

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

September 29, 2008
Our Ref. No. 20089261142
Highbridge Statistical Market
Neutral Fund (a series of
JPMorgan Trust I)
File No. 811- 21295

By letter dated September 29, 2008, you request that the staff agree not to recommend enforcement action to the Commission against JPMorgan Chase & Co. and its affiliates ("JPM") under sections 17(a) and 17(d) of the Investment Company Act of 1940 (the "Act"), and rule 17d-1 thereunder, with respect to the short selling arrangements described in your letter. More specifically, you request that we not recommend enforcement action to the Commission if the Highbridge Statistical Market Neutral Fund (a series of JPMorgan Trust I) (the "Fund") moves its prime brokerage services from its current, unaffiliated prime broker back to Bear, Stearns Securities Corp. ("BSSC"), which you indicate may be deemed to be an affiliated person of the Fund under section 2(a)(3) of the Act.¹ You request this relief on a temporary basis only -- until February 1, 2009, or such earlier date as the Fund is able to find a suitable, unaffiliated prime broker.

We grant the requested relief,² based on the facts and representations in your letter, including, but not limited to: (i) the extraordinary circumstances presented; (ii) the fact that BSSC used to be the Fund's prime broker and the Fund now intends to enter into a prime brokerage arrangement with BSSC on terms that will not disadvantage the Fund in any way, and on terms that will be (a) substantially similar to those that were established, through arms-length negotiation, when BSSC and the Fund were unaffiliated, and (b) similar to and no less favorable to the Fund than the terms on which BSSC provides prime brokerage services to similarly situated, unaffiliated customers now; (iii) the fact that the Board of Trustees, including a majority of the Trustees who are not interested persons, as defined in section 2(a)(19) of the Act, has approved the contemplated new prime brokerage arrangements with BSSC, notwithstanding the potential affiliation between BSSC and the Fund; (iv) your representation that the Board of Trustees, including a majority of the Trustees who are not interested persons, will determine, at each regular quarterly meeting while the Fund uses BSSC as its prime broker, that the transactions with BSSC pursuant to your letter, including the consideration paid to BSSC, are fair and reasonable under the circumstances; and (v) the temporary nature of the requested relief.

This letter expresses our position on enforcement action only, and does not express any legal conclusion on the issues presented. Because our position is based on

¹ BSSC became an affiliated person of the Fund as a result of the May 30, 2008 merger between JPM and The Bear Stearns Companies, Inc. ("BSC").

² This letter confirms oral no-action relief provided by Andrew J. Donohue, Director, Division of Investment Management, to Nina O. Shenker, Esq, Managing Director and General Counsel, JPMorgan Asset Management, on September 18, 2008.

the facts and representations in your incoming letter, you should note that any different facts or representations may require a different conclusion. This relief is granted until February 1, 2009 only.

We have considered your request for confidential treatment of your letter and our response. We have determined that your request is reasonable and appropriate under 17 CFR 200.81(b). Accordingly, your letter and our response will not be made public until the earlier of (i) January 29, 2009, or (ii) the date on which the information in your letter has otherwise been made public.

A handwritten signature in black ink, consisting of a stylized 'E' followed by a long horizontal line extending to the right.

Edward J. Rubenstein
Senior Special Counsel
Office of Chief Counsel
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September 29, 2008

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Dear Mr. Scheidt:

We hereby request on behalf of JPMorgan Chase & Co. and its affiliates ("JPM") that the staff agree not to recommend enforcement action to the Commission under sections 17(a), 17(d) of the Investment Company Act of 1940, as amended (the "ICA"), and rule 17d-1 under the ICA, with respect to the short selling arrangements described below in light of current extraordinary market conditions, for the temporary period discussed herein.

Background

On April 7, 2008, the staff of the Division of Investment Management issued a no-action letter (the "April 7th Letter")¹ to the attention of the Highbridge Statistical Market Neutral Fund (the "Fund") extending relief granted on March 16, 2008 in a no-action letter the staff of the Division of Investment Management issued to the attention of Stephen M. Cutler (the "March 16th Letter," and together with the April 7th Letter, the "Letters").² The Letters provided assurances that the staff would not recommend enforcement action to the Commission under sections 17(a) and 17(d) of the ICA and rule 17d-1 thereunder, among other provisions, with respect to the short selling transactions and arrangements described in the April 7th Letter involving the Fund, a series of JPMorgan Trust I and Bear, Stearns Securities Corp. ("BSSC"), following the change of control of The Bear Stearns Companies, Inc. ("BSC") and its affiliates. The staff's relief was based, in part, on the extraordinary circumstances presented.

On May 30, 2008, JPM and BSC consummated a merger transaction under which BSC became a wholly-owned subsidiary of JPMorgan Chase & Co. (the "Transaction"). BSSC is a wholly-owned subsidiary of BSC. Because JPM "controls" BSC under ICA section 2(a)(9), the

¹ See Highbridge Statistical Market Neutral Fund (a series of JPMorgan Trust I) (pub. avail. April 7, 2008).

² See JPMorgan Chase/Bear Stearns Asset Management II (pub. avail. March 16, 2008).

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Fund, because it is advised by an entity that is controlled by JPM, may be deemed to be an affiliate of an affiliate of BSSC under ICA section 2(a)(3).

As described in the April 7th Letter, the Fund is an open-end investment company registered under the ICA that employs a statistical arbitrage, market neutral strategy. The Fund takes long and short positions selected from a universe of mid- to large-capitalization stocks and maintains approximately equal value exposure in its long and short positions. The Fund's investment strategy involves relatively high portfolio turnover. As described in the April 7th Letter, the Fund makes extensive use of prime brokerage services. Pursuant to the April 7th Letter, among other things, the Fund moved its prime brokerage services from BSSC to an unaffiliated prime broker (the "Current Prime Broker"). However, at the time of the requests made in the Letters, the Fund did not anticipate, and could not have anticipated, the recent events in the financial markets and the current overall market conditions.

Because of current extraordinary market conditions, the Fund intends to move its prime brokerage services from the Current Prime Broker back to BSSC.³ As described in the April 7th Letter, when the Fund enters into a short sale, and as long as the short position is open, the Fund must maintain collateral (margin) with its prime broker. This is accomplished by the prime broker holding the short sale proceeds and the Fund posting with the prime broker additional margin in a special custody account ("SCA") with the Fund's custodian. If the Fund's prime broker suffers financial troubles, enters bankruptcy or becomes insolvent, the Fund may be unable to access the short sale proceeds, which are held directly by the prime broker. Furthermore, the Fund may experience difficulty in accessing collateral held in the SCA, since the custodian may be unwilling or unable to release the collateral without instructions from the prime broker or its receiver/trustee in bankruptcy. In addition, the Fund may experience delays in closing out its open short positions or selling long positions due to the prime broker's inability to accept or act upon trading instructions. Therefore, the Fund would be unable to pursue its investment strategy and its operations would be substantially disrupted. This would be contrary to the best interests and investment goals of shareholders who chose to invest in the Fund.

The Fund believes it is in the best interests of its shareholders to move the prime brokerage services back to BSSC. BSSC is now an indirect, wholly-owned subsidiary of JPM, and thus appears to be in better financial condition than the Current Prime Broker and able to provide ongoing prime brokerage services to the Fund with a higher likelihood that the operations of the Fund will not be adversely impacted by current market conditions. The transfer of prime brokerage services from the Current Prime Broker to BSSC can also be accomplished without cost to shareholders and in a short period of time. Although the arrangements are complex, as further set out in the April 7th Letter, due to the prior relationship of the Fund and BSSC, the systems and processes necessary to accomplish short sales for the Fund already exist and can be readily accessed. If the Fund were forced to move its operations to a prime broker with which it did not

³ The Fund is not proposing any changes to the related custodial services.

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have a pre-existing relationship, as noted in the April 7th Letter, the operational build could take weeks to complete.

In addition, the terms of the new prime brokerage arrangements with BSSC will not disadvantage the Fund in any way. The terms of the arrangements will be (1) substantially similar to those that were established when BSSC and the Fund were unaffiliated and that existed during the prior relationship between BSSC, as prime broker, and the Fund, and (2) similar to and no less favorable to the Fund than the terms on which BSSC provides prime brokerage services to similarly situated, unaffiliated customers. As stated in the April 7th Letter, since the Fund commenced operations on November 30, 2005, and until April 30, 2008, the Fund utilized BSSC for its prime brokerage services. As noted, at the time the arrangements were entered into, BSSC and the Fund were unaffiliated, there was no expectation of future affiliation, and the arrangements were negotiated on an arms-length basis. The Fund's Board of Trustees at a meeting held on November 9, 2005, approved the prime brokerage arrangement with BSSC. Furthermore, the Board of Trustees, including a majority of the Trustees who are not interested persons, as defined in section 2(a)(19) of the ICA, has approved the new prime brokerage arrangements with BSSC, notwithstanding the potential affiliation between BSSC and the Fund. The Board of Trustees, including a majority of the Trustees who are not interested persons, will also determine, at each regular quarterly meeting while the Fund uses BSSC as its prime broker, that the transactions with BSSC pursuant to this letter, including the consideration paid to BSSC, are fair and reasonable under the circumstances.

JPM is asking that the Fund be permitted to engage in short selling transactions with BSSC on a temporary basis until February 1, 2009.⁴ In addition, JPM will commence searching for a suitable unaffiliated service provider to provide prime brokerage services to the Fund as soon as practicable, subject to market conditions having improved or stabilized and other relevant factors.

Possible Investment Company Act Concerns

Because the Transaction resulted in the Fund becoming an affiliate of BSSC, it could be argued that the proposed short selling arrangement between the Fund and BSSC gives rise to a possible violation of ICA sections 17(a)(1), 17(a)(2), 17(d), and/or ICA rule 17d-1. The theories giving rise to these possible violations are outlined in the April 7th Letter.

Why Relief is Appropriate

Notwithstanding the possibility that certain mechanical aspects of the short selling arrangement between the Fund and BSSC (*i.e.*, the pledging of margin by the Fund to BSSC and the

⁴ We note that February 1, 2009 is proposed as the date because of various factors relating to market conditions and business exigencies. If it is not advisable or practicable as of that date to transfer the arrangements to an unaffiliated service provider, we will request an extension of the relief requested herein.

loan by BSSC to the Fund) might arguably give rise to a literal violation of the terms of ICA sections 17(a)(1), 17(a)(2), and 17(d), and ICA rule 17d-1, the staff has taken the position that whether a violation does in fact exist depends on the facts of each situation, the purposes of the specific regulatory provisions that might be violated, and whether the allegedly unlawful transaction and relationship implicate the concerns that the regulatory provisions are intended to address.⁵ The staff has granted relief in cases in which the transaction at hand did not appear to implicate the concerns that the regulatory provisions were intended to address.⁶

ICA sections 17(a)(1) and 17(a)(2) are intended to protect shareholders by prohibiting a purchase or sale transaction when a party to the transaction has the ability and financial incentive to influence the actions of the investment company.⁷ Here, as set forth in the April 7th Letter, the pledging of assets by the Fund to BSSC, and the loan of stock to be shorted by BSSC to the Fund, do not give rise to any possibility of BSSC overreaching its influence because:

- BSSC and the Fund will be short selling on terms that are substantially similar to those in place when the parties were unaffiliated. Those terms are service provider arrangements that were negotiated on an arms-length basis at that time and at no time have involved overreaching on the part of BSSC or otherwise disadvantaged the Fund. In addition, the terms will be similar to and no less favorable to the Fund than the terms on which BSSC provides prime brokerage services to similarly situated, unaffiliated customers. Accordingly, the terms and new arrangement should be presumed to be lawful and not to implicate the concerns of ICA sections 17(a), 17(d), or ICA rule 17d-1.
- The pledging of assets as margin is required by regulation, in amounts dictated by regulation, and is not a negotiated item. There is, therefore, little opportunity for BSSC to impose margin terms that would be to the disadvantage of the Fund. Furthermore, with respect to margin held in the SCA, BSSC does not have access to those assets unless and until the Fund were to default on its obligations under the short selling arrangement.
- As the Fund maintains a market neutral strategy and seeks to maintain approximately equal value exposure in its long and short positions, the Fund's decision to engage in short selling

⁵ See, e.g., Goldman, Sachs & Company (pub. avail. Feb. 22, 1999) ("The Supreme Court has stated that the meaning of the terms 'purchase' and 'sale' must be interpreted in the context of the particular provision in the securities laws that is at issue.").

⁶ Id. (including orders cited in this letter).

⁷ See Mergers and Consolidations Involving Registered Investment Companies, Investment Company Act Release No. 10886, 44 Fed. Reg. 58521 (Oct. 10, 1979) (citing Hearings on S. 3580 Before a Subcommittee of the Senate Committee on Banking and Currency, 76th Cong., 3d Sess., at 256-59 (1940)).

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transactions, and the timing and amounts of those transactions, are dictated solely by its portfolio management team and process and is not susceptible to influence by BSSC.

- The loans by BSSC to the Fund in connection with the short selling were previously, and would continue to be, effected consistent with industry convention on terms (1) substantially similar to those that existed and that were negotiated at arms-length, prior to the parties becoming affiliated, and (2) similar to and no less favorable to the Fund than the terms on which BSSC provides prime brokerage services to similarly situated, unaffiliated customers. Accordingly, the related loans to the Fund should not be deemed to implicate the concerns that the regulatory provisions are intended to address.

As further set forth in the April 7th Letter, the arrangements at issue, being made on substantially similar terms to those described in the April 7th Letter, would satisfy the requirements for an ICA section 17(b) order and the requirements for a ICA rule 17d-1 order.⁸ Furthermore, as described in the April 7th Letter, the service arrangements between BSSC and the Fund are of the same nature and quality as those for which the staff has provided relief under 17d-1 in other circumstances. First, given that the terms of the arrangements are substantially similar to the terms that were negotiated on an arms-length basis, before the entities became affiliated, and similar to and no less favorable to the Fund than the terms on which BSSC provides prime brokerage services to similarly situated, unaffiliated customers, the provisions of the arrangements can be presumed to be in the best interest of the Fund and its shareholders. Second, because of the Fund's market neutral investment strategy, a prime brokerage relationship is necessary to effect short sales. Third, as noted above, the initial arrangements entered into with BSSC were negotiated on an arms-length basis and thus may be presumed to be of a nature and quality at least equal to services that could be provided by others to the Fund. Fourth, because the initial arrangements were entered into on an arms-length basis and the new arrangements have substantially similar fees, the fees to be paid for the services that BSSC provides may be presumed to be fair and reasonable in comparison to industry custom.

Finally,

- The current conditions in the financial markets and the affiliation that has given rise to this request were neither anticipated nor planned by the parties.
- The relief requested here is temporary, not permanent: JPM is not asking that the Fund be permitted to engage in short selling transactions with affiliates on a permanent basis; to the contrary, JPM is requesting temporary relief to use BSSC as a prime broker until February 1, 2009 and JPM will commence searching for a suitable unaffiliated service provider to

⁸ Because of the exigencies of the current situation, and the rare and highly unusual circumstances presented, there is not time for JPM to prepare and submit, and for the staff and Commission to consider, a request for exemptive relief under section 17(b) or rule 17d-1.

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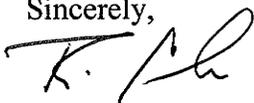
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provide prime brokerage services to the Fund as soon as practicable, subject to market conditions having improved or stabilized and other relevant factors.

For the reasons discussed above, we hereby request on behalf of JPM that the staff agree not to recommend enforcement action to the Commission under ICA sections 17(a)(1), 17(a)(2), 17(d), or ICA rule 17d-1, with respect to the short selling arrangements described and discussed above, for the temporary period discussed herein.

Pursuant to 17 C.F.R. 200.81(b), we respectfully request on behalf of JPM that this request and the response be accorded confidential treatment until January 29, 2009, or such earlier date as the staff of the Division of Investment Management is advised that the information in this letter has been made public. The basis for this request for confidential treatment is that, in the context of the current conditions in the financial markets, disclosure of JPM's request would be likely to have a deleterious effect on the reputation of the Current Prime Broker.

Sincerely,



Rajib Chanda

cc: George C.W. Gatch
Stephen M. Cutler, Esq.
Nina O. Shenker, Esq.
Patricia A. Maleski
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