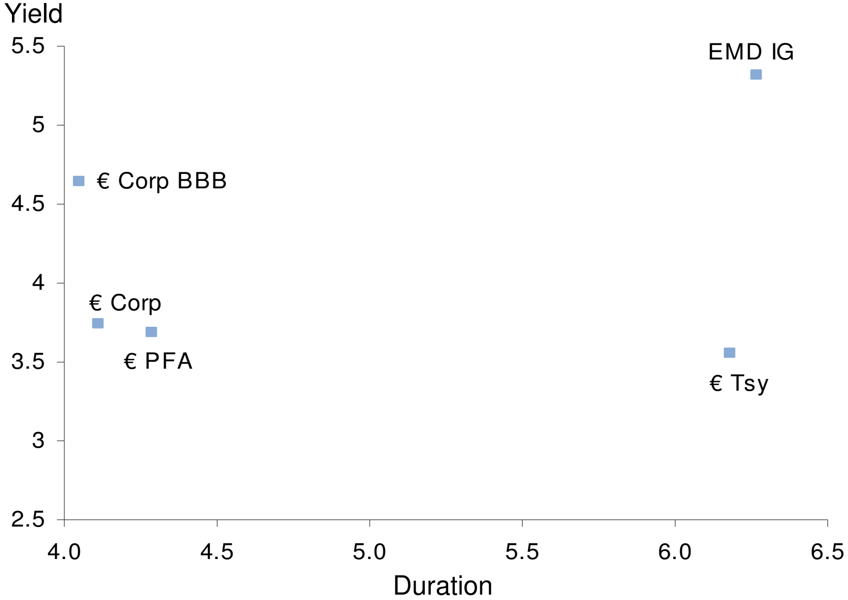
Correlations	EMD IG (in$)	Euro Tsy	Euro Corp	Euro Corp Baa
EMD IG	1.00			
Euro Tsy	0.40	1.00		
Euro Corp	0.71	0.58	1.00	
Euro Corp Baa	0.74	0.36	0.89	1.00

- Correlation of EMD IG with Euro government bonds (0,40) even lower than with Euro Corporates (0,71)
- Relatively high correlation with Euro Corporates Baa (0,74)
- Conclusion: exchange some of Corporate exposure with EMD IG should have a positive risk-return impact on the overall portfolio

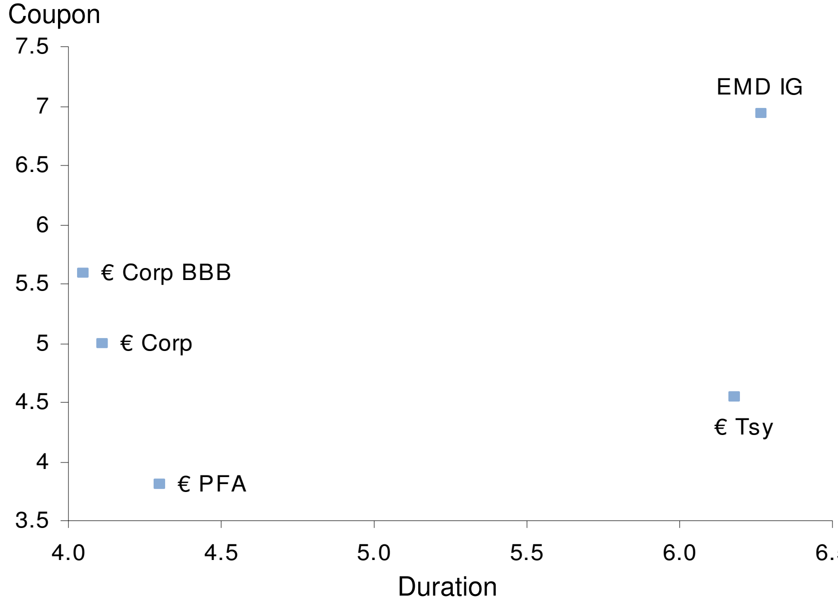
Source: J.P. Morgan Securities Inc., Barclays Capital: EMD IG as described before: 70/30 mix of JPM EMBI Global Diversified IG and CEMBI Broad Diversified IG; JPM EMU Government Bond Index, Barclays Euro Agg (Corporate) Index and Barclays Euro Agg (Corporate) Baa Index, Dec 2001 to June 2010; Hedging return from USD to EUR 0,12% p.a.; 1yr fwd hedge return currently 0,32% from USD to EUR

EMD IG (70/30): Yield and Coupon above traditional Fixed Income asset classes (1)

Current yield and duration



Current coupon and duration

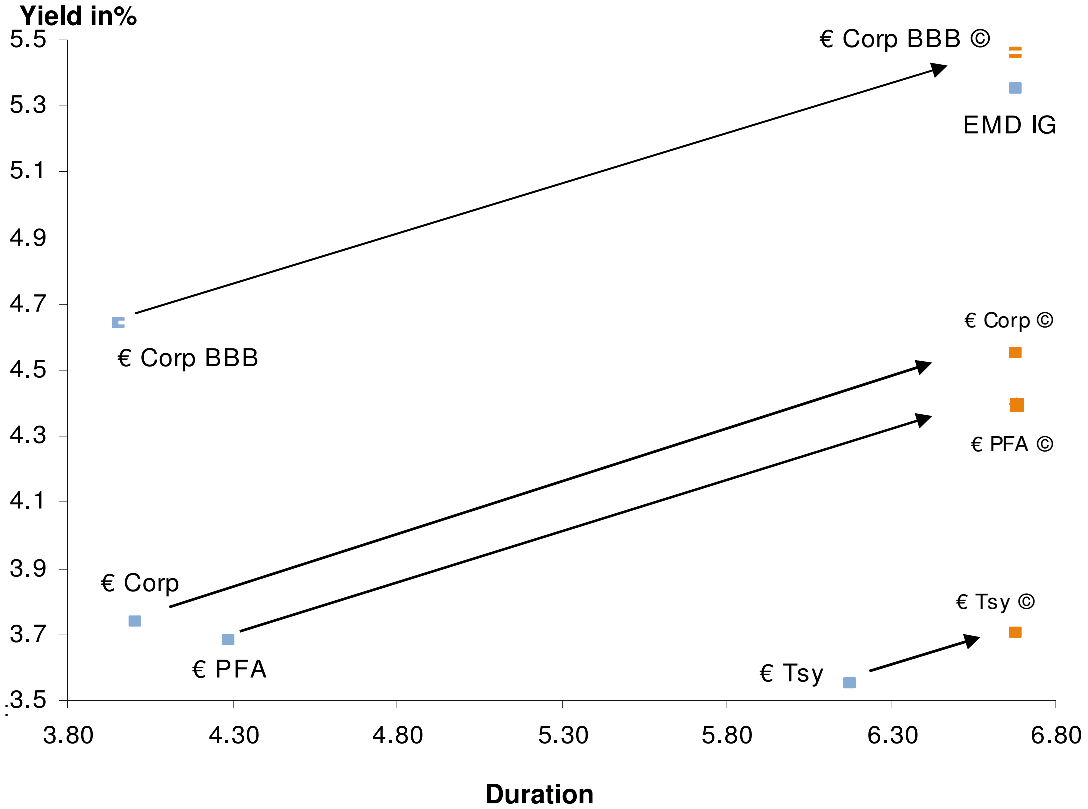


Source: Barclays, J.P. Morgan Securities Inc., June 2010

...duration of EMD IG close to Euro government bond duration, yield @ 5,37% and coupon @ 7%

EMD IG (70/30):
Yield and Coupon above traditional Fixed Income asset classes (2)

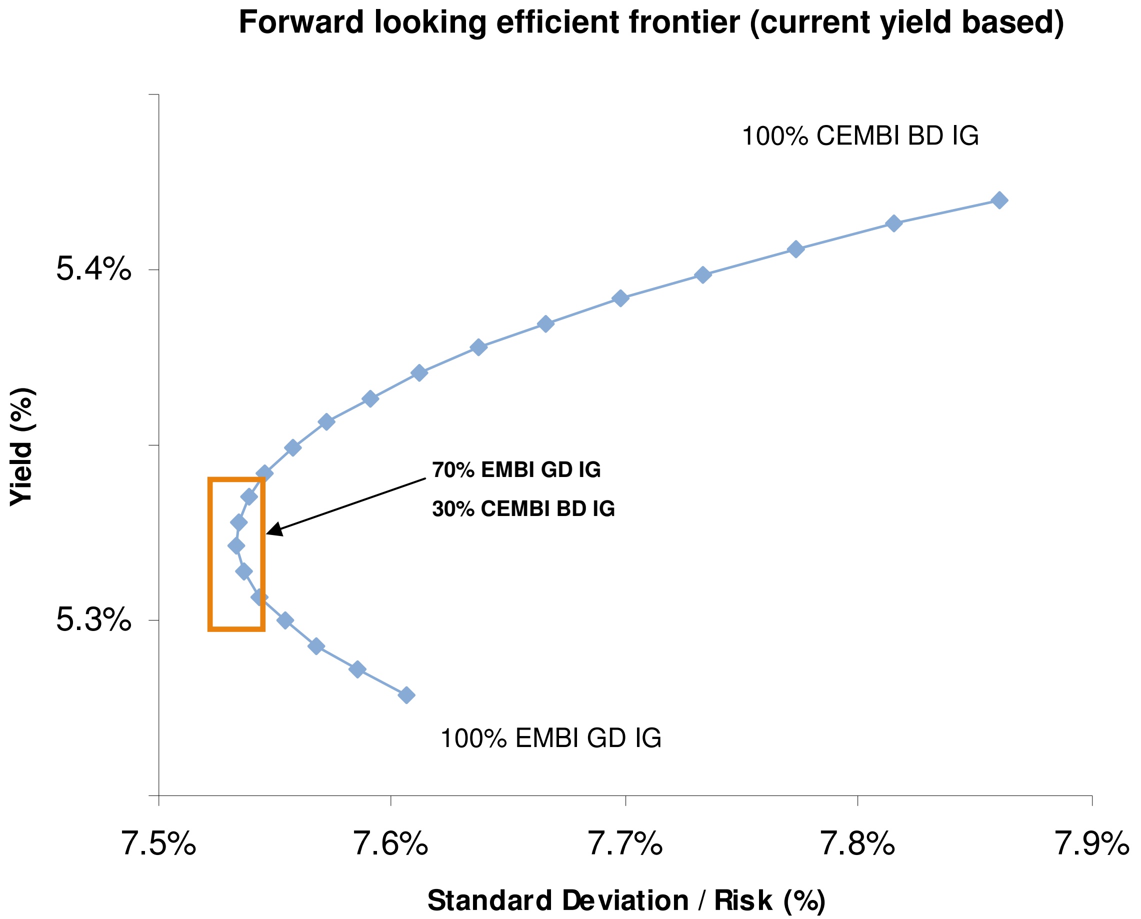
Current duration adjusted yield



Source: Barclays, J.P. Morgan Securities Inc., June 2010

- Large Duration differentials require adjustment
  - EMD IG and € Gov: close to 6.5 years
  - € Corporates and Pfandbriefe: around 4 years
- € Governments increase to 3.64%, Covered Bonds to 4.40%
- Duration adjusted € Corporates yield only 4.54%
- EMD IG still yielding above 5%
  - Almost 2% above Gov
  - Almost 1% above Corporates and Covered Bonds
  - Close to similarly rated Corporate Bonds

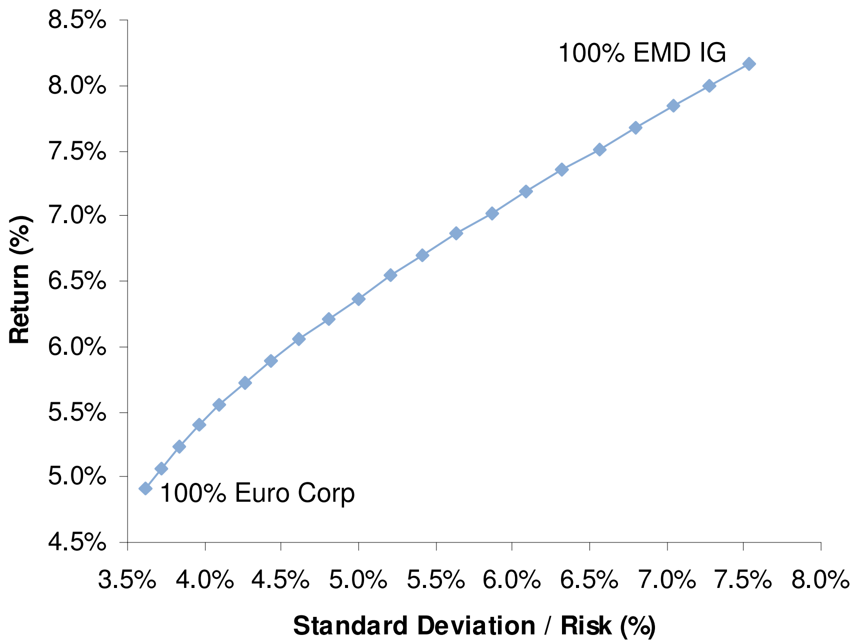
Forward looking efficient frontier EMBI Global Div. IG and CEMBI Broad Div. IG



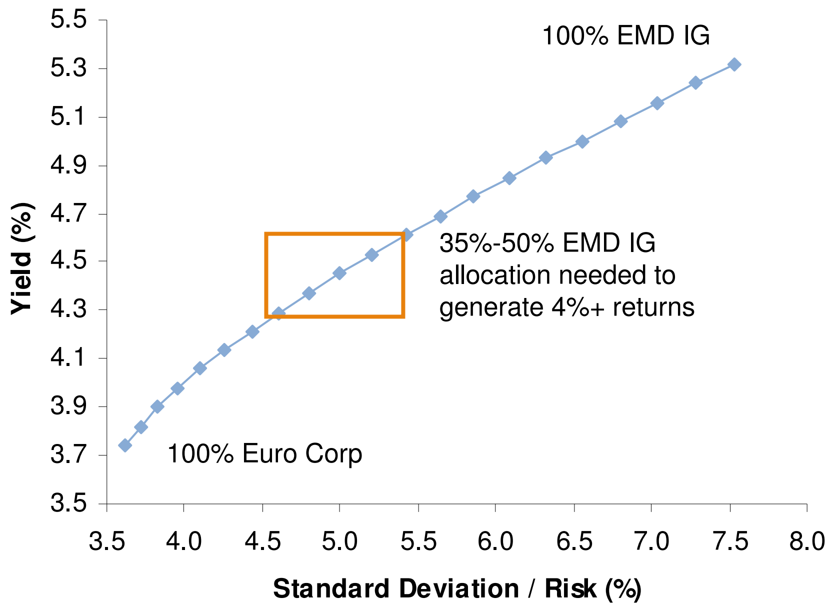
Source: J.P. Morgan Securities Inc., data since inception of the indices (31.12.2001)

EMD IG (70/30):
Historical and forward looking Risk/Return charts - combined with € Corp

Historical efficient frontier



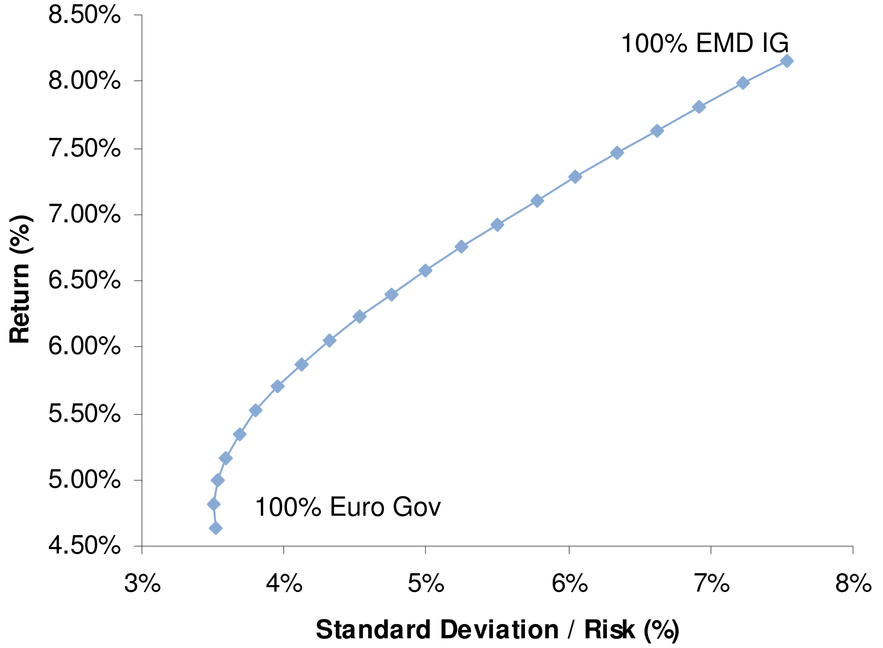
Forward looking efficient frontier (current yield based)



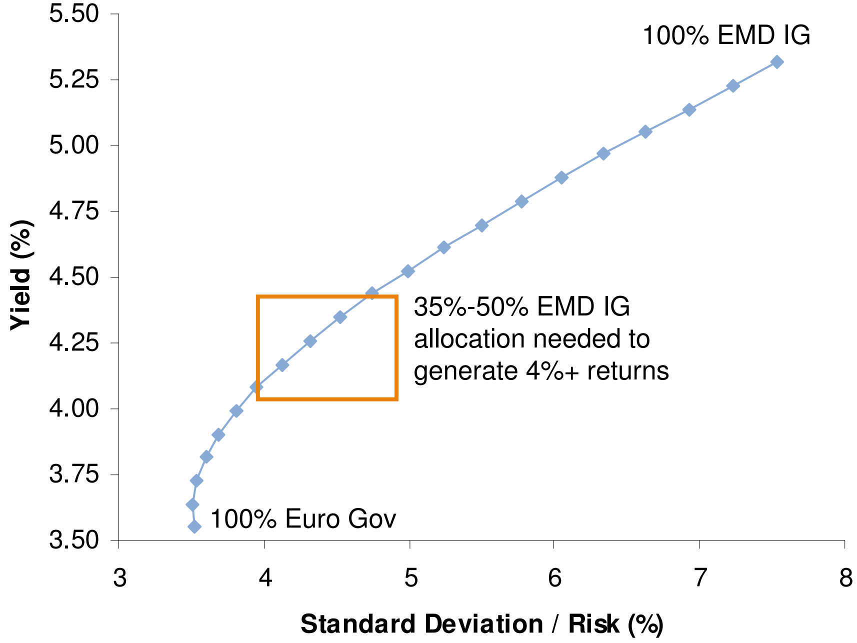
Source: J.P. Morgan Securities Inc., Barclays Capital: EMD IG as described before: 70/30 mix of JPM EMBI Global Diversified IG and CEMBI Broad Diversified IG;Barclays Euro Agg (Corporate) Index, Dec 2001 to June 2010; Hedging return from USD to EUR 0,12% p.a.; 1yr fwd hedge return currently 0,32% from USD to EUR

EMD IG (70/30): Historical and forward looking Risk/Return charts - combined with € Gov

Historical efficient frontier



Forward looking efficient frontier (current yield based)



Source: J.P. Morgan Securities Inc.: EMD IG as described before: 70/30 mix of JPM EMBI Global Diver-sified IG and CEMBI Broad Diversified IG; JPM EMU Government Bond Index, Dec 2001 to June 2010; Hedging return from USD to EUR 0,12% p.a.; 1yr fwd hedge return currently 0,32% from USD to EUR

Conclusion

- Emerging Markets Investment Grade is an attractive yield enhancer but ….
  - a significant allocation to the overall portfolio is needed
- Countries are developing further, credit upgrades are likely to occur and the asset class is maturing ….
  - therefore, historical volatility may not necessarily be representative, allowing for a larger EMD allocation
- Overall improved liquidity allows opportunities for tactical moves and risk/return management by the investor
- Risks
  - External: Exit Strategy (China – FOMC), Obama Banking regulation, Greece (solvency), Double-dip,…
  - Within EM: Supply in the near term and Debt sustainability, inflation and politics
  - Unpredictable events: Financial Crisis Part 2, global risk aversion, …..

Appendix 1: JPMAM EMD IG proposal and investment process

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Strategy Proposal for Emerging Markets Debt Investment Grade

Strategy Design	
■ Universe	Emerging Market External Debt and EM Corporate Bonds
■ Benchmark	70% EMBI Global Diversified IG & 30% CEMBI Broad Div IG. (range 75/25 to 50/50 - size dependent)
■ Minimum Rating:	Investment Grade only
Risk/Return Targets	
■ Target Alpha:	150-200 bps
■ Target TE:	300-400 bps
■ Information ratio target:	0.50
Indicative Alpha sources over a cycle	
■ Active Government / Corporate Allocation:	20%
■ Country Selection	40%
■ Security Selection External Debt:	10%
■ Security selection Corporate	30%
Risk parameters	
■ Max. duration deviation:	1 year
■ Min/Max corporate allocation:	+/- 20% around benchmark weight
■ Max. country overweight:	+/- 10% or one year spread duration
■ Max. corporate issuer overweight:	2% or 0.2 year spread duration

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Experienced team of emerging markets debt specialists

Emerging Markets Debt Team				
Name	**Role**	**Location**	**Years of Firm Experience**	**Years of Industry Experience**
Senior Management				
Seth Bernstein	Head of Global Fixed Income and Currency	New York	26	26
Robert Michele, CFA	Global Chief Investment Officer	London	2	29
Portfolio Management , Trading and Research				
Pierre-Yves Bareau	Head of Emerging Markets Debt, Global Strategist	London	1	19
Alain Defise	Lead Portfolio Manager, EM Corporate Debt	London	1	14
Didier Lambert, CFA	Lead Portfolio Manager, Local Currency (Rates and FX)	London	1	12
Michal Wozniak, CFA	Portfolio Manager, CEEMEA Strategist	London	1	10
Amit Tanna, CFA	Portfolio Manager/Emerging Markets FX	London	8	8
Suney Hindocha	Credit Analyst, CEEMEA	London	<1	1
Joanne Baxter	Trader	London	<1	5
Matias Silvani	Latin America Strategist; Lead Portfolio Manager External Debt	New York	6	12
Emil Babayev	Trader and Portfolio Manager, External Debt	New York	10	10
Dan Gelfand	Associate Portfolio Manager, External Debt	New York	6	6
Jonathan Prin	Credit Analyst, Latin America	New York	5	8
Carlos Rocha, CFA*	Portfolio Manager, Brazil	Sao Paulo	6	14
Stephen Chang, CFA	Lead Portfolio Manager Asia, Asia Strategist	Hong Kong	6	14
Aidan Shevlin, CFA	Portfolio Manager, Local Currency (Rates and FX)	Hong Kong	13	13
Arthur Lau, CFA	Lead Credit Analyst Asia, EM Corporate Debt	Hong Kong	5	23
John Lam	Credit Analyst, Asia	Hong Kong	<1	14
Charles Chen*	Portfolio Manager, Taiwan	Taipei	11	22
Nandkumar Surti*	Portfolio Manager, India	Mumbai	3	18
Additional resources				
Molly Meng*	Portfolio Manager, China	Shanghai	1	14
Quantitative Research and Risk				
Frank Del Vecchio, CFA	Head of Quantitative Research	London	6	21
Vincent Kumaradjaja	Senior Risk Officer	New York	<1	21

* = Team leader listed

Information as of June 30, 2010. 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.

Team organized by alpha strategy and enhanced by regional expertise

- Diversification across a range of specialized strategies is essential in delivering consistently strong performance to clients
  - Broaden sources of added value and de-correlation
  - Ensure independent decision making, focused on skills and experience
  - Tailored and rigorous investment process by strategy

ALPHA STRATEGY

External Debt
Lead PM: Matias Silvani

Corporate Bonds
Lead PM: Alain Defise

Local Currency (Interest Rates & Foreign Exchange)
Lead PM: Didier Lambert

REGIONAL FOCUS

Global	Latin America	Europe, Middle East & Africa	Asia
Strategist: Pierre-Yves Bareau	Strategist: Matias Silvani	Strategist: Michal Wozniak	Strategist: Stephen Chang

J.P.Morgan Asset Management

Our emerging markets debt approach

- We believe a disciplined emerging market debt investment approach combining macro-economic research with bottom up fundamental country and credit analysis will produce superior risk adjusted returns

- We seek to:
  - **Actively rotate sub-strategies**
    - Emerging market corporate debt, sovereign debt and local debt
  - **Conduct fundamental research**
    - To uncover market inefficiencies and investment opportunities
  - **Utilize locally based portfolio managers and analysts**
    - Hong Kong, Mumbai, London, Sao Paulo and New York
  - **Ensure dedicated ownership**
    - Portfolio managers accountable for trades and portfolio positions
  - **Leverage JPMorgan's top-tier global resources**
    - Active discussions with Global EM equity, High Yield, Currency, Natural Resources and Fixed Income teams

The manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met.

Disciplined investment process

RESEARCH AND IDEA GENERATION

Global View
- Global factors
- EM strategies risk/ reward
- Special themes

EMD Scenario and Risk Budget by Strategy

Monthly

Country Analysis
- Country fundamentals
- Political review
- Qualitative analysis

Sets our view and drivers for each country

Monthly

Dedicated Process for Alpha Strategies
- External debt
- Corporate bonds
- Local markets: Rates and FX

Set Position, Trades and Target by Strategy

Weekly

PORTFOLIO CONSTRUCTION

Risk analysis embedded

Clear leader per account

Weekly

MONITORING AND CONTROL

First layer of control within the team

Leverage our independent research group

Daily

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Our Global Investment Strategy guides the allocation of risk budgets for emerging markets debt portfolios

- Strategy established monthly, but reviewed weekly
  - Team works in close collaboration with other J.P. Morgan investment groups: global fixed income, emerging markets equity, currencies and local offices
- Factors analysed
  - Key themes driving emerging markets, such as rebalancing, differentiation, commodities or China
  - Stage of the economic cycle: downturn or upturn
  - Investor risk appetite (proprietary model)
  - Technical factors, such as liquidity, volatility, correlation and momentum
  - Positioning: supply and demand
- Top-down and bottom-up risk assessment also undertaken
  - Emerging markets vs developed markets
  - Regions: Latin America vs Asia vs Central Europe, the Middle East and Africa
  - External debt vs local debt
  - Security preferences: government vs agency vs corporate

For Professional Investors Only
JPMAM Strategy **Emerging Market Debt**

Q3 2010 last update : 23/06/10

Summary	**We maintain a constructive view on EMD for the second part of the year, but see this quarter challenging growth momentum in EM and in the US on a fear of European spill over. On the positive, value has been created recently in both local and USD markets, but risks remain elevated. Tactically, the markets may rebound, but we want to see more clarity on key indicators (macro and technical) before increasing our risks significantly.** **We continue to think that we are in a mid-cycle slowdown, economic expansion is not over, and EM will continue to attract inflows.**
Key Themes	**Sustainability of Recovery -> Cyclical vs Structural trades -** EM Corporate may benefit from structural capital inflows. Cyclical trades can be more global growth dependent **Differentiation -> Favor Winning countries** - Strong balance sheet countries could continue to benefit : e.g. Mexico/Peru **Liquidity vs Solvency -> Hedge trades** - We will rotate our hedge out of liquidity troubled credits into solvency pressured ones **Positioning/Flows -> Favor Liquid instruments -** Prefer liquid, as difficult to get a price for illiquidity in such market **"Lower for Longer" -> Favor short end local -** EM Rates remain 'safe haven' assets, and with real rates too high, the shorter end looks better at this stage
Investment Conclusion	**Over next 3 months we hold a more cautious stance, although in the very near term we are happy to be long as we think investors have overreacted. Positioning looks much cleaner and valuation attractive, in local markets in particular. We will catch up the upside tactically, through liquid instruments and high conviction trades. We are monitoring capital flows, EM slowdown, US consumers and the European crisis to firm up our medium term scenario**
Risks	**KEY INDICATORS TO WATCH** **European crisis:** Spain is the real pressure point, can the Banks make it (Funding/Capital/Regulation)? **Global growth:** China and the US consumer are key to EM growth sustainability **Outflows:** Investors are buying the rebalancing story but will they continue to shift capital into EM during this turbulent period?
Regional Outlook	**ASIA**: will continue to post decent growth ahead, but upside potential appears limited with China now getting more serious about rebalancing its economy via currency flexibility, and wage increases to favour consumption vs. exports. The property measures and controls on credit growth will also weigh on construction activities and resource demands. So far inflation seems well behaved and likely to see a short term peak soon after base effects kicks in. Modest measures to limit speculative flows will continue as Asian central banks struggle with currency intervention and the resulting domestic liquidity. Rate hikes will be limited given the global backdrop. **EMEA**: Valuation is cheapest in the EM space. Fundamentals are improving but at much slower pace than expected; they are and will be subject to the fiscal worries in Western Europe. Current a/c deficits are greatly reduced and government debt levels are low but fiscal policies in many countries need to be tightened. So far inflation worries have proved to be exaggerated. **LATAM**: Growth momentum likely peaked in Q2 and into Q3. However, growth rates remain healthy, sustainable and may surprise on the upside in US-linked economies such as Mexico. Similarly, inflation dynamics should be contained this quarter thanks to softer commodity prices. As a result, we expect a lower monetary policy rate environment for longer. However, political noise is likely to increase in Brazil and Venezuela. Overall, the region seems poised to continue outperforming despite less compelling valuations.
External Debt	The fundamental backdrop for EM spreads tightening vs DM remains intact. However higher uncertainty surrounding global prospects and weaker technicals makes an outright long bias less supportive. Concentrate on countries in both high yield and HG space with strong balance sheets, little rollover risk, domestic growth drivers, and liquidity. Still favor Caribbean over EMEA. Play the cyclical recovery through liquid instruments. Tactical trading is likely to dominate in Q3.
Local Debt	Yields in EM local debt look very attractive compared to developed markets, especially as inflation fears still remain subdued. Many EM countries are also in much better fiscal situation, with substantially lower public debt/GDP levels and lower budget deficits, meaning limited supply of bonds. Overall we prefer being positioned in the longer end of the curves in countries less influenced by changes in global risk appetite and those offering decent yield
EM Currencies	In the long term, much better growth prospects for EM provides a strong underpinning for EM FX appreciation. However, as EM currencies remain a fairly liquid instrument to play they are responsive to changes in global risk appetite and can move quickly and to a large extent. So we prefer being strategically long EM FX but use it as an instrument of choice to play tactic bets. There is a preference towards Asian currencies with a more domestic tilt. INR can benefit from high growth and RBI hikes. PHP fine on BoP and being laggard vs CNY proxy currencies
Credit	EM corporate bonds in general continue to enjoy strong earnings and healthy balance sheets. 2010 expected default rates remain low. Inflows should be supportive of spreads, given the increasing interest in the asset class. Trading liquidity remains tight and generalized outflows in EM represent the main risk. EM HY valuations remain attractive on a standalone basis, and EM investment grade is attractive compared to developed IG.
Duration/cash	Overall Neutral. 2 - 5% cash

Source: J.P. Morgan Asset Management

The above information is shown for illustrative purposes only and should not be relied upon by you in evaluating the merits of investing in any securities or strategies mentioned herein.

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Our macro view on individual countries is developed using quantitative and qualitative inputs

MACROECONOMIC DATA

- IMF data
- Team forecasts

COUNTRY FUNDAMENTALS

- Proprietary quantitative model: Country Fundamental Index
- Inputs: liquidity, solvency, structural and high frequency macroeconomic fundamental factors

POLITICAL REVIEW

- Proprietary quantitative model: Political Index
- Inputs: political factors, business sentiment and institutional strength

QUALITATIVE ANALYSIS

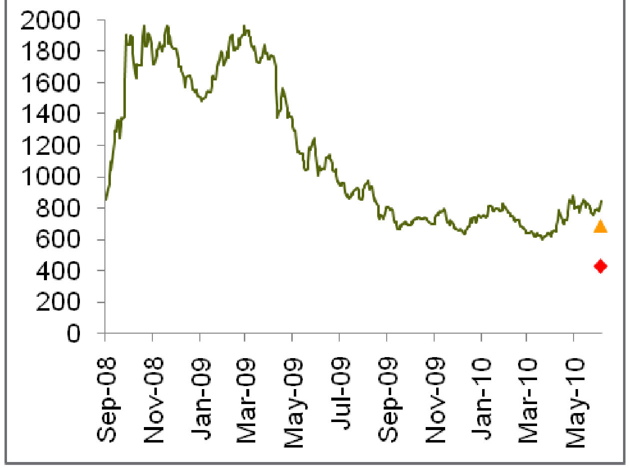
- Undertaken by team members
- Inputs: political situation, stage in business cycle, sustainability of macroeconomic policy and monetary policy

COUNTRY VIEW

EACH INPUT HELPS US ESTABLISH A COUNTRY VIEW

THIS VIEW GUIDES OUR EXTERNAL, LOCAL AND CORPORATE DEBT STRATEGIES

EXAMPLE: Argentina
CFI fair value spread estimates



Source: J.P. Morgan Asset Management

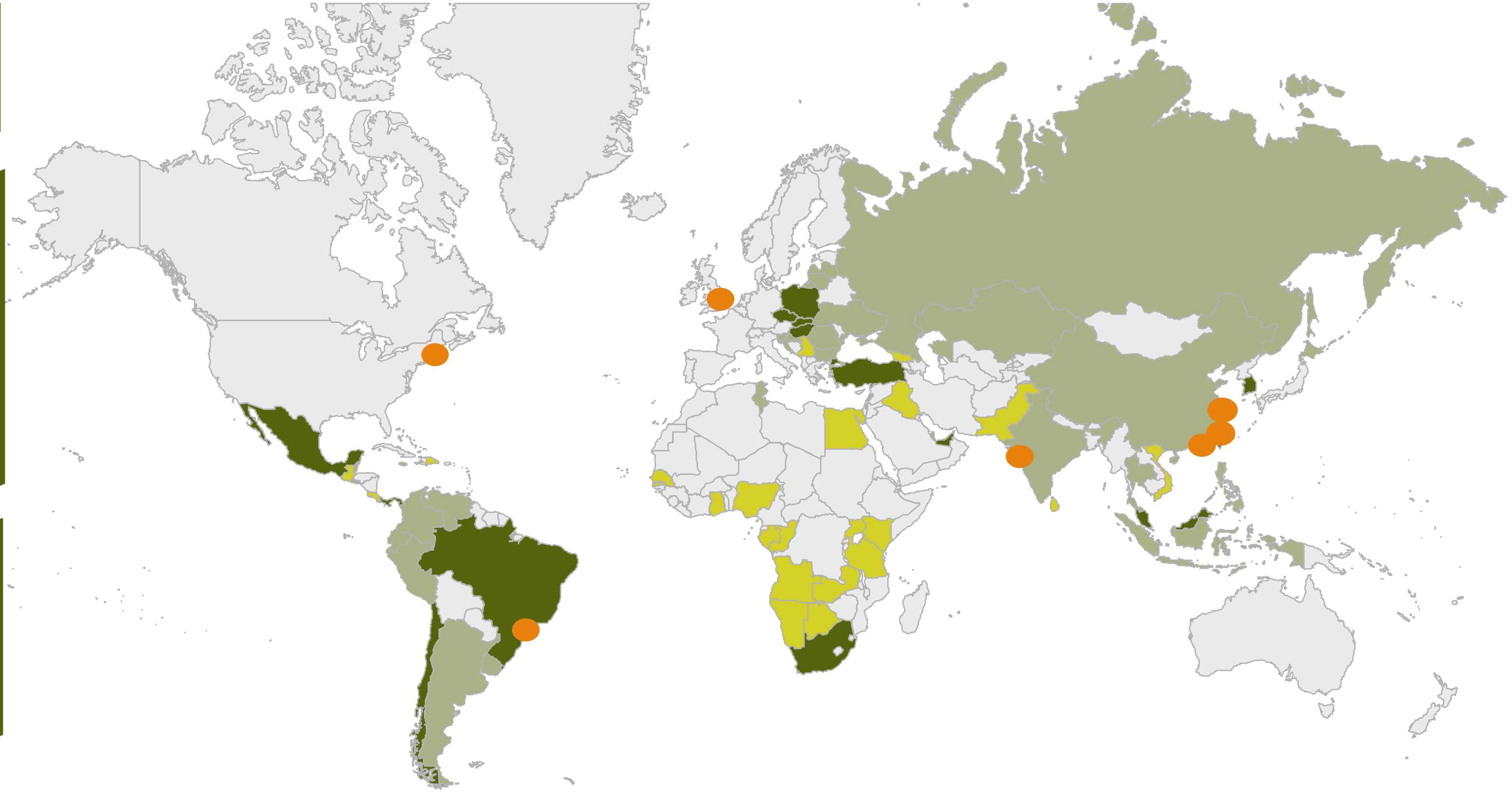
The above information is shown for illustrative purposes only and should not be relied upon by you in evaluating the merits of investing in any securities or strategies mentioned herein.

The investment universe is filtered to focus our search

60+ countries

Filtered:
- Country development
- Liquidity and depth of market
- Access or restrictions

Tiers:
1. Developed
2. Core
3. Frontier



Tier 1 Tier 2 Tier 3

Members of the Emerging Markets Debt team located in these offices

J.P.Morgan Asset Management

A dedicated process has been developed to identify investment opportunities across each alpha strategy

QUANTITATIVE ANALYSIS	FUNDAMENTAL RESEARCH	TECHNICAL ANALYSIS
External and Local Debt ■ Country Fundamental Index ■ Political Index ■ Emerging Markets Foreign Exchange Model **Corporate Debt** ■ Corporate screening tool ■ Corporate financial model	**External and Local Debt** ■ Political situation ■ Policy actions ■ Central bank credibility ■ Balance of payments dynamics **Corporate Debt** ■ Corporate financial health ■ Management ■ Corporate governance	**External, Local and Corporate Debt** ■ Rich/ cheap spreads ■ Supply pressure ■ Chart analysis
RATING	RATING	RATING

INVESTMENT VIEW

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Portfolios are constructed in line with client guidelines

- Qualitative factors
  - Index limits
  - Out-of-index positioning limits
  - Market access
  - Credit constraints
  - Other factors
- Pay-out and Confidence
  - Target return on investment
  - Potential loss
  - Level of confidence: likelihood of risk scenario materialising
- Risks
  - Liquidity of security and impact on overall portfolio
  - Volatility, both historical and prospective
  - Correlation with current investments
  - Beta
  - Profit/ loss analysis

Portfolio construction "traffic light" guides decision making

Buy INR vs USD

Checklist - Qualitative	
Current Level	**46.5**
Target	**43.5**
Review	**47.5**

Checklist – Returns and Risks	
Pay-out	3
Confidence	2
Liquidity	2
Diversification to portfolio	2
Independence from Beta	1
Position size indicator	**0.66**

Source: J.P. Morgan Asset Management

Once constructed, portfolios are closely monitored and controlled

- Risk reports are run weekly by our independent risk group and reviewed by the portfolio management team
  - Reports focus on:
  - Local currency risk
  - Tracking error
  - Portfolio risk exposure
  - Value at risk
  - Total return beta
  - Scenario analysis and stress testing

Sample risk report

Emerging Markets Accounts Risk Report as of 2009-12-31

				Risk Limit			Wtd Sprd Dur (net of benchmark)			Beta Adjusted Spread Duration (net)				Portfolio Risk (bp)			
Account Name	Benchmark	MV ($mm)	Client Expectation on Alpha (bp)	TE	Dur (vs.BM)	Net Local Currency	USD	Local Currency	Total	USD	Local Currency	Total	Total Return Beta	Projected TE	-1W	(Tot Rtn) 1Q 95% VaR	-1W
	EMBI	118	50-100	100	+/-2	0%	0.13	0.00	0.13	0.16	0.00	0.16	1.04	70	-1	1221	+2
	EMBI	170	200-300	400-600	+/-1	9%	-0.63	0.30	-0.34	0.22	0.11	0.34	1.09	152	-3	1205	-7
	EMBI	128	200-300	400-600		9%	-0.64	0.38	-0.26	0.05	0.14	0.19	1.07	187	+8	1250	+15
	EMBI	152	200-300	400-600	+/-1	9%	-0.58	0.33	-0.25	0.21	0.14	0.34	1.09	177	-5	1235	-7
	EMBI	159	200-300	200-300	+/-2	6%	-0.58	0.34	-0.24	0.11	0.15	0.26	1.11	226	-3	1309	-3

Source: JPMorgan Asset Management. The above information is shown for illustrative purposes only and should not be relied upon by you in evaluating the merits of investing in any securities or strategies mentioned herein.

Investment Process summary

- Single investment process applied globally
  - Global Investment Strategy
    - Determines global investment themes and decides risk budgets
  - Macro analysis
    - Country level fundamental quantitative and qualitative analysis
  - Dedicated alpha strategies
    - Bottom up fundamental and technical analysis:
      - External
      - Local Currency
      - Corporate
- Dedicated trade and portfolio ownership
- Comprehensive risk management framework

Appendix 2: Quick introduction to QIS 5 (market risk)

From Solvency I to Solvency II

Solvency I

- **Solvency margin requirements have been in place since the 1970s** and it was acknowledged in the third generation Insurance Directives adopted in the 1990's that the EU solvency rules should be reviewed
- **Solvency I requires insurers to hold capital funds** equal to required solvency margin or the minimum guaranteed fund, whichever is higher
- **The required solvency margin is calculated as follows**
  - Sum of 4% of mathematical reserves (1% if unit-linked business) plus 0.3% of the capital at risk (insured sum minus math. reserves) for life1
  - Maximum of 18/16% of premiums earned and 26/23% of incurred losses for non-life1
- **Approach is simple**, has low compliance costs, the results are easy to understand and avoids subjectivity...
- **...but proxies consider only certain types of risks**, are arbitrary capital requirements, approach does not differentiate between “good and bad” companies and there is no strong incentive for risk management provided

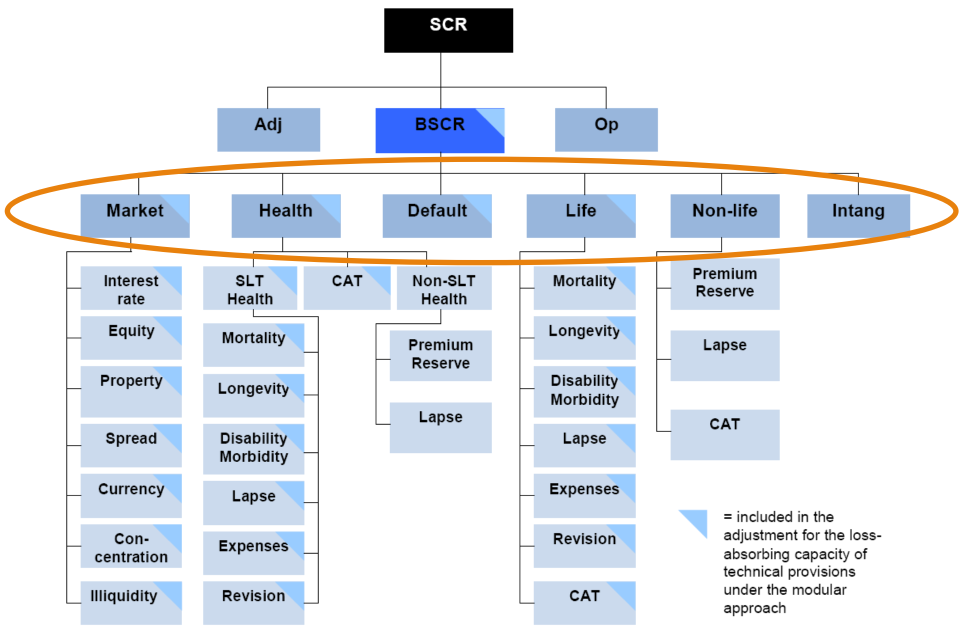
Solvency II

- **EU decided to harmonize solvency rules** for all insurance companies to ensure the financial soundness of insurance undertakings
- **Solvency II guidelines stipulate minimum amounts of financial capital** that insurance companies must have in order to cover the different risks they are exposed to
- **Therefore, Solvency II will introduce more risk-sensitive**, more sophisticated and more risk-based requirements than in the past
- **Solvency II will be a total balance sheet approach** taking into account a comprehensive set of risks faced by an insurance company, i.e. all asset-side and liability-side risks
- **The framework consists of a three pillar approach** similar to Basel II. Pillar 1 consists of quantitative requirements. Pillar 2 sets out requirements for corporate governance and risk management of insurers. Pillar 3 is focusing on the supervisory reporting and transparency requirements

Source: European Commission - QIS5 Technical Specifications, July 2010

Solvency Capital Requirement

Risk's basic sources



Main sources of risk

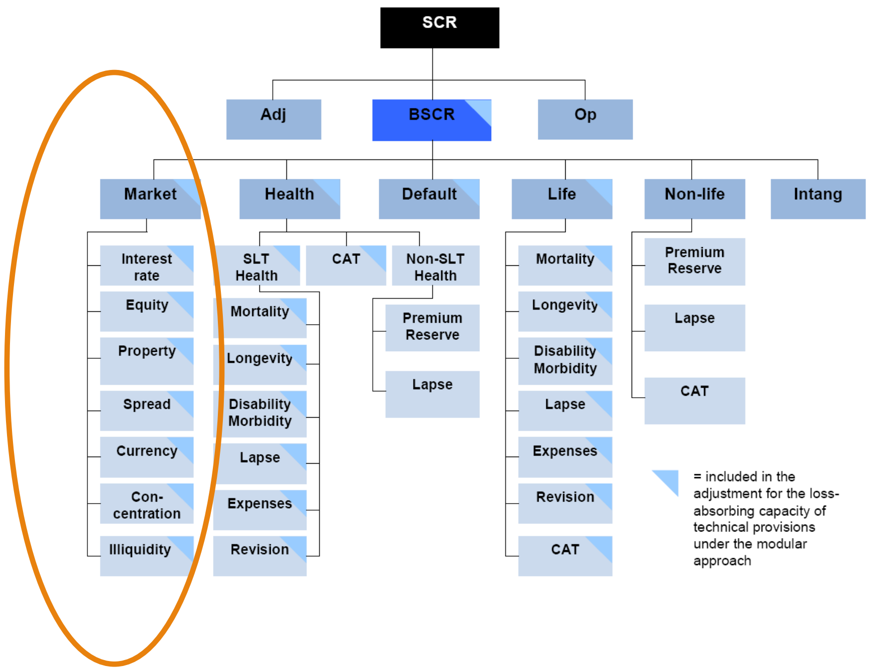
- According to CEIOPS, the main sources of risk – as indicated in the graph to the right – an insurer is confronted with, can be structured as follows
  - Market
  - Default
  - Life
  - Health
  - Non-life
  - Intangible
- In this presentation, the focus is put on the market risk, especially the risk affecting the asset side of an insurer

Source: European Commission - QIS5 Technical Specifications, July 2010

The market risk module

Composition of the market risk modules

SCR risk modules



Description

- The capital charge for the market risk module is calculated via several sub modules, which identify
  - Interest rate risk
  - Equity risk
  - Property risk
  - Spread risk
  - Currency risk
  - Risk concentrations
  - Illiquidity premium risk

Source: European Commission - QIS5 Technical Specifications, July 2010

Overview of Solvency II market risk SCR

Treatment of sample asset classes – please consider SCR is calculated via ΔNAV approach

Asset Class	Solvency SCR Categories Interest rate risk	Non interest rate risk	SCR module
Sovereigns EEA / OECD	Duration mismatch * 1%	-	-
Non-sovereign / non-structured bonds, incl. covered bonds, loans	Duration mismatch * 1%	Rating factor * Duration	Spread
ABS	Duration mismatch * 1%	max(Rating factor of underlying * Duration, Rating factor of product * Duration)	Spread
Developed Equity	-	39% base (30% current)	Equity
Emerging market equity	-	49% base (40% current)	Equity
Alternatives: Hedge, Private Equity, Commodities	-	49% base (40% current)	Equity
Real Estate	-	25% on unlevered	Property

General remarks

- FX risk attracts a capital charge of 25% FX_mismatch (Except EUR_pegged)
- Look-through to be applied whenever possible, so that financial instruments are ideally decomposed into the above SCR categories; e.g. Convertibles are corporate bonds plus equity derivatives
- Derivatives are charged based on the mark-to-market changes implied by relevant stress levels / SCR charges of the underlyings on a one-year horizon, i.e. Value of derivative at stressed level and with one year less maturity
- Separate stress for credit derivatives
- Aggregation of individual SCRs via correlation matrices

Source: European Commission - QIS5 Technical Specifications, July 2010

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