

Globetrotting for Growth



“Over the next 10 years money will be treated better outside the U.S.” is the message Ticker got from Peter Harrison of JP Morgan Fleming International Equity Fund. His reasons are simple - it's easier to find something in places where too few people still dare to look.

Q: *Your category is a foreign stock fund. What does that mean?*

A: The International Equity Fund that I am responsible for, that is in 100% foreign stocks. I also run global stock funds, but that one is an EAFE fund.

Q: *What does EAFE stand for?*

A: It means Europe, Asia and Far East.

Q: *The top 10 holdings are spread throughout the world among a total of how many stocks?*

A: We would typically have about 90 holdings.

Q: *Are you focused on large companies mostly?*

A: That's right. We would typically buy a company with a market capitalization of more than \$2 billion U.S.

Q: *But \$2 billion barely gets you into what is considered mid cap.*

A: We do own a limited number of companies between \$2 billion and \$5 billion. We would typically never go below the \$2 billion mark.

Q: *When it comes to international investing, where is the capital finding places where it believes it will be treated well?*

A: The first thing we find that is very exciting is that investors are waking up to the fact it's going to be treated better outside the

U.S. in the next 10 years than it has in the past. So, the weakness of the dollar is telling us something about that.

Q: *Moving the focus to Japan, the country has been in and out of recessions over the last 20 years. Where are opportunities there that a U.S. investor can't recognize?*

A: There are a number of world-class Japanese companies that are hitting their all-time highs - stocks like Canon. Another thing is the shareholder theme. I think the change of being much more interested in their shareholders is a big one-off kicker to returns.

Q: *Do you own any Japanese drug firms?*

A: I do, actually. One of them was recently involved with some corporate activity with one of the European drug companies. It strengthened its market position.

Q: *Why is ENI, which is based in Italy, your top holding?*

A: If you compare ENI to a leading oil company like BP, ENI has higher returns, a 5.8% dividend yield, whereas BP has a yield of 4.1%. It has higher returns on its assets. It has more opportunity to grow. It's a smaller company.

Q: *The portfolio mix appears concentrated in consumer goods. How do you view this theme?*

A: Actually the portfolio is widely diversified in all the MSCI sectors. There certainly is

JP Morgan Fleming International Eq C

Fund Facts

Symbol	JIECX
Website	www.jpmorganfunds.com
Address	JP Morgan Funds, P.O. Box 219392, Kansas City, MO 64121-9392
Tel. No.	800-348-4782
Inception	1/31/03

Portfolio

Total Net Assets *	\$0.50
Avg Mkt Cap (\$ Weighted) *	---
Average Price/Earnings Ratio	---
Average Price/Book Ratio	---
Turnover Ratio	---

Investment Information

New Investment	Open
Min Initial Investment	\$2,500
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$1,000

Risk (Against MSCI EAFE IX ID - 3 Years)

Alpha	---
Beta	---
R-Squared	---

Returns vs. Lipper International Fund Index

	JIECX	Index
1 Year (Cum.)	-1.67%	2.36%
3 Year (Ann.)	16.36%	19.72%
5 Year (Ann.)	---	-6.40%

Returns vs. MSCI EAFE IX ID

	JIECX	Index
1 Year (Cum.)	-1.67%	2.19%
3 Year (Ann.)	16.36%	18.10%
5 Year (Ann.)	---	-8.66%

Fees and Expenses

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	1.00%
Total Expense Ratio	---

Portfolio Manager

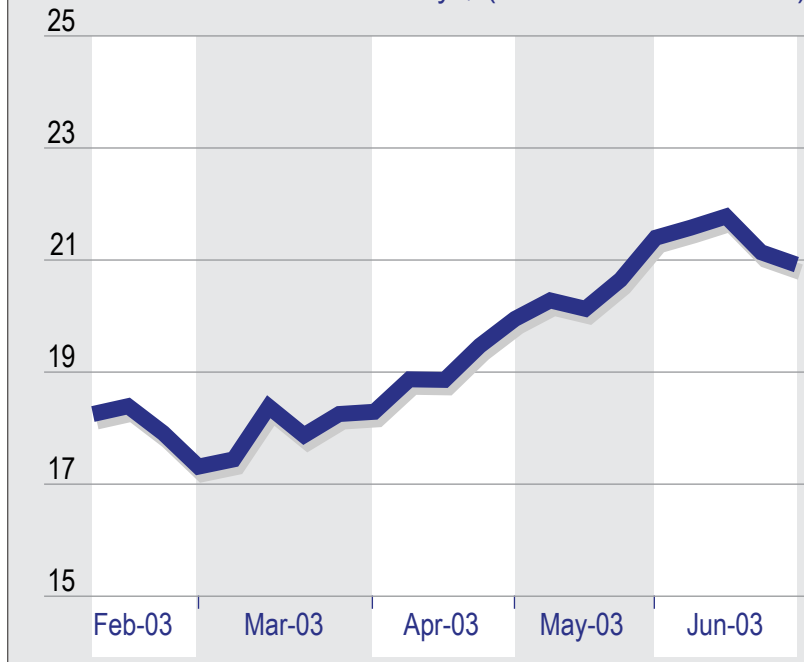
J. Fisher / P. Harrison	01/31/03
-------------------------	----------

* millions Data through: 06/30/03

Source: Company Documents; Lipper

JP Morgan Fleming International Eq C

Price History \$ (2/15/2003 - 6/30/2003)



an over-concentration in the consumer with big names like Nestle.

Q: I noticed a low concentration in media. We worry about media all the time in the U.S. with AOL, Viacom and Comcast.

A: We don't have a lot of high-valuation media companies like you have in the U.S. We never suffered the sort of valuation compressions that the AOLs and Viacom went through. That makes our lives a lot easier because we didn't happen to have that roller coaster ride.

Q: Also, I am curious about telecommunications. The big U.S. wireline carriers control the market but are also subject to heavy regulation. How do you view it internationally?

A: We certainly still have the old dominant wireless businesses and the new wireless businesses. Our preference to the portfolio is to focus on the wireless growth. Wireline businesses, as you know, are suffering the world over for the same sorts of reasons, as the cost of carrying a call are very low. Therefore, prices are under pressure, volumes are under pressure, and regulators and

government want their pound of flesh. We would prefer to be exposed to something like Vodaphone or an SK Telecom in Korea.

Q: I also noticed that there are few holdings in Taiwan and South Korea in favor of Japan.

A: We actually have four holdings in South Korea. We tend to avoid Taiwan because it is very semiconductor oriented. They also account for their profits in a very aggressive manner, which leaves us very uncomfortable about the valuations that you have to pay for the underlying profits.

Q: What makes you uncomfortable about the accounting methods?

A: The key issue is the way in which they issue stock to their employees. They don't take that cost through the profit-loss account. They adjust the profit-loss account for that cost. That stuff is issued at nominal. We obviously would want to put that through a market value. That difference is quite a significant one.

Q: Being international, you have research staff worldwide. How many people?

A: We have 130 people around the world, primarily in main centers, New York, Tokyo, London and Hong Kong, but we would also have people in places like Taiwan and Thailand that would be providing insights into what we do.

Q: Wasn't JP Morgan Fleming the result of a merger?

A: That's right. I was with the Fleming side of that. We were called Jardine Fleming when we were in Asia and Robert Fleming when we were in Europe.

Q: I hear so much news about Germany and the poor business outlook by its executives. How bad is it really?

A: Germany does have some big, big issues to face. It still has a very expensive workforce. Its banking system is inefficient. It has some major challenges to face up to. Domestic Germany is going to be a painful place to live in the course of the next three or four years. Having signed out to the euro, they do not have the flexibility to set their interest rates at a level that would be appropriate for those difficulties. We are cautious about Germany and would certainly be underweight the assets.

Q: You have an interest in Switzerland. Aside from Nestle, you own the two major drug companies?

A: Novartis and Roche are the two big companies. Obviously you have the banks on top of that, which we don't hold, the likes of UBS.

Q: As far as country assets are concerned, most of it is concentrated in the UK over the rest of Europe?

A: Actually, Britain accounts for about 27% of the portfolio today, whereas the rest of the Europe is about 46%. But Britain has a good position. The banks in the UK, while they're relatively low growth, are cheap. It has some good consumer staples companies, like Tesco, which are good strong growth businesses and under-recognized. You also have the industrial businesses. Obviously, the key issue here is that if you're an exporter from the UK, it hasn't had the same strength as in Europe of late, which makes life quite a lot easier. It still has the flexibility to decrease interest rates. The British economy is in good shape.

Q: I think there is a discrepancy in the view of how U.S. investors do business compared to Europe. Do you have an opinion on the divide between U.S. and European capitalism?

A: I think Europe is still evolving. It is a much more social form of capitalism in Europe. It is a very difficult place to employ people. It has historically been harder to reconcile with shareholders. What I would say, though, is the American model has gained a huge amount of momentum over the last 10 years. A good example would be

A: I think the thing that comes first is if you can kick that company from every angle and feel comfortable about the way it's growing its top line, the amount of cash it's generating, so you can feel a part of the growth and you can actually believe that the management is working for you. There are two ways of looking at a company. Either you can say it's slightly cheap relative to its competitors. Or you can say I would take money out of the bank to buy it. It's that latter test of earnings that is the most powerful one.

out the volatility inspired by currency shocks. That's been a major problem in Brazil and Argentina. We tend to look bottom up for companies that are genuinely cheap.

Q: In Eastern Europe, ex-Russia, there is low concentration, too.

A: Again, there are a lot of small companies. We purchased Yukos in Russia for our funds. It is a very cheap global oil company. Russia is rich in oil but short in

“There are two ways of looking at a company. Either you can say it's slightly cheap relative to its competitors. Or you can say I would take money out of the bank to buy it. It's that latter test of earnings that is the most powerful one.”

GlaxoSmithKline in the UK where the chief executive is an American. That change has been quite swift.

Q: From July of 2002 up to the current rally in worldwide markets, not just the U.S., is it just investors feeling good about the future again?

A: Our view is that the price that was wrong was the price on the 11th of March. The markets got too cheap because of the pessimism. What we're doing is we're returning to something more normal. In the UK, for example, something that has only happened once in the last 40 years was the market started to yield more than long bond rates. The yield on the UK was up at 4%, which was more than what we call UK gilts. That last happened in 1958. We could say we could find an awful lot of stocks that were in absolute terms cheap and you're going to make real money from them. When we saw the rebound, it wasn't surprising. It was just the panic working out effectively. Now, I think we're much closer to the right valuation off the bounce back. So, yes, the world has become a safer place. And, with the war and with the economic stats it is starting to show a little bit of firmness.

Q: What indicators tip your scale to make a company a buy?

Peter Harrison is a managing director and head of the Global Portfolios Group, based in London, responsible for multi market investment in JPMorgan Fleming and JF Asset Management. An employee since 1996, Peter was previously head of UK specialist funds.

Peter Harrison

Q: The companies in the top holdings are household names. Are there companies that you, as an international investor, are more knowledgeable about?

A: As you expect, there are lots of interesting names that don't get the publicity. Holcim, the cement company in Germany, is a fabulously interesting business with a low valuation and again very cheap on a global context. Another example would be Wolseley, a British company that has been delivering steady growth in a very cyclical market for the last 20 years. It's just been gradually taking market share, reinvesting the cash, buying up mom-and-pop shops.

Q: There is little concentration from the Pacific Rim and also from Mexico southward. Why do you avoid these regions?

A: We tend to find some of the Asian names where credit card penetration is playing out over a number of years with

pipelines to get it out. We're starting to see that come. You pay a lot less for the reserves, but you need to be confident that management is working for its shareholders. We don't invest in Eastern Europe because the names there tend to be smaller. We can find big names elsewhere where the risks are lower and the potential rewards are just as high.

Q: The turnover is very low, 20% annually. That amounts to roughly 16 companies that you buy and sell every 12 months.

A: It's the company first. If we find companies that tickle our characteristics with things that we like, we tend to stick with them for the long term and just watch them deliver. As we all know, companies change much more slowly than stock markets' perceptions of them. Get to know the managements well. Stick with them and they'll deliver in the long term. ■

Dave Jennings