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Swing Pricing: The J.P. Morgan Asset Management approach in JPMorgan Funds (Unit Trust Range), JPMorgan SAR Funds and JPMorgan Provident Funds

As part of its commitment to protect the best interest of its clients, the manager of the Funds (the "Manager") has implemented swing pricing on the Funds under JPMorgan Funds (Unit Trust Range), JPMorgan SAR Funds and JPMorgan Provident Funds (each a "Fund", collectively the "Funds"). Swing pricing aims to protect existing unitholders from the performance dilution effects they may suffer as a result of transactions by other investors in a Fund.

Trading activity impact on fund performance

Trading activity incurs costs that dilute the value of existing unitholders' investments in a single-priced Fund that does not use swing pricing. In general, the Funds' underlying investments are normally valued at their official closing price or latest market quoted price. If the investment manager is required to transact in the market as a result of subscriptions or redemptions in a Fund or Fund mergers, the costs associated with this activity (spreads and transaction costs such as brokerage, taxes and government charges) are charged to the Fund. This causes performance to be diluted for all unitholders invested in the Fund.

To lessen the impact of dilution, a Fund's net asset value (NAV) can be adjusted to take into account the cost of transactions in the Fund. In essence, the Fund's single price is adjusted upwards in the case of large inflows and downwards in the case of large outflows, impacting the investors who are buying or selling rather than ongoing investors in the Fund.

The mechanics of swing pricing

The swing threshold is a pre-determined level currently set as a percentage of the Fund's net asset value, as described in more detail later. If net inflows into a Fund exceed this level, the NAV per unit will be swung upwards by a pre-determined amount (the swing factor). The price swing means that subscribing investors contribute to the cost of their transactions by paying more to enter the Fund.

In certain situations, it might be in the interests of unitholders in a particular Fund to grow the assets under management. In order to attract inflows, the Manager may suspend the upward swing pricing adjustment, and allow investors to subscribe at the unadjusted NAV per unit, until such time that the Fund reaches a certain size or for a specific period of time (eg 6 months), whichever comes first. Existing investors would remain protected as the dilution arising from large inflows would be compensated to the Fund by the Manager. Where this happens any unitholders that redeem may receive redemption proceeds that will be lower than would have been the case if the swing pricing mechanism had been applied. In these situations the Manager will continue to swing the price in the event of net outflows as normal.

If the net outflows from the Fund exceed the swing threshold, the NAV per unit will be swung downwards by the swing factor and exiting unitholders will take a reduced amount out of the Fund.

The decision to swing is based on the overall net flows into/out of the Fund from all investors, not per client or per share class. The NAV per unit shifts for all share classes of a Fund, not just for those share classes experiencing inflows or outflows on a given day.

The performance benefits of swing pricing

Swing pricing aims to protect the overall performance of Funds and the interests of existing unitholders. Investors should be aware that swinging the NAV per unit is likely to increase the tracking error of Funds and may introduce volatility into the daily prices. This should not be interpreted as an increase in the inherent level of portfolio risk, though.

J.P. Morgan Asset Management governance on swing pricing

The swing factor for each Fund is determined by the Manager and is typically reviewed quarterly to ensure the appropriate level of protection. In exceptional market conditions the Manager may review more frequently.

The Manager analyses the bid/offer spreads, transaction costs and potential taxes for each market in which the portfolio of each Fund is invested in order to determine the appropriate level of the swing factor. This means that the swing factor will vary from one Fund to another, depending on the asset class(es) in which they invest, the geographical focus of the Fund, etc. Under normal market conditions, the swing factor will not exceed 2% of the original NAV per unit in any Fund. In exceptional market circumstances, however, this maximum level will not exceed 5% unless with the approval of the trustee and (if required) the SFC and/or (in the case of JPMorgan SAR Funds) the MPFA.

In order to prevent additional dilution to unitholders and to protect fund performance for ongoing investors, the swing factor will be reviewed quarterly by the Manager to ensure that it is as accurate as possible.

The swing threshold is set by the Manager at a level to ensure that those flows that would represent a significant amount of dilution in the Fund are captured. Small net inflows or outflows may not require any trading activity and would not justify swinging the NAV.

The Manager reserves the right to review the swing threshold without prior notification in response to exceptional market circumstances.

Further information

For additional information, please refer to the JPMorgan Funds Unit Trust Range, JPMorgan SAR funds and JPMorgan Provident Funds offering document.