



April 27, 2010

Dear Client,

During the first quarter of 2010, we saw a continued improvement and strengthening of the major economic indicators we experienced worldwide during the latter part of 2009. These improvements, when viewed in conjunction with generally positive performance in global equity and fixed income markets, appear to be pointing toward a sustainable economic recovery. In the US, GDP has continued increasing to very positive levels, labor productivity and corporate profits have been growing substantially, employment appears to be on the mend, and the housing sector (although still quite weak) seems to be finally stabilizing.

Outside of the financial markets, passage of the Patient Protection and Affordable Care Act (PPACA) in the US was one of the most significant events of the quarter. This massive bill has considerable long-term implications for investors as it pertains not only to the health care industry, but also to personal and corporate taxes, the federal deficit, the economy and politics. In order to offer you a more in-depth discussion of the bill's many implications, we have included a very informative J.P. Morgan Market Bulletin entitled, "Investment Implications of Health Care Reform" (see Appendix A).¹

Financial Markets' Performance

Global equity and fixed income markets were volatile during the first quarter. Markets lost some ground in February as China began unwinding its economic stimulus programs, Europe struggled with budget deficits and the "Greek debt contagion," and healthcare and financial reform bills in the US added some political uncertainty. However, equity markets rallied during March to close the quarter in positive territory as profitability improved, corporate balance sheets grew stronger and the US economy continued to stabilize.

Lower quality stocks continued to lead, value returns exceeded growth and small caps outperformed their larger counterparts. Financials led the way, benefitting from the Federal Reserve's ongoing and strongly accommodative interest rate policy. Going forward, though, we anticipate that higher quality companies with stronger balance sheets will be the best performers in the near future, as they are better positioned to weather any potential future interest rate increases and new challenges in the regulatory environment.

International equities underperformed their US counterparts as uncertainties surfaced in Europe and China. Despite positive signs of economic recovery in Europe, investors focused on the unraveling of Greece's debt problems. The resulting decline of the Euro further weakened dollar-based investors, reducing the small gains achieved in the corresponding markets. Conversely, a weaker Yen helped maintain Japan's export-led recovery, driving up stock prices. On the whole, though, equities in developed countries appear to be attractively priced.

¹ The opinions and statements contained in the J. P. Morgan paper entitled "*Investment Implications of Health Care Reform*" do not necessarily reflect the opinions of SOL Capital Management Company.

Exhibit 1	
Total Return* for Selected Equity, Fixed Income, and Hedge Fund Indices	
	1Q 2010 (12/31/09 to 3/31/10)
<i>Major Equity Indices</i>	
	%
S&P 500 Index	5.4
Russell 3000 Index (Total US market)	5.9
Russell 2000 Index	8.9
MSCI All Country Ex-US Index (Net)	1.6
MSCI EAFE International Index (Net)	0.9
MSCI Emerging Markets (Net)	2.4
<i>Source: Bloomberg, MSCI</i>	
<i>Major Fixed Income and Hedge Fund Indices</i>	
	%
Barclays Capital US Aggregate Bond Index	1.8
Barclays Capital Credit Investment Grade	3.0
Merrill Lynch US High Yield BB-B Bond Index	4.2
JPMorgan GBI Global ex-US Index Hedged in USD	1.2
JP Morgan EMBI Global Index (Emerging markets)	4.2
HFRX Equal Weighted Strategies Index (Hedge Funds)	2.0
<i>Source: Bloomberg, PIMCO, HFR</i>	

* Includes price appreciation plus dividends and/or interest.

Emerging market equities reacted negatively to China's attempts to curb loan growth rates, declining by as much as 10% before reversing course and finishing the quarter in positive territory. While emerging market equities generally seem to be priced close to fair value, many developing economies are experiencing robust economic growth and are well positioned to continue this positive trend. This combination of fair valuation and high growth should create some interesting investment opportunities.

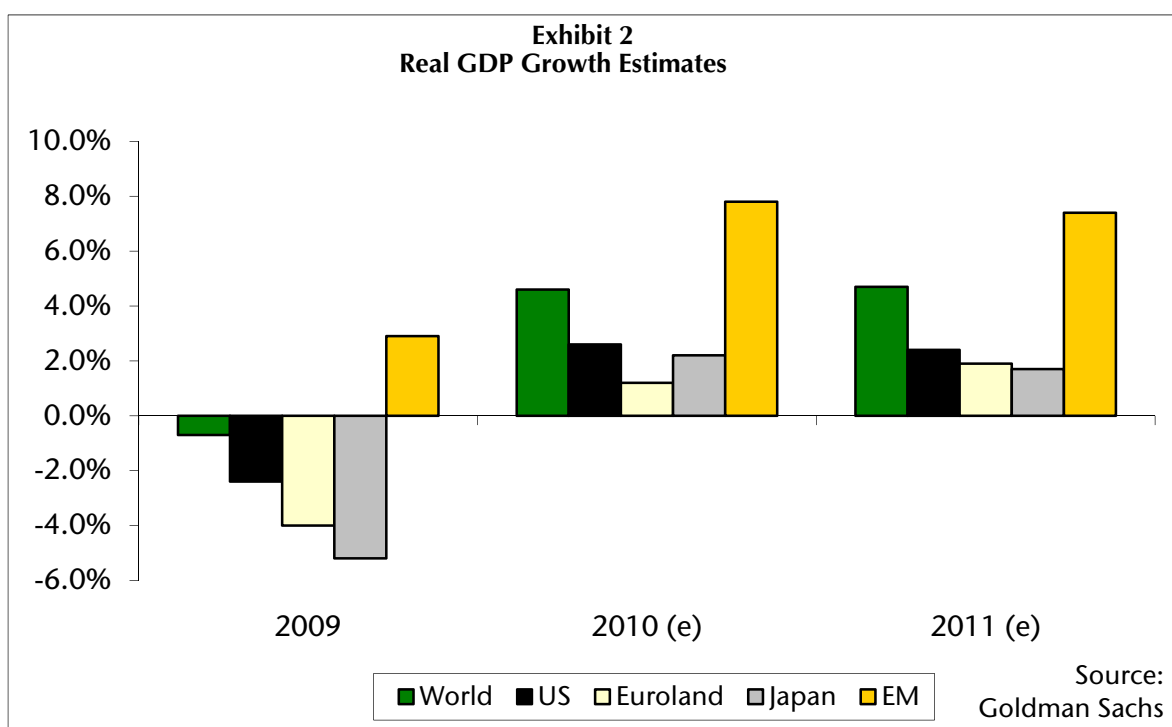
A steep yield curve, improving credit conditions, and very low interest rates produced positive returns in all sectors of the fixed income markets. However, returns across sectors varied widely. Lower quality fixed income securities such as high-yield corporates and leveraged loans generated gains of 4.2% and 4.6% respectively, while US government and related issues like Treasuries, agencies and TIPS returned between 0.6% and 1.1%.

As investors kept reaching for increased yields, spreads for corporate securities continued to tighten, approaching levels very close to their historical averages. The spread above Treasuries for investment grade and high yield bonds shrank to 136 basis points (bps) (vs. a historical average of 122 bps) and 584 bps (vs. a historical average spread of 562 bps), respectively. Unexpectedly, fixed income markets showed little reaction to the official ending of the Fed's mortgage support program, leaving spreads on mortgage bonds issued or supported by the US government at historical lows.

Fixed income managers will find it much more challenging to achieve reasonable returns in this new fixed income environment. Not only have spreads returned to near normal levels, but there also is potential for interest rates to increase, given their current very low levels and the excess liquidity resulting from government fiscal and monetary actions. That being said, it is our opinion that some market inefficiencies still exist that may create opportunities for skillful managers.

Economic Growth

Following third and fourth quarter 2009 Gross Domestic Product (GDP) annual growth rates of 2.2% and 5.6% respectively, US economic factors point to a continued recovery in 2010 (see Exhibit 2). While the 5.6% growth rate in Q4 2009 largely was due to inventory accumulation, advance estimates from the Commerce Department indicate that Q1 2010 GDP growth of 3.2% was driven in large part by strong consumer spending. Furthermore, temporary employment numbers were up significantly in the first quarter. Initial jobless claims declined from the beginning of the year and we saw a net gain of 162,000 jobs in March 2010.² Actual unemployment still may rise in the near term though, as some unemployed people who had stopped actively seeking work reenter the job market. These two major indicators – a robust increase in consumer spending and recent improvements in the labor market – could point toward a further sustained economic recovery.



Fourth quarter 2009 corporate earnings reports exceeded expectations and, in many cases, reflected growth in sales rather than simply cost cutting. Similarly, first quarter 2010

² J.P. Morgan Asset Management, *Guide to the Markets 2Q 2010*, March 31, 2010

earnings to date also are very positive and greater than expectations. For large corporations, access to low-cost credit has been a benefit, helping generally to bolster their already-healthy balance sheets. On the other hand, tightened bank lending standards have made it more difficult for smaller businesses to obtain financing. This issue continues to pose a threat both to employment growth and to a more robust economic recovery, as small and mid-sized businesses generate the greatest level of employment.

In Europe, GDP slowed during 4Q 2009. However, ongoing strong industrial production and positive business surveys suggest that economic growth may continue increasing in 2010. Yet, Europe's economic scenario is mixed. While Germany is poised to profit from strong demand in the emerging world, Spain continues to experience a correction in the housing sector and Ireland is facing severe fiscal and banking crises.

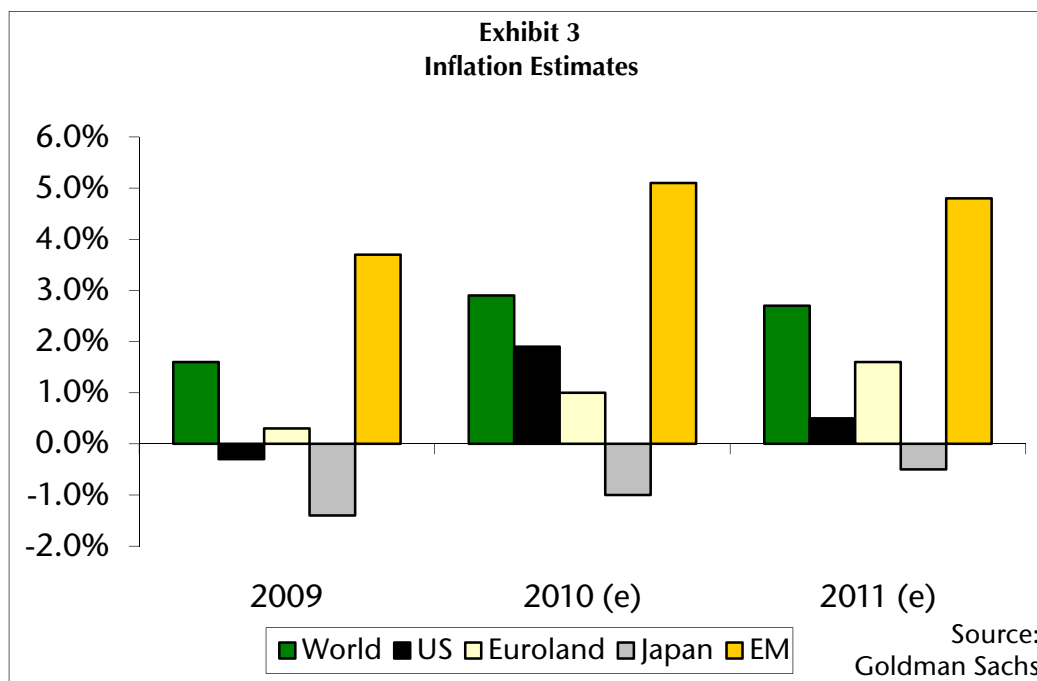
Greece's fiscal situation continues to be of significant concern for the region. On a positive note, the issuance in mid-April of approximately \$2.1 billion of six- and twelve-month Treasury bills by the Greek Public Debt Management Agency was met with robust demand by investors. Yet, the Agency had to offer relatively high interest rates. More recently, the Greek Prime Minister turned to the European Union and the International Monetary Fund in order to initiate an emergency financial support package to aid in shoring up public financing. On April 27th, Standard & Poor's downgraded Greece's debt to junk status, creating turmoil in the global financial markets. This has forced the European Union, and especially Germany, to address this problem with much greater urgency.

Japan has been experiencing a solid recovery, mainly through exports to Asia. While Japanese domestic consumption has been relatively healthy, the government has been subsidizing the purchase of durable goods. Once these programs subside, durable goods consumption may decline. Employment seems to be recovering, as shown by an apparent peak in unemployment numbers.

Australia's economy remains one of the strongest in the developed world, with a positive 1.9% GDP growth rate in 2009 and an estimated 3.7% GDP growth rate for 2010. Most impressively, Australia's unemployment remains at a relatively low 5.3%. In addition to monetary and fiscal stimulus policies that the government put in place during the recession, close trading ties with China and other emerging Asian countries have helped Australia to better withstand this recession. The Reserve Bank of Australia's concern about inflationary conditions has led to some recent monetary tightening.

In the emerging markets, countries with strong domestic demand will continue to fuel global growth in 2010. During the first quarter, China began tightening bank lending and reining in other fiscal stimuli. It raised required reserve ratios twice during that time period, although it did leave interest rates unchanged. India raised its interest rate by 0.25%. In Brazil, accommodative fiscal policies have encouraged domestic demand, but could pose an inflation risk going forward. As economic growth continues in the emerging markets, additional monetary tightening will be necessary to dampen inflation.

Inflation and Interest Rates



For the next eighteen months, we continue to estimate a low risk of inflation in developed markets due to the continued global excess in operating capacity and weak conditions in the labor force (see Exhibit 3). However, considering the large amount of debt that many developed countries were forced to add during the economic crisis, and the amount they continue to add in order to fund their deficit financing of budgets and new and existing entitlements, it is reasonable to anticipate increased interest rates in the future, even with low inflation.

Conclusion

The economic recovery appears not only to be continuing, but also to be slowly gaining some momentum and stability. Corporations are significantly increasing their profits from previously depressed levels while simultaneously strengthening their financial conditions. Whereas valuations are not as attractive as those seen last year, they still remain at reasonable levels. This combination of reasonable valuations, higher profits and stronger financial conditions is creating investment opportunities for equities on a global basis and across sectors. At the same time, significant levels of cash continue to sit on the sidelines, still earning very little interest. A redeployment of this cash could be an additional catalyst for higher future equity returns.

In the fixed income sector, we continue to lower duration and credit risk in portfolios where appropriate. We also are searching for fund managers that can take advantage of market discrepancies and special opportunities in the different fixed income areas.

While we continue to rebalance portfolios, our focus – as always – remains on achieving your long-term investment objectives (given your risk profile) and funding your future liquidity needs.

Sincerely,

The SOL Capital Management Team

Please note that past performance is not an indication or guarantee of future returns and that diversification does not ensure profits or guarantee against a loss.



Dr. David Kelly, CFA
Managing Director
Chief Market Strategist
J.P. Morgan Funds

Investment Implications of Health Care Reform

After almost a year of heated debate, the President has achieved his goal of a major reform to the health care system. Over the weekend, the House voted to approve the 2,409 page Senate Bill passed in December, along with 153 pages worth of amendments, based on the understanding that the Democratic majority in the Senate would accept these amendments without alteration. Presuming that Senate Democrats do not renege on their pledge, the combined bills will shortly become law.

So, what does all of this mean for investors?

First, we need to recognize that in discussing this issue, like any other issue in investing, it is critical to leave politics and emotion to one side. People have very strong opinions on all sides of the health care debate - they are entitled to those opinions. These comments are solely focused on the investment implications of the combined bills.

Passing over the generally recognized positive of expanding coverage to roughly 30 million of the 50 million U.S. residents who don't currently have insurance, what does it all mean for the economy and markets?

Taxes: The most obvious quantifiable impact of the bill is an increase in taxes for upper income Americans, particularly on investment income. Starting in 2013, the Medicare tax rate on households with income over \$250,000 will be increased from 1.45% to 2.35%. In addition, a new 3.8% Medicare tax will be introduced for the same group on investment income.

Currently, the tax rate on dividends and long-term capital gains is 15%. In 2011, those rates are expected to rise to 20% for households earning over \$250,000, and with the new Medicare tax, these rates will rise to 23.8% for the same group. Under current tax law, investors get to keep 85% of the income stream from taxable stock market investments. Under the new law, this will be cut by 8.8% to

Please visit our website
www.jpmorganfunds.com/mi
for more information on the
Market Insights program,
including weekly insights from
Dr. David Kelly.

76.2%, reducing the value of the income stream by 10.4% (that is 8.8% of 85%). This is obviously a significant number. However, it is worth noting three things about this:

- First, roughly half of U.S. stocks are owned by households with income under \$250,000 and roughly half are held in non-taxable accounts. Thus, using a number of broad assumptions, the value of the average stock should be reduced by one-quarter of 10.4%, or 2.6% - not good obviously, but also not an overwhelming reason to avoid stocks after a 12-month period in which they rose by over 70% and still appear undervalued.
- Second, this bill does not put stocks at a further disadvantage relative to fixed income. The maximum federal tax rate on bonds and cash accounts is currently 35% and with tax changes coming in 2011 combined with these changes, that maximum rate will rise to 43.4% for households with income over \$250,000 in 2013.
- And, third, we've been here before. On average, over the past 40 years, the maximum federal tax on capital gains was 24.7% and the maximum tax rate on dividends was 44.6%.

Medical care industry: For the medical care industry, this bill will expand demand without much effort to rein in costs. A combination of federal subsidies and mandates will increase the pool of insured individuals, and while there are many constraints preventing insurance companies from limiting coverage, there are few that limit how much they can charge for it.

The pharmaceutical industry will benefit from this, as well as a plan to remove the donut hole from the Medicare prescription drug benefit program by 2020. Early in the debate on health care, the White House negotiated deals with pharmaceutical, insurance and medical device companies to dissuade them from fighting the reform effort. Under these deals, they appear to retain autonomy on price setting. However, they will pay cumulative taxes of \$107 billion between 2011 and 2019. To the extent that they are able to pass these costs on to consumers, they may all do OK in this reform, although they may still be a target for future reform efforts.

The American Medical Association and American Hospital Association have both endorsed the health reform effort with a number of reservations. For the most part, the legislation does not interfere with patient-doctor relationships and, by expanding the pool of the insured, will reduce the number of hours that doctors are forced to devote to charity cases. Most doctors are naturally happy to see patients not lose their coverage due to pre-existing condition clauses, annual caps or non-renewal of existing insurance due to illnesses.

Federal deficit: According to the Congressional Budget Office, the passage of this legislation would reduce federal deficits by a cumulative \$143 billion between 2010 and 2019 and by greater amounts in the following decade. However, these estimates should be taken with more than a grain of salt. It is obviously very hard to estimate what total federal health care spending

will be over the next decade. However, whatever else is said about this bill, there is nothing in it to suggest a reduction in either the quantity or prices of health care services consumed.

- There is no meaningful malpractice reform.
- There is no reduction in drug patent lives.
- There is no compulsion to force insurance companies to compete across state lines.
- There is no effort to limit health care procedures in the last year of life.
- There is no movement in the direction of forcing consumers to confront the cost of services at the point of purchase, and,
- There are no meaningful incentives to force the insured to take better care of their own health.

In fact, for the most part, this bill moves away from, rather than toward, the principles of market economics. In 2007, the United States devoted 16% of its GDP to health care spending compared to 11% in the country with the second highest spending, which was France. Despite this, it ranks 38th in the world in life expectancy at birth. Sadly, this bill isn't likely to change either of these numbers for the better.

The economy: Despite dire predictions, it's not clear that health care reform will really slow economic growth that much. Most of the tax provisions don't kick in until 2013 and the mandates on businesses and individuals don't kick in in a big way until 2016. Between now and then, the economy is quite capable of staging a full cyclical recovery. It may be that businesses will, in the end, be forced to pay more for the health care of their workers - however, overall, American business is quite capable of limiting wage increases to add to benefit costs. It may be that America as a society ends up spending more on health care. However, if we spend more on health care and less on housing or education or hamburgers, that is our choice. The jobs created in the health care field are, for the most part, American jobs and still some of the highest skilled and best paid jobs out there. It should be noted, however, that to the extent that the government incurs more debt to pay for higher health care costs, it probably does mean higher long-term interest rates.

Politics: The passage of health care reform is a huge victory for the President and it may ultimately work out better for him politically than many Republicans had hoped or Democrats had feared. The economy is improving, and if it continues to do so, many may feel that their fears about health care reform were unfounded. The reality is more complicated. Health care reform wasn't about to stop the economy in its tracks anyway and the President will be the beneficiary of a cyclical bounce-back, which, on its face, appears to owe much more to pent-up demand than government stimulus. Either way, the Democrats will lose seats in the mid-term election. However, the end-game for health care reform may well mean less of a swing to the Republicans in November than many had thought.

All in all, a lot to consider but also, more important, a lot to keep in proper perspective.

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

Contact JPMorgan Distribution Services, Inc. at 1-800-480-4111 for a fund prospectus. You can also visit us at 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.

J.P. Morgan Asset Management is the marketing name for the asset management businesses of JPMorgan Chase & Co. Those businesses include, but are not limited to, J.P. Morgan Investment Management Inc., Security Capital Research & Management Incorporated and J.P. Morgan Alternative Asset Management, Inc.

J.P. Morgan Asset Management is the marketing name for the asset management businesses of JPMorgan Chase & Co. and its affiliates worldwide.

JPMorgan Distribution Services, Inc., member FINRA/SIPC

© JPMorgan Chase & Co., March 2010