JP Morgan's China Region Fund, Market Beating Performance

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Closed end funds provide the market beating performance of active management and the liquidity of common stock; what's not to love about that?

Active Management And Liquidity; What's Not To Love?

Closed end funds combine the best of both worlds; active and passive management. On the one hand you get the active management of a mutual fund, on the other the liquid tradability of a stock. ETF's have been drawing attention away from CEF's because of lower fees but there is still a price to be paid. Passively managed funds may incur lower fees but they also tend to produce lower returns over time because they invest in both good and bad within a sector.

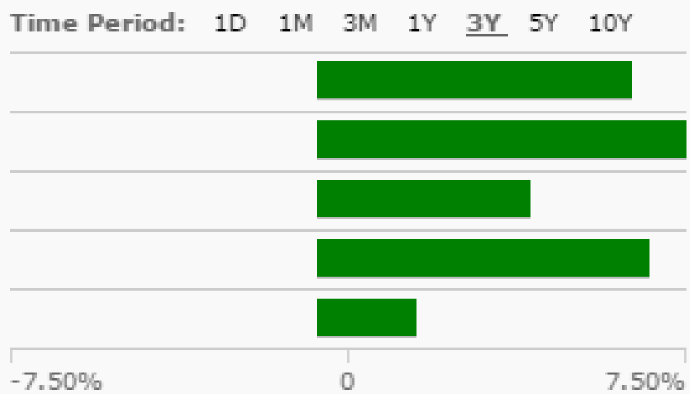
The benefits of active management, and this team in particular, become clear when you compare performance versus the comparable ETF's. Three month total returns, since China's stock markets hit bottom, has far surpassed the Morningstar benchmark (MSCI ACWI ex USA) as well as the top five comparable ETF's. On a price basis JFC is up nearly 6% compared to a loss of -0.5% for the benchmark. The top five China region ETF's are flat to negative over the same three month time period led by the iShares China Large Cap and iShares MSCI Taiwan, both down more than 10%.

Total returns compare favorably to other CEF's as well. Over the past three months NAV is up nearly 7.5%, 0.75% above the category average, with similar results over the 3, 5 and

Total Returns JFC

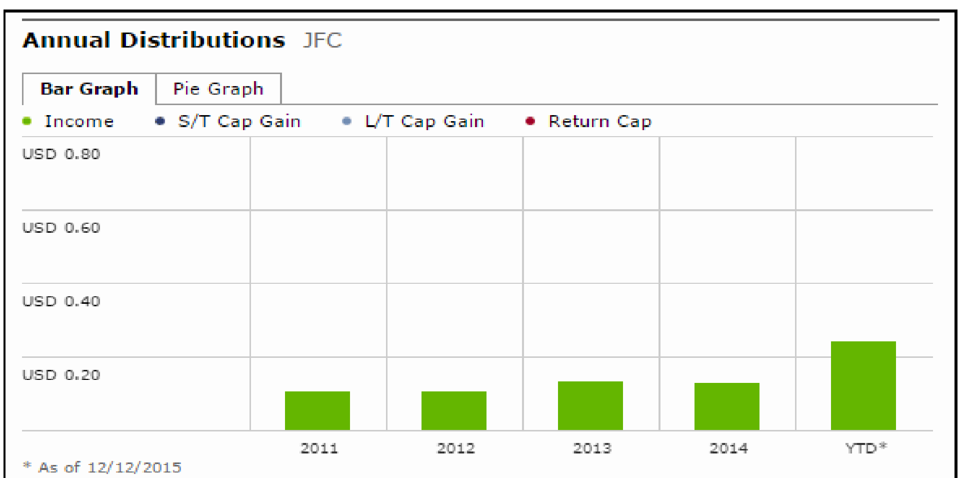
More...

	Total Return
Price	6.39%
NAV	7.50%
Category Price	4.40%
Category NAV	6.75%
Morningstar Benchmark	2.07%



10 year time frames. Performance benefits are not limited to good periods either. Active management of this fund limits losses in down periods as well. The only commonly tracked period in which the JFC had negative returns is over the past year (not surprising due to China's sell off). The JFC lost -6% on a price basis, not great but not bad when compared to a +7% decline in the Morningstar benchmark. In that time NAV fell only 1% compared to a +5% decline in the category average.

Total returns are aided by a dividend. The distribution is annual and pays $0.2370 as of last issuance. This equates to a 1.5% effective annual yield when the fund trades near $15.50. Looking at the next chart you can see the distributions are regular and have been growing over the past 5 years.



Net asset value has been holding steady at levels above $18 for several months. NAV hit a low in late summer amid a flurry of PBOC action and has bounced back since then. Forward outlook calls for continued expansion in Chinese economies, if at a slowing pace, so NAV should continue to move higher over time. Outlook for GDP is for continued growth but for that growth to slip below 7% in 2016. This, along with the shift from industrial to consumption driven economics, is going to make picking the best companies in the right sectors of utmost importance. Fund managers had this to say in the November

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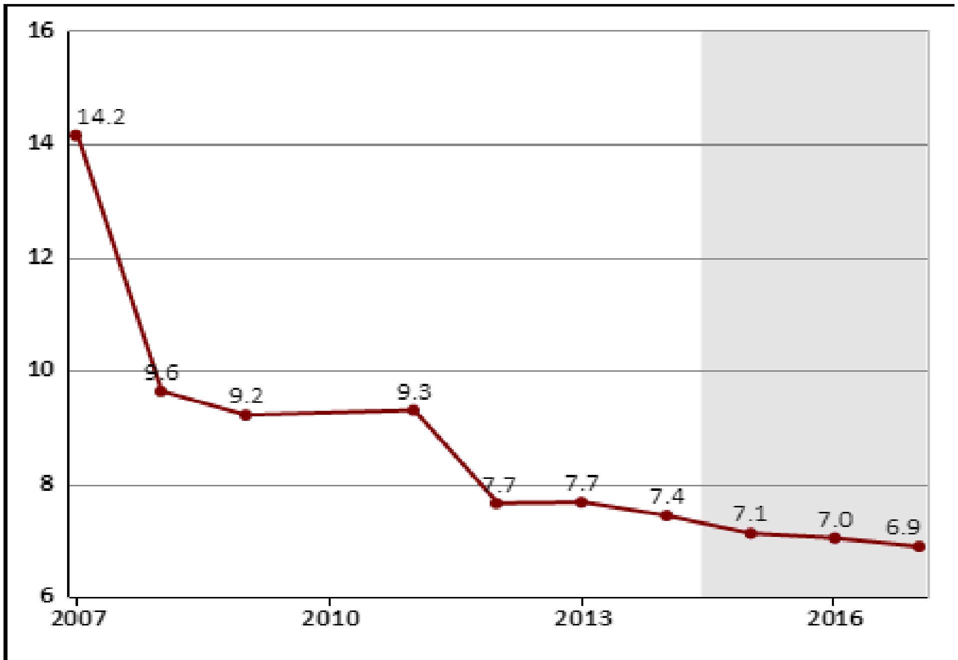
market outlook report.

"China's newest 5 year plan contained few surprises and we continue to expect a stagnant industrial economy paired with a resilient consumer economy, with the latter receiving policy support given its lower levels of leverage. The earnings reporting season is underway and we have thus far seen few surprises. Our core strategies (healthcare, consumer services including internet and environmental protection) remain unchanged."

Undervalued And Trading At A Discount

Although still high the discount to NAV is shrinking. Historically this closed end fund has traded at a 12% discount but this skyrocketed to over 18% earlier in the year. This discount was driven by knee-jerk reaction to market turmoil in China, not completely unwarranted, that is now subsiding. As turmoil and



Source: World Bank Global Economic Prospects, 2015

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volatility declines so too will the discount and it is not too late to benefit from it. The three year Z statistic is still over -1.25 while the one year Z is -0.37, revealing a deep but narrowing discount. As of 12/11 discount to NAV was just shy of 16%, barely changed from last month, and could be expected to shrink to 12% or less in the next few months.

There have been some portfolio changes since my last update. As of the end of October nearly every sector had seen a reduction in weight as managers began re-positioning for the end of year. The only sectors to see increases were information technology, consumer discretionary and healthcare. The largest decrease in holding was in the financial sector. In terms of region Taiwan say the largest decline in holdings, 7%, followed by a 3% decline in Hong Kong H shares. Cash reserves also went up, 7.8% to 7.8%. Within the top then holding the top 9 remain the same with minor reductions in each, the last one has changed from Ubon Financial Holdings to CK Hutchinson Holdings.

What's Not To Love?

China is undoubtedly an economy American investors should have exposure to and the JFC is a great way to get it. The fund is focused on only the largest, best established companies in every economic region of China, not just one, with positive cash flow and positive forward outlook eliminating a lot of the risk associated with the fractured Chinese financial market. This approach gets you market beating performance that is trading at a deep discount to NAV, and pays a dividend. Again I ask, what's not to love?

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