J.P.Morgan's ASX 20+ Series 2

In see-sawing markets, planners who are mapping out their clients' Australian equities portfolios need an "all-weather" product. J.P.Morgan's newly launched ASX 20+ Series 2 fits the bill in more ways than one, writes MICHELLE BALTAZAR.

Everybody loves a bargain. Buy-one-get-one deals are particularly popular to savvy shoppers. But while it's easy to spot a bargain in a retail store, the stockmarket is a different story, even more so today in the face of a faltering global economy.

That's where the investments arm of J.P.Morgan comes in. This year, the group launched ASX 20+ Series 2 (ASX 20+), a retail product that gives investors exposure to two contrasting types of investment strategy – effectively giving the more astute investor a two-for-one deal.

Tale of two portfolios

ASX 20+ has two components: the equity portfolio, made up of 20 of the top listed companies on the ASX, and the coupon portfolio, which invests in FRM Absolute Alpha Diversified fund, a global hedge fund manager with US$15 billion in assets around the world.

The equity portfolio is the "safe haven" component. Australian large cap equities are more likely to withstand the vagaries of the market over the long term than their smaller counterparts. Many mums-and-dads also know many of the underlying companies – from BHP to Commonwealth Bank – so this gives additional comfort because they know what they are investing in.

Then as the name suggests, the coupon portfolio appeals to investors who want to receive a regular income each year, over the recommended seven-years of holding the product.

The income will vary each year but the underlying fund-of-fund manager FRM's consistent 10-year track record should give an indication.

As shown in Figure 1, the fund has outperformed both bond and equity benchmarks and, in addition, has a historic average return of 7.73 per cent per year since inception.

The annual pay-out is capped at 10 per cent per year and if the coupon portfolio manages to return more, the extra gains are ploughed back into the fund – increasing the investor's asset base.

Levers and leverage

David Jones-Prichard, vice president at J.P.Morgan's structured products division, said that there's even more to ASX 20+ than meets the eye. He said his team consulted with financial planners earlier in the year to find out exactly what they want from an Australian equities structured product. The result is the dual equity and coupon portfolio but with more tweaks under the bonnet to weather-proof investor money.

The technical term is "dynamic management", which means J.P.Morgan will automatically adjust the amount of funds in the equity portfolio and the coupon portfolio based on which one is doing better and, more importantly, which one is less riskier at any given time.

The magic numbers are 20 per cent to 200 per cent, meaning the amount of funds in the equity portfolio can vary between 20 per cent to as much as 200 per cent.

The end goal to the 'dynamic' re-balancing is that ASX 20+ will regularly adjust to bull and bear markets.

Not content with using levers to manage equities exposure, the fund also appeals to investors who want their capital guaranteed, rain, hail or shine.

Investors who stay on for the entire seven-year period are guaranteed to recoup their capital outlay at the end.

"Some of our clients asked us a few years back, 'why do you need capital protection' when the markets are doing well? But lucky they did have it because they're not asking us the same question now," said Jones-Prichard.

It is worth noting too that unlike an index fund, the equity portfolio of the product is equally-weighted as opposed to market-weighted.

For example, the S&P/ASX20 weighting of BHP Billiton is 20.5 per cent but the ASX 20+ weighting is 5 per cent. Commonwealth Bank, which makes up 9.3 per cent in the S&P/ASX 20, only makes up 5 per cent.

This is another lever, sidestepping the problem of investors being at risk of overexposure to financial or resources stocks at any one point.

Gearing for retirement

Jones-Prichard said ASX 20+ may be ideal for accumulators or couples in their 40s who are starting to knuckle down and save for their retirement. It is also ideal for self-managed super funds (SMSFs) because the product complies with gearing rules for SMSFs.

"This is for investors who have never invested before, too scared to go into the market, or for a near retiree who maybe hasn't built up as much wealth as they needed to do. It allows them to continue to be exposed in risky assets," he said.

DAVID JONES-PRICHARD

Ratings firm S&P rates the product "strong", its second highest recommendation for a structured product. It argued that ASX 20+ scored strongly in various categories and can meet its objectives over the stated period.

For investors concerned about the leverage aspect, S&P noted that the fund's product disclosure statement is "very detailed" and "the loan agreement is clear, and does not contain onerous clauses."

One of the downsides that S&P noted however is the product's fees. They are at the top end of the industry average. There is also the risk of the unknown, which may cause the portfolios to underperform.

All things considered, J.P.Morgan's new product is structured with the risk-averse but growth-oriented investor in mind.

In the past, it's "time" in the market, not "timing", that counts. But after the sub-prime crisis, both "time" and "timing" count – and ASX 20+ goes a long way in addressing just that. ■

Figure 1. Performance of FRM