

## A Statement from J.P. Morgan Global Liquidity about the S&P Downgrade of U.S. Government Debt

August 8, 2011

On August 5<sup>th</sup>, Standard and Poor's Corporation ("S&P") announced a downgrade of its rating of the long-term U.S. sovereign credit rating one ratings level from the top rating of AAA to AA+. S&P affirmed the highest A-1+ short-term rating on U.S. sovereign debt.

A credit rating reflects a ratings agency's assessment of the fundamental creditworthiness of a borrower. Included in a credit assessment are judgments about the borrower's ability and willingness to repay debt in a timely manner. In the August 5<sup>th</sup> research update, S&P stated "The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics. More broadly, the downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating on April 18, 2011." It appears S&P considers the U.S. outlook to be more challenged beyond the next 3 – 4 years than certain peer sovereigns that are now rated above the U.S. S&P views the trajectory of net public debt for these peers will begin to decline either before or by 2015 but does not project a decline for the US.

S&P had previously put the long-term U.S. credit rating on negative watch and had made public comments indicating that a downgrade was a real possibility, dependent on the enactment of a robust solution to the debt ceiling issues. Therefore this action was not entirely unexpected. The other two largest nationally recognized statistical rating organizations ("NRSROs") (Moody's Investor Services Inc. and Fitch Ratings Ltd.) still maintain the highest long-term credit rating on the U.S. While we don't currently anticipate that any additional downgrades of the long-term U.S. credit rating are imminent, Moody's maintains a negative outlook on the long-term U.S. credit rating.

A security rated by multiple NRSROs is eligible for purchase by money market funds if two or more of those NRSROs rate the security in either their highest ("First Tier") or second-highest ("Second Tier") short-term rating levels. The U.S. government's short-term debt remains rated First Tier by all of the NRSROs that have issued short-term ratings, including S&P. Therefore, money market funds will not be required to sell any government securities as a result of the downgrade.

A money market fund must limit its investments to securities that pose a "minimal credit risk." That determination is made independently of any credit rating. We continue to believe that the U.S. sovereign debt in which our Funds invest continues to present minimal credit risk and remains an appropriate investment for the Funds.

The J.P. Morgan money market funds that were rated AAA by an NRSRO prior to the downgrade continue to maintain their ratings. We believe our underlying portfolios are sufficiently liquid and maintain appropriately short WAM's.

This downgrade of the long term rating of the U.S. government does not fundamentally change how J.P. Morgan Asset Management views U.S. government debt in the near term. We continue to believe that the breadth and depth of the U.S. government bond market presents an attractive risk/return profile to other available investments.

***Contact JPMorgan Distribution Services, Inc. at 1-800-480-4111 for a fund prospectus. You can also visit us at [www.jpmorganfunds.com](http://www.jpmorganfunds.com). Investors should carefully consider the investment objectives and risks as well as charges and expenses of the mutual fund before investing. The prospectus contains this and other information about the mutual fund. Read the prospectus carefully before investing.***

Opinions and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable but should not be assumed to be accurate or complete. The views described may not be suitable for all investors. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations

***An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds strive to preserve the value of the investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.***

J.P. Morgan Funds are distributed by JPMorgan Distribution Services Inc, member FINRA/SIPC

**Addendum – Information of rating agencies' investment criteria for AAA-rated money market funds.**

**Rating agencies guidelines for AAA-rated funds**

Guideline	Moody's Aaa rating	Standard & Poor's AAA rating	Fitch's AAmmf																																	
Max WAM*	■ 60 days	■ 60 days	■ WAM 60 days / WAL 120 days																																	
Max maturity	■ Fixed 397 days ■ FRN/VRN: 'Aa' or better: 4 years Below 'Aa': 2 years	■ Fixed 397 days ■ FRN/VRN: U.S. registered 1 year Govt issues 2 years	■ Fixed 397 days ■ FRN/VRN: Sovereign 'AAA' – 2 years																																	
Min credit rating	■ A2/P-1 and above ■ (P-1 without long term rating comparable to A2/P-1)	■ A-1+ or A-1 ■ (A-1 maturing in 7 days counted toward A-1+)	■ Tier I ■ F1+ or F1 (short term) ■ A or higher (long term)																																	
Diversification/ concentration	■ P-1 – Min 100% ■ P-2 – Max 0% ■ Issuer diversification – Max 5% ■ O/N deposits – Max 10%	■ A-1+ Min 50% ■ A-1 Max 50% ■ Issuer diversification – Max 5% ■ Issuer concentration – tier-2 is not eligible for AAAm ratings	■ F1+ – Max 10% (Max 5% greater than 7 days) ■ F1 – Max 5%																																	
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\* WAM = Weighted Average Maturity. WAL = Weighted Average Life.

<sup>1</sup> S&P does not formally propose any diversification guidelines for overnight repo with any single A-1+ cpty. <sup>2</sup> Illiquid securities include Repos and Depos >7 days.

<sup>3</sup> Applicable to Govt/Agcy collateral with at least 102% overcollateralization. Otherwise, direct exposure guidelines are applicable.

Source: J.P. Morgan Asset Management internal reporting