

Product Facts

Name:	ASX 20 Growth	Open date:	April 2, 2009	Issue price (A\$):	100
Issuer:	JPMorgan Investments Australia Ltd.	Close date:	May 15, 2009	First Instalment	30%
Protection guarantor:	J.P. Morgan Australia Ltd.	Maturity:	May 15, 2014	Min. investment (A\$)	9,000
		Issue date:	May 15, 2009	Multiples (A\$):	1,500

Standard & Poor's View

S&P Fund Services has assigned a SOUND rating to the product, reflecting our conviction that the product can meet its objectives over the stated period. The product has scored satisfactorily in a number of categories, but may not be suitable for all investors.

The ASX 20 Growth product is based on a clear and simple investment proposition/philosophy and is generally well structured, both in relation to the underlying Basket and the Constant Proportion Principal Insurance (CPPI) structure. However, S&P has concerns regarding the impact on the CPPI structure of the shortening of the investment term to five years from the seven-year period previously utilised in the ASX 20+ series released by the issuer. This is discussed further below.

In terms of the investment proposition, the product provides exposure to Australian equities with downside protection and the possibility of strong returns on account of the internal leverage feature. The product is well suited to those investors who have a relatively positive view of Australian equities over the longer term, but who may have some concerns of a persistence of high volatility.

In relation to the capital protection structure, the CPPI mechanism is "synthetically" managed, reducing rebalancing-related transaction costs relative to the traditional "physical" structure. In the view of S&P, the various other parameters of the CPPI mechanism (the "multiplier" and rebalancing triggers) are appropriate to the risk/return profile of the underlying basket of securities. Additionally, the minimum exposure of 20%, implemented through what is essentially a put option structure, is a strong positive.

Additionally, the dynamic leverage has relatively low interest rates (partly due to the credit rating of the issuer) and is integral to the possibility of generating stronger returns outcomes in the current market environment.

However, the current low interest rate environment, combined with the decision by the issuer to shorten the investment term from seven to five years, is expected to have a materially adverse effect upon CPPI-related performance.

Both low interest rates and a shorter investment term serve to increase deleverage risk (the risk of being partly or wholly invested in the Cash Asset and less invested in the underlying basket of securities). In the case of the product, the current low interest rates and the shortened five-year investment term have combined to generate an initial allocation to the basket of securities of only 85%, with the residual 15% in cash. Ordinarily, the initial allocation would be at least 100% and potentially more if internal leverage is used.

Additionally, at current levels, any decline in the value of the basket of securities relative to the issue price will further reduce the allocation to the basket of securities and increase the allocation to cash. Ordinarily, there is a share price buffer before the first deleverage event is triggered.

S&P notes that while the issuer has no control over interest rates, the issuer has some control over deleverage risk through the determination of the investment term. While a five-year term is

generally more "palatable" for investors, the reduction in the investment term from seven to five years is ill-timed, in the view of S&P. For instance, if the term remained at seven years, the initial (leveraged) allocation to the basket of securities would be around the 130% level and the expected performance would be materially better.

Because the probability of being materially, or significantly, invested in cash is very high in the current low interest rate environment, the probability distribution of expected returns exhibits a "long tail". That is, there is a high probability of recording low returns with a significantly lower probability of generating strong returns. For example, under a 12% p.a. risk and return scenario there is a 50% probability that the product will deliver total returns of 5% p.a. or less over the five-year investment term, according to S&P analysis.

Fee levels are high. The 1.8% p.a. ongoing fee is at the high end, but nevertheless acceptable. The major negative factor is that the fee is a function of gross asset value (GAV) rather than net asset value (NAV). Essentially, investors are paying a double fee on leverage: the interest rate plus a 1.8% additional margin. Additionally, the fee is also charged on the exposure to the cash asset.

Product Characteristics

	Low	Medium	High
Income potential *			
Growth potential			
Asset diversity			
Leverage			
Cost			
Liquidity			
Transparency			
Tax efficiency			
Capital	Protected	Guaranteed	Unprotected

* Income, in the form of dividends, is reinvested in the product rather than paid to investors during the investment term.

Investor Suitability

This product is suitable for investors who:

- Have a positive longer term view of Australian equities, but are concerned about the risk of continuing high volatility;
- Have a relatively high risk/return profile and do not require the distribution of regular income;
- Have limited spare capital, yet seek enlarged exposure to equities;
- Are prepared to incur a maximum total loss equal to the after-tax cost of the prepaid interest;
- Seek a superannuation fund-compliant investment that provides leveraged exposure to Australian equities;

- Do not require the payment of income during the investment term.

SWOT Analysis

Strengths

- A CPPI mechanism that minimises rebalancing transaction costs and eliminates "cash-lock" risk.
- Internal leverage which, partly due to the low cost of borrowing, generates a material increase in expected performance relative to a structure with internal gearing. JPMIAL is probably one of the few product structures capable of providing affordable internal gearing at the current time.
- The product is based on a clear and simple investment proposition/philosophy: exposure to Australian equities with limited downside through capital protection and the potential for accelerated returns through internal dynamic leverage.
- The product is essentially a set-and-forget investment, with the prepaid interest structure meaning no further payments are required following the issue of the product.

Weaknesses

- The reduction in the term from seven years to five years is ill-timed in the current low interest rate environment, serving to reduce the initial exposure to the basket of securities from approximately 130% to 85%, and materially reducing expected returns under specific risk/return scenarios.
- With the combination of the current low interest rates and the five-year term, there is a high probability of recording low returns with a significantly lower probability of generating strong returns.
- With an initial exposure to the Basket of only 85%, a downward movement from the issue price of any degree will further reduce the exposure to the Basket. There is significant downside directional risk in the product.

Opportunities

- The potential for leveraged exposure to Australian equities (potential accelerated growth), yet with mitigation of downside risks through the dynamic rebalancing process.
- On account of the credit rating of JPMIAL, one of the few investment loan-related capital-protected products that is currently affordable in relation to interest rates.
- A change in interest rates to maturity will alter the de-leverage risk implicit in the CPPI structure. An increase will reduce the risk, a decrease will increase the risk.

Threats

- The persistence of high market volatility will adversely affect CPPI-related performance, increasing the risk of being invested in the cash asset.
- Extraordinary events affecting the ability to hedge or legally provide the product may result in early termination of ASX 20 Growth; investors will receive back the NAV at that time, which may be less than the initial investment amount.
- JPMIAL was previously authorised to lend the securities in the Basket to other divisions of J.P. Morgan without collateral. The absence of collateral potentially exposes investors to a complete loss of capital. JPMIAL has stated that the entity will not engage in such activities in relation to the product, and the ability to do so has been removed from the product disclosure statement (PDS).

Interested Parties

Interested Parties	
Party Name	Responsibility
JPMorgan Investments Australia Ltd. (JPMIAL)	Issuer, swap counterparty and lender for investment loan
J.P. Morgan Australia Ltd.	Guarantor for swap performance

Product Overview

The ASX 20 Growth product provides dynamically leveraged exposure to a basket twenty of the largest S&P/ASX-listed securities (at the issue date) with the benefit of at least 100% capital protection at maturity. The constituent securities of the Basket are equally weighted at the issue date, but are not subsequently rebalanced. Leverage and capital protection are managed according to the rules-based CPPI methodology. The maximum exposure to the Basket is 200%, the minimum is 20%.

Of the initial investment amount, 85% will be invested in the Basket while the residual 15% will be invested in cash (the Cash Asset). The less than 100% initial allocation to the Basket, which is determined by the CPPI mechanism, is partly a reflection of the low interest rate environment and the five-year investment term.

Investment in the product is solely through an instalment warrant structure with a loan to value ratio (LVR) of 70%. The product is superannuation compliant.

Returns to investors will be solely in the form of capital upon exit. Dividends paid by the constituent securities during the investment term will be reinvested into the product. However, franking credits, will be distributed to investors.

The product differs from the ASX 20+ series released by JPMIAL. Notably, the product consists of a single performance component, rather than two separate components, one of which provided price returns, the other regular income contingent upon the performance of the income asset. There are pros and cons of both structures.

The investment term has been reduced to five years from seven years. In the current low interest rate environment, the reduction in term has led to an increase in CPPI-related deleverage risk. Additionally, if the seven-year term was retained the initial allocation to the Basket would be approximately 130%, rather than 85%.

In contrast to its previous series, the issuer has clearly stated to S&P that JPMIAL will not engage in securities lending.

Capital protection is guaranteed by JP Morgan Australia Ltd, which has an 'AA' credit rating (S&P).

In years 3 and 4, on an annual basis, 50% of the increase in the value of the growth component will be locked in. The dynamic management will then be based on the new value as the minimum amount that will be returned at maturity.

The First Instalment is \$30. \$5 of this amount is a prepayment of the first year's interest, the remaining \$25 is capital. The investor enters into a non recourse loan of \$75. Interest on the loan is capitalised each year with the loan amount growing to \$100 at maturity. The full loan amount is the only recourse to the investment. Any shortfall at maturity, or before (if redeemed early), is not a liability of the investor. Loans are not subject to credit approval, but are awarded based on the first instalment being paid at commencement.

Equity Basket Assessment

The Basket is simple in construction: twenty of the largest S&P/ASX-listed securities by market capitalisation at the issue date. The constituent stocks are equally weighted at the issue date, but not subsequently rebalanced. Consequently, over time the constituent securities of the Basket may vary from the S&P/ASX 20 index.

The equal weighting of the securities removes the index bias towards the materials and financials sectors. This also allows for ease of hedging by JPMIAL, and ensures investors who may already have large domestic exposure are not further increasing single-name risk. After the product launch, any changes in the basket, whether due to corporate actions or other activity, will allow JPMIAL to substitute a replacement stock. This is common in products of this type.

The Basket will be subject to the dynamic management CPPI rules, so that after periods of strong performance the exposure to the Basket may increase, and vice versa. With the equal weighting, this increase in exposure will be universal, and will also apply to those stocks in the basket that may be underperforming. The full list of stocks in the basket is shown in the table on this page.

Structural Component Assessment

Capital Protection

As noted above, the CPPI maximum provides a maximum exposure of 200% to the Basket and a minimum of 20%. The 20% minimum eliminates the risk of "cash-lock" (specifically, the risk of being 0% invested in the Basket and 100% invested in cash). In such a situation, the investor must remain invested to the maturity date in order to receive the initial capital back. Exit prior to this will result in a capital loss. The minimum exposure feature is a strong positive, and particularly in a highly volatile market environment.

The minimum exposure is essentially achieved by way of a five-year put option 80% out-of-the money. In the event of a profit lock-in event (see below), a new put option is entered into.

With respect to leveraged exposure, gearing is physical and is charged at a rate equal to the swap rate to maturity (4.2% p.a. at the date of the report).

The key CPPI parameters are relatively standard for an underlying asset that has a risk/return profile similar to the Basket. Specifically, the crash size is 20%, the rebalancing triggers are at +/-15%, and the multiplier is 5x. S&P regards these parameters as providing an appropriate balance between risk and return.

At the inception date, the implicit discount rate of the theoretical bond floor in the CPPI mechanism was 3.8%. Over a five-year term this equates to a bond floor equal to \$0.83 in the dollar. In turn, this equates to a difference of \$0.17; which when multiplied by the multiplier of 5 provides an initial exposure to the Basket of \$0.85, with the residual \$0.15 invested in cash. S&P notes that if the term was retained at seven years, the exposure to the Basket at the issue date would be approximately 130%. S&P regards the reduction in the investment term as ill-timed.

The CPPI structure is managed "synthetically", meaning the securities in the Basket are not physically traded when there is a rebalancing between the Basket and the cash asset. This has the benefit of eliminating trading costs and enabling more frequent rebalancing, daily in the case of the product.

Transparency

S&P regards the structure as relatively simple and straightforward. Performance reporting will be available through the website and updated monthly. The PDS is overly complicated in expressing the structure of the product.

ASX20 Basket Weightings

	Product Weighting (%)	S&P/ASX20 Weighting (%)
AMP	5.0	1.3
ANZ Bank	5.0	4.8
BHP Billiton	5.0	26.4
Brambles	5.0	1.1
Commonwealth Bank	5.0	7.3
CSL	5.0	3.1
Foster's Group	5.0	1.6
Macquarie Group	5.0	0.9
National Australia Bank	5.0	5.6
Newcrest	5.0	2.4
Origin Energy	-	1.9
QBE Insurance	5.0	2.7
Rio Tinto	5.0	10.6
Santos Ltd.	5.0	-
Suncorp-Metway	5.0	1.0
Telstra Corporation	5.0	5.8
Westpac Banking	5.0	8.0
Westfield	5.0	3.6
Wesfarmers	5.0	2.9
Woolworths	5.0	4.8
Woodside Petroleum	5.0	4.0

Source: ASX 20 Growth Product Disclosure Statement, Standard & Poor's.

Leverage

As noted below, exposure to the Basket may be up to 200%. Gearing is dynamic, and is determined by the CPPI-rebalancing rules. Internal gearing is charged at the five-year swap rate, which is 4.2% p.a. at the date of this report.

Capital Returns

Returns to investors will be purely in the form of capital. Performance will be determined by the dynamic exposure to the performance of the Basket over time. Investors should note that the CPPI-related performance of the Basket and the Basket itself (i.e. the performance of the constituent securities) will diverge, and potentially significantly. For example, if under the CPPI mechanism exposure to the Basket declines to 20%, then the product will only capture 20% of the returns of the Basket at a particular point in time. Additionally, the product will also capture 80% of the cash asset interest rate.

Distributions

Dividends payable by the constituent stocks of the Basket are reinvested into the product. Consequently, returns to investors are in the form of capital upon exit only. Franking credits are distributed to investors.

Liquidity

JPMIAL intends to make a monthly market for the ASX 20 Growth product before the maturity date. This will not occur only in exceptional circumstances. When this facility is available, there will be a break fee of 2% of the redeemed amount prior to Dec. 31, 2010, reducing to 1% until Dec. 31, 2012, at which point there will be no further break fees. Although some break costs will be payable, this fee helps JPMIAL covers the upfront commissions paid to financial advisers. Investors in the geared product will need to unwind the loan at market price. Capital protection only applies at maturity, so investors in both products may receive less than the initial investment amount.

Costs

Advisers may charge a maximum 3.3% upfront commission. The actual level is subject to the commercial relationship between the investor and the adviser, and is essentially exogenous to JPMIAL.

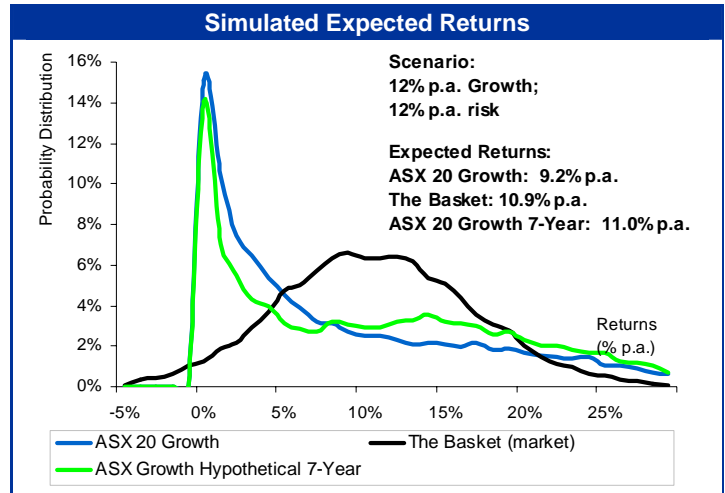
The dynamic management fee/management expense ratio (MER) of 1.8% p.a. is at the high end, but is not regarded as excessive by S&P. However, the MER is charged as a function of GAV, rather than NAV. That is, there is an additional charge on the gearing over and above the interest rate. S&P is critical of structures in which the MER is a function of GAV rather than NAV.

Monte Carlo And Scenario Analysis

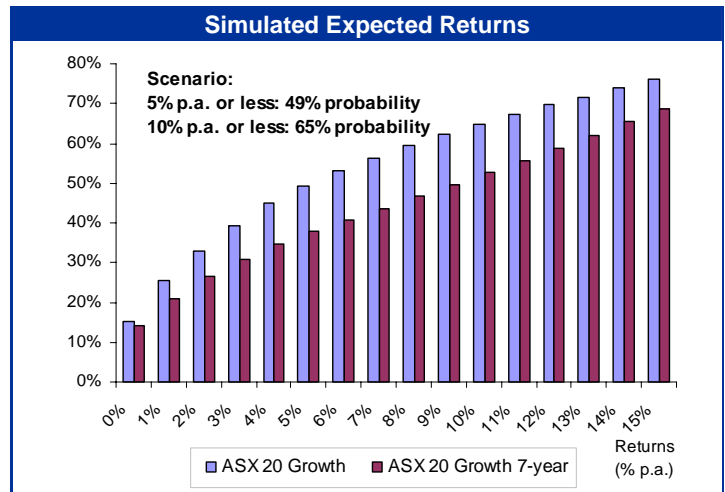
The analysis below provides an assessment of the expected performance of the ASX 20 Growth product relative to the market under certain risk and return scenarios. The analysis is based on 10,000 simulations. Unless otherwise stated, the analysis is based on an interest rate (bond floor discount rate) of 3.8% (the applicable rate at the date of this report) and a five-year investment term.

Key Conclusions:

- The combination of lower interest rates and a shortened investment term has adversely affected simulated expected returns under various risk/return scenarios;
- The probability distribution of returns exhibits a very "long tail", with a significant concentration of low return outcomes, and conversely, a significantly lower frequency of high return outcomes. This characteristic is evident in both of the simulated expected returns figures below. For example, under a 12% p.a. risk and return scenario, 50% of outcomes are for a total return of 5% p.a. or less over the five-year term;
- There is significant downside directional risk, with any decline in the price of the Basket generating a further reweighting out of the basket into cash. For example, a 10% "day one" drop would lead to 40% Basket, 60% Cash Asset allocation. A straight line 10% fall over the first month would lead to an approximate 55% Basket, 45% cash allocation. Such an allocation would reduce the participation of the product in a subsequent potential increase in the price of the Basket;
- To highlight the adverse affect of shortening the investment term from seven to five years, under a 12% p.a. risk and return scenario, the expected return decreases from 11.0% p.a. to 9.2% p.a. Further, under a five-year term there is a 50% probability of returns of 5% p.a. or less. Under the seven year scenario, there is a 50% probability of a return of 10% p.a., or less.
- The low cost internal leverage materially increases expected performance. The absence of gearing would reduce expected performance from 9.2% p.a. to 7.5% p.a. under a 12% p.a. risk and return scenario. JPMIAL's ability to source "cheap" gearing puts it in a strong position relative to other potential issuers.



Source: S&P Fund Services.



Source: S&P Fund Services.

Product Fees		
Fee Type	Details	Payee
Upfront adviser fee	3.3% of upfront fee	JPMIAL
Dynamic management fee	1.8% of exposure to equity asset and coupon asset	JPMIAL
Withdrawal fee	2% in year one, 1% in years two and three, nil thereafter	JPMIAL

Analyst(s): Rodney Lay; Tom Mills.
Release authorised by: Mark Hoven.

Rating Philosophy

A structured product rating combines a qualitative assessment of the structure's ability to provide exposure to the underlying asset class(es) and a view on the management of the underlying exposure the product is replicating/delivering.

VERY STRONG	S&P has assigned a very strong rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored exceptionally in a number of categories but may not be suitable for all investors.
STRONG	S&P has assigned a strong rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored strongly in a number of categories but may not be suitable for all investors.
SOUND	S&P has assigned a sound rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored satisfactorily in a number of categories but may not be suitable for all investors.
PASS	S&P has assigned a pass rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has passed a number of categories but may not be suitable for all investors.
WEAK	S&P has assigned a weak rating to the product based on its conviction that it can not meet its objectives over the stated time period. The product has scored weakly in a number of categories and may not be suitable for most investors.
ON HOLD	An On Hold designation is a suspension of a rating pending further analysis of a material change in the characteristics of a product.

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