JPMorgan SmartRetirement Target-Date Fund Series Report

Morningstar Analyst Rating  
Gold

Key Features
Asset-Weighted Expense Ratio  0.66%
Active/Passive Exposure  100% Active
Open/Closed Architecture  100% Closed
Total Net Assets ($M)  44,454

Executive Summary

Process
The team’s thoughtful approach to asset allocation and manager selection earns the series a Positive Process rating.

Price
Compared with the universe of target-date series, many of which invest exclusively in passively managed underlying strategies, fees look about average. As a result, the series earns a Neutral Price rating.

Performance
Over the trailing seven- and 10-year periods, and since the series’ May 2006 inception, the vintages on average rank in the top decile of their peer group through December 2018. Performance on a risk-adjusted basis looks similarly strong. The series readily earns a Positive Performance rating.

People
Anne Lester has led the series since its 2006 inception. Five other team members and an expansive global research team support her. The skill and tenure of the group lead to a Positive People rating.

Parent
J.P. Morgan Asset Management boasts long-tenured and strongly aligned portfolio managers who are supported by deep analytical resources. Competitive fees across the board also contribute to the firm’s Positive Parent rating.

Morningstar Analyst Rating
Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum
Gold  Silver  Bronze  Neutral  Negative

Strategic Glide Path Total Equity Exposure

Available Funds
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<th>Available Funds</th>
<th>2020 Fund</th>
<th>2025 Fund</th>
<th>2030 Fund</th>
<th>2035 Fund</th>
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<th>2045 Fund</th>
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<tr>
<td>Retirement Income Fund</td>
<td>2020</td>
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Morningstar Opinion

A stellar investment team and robust process solidify JPMorgan SmartRetirement target-date series’ Morningstar Analyst Rating of Gold.

Anne Lester has stood at the helm of the series since its May 2006 inception, and Dan Oldroyd runs the series day-to-day. Lester and Oldroyd leverage J.P. Morgan’s large multi-asset investment group of about 80 investment professionals globally, making this one of the better-resourced target-date groups.

Sound participant-behavior research and long-term capital market assumptions back the asset-allocation approach. Some target-date series emphasize one or two risks that participants face when planning for retirement, such as longevity risk (risk of outliving one’s savings) or event risk (risk of incurring steep losses caused by an extreme market event). But J.P. Morgan aims to balance the risks, resulting in a more conservative equity allocation than the industry norm during an investor’s early saving years and shortly before retirement. The group follows a two-step tactical-allocation approach that leverages quantitative and qualitative inputs to add value on the margin. The approach dates back to 1999 and has added value in 15 calendar years since.

The series’ team uses a thoughtful manager-selection process. It aims to combine managers with complementary styles and won’t hesitate to remove an underlying fund that’s not meeting expectations. The manager lineup is solid. During the past two years, we upgraded four of the series’ underlying funds, including its two largest holdings, JPMorgan Core Bond and JPMorgan US Research Enhanced Equity. Morningstar Medalists range from about 50% of assets in longer-dated funds to 65% in shorter-dated funds.

Active bets at both the underlying manager and asset-allocation level often cause results to diverge from the pack in the near term but have paid off over time. Missteps by the series’ international equity managers caused by an extreme market event. But J.P. Morgan aims to balance the risks, resulting in a more conservative equity allocation than the industry norm during an investor’s early saving years and shortly before retirement. The group follows a two-step tactical-allocation approach that leverages quantitative and qualitative inputs to add value on the margin. The approach dates back to 1999 and has added value in 15 calendar years since.

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02-05-2019

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The date shown next to the Morningstar Analyst Rating is the date on which the Morningstar Manager Research Analyst assigned or reaffirmed the current rating for the target-date fund series based on the analyst’s latest review and research report for the target-date fund series.

The Five (5) Pillars

Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund’s overall merit.

People

The overall quality of a target-date fund series’ investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a target-date fund series’ invest-
ment team requires that analysts assess several relevant issues including how key decisions are made.

Parent

We believe the parent organization is of utmost importance in evaluating a target-date fund series. The target-
date fund series’ management set the tone for key elements of our evaluation, including capacity manage-
ment, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heav-
ily weighted to salesmanship.

Process

We look for target-date fund series with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfo-
lio should be constructed in a manner that is consistent with the investment process and performance ob-
jectives.

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Performance
We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a target-date fund series is delivering to our expectations.

Price
To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a target-date fund series is penalized for high fees or rewarded for low fees can vary with region. In Europe, for example, target-date fund series are penalized if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using prospectus expense ratios, but in the case of target-date fund series with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

Morningstar Analyst Ratings
Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a target-date fund series; the difference between them corresponds to differences in the level of analyst conviction in a target-date fund series’ ability to outperform its benchmark and peers through time, within the context of the level of risk taken.

Gold
Represents target-date fund series that our analyst has the highest-conviction in for that given investment mandate. By giving a target-date fund series a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). To earn a Gold rating, a target-date fund series must distinguish itself across the five pillars that are the basis for our analysis.

Silver
Represents target-date fund series our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these target-date fund series will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

Bronze
Represents target-date fund series that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these target-date fund series to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

Neutral
Represents target-date fund series in which our analysts don’t have a strong positive or negative conviction. In our judgment, these target-date fund series are not likely to deliver standout returns, but they aren’t likely to seriously underperform their relevant performance benchmark and/or peer group either.

Negative
Represents target-date fund series that possess at least one flaw that our analysts believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these target-date fund series are inferior to most competitors and will likely underperform their relevant performance benchmark and/or peer group, within the context of the level of risk taken, over a full market cycle.

Morningstar Research Services may also use two other designations in place of a rating:

Under Review
This designation means that a change that occurred with the target-date fund series or at the target-date fund series company requires further review to determine the impact on the rating.

Not Ratable
This designation is used only where we are providing a Report on a new strategy or on a strategy where there are no relevant comparators, but where investors require information as to suitability.

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Morningstar Star Rating
The Morningstar Star Rating is a proprietary data point that is quantitatively driven. Target-date fund series are rated from one to five stars based on how well the target-date fund series performed (after adjusting for risk and accounting for sales charges) in comparison to similar target-date fund series. Within each Morningstar Category, the top 10% of target-date fund series receive 5 stars and the bottom 10% receives 1 star. Target-date fund series are ranked for up to three time periods—three-, five-, and ten-years—and these ratings are combined to produce an overall star rating, which is noted within the Report. target-date fund series with less than three years of history are not rated. Star Ratings are based entirely on a mathematically evaluation of past performance. Star Ratings are in no way to be considered a buy or sell signal nor should be viewed as a statement of fact.

Equity-Related Data Points
The Report lists the top ten holdings in the target-date fund series as of the dated noted. For each underlying holding, a series of data points is provided including, where applicable, that security’s Economic Moat rating as of the date noted.

Economic Moat
The concept of an economic moat plays a vital role in our equity analyst’s qualitative assessment of a firm’s long-term investment potential, but also in the actual calculation of its fair value estimate. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm’s cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm’s cost of capital more quickly than companies with moats.

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The Analyst has not served as an officer, director or employee of the target-date fund series company with in the last 12 months, nor has it or its associates engaged in market making activity for the target-date fund series company.

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