

## The J.P. Morgan TargetTracker: European Equities 20/8 (EUR) Index

### OVERVIEW

The J.P. Morgan TargetTracker: European Equities 20/8 (EUR) Index (ticker: EQJPE20) (the "Index") is an investable index intended to provide capped exposure to the performance of the Euro STOXX 50 Index. The European Equities 20/8 (EUR) Index targets an annualized volatility of 20% on a daily basis by dynamically adjusting its exposure between the Euro STOXX 50 Index and the cash component based on the historical volatility of the Index's exposure to the Euro STOXX 50 Index subject to an exposure cap to the Euro STOXX 50 Index of 200%.

### Index Features:

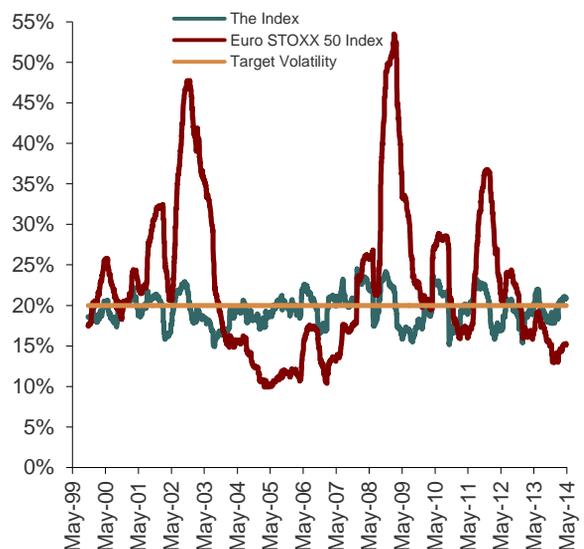
- **Volatility Target Strategy:** The Index seeks to maintain its target volatility of 20% by dynamically allocating its exposure between the Euro STOXX 50 Index (the "Equity Component") and a cash component based on realized volatility of the Equity Component. The exposure to the Equity Component ranges from 0% to 200%.
- **Capped Basket Strategy:** The Index's exposure to its Equity Component is subject to the return cap of 8%. When an index return is subject to a return cap, the choice of the starting date and ending date of the calculation effectively determines how much limiting effect the return cap will have on the index return over the relevant period of time. To mitigate this effect and to smooth out the effects of the return cap, the Index employs a capped basket strategy to calculate its returns and closing levels (the "Capped Basket Strategy"). The Capped Basket Strategy is implemented through 21 capped volatility target baskets, which creates a smoothing effect (see "The Smoothing Mechanism" herein for further information).

### Volatility Control Rationale

- Volatility Control mechanism continuously adjusts the exposure to the Euro STOXX 50 Index with the aim of achieving a constant realized volatility.
- Historically, deleveraging in periods of high volatility and re-leveraging in periods of low volatility (i.e. risk budgeting) can generate attractive risk-adjusted returns combined with reduced drawdowns in market stress scenarios.

### The Smoothing Mechanism

- The Index employs a capped basket strategy using 21 capped volatility target baskets (the "Capped Baskets") to calculate the returns of the Index subject to the 8% return cap, in an attempt to smooth out the effects of the return cap.
- On each calculation day, the Index calculation agent calculates the average of the levels of the Capped Baskets to reflect the return of the Index's aggregate exposure to the Euro STOXX 50 Index.
- On each calculation day of the Index, the return of each Capped Basket is calculated for the period from its immediately preceding reset date to that calculation day subject to the return cap of 8%.
- **Hypothetical Volatility Comparison: May 28, 1999 through May 30, 2014**



### Hypothetical Back-tested Data and historical performance comparison: May 28, 1999 through May 30, 2014



Source: J.P. Morgan, Past performance is not indicative of future performance. The returns of the Capped Baskets (which are used to calculate the level of the Index) are equally weighted only on the Index Base Date of January 30, 2014. As a result, hypothetical back-tested performance prior to the Index Base Date is generated in such a manner as to achieve an equal weighting for all capped basket returns on the Index Base Date. The Index Base Date occurs prior to the Index Live Date of April 29, 2014. Accordingly, hypothetical back-tested performance prior to the Index Base Date may not reflect the same returns that would have been achieved if the returns of the Capped Baskets were not required to be equally weighted on the Index Base Date. Likewise, due to the equal weighting of the returns of the Capped Baskets on the Index Base Date, hypothetical back-tested performance for any period prior to the Index Base Date may not be a suitable comparison with hypothetical back-tested performance for the period from the Index Base Date to the Index Live Date.

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**Market Risk:** Index derives its returns from the Euro STOXX 50 Index. The Equity Component presents investment risks.

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