J.P. Morgan Volemont Strategy – U.S. Equity (Series 1) (USD) (JPVOLUSA)

The J.P. Morgan Volemont Strategy – U.S. Equity (Series 1) (USD) (the "Strategy") (**JPVOLUSA <Index>**) is a fully transparent and directly investable strategy that references the level of implied vs. realised volatility of the S&P 500 Index (the "S&P 500")

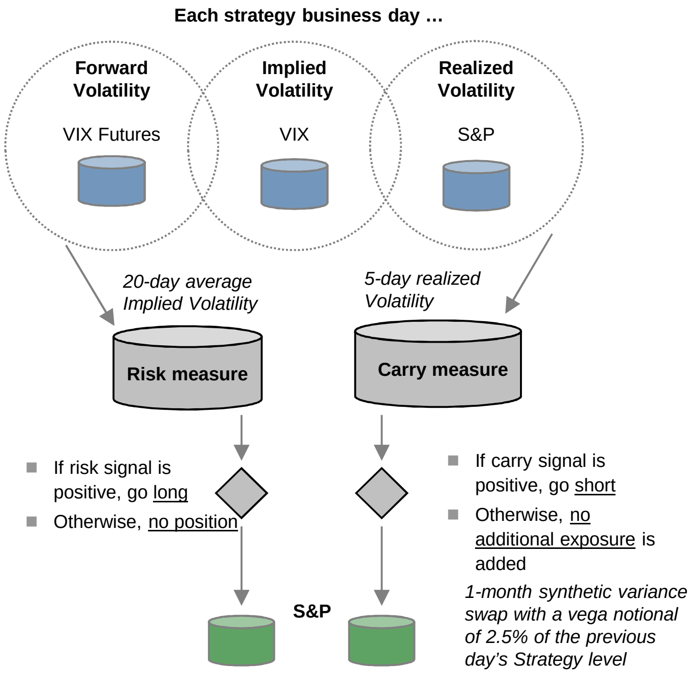
Overview

- The Strategy aims to monetize the difference (the "carry") between implied and realized volatility, whilst mitigating potential drawdowns through
  - conservative overall positioning
  - initiation of long variance exposure / protection in times of stress when the carry is negative
- Each strategy business day, the Strategy may initiate a synthetic 30-day variance swap position on the S&P 500 according to the observed carry signal (the "Variance Component"
- Each strategy business day, the Strategy may initiate a synthetic exposure in futures contracts on the CBOE Volatility Index (the "VIX Index") according to the observed risk signal (the "Futures Component")
- The ability to combine tactical long and short variance positions aims to deliver robust, stable returns

Rationale

- Traditional derivative end-users tend to be buyers of market volatility, mainly through the purchase of downside protection on major equity indices
- Given the negative skew in equity markets, implied volatility tends to be priced higher than realised volatility, thus representing a risk premium that end-users are willing to pay for protection
- Synthetic variance swaps allow liquid trading of implied versus realised volatility, allowing investors to monetize this difference
- During market sell-offs, volatility can realise substantially higher than what was implied. An efficient carry strategy with exposure that adjusts to the prevailing market conditions can mitigate any potential drawdowns

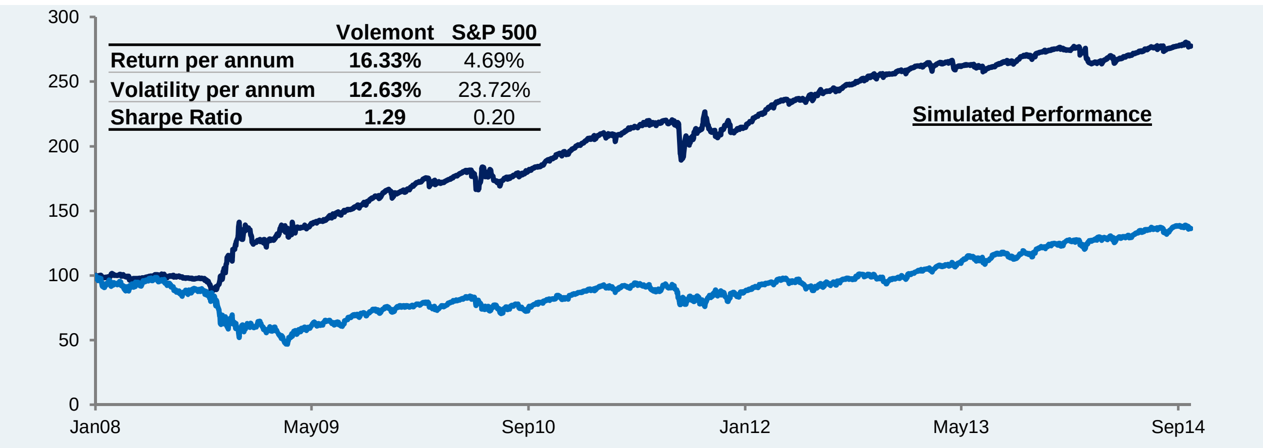
Strategy Mechanics



… Possibly leading to up to 22 overlapping variance swap positions … and VIX futures positions

Transparency of Replication

- The Strategy is constructed entirely from publicly available information, minimising discretion
- The strike level of each synthetic variance swap is calculated based on the level of the VIX Index (which is a measure of implied volatility) as published on Bloomberg
- Fees and Adjustments: Transaction costs are replicated as a formulaic spread from the strike level and an annualised adjustment factor of 0.75% is deducted from the Strategy RIDER 1



	Volemont	S&P 500
Return per annum	16.33%	4.69%
Volatility per annum	12.63%	23.72%
Sharpe Ratio	1.29	0.20

Source: J.P. Morgan. Past performance is not a guide to future performance. Performance relates to the period January 1, 2008 to Sep 30th, 2014 . Performance before August 2011 is provided on a back-tested basis only. The J.P. Morgan Volemont Strategy figures are net of an 75 bps adjustment factor and other adjustments relating to rebalancing of notional underlying constituents. Please refer to the back-testing disclaimer.

Monthly Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Year
2008	-1.50%	0.72%	-1.64%	1.24%	2.17%	-1.86%	-1.61%	-0.05%	-8.64%	29.57%	10.80%	-0.73%	**26.85%**
2009	-0.04%	7.38%	0.84%	1.36%	2.83%	3.80%	1.81%	3.17%	3.53%	-1.18%	2.96%	4.52%	**35.44%**
2010	0.21%	0.28%	3.33%	-0.62%	-0.45%	-4.15%	4.82%	1.92%	1.97%	3.59%	1.32%	4.39%	**17.53%**
2011	1.71%	1.95%	0.14%	2.60%	2.07%	-0.07%	-1.65%	-6.26%	9.03%	-5.69%	1.39%	1.55%	**6.05%**
2012	4.17%	3.28%	2.32%	0.16%	0.94%	1.30%	0.49%	2.14%	1.40%	1.28%	0.48%	1.14%	**20.78%**
2013	1.16%	-0.27%	1.48%	-1.10%	-0.39%	-0.51%	1.67%	0.22%	1.67%	1.35%	0.83%	-0.27%	**5.94%**
2014	-0.47%	-2.90%	1.45%	-0.18%	1.38%	1.34%	-0.92%	1.49%	-0.02%				**1.09%**

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The J.P. Morgan Volemont Strategy – U.S. Equity (Series 1) (USD) has been live since 30th April 2013.

Risk Factors

The description of investment risks that follows is not, and does not purport to be, exhaustive. This document is a description of the proprietary Strategy and not of any particular product. Therefore, investors should carefully read and understand the terms of the particular product prior to investing in it.

Market Risk: The Strategy derives its returns from notional variance swaps referencing the S&P 500 Index (the “Index”). The underlying equity Index presents investment risks.

Potential Conflicts of Interest: Potential conflicts of interest may exist in the structure and operation of the Strategy and in the course of the normal business activities of J.P. Morgan or any of its affiliates or subsidiaries or their respective directors, officers, employees, representatives, delegates or agents.

Lack of Operating History: The Strategy is only recently established and therefore has limited history to evaluate its likely performance. Any back-testing or similar analysis performed in respect of the Strategy must be considered illustrative only and may be based on estimates or assumptions not used by the Strategy Calculation Agent when determining the level of the Index pursuant to the Strategy Rules. Past performance should not be considered indicative of future performance.

Excess Return: The Strategy is an excess return strategy which means it measures the returns accrued from notional investments in uncollateralised assets (ex. Futures and swaps). It doesn’t reflect the return you might receive on cash you don’t need to post as collateral.

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