Two lines of defence:
Our commitment to liquidity management

As a fiduciary, our clients' best interests guide everything that we do. To ensure that we consistently meet the needs of our clients, J.P. Morgan Asset Management has implemented a robust liquidity risk management framework for all of our UCITS funds.

We constantly monitor and manage the liquidity profile of these funds, with detailed portfolio level liquidity analysis embedded in our investment processes, backed by independent oversight and governance of every investment decision we make.

This framework is designed to ensure that we continue to manage our UCITS funds in an efficient and orderly manner, and meet the ongoing needs and expectations of our clients.

Multi-layered approach with rigorous oversight

Our disciplined approach to liquidity risk management provides our investment teams with clear guidelines and ensures that fund holdings are also regularly monitored by independent reviewers—providing the strictest level of independent oversight.

Clients benefit from our integrated and comprehensive monitoring and oversight framework, designed to proactively manage and mitigate potential liquidity risks in our funds.

Portfolio implementation

As part of our first line of defence, liquidity parameters are embedded in equities, fixed income and multi-asset investment processes, investment decisions are reviewed regularly by senior investors, and fund positions are subject to ongoing formal investment director reviews and business reviews:

- In our equity funds we look at multiple liquidity measures, such as the minimum total and free float market capitalisation of the companies we own, the number of days required to build positions at the point of investment based on trading volumes, how much of a company's total market and free float capitalisation that we own, and the liquidation profile of the funds we manage.
- We do not invest in unlisted equities, and any unlisted positions that we hold are typically the result of a corporate action and are immaterial in nature.
- Liquidity controls in our fixed income funds include issuer, instrument and sector concentration limits.
- Capacity for each strategy is set by the investment teams and reviewed regularly.
- Our investment directors analyse portfolios regularly to ensure liquidity exposures are consistent with investment goals and prevailing market conditions. Each fund is reviewed formally, at a minimum each quarter, in the context of investment strategy, fund objectives and liquidity profile.

Liquidity risk management oversight framework

Our Asset Management (AM) Risk Team performs an independent assessment of liquidity in our funds as part of our second line of defence.

Liquidity is assessed using a comprehensive liquidity risk management oversight framework, which is governed by a Liquidity Risk Forum consisting of senior members of our risk, compliance, legal, investment and fund administration teams. The framework includes the following primary components:

- Comprehensive classification of all assets held in our funds into liquidity buckets, which are then tested against various historical redemption scenarios.
- Measurement of investor concentrations and monitoring of liquidity thresholds.
- Formal escalation of threshold breaches, with a documented review by the AM Risk Team presented for discussion at the Liquidity Risk Forum and sign off by the AM Chief Executive Officer.

In addition, the actions taken in relation to threshold breaches are reviewed by the board of the Authorised Corporate Director (UK), the Management Company (Luxembourg) and other relevant boards.

Comprehensive monitoring as market conditions change

Although we are able to quantify and monitor liquidity risks in our investment portfolios, our funds are subject to fluctuations in general market liquidity, which can adversely affect pricing across asset classes.

Our portfolio managers constantly review the underlying investments in our funds to ensure that our assessment of liquidity takes into consideration the prevailing market environment. In periods of adverse liquidity, our funds can also use a dilution adjustment (also known as “Swing Pricing”) to mitigate the potential market impact associated with large fund flows.

Our liquidity risk management framework is guided by our primary business principle to always put our clients’ interests first. With liquidity guidelines in place, and with multiple levels of reviews, our comprehensive framework aims to help our funds continue to meet the evolving needs and demands of all our clients.

To learn more contact your J.P. Morgan representative

LV–JPM52195 | 06/19 | 903c02a8261e917

June 2019

J.P.Morgan
Asset Management