

# JPMorgan SmartRetirement Target-Date Fund Series Report

Morningstar Analyst Rating



**Key Features**

Asset-Weighted Expense Ratio	0.67%
Active/Passive Exposure	99% Active
Open/Closed Architecture	100% Closed
Total Net Assets (\$M)	49,049

**Executive Summary**

**Rating:**

**Process**

**Positive**

J.P. Morgan has concluded that investors don't always follow conventional retirement-savings wisdom. As a result, the glide path near retirement is more conservative than the norm to focus on maintaining income throughout retirement. The glide path diversifies into asset classes such as REITs, high-yield bonds, commodities, and emerging-markets debt. The underlying equity-fund roster features a mix of fundamental, quantitative, and behavioral-finance-driven funds. Management has done well in selecting many consistent performers from the J.P. Morgan universe.

**Price**

**Positive**

J.P. Morgan has kept fees in check by using institutional share classes for the series' underlying funds. Overall, costs for the series look inexpensive versus series that invest primarily in active underlying funds.

**Performance**

**Positive**

For the 10 years through the end of 2017, all of the SmartRetirement funds ranked in their categories' top decile. The series' equity glide path did not provide an advantage over that time; tactical decisions and manager selection boosted results.

**People**

**Positive**

Anne Lester, a J.P. Morgan veteran, has led this series since its 2006 inception. A five-person research and implementation team supports Lester and populates the series' fund of funds with solid offerings. Dan Oldroyd heads day-to-day management and sits on the global multi-asset committee that sets the funds' strategic asset-allocation policy. A large global multi-asset team of more than 80 investment professionals backs the series.

**Parent**

**Positive**

J.P. Morgan's asset-management group is one of the largest asset managers in the world. Points in its favor include a risk-focused culture, a deep research bench, and strong leadership. The board remains highly independent and has pushed for lower fees. The firm has committed to aligning manager interests with those of fund shareholders, and its funds largely range from sound to excellent.

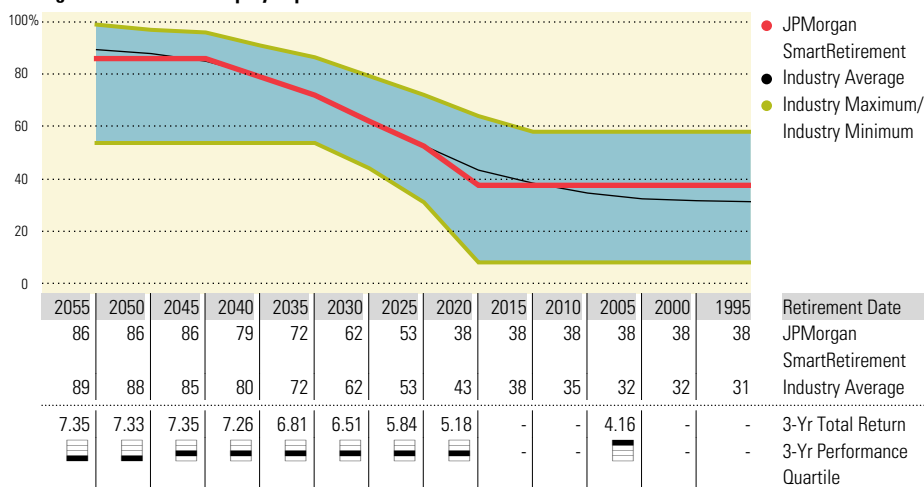
**Morningstar Analyst Rating**

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

**Analyst Rating Spectrum**



**Strategic Glide Path Total Equity Exposure**



**Available Funds**

Retirement Income Fund	2030 Fund	2045 Fund	2060 Fund
2020 Fund	2035 Fund	2050 Fund	
2025 Fund	2040 Fund	2055 Fund	

## Morningstar Opinion

**Leo Acheson**

02-02-2018

During 2017, the JPMorgan SmartRetirement target-date series turned in another year of strong results, and it reduced expenses by 2 to 8 basis points across the vintages. Continued strong execution by a stellar investment team leads to a Morningstar Analyst Rating upgrade to Gold from Silver.

A proven and well-resourced team oversees the series. Anne Lester has stood at the helm of the series since its May 2006 inception. Dan Oldroyd serves as the day-to-day skipper. Both Lester and Oldroyd have spent their entire careers at J.P. Morgan; they joined the firm in 1992 and 2000, respectively. They work closely with four team members and leverage J.P. Morgan's large multi-asset investment group of more than 80 investment professionals globally.

The team has used a consistent approach to asset allocation. It designed the glide path based on participant-behavior research and long-term capital market expectations, which resulted in a more conservative equity allocation than the industry norm during an investor's early saving years and shortly before retirement. The group also has an established tactical-allocation process in place. It follows a two-step approach, which the firm has used in its tactical portfolios since 1999. First, quantitative models suggest asset-class positions based on metrics such as valuations, risk factors, and technicals. Then, a separate global strategy team overlays qualitative considerations to establish the series' short-term tilts.

The series' management team uses a sound approach to manager selection. It aims to combine managers with complementary styles and uncorrelated alphas, and the series' managers won't hesitate to remove an underlying fund if it's not meeting expectations. Generally speaking, the manager lineup is solid. During 2017, we upgraded the series' two largest underlying funds; JPMorgan Core Bond (15% of the series' assets) was upgraded to Silver, and JPMorgan U.S. Research Enhanced Equity (10% of the series' assets) saw an upgrade to Bronze. Overall, we rate 10 of the 25 underlying funds, and eight earn medals. The group as a whole has turned in strong results: Of the 19 funds with 10-year records, all but four outpaced their Morningstar Category norm during the decade through December 2017.

Solid results beneath the surface have contributed to an overall impressive record. During the past 10 years through the end of 2017, all of the series' eight vintages placed in their peer group's top decile. According to attribution provided by J.P. Morgan, tactical asset-class positioning and manager selection boosted returns.

That strong record has attracted significant investor attention. The series now stands at roughly \$50 billion in assets. Overall, this series continues to remain a top choice.

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The date shown next to the Morningstar Analyst Rating is the date on which the Morningstar Manager Research Analyst assigned or reaffirmed the current rating for the target-date fund series based on the analyst's latest review and research report for the target-date fund series.

## The Five (5) Pillars

Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund's overall merit.

### People

The overall quality of a target-date fund series' investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a target-date fund series' investment team requires that analysts assess several relevant items including how key decisions are made.

### Parent

We believe the parent organization is of utmost importance in evaluating a target-date fund series. The target-date fund series' management set the tone for key elements of our evaluation, including capacity management, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship.

### Process

We look for target-date fund series with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective.

## Performance

We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a target-date fund series is delivering to our expectations.

## Price

To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a target-date fund series is penalized for high fees or rewarded for low fees can vary with region. In Europe, for example, target-date fund series are penalized if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using prospectus expense ratios, but in the case of target-date fund series with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

## Morningstar Analyst Ratings

Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a target-date fund series; the difference between them corresponds to differences in the level of analyst conviction in a target-date fund series' ability to outperform its benchmark and peers through time, within the context of the level of risk taken.

### Gold

Represents target-date fund series that our analyst has the highest-conviction in for that given investment mandate. By giving a target-date fund series a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). To earn a Gold rating, a target-date fund series must distinguish itself across the five pillars that are the basis for our analysis.

### Silver

Represents target-date fund series our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these target-date fund series will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

### Bronze

Represents target-date fund series that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these target-date fund series to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

### Neutral

Represents target-date fund series in which our analysts don't have a strong positive or negative conviction. In our judgment, these target-date fund series are not likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either.

### Negative

Represents target-date fund series that possess at least one flaw that our analysts believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these target-date fund series are inferior to most competitors and will likely underperform their relevant performance benchmark and/or peer group, within the context of the level of risk taken, over a full market cycle.

Morningstar Research Services may also use two other designations in place of a rating:

### Under Review

This designation means that a change that occurred with the target-date fund series or at the target-date fund series company requires further review to determine the impact on the rating.

### Not Ratable

This designation is used only where we are providing a Report on a new strategy or on a strategy where there are no relevant comparators, but where investors require information as to suitability.

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## Equity-Related Data Points

The Report lists the top ten holdings in the target-date fund series as of the date noted. For each underlying holding, a series of data points is provided including, where applicable, that security's Economic Moat rating as of the date noted.

## Economic Moat

The concept of an economic moat plays a vital role in our equity analyst's qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of its fair value estimate. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a *narrow moat* are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. *Wide-moat* companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, *no-moat* companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

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