

Adviser Edge Rating ★★★★★

PRODUCT SUMMARY

J.P. Morgan’s ASX Growth 20 Series 3 uses a combination of a share portfolio held in trust, a swap, and a limited recourse loan to deliver a structure similar to an instalment warrant. Investors using this product achieve an economic result similar to a dynamic allocation technique around the top 20 ASX-listed shares. This dynamic allocation mechanism ensures that no cash-lock occurs and provides for up to an additional 100% internal gearing. Maturity is after five years, at which time investors can choose to take delivery of the share portfolio or allow the investment to terminate. Series 3 is only slightly modified from earlier Series of this product. The initial premium is now \$33 instead of \$30, the interest rate is now 7.75% p.a., and the initial Dynamic Portfolio value is \$97 instead of \$100.

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Adviser Edge has rated the product highly for two main reasons. Firstly, quantitative testing of the Product showed that it is able to produce good investment returns with limited and quantifiable risk in a variety of market phases. Secondly, the use of a security trust structure and the relatively high credit standing of J.P. Morgan reduce the counterparty credit risk of this investment. However, the primary reason the rating is not higher than four stars is the Product’s reliance on the commonly available and concentrated top 20 Australian equities.

Investor Suitability

Adviser Edge considers the Product most relevant for investors seeking an efficient means to gear into Australian equities with a medium to long term investment horizon. The Product’s structure provides a definite limit to the risk of market downturns, while providing a high growth investment profile.

J.P. Morgan ASX 20 Growth Series 3 – Product Characteristics

Asset class	Australian Equity ¹		International Equity		Commodity	Hedge Fund
	Foreign Exchange		Volatility	Property	Fixed income	
Borrowing	No	Partial	Full	Choice	Internal	
Investment horizon	< 1yr	1–3 yrs	3–5 yrs	5–7 yrs	> 7 yrs	
Market outlook	Short term bullish	Short term bearish	Short term neutral	Long term bullish	Long term bearish	Long term neutral
Interim cashflow	Net cash outflow²		No cash flow		Net cash inflow²	
Counterparty risk	Low		Medium		High	
Market risk appetite	Low growth – low risk		Medium growth – medium risk		High growth – high risk	
Self Managed Super Funds	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No					

¹ Large capitalisation shares

² Pre-tax there is zero cash flow during the term. The after-tax cash flow will depend on the individual investor’s net tax result considering dividend income offset by franking credits and loan interest expense.

Note: It is not recommended that investors consider only the upfront portion when investing, but rather the total nominal value of the investment for portfolio allocation purposes.

Rating Snapshots

