ADVISOR PERSPECTIVES

JP Morgan: What Advisors Want from ETFs

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by Robert Huebscher

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I spoke to Jillian at the Schwab IMPACT conference on October 30 in Washington, DC.

Tell me about your role at J.P. Morgan.

I am the head ETF distribution, and am responsible for everything distribution-related for the ETF business. I lead a team of 16 people who cover the advisor and institutional communities. We also cover the home offices of major brokers and that's a growing part of the team – from one to two people. Doubling the size of the team as that part of the business becomes just meaningfully important to what we do day-to-day.

What are some of the common concerns you're hearing from advisors related to ETFs?

They're continuing to look and ask for product choice. Given where J.P. Morgan sits within this ecosystem, we've really worked hard to bring our investment capabilities to the ETF Industry. We are helping to offer the next chapter of ETFs.

If you look at the way we've built our product lineup, we've done it in such a way that it brings product choice to market. We built the lineup the way you build a portfolio, starting with equities, fixed income and alternatives. Across investment capabilities, we offer ETFs that are market-cap weighted, factor-based and active. We were deliberate in the way that we built that out to provide that product choice to advisors, because one of the things we're hearing a lot here at this conference and in general, is related to portfolio construction.

It's no longer just about how an ETF is constructed or what is its exposure. It's what it is going to do if I put it into my portfolio. How does that impact the way my portfolio looks? We're trying to help advisors think about portfolio construction and diversification, particularity now in a rising rate environment where we've seen increased volatility and uncertainty in the fixed-income market.

One of the products you're introducing is a short-term fixed-income municipal ETF. What was the driver of that decision?

We actually have two short-duration products.

JPST is our ultrashort duration taxable bond ETF. That was launched in May of last year. It started at about $100 million in assets. Today it sits at $3.2 billion. That is 2,800% growth. That it is not a typo. We are very excited about that. It's been a really unique product and advisors are looking for two things in fixed income. One is an opportunity to earn more on money that they have sitting in cash. This is not a cash product, but for those who are willing to take that step out from cash in order to earn a little bit more, it's been a great solution. But then it is also a way to pull in duration. You can capture 75% of the yield of the AGG with 8% of its duration.

You're able to capture significant yield for a fraction of the duration.

That has led to some additional fixed income product development. You mentioned our ultra-short municipal product. We were often getting the question about whether we have something on the municipal side. We've been able to leverage our existing municipal capabilities at J.P. Morgan.

We manage billions of dollars of municipal assets and used that team to build out this ultra-short product. It just launched a couple of weeks ago, so the assets are still in their infancy. But we have seen significant interest in the product.

Is the concern over rising rates a universal theme you're hearing from advisors? What guidance are you giving them?

Certainly it is something that we're seeing within our conversations. When it comes to guidance, we collectively orient ourselves back to what advisors are trying to achieve. What is the advisor trying to achieve with the portfolio in total, with that end goal in mind.

Depending on what a client is trying to achieve, that will drive our conversation. We have a portfolio insights team, and it's a group of CFAs and the like who sit in New York and Columbus. Their job is to help our advisor clients. They can look at a fund to compare two different fixed income products, for example. What do they look like head-to-head?

Moreover, they do model analysis. They can look at your entire portfolio and say, "Okay, you are -overweight to duration. You are underweight to yield. You are overweight to credit risk." They help clients through product choices, at J.P. Morgan and otherwise. This is not something that we just look at through J.P. Morgan products. This is agnostic to providers as well as vehicles. How can we help you create a thoughtful portfolio that's going to help your clients achieve their needs?

When I talk to advisors about ETFs in the fixed-income space, one of the topics that always comes up is liquidity. Are structures that are threatened by a stressful environment? Can ETFs provide enough liquidity? What is your guidance on that topic?

An ETF as its liquid has its underlying components. Fundamentally at its core, that is what you need to think about and what you need to consider. We look at that fundamentally from the beginning of the evolution of the product. We identify what that underlying market is going to look like. It is embedded in the process that we go through in our product-development standpoint. But we have confidence that the underlying market is going to contain the liquidity we need to maintain a product in the market.

ETFs are uniquely positioned to have an extra layer of liquidity, ready for clients to trade.

You can access that extra layer of liquidity in times of stress. If you look at exchange volumes, whether you're talking about fixed income or equities, ETF volumes actually increased during times of stress. Investors can see that as a way for them to either access exposure of get rid of exposures through the exchange. ETFs actually act as an extra layer of liquidity. ETFs tend to be between 20% and 25% of average daily value on the exchange. During times of stress, defined by a host of metrics, it can increase to about 30% of the average daily volume. Investors are telling us they continue to use the ETF vehicle in times of stress.

What other tools are you offering to help with portfolio construction?

The portfolio insights tool is the big one that we make available to our clients. We've actually made it digitally accessible – the Digital Portfolio Insights (DPI). Advisors can access it on their desktop. That's something that we rolled out in an effort to allow the advisor to own that part of the conversation. We believe that there is a real value in having that dialogue with J.P. Morgan, but recognize that it is something that advisors want to be able to access on their own. The products we're putting into market are certainly tools that we think about through portfolio construction lens. As I mentioned early on, we constructed our ETF lineup in a way that an advisor would think about constructing a portfolio.

We try to respond to what we believe are demands in the market for products, like an ultra-short bonds or alternatives, for that matter. There really haven't been many alternative ETFs in the market that have been delivering on what advisors are looking to alternatives to do. That is provide diversification. By alternatives, I mean long-short equity, global macro and managed futures.

We've been able to access our alternative-beta strategies business at J.P. Morgan, headed up by Dr. Yazann Romahi. He runs all of our factor strategies – multi-factor, single factor and JPHF, JPED, JPLS, and JPMF, which are our four alternative ETFs.

JPHF is the whole package – the other three ETFs in one, where you can access all of those strategies if you'd like to leverage the expertise of Dr. Romahi and his team to do that package for you. Or, you can have the components and build the alternative portfolio yourself.

Alternatives are something that we look to as the equity market is getting a little bit long in the tooth. Advisors have been looking for ways to diversify their portfolios. With uncertainty in fixed income, alternatives have been a way to access that diversification. We have a lot of conversations with advisors around how they would look to fund an alternatives position. Are they taking it from fixed income, in which case they're looking for one outcome? Are they funding it from equities, in which case they're looking for a different outcome?

