

J.P. Morgan Set to Launch Hedge Fund ETFs in Europe

Stockholm (HedgeNordic) – J.P. Morgan Asset Management is preparing to launch a set of hedge fund exchange-traded funds for the private client and retail market in the UK and Europe in an attempt to “democratize” hedge fund investing.

Hedge fund ETFs employ a wide range of strategies used by hedge fund managers, including long/short, managed futures and market neutral, among others, to capture the systematic component of hedge fund returns, known as alternative beta. ETFs employing hedge-fund-type strategies allow investors to simulate hedge fund exposure without having to meet rigorous hedge fund requirements and pay hefty fees.

The world’s third-largest alternative asset manager plans to launch strategies run by its alternative beta fund, JPMorgan Funds – Systematic Alpha Fund, as single-strategy ETFs in Europe. The EUR 2.28 billion fund was launched in July 2009 by Yazann Romahi, Chief Investment Officer of quantitative beta strategies at J.P. Morgan, and executes event-driven and macro investing. Romahi will be in charge of managing the soon-to-be created ETFs.

J.P. Morgan Asset Management’s ETF suite of products currently features 13 product offerings with more than \$1 billion in AUM. The U.S. asset manager has put renewed efforts into expanding its non-U.S. ETF business, as suggested by the hiring of Byron Lake, former European head of Investco’s PowerShares ETF business, to lead international expansion.

J.P. Morgan’s push to expand its beta strategies platform on the European continent comes after the September 2016 launch of the firm’s first alternative and actively managed ETF in North America. The J.P. Morgan Diversified Alternative ETF provides hedge fund exposure by diversifying across equity long/short strategies, event-driven strategies, and global macro strategies. According to J.P. Morgan, hedge fund strategies have historically increased diversification, reduced portfolio volatility and generated higher risk-adjusted returns when added to traditional stock/bond portfolios. Therefore, the ETFs employing hedge-fund-type strategies can serve as core components of an alternatives allocation within a portfolio.

A J.P. Morgan’s spokesperson told Financial News that the U.S. asset manager’s long-term plan involves building “a full-scale, global and alternative beta ETF capability to serve the needs of clients globally. Having initially focused our efforts in the US, expansion on a European Ucits platform represents a logical next step for broader international distribution. This expansion will include making our alternative beta capabilities available to European investors in ETFs,” the spokesperson added.

The asset manager’s expansion efforts come at a time when the hedge fund ETF industry is losing a great deal of assets, as the tactics underperformed benchmark equity and bond indexes. A Bloomberg report says investors pulled out approximately 4.5% of assets from U.S.-listed alternative ETFs in the first quarter of the year, the biggest quarterly outflow since early 2014.