MANAGED PORTFOLIO SERVICE

Multi-asset investing made easy

AJ BELL MPS FAQS

For professional intermediaries only. Not for distribution to retail clients.

Contents

Important information:

- Forecasted returns are based on AJ Bell's target weights for different asset classes in each fund. We then allow for the capital market assumptions of AJ Bell for the relevant indices for each asset class. If we believe certain asset classes are over or undervalued at any point in time, we may vary the asset allocation weightings accordingly.
- The expected return is the arithmetic mean return over a single holding period.
- There is a 10% chance of getting a return worse than the 'bad return'.
- There is a 10% chance of getting a return better than the 'good return'.
- Future returns are assumed to be in line with market returns and conditions experienced over at least the last 15 years.
- Projected returns include estimated OCFs for the underlying products but do not include AJ Bell's AMC or platform charge.
- The projected returns shown may vary according to the tax treatment of your investment.
- If you pay tax on this investment, your returns may be lower. Tax depends on your personal circumstances and the rules can change at any time in the future.
- The data used in this illustration is valid as at January 2024.

About AJ Bell

Who are AJ Bell?

AJ Bell was founded in 1995 and has grown to become one of the UK's largest investment platforms. In 2016 we launched AJ Bell Investments to design and manage a range of investment solutions for our customers.

By offering award-winning investment products, backed up with excellent service and online functionality at a low cost, AJ Bell has attracted 503,000 customers, and has £80.3 billion of assets under administration.

Our purpose is to help people invest, and we do this by following a set of guiding principles that define the company. These principles inform everything we do, creating a culture in which we strive to think like our customers, make investing easier and lead our markets. The guiding principles state that we are:

Principled
We act with integrity

Knowledgeable
We know our stuff

Straightforward
We simplify the complex

Personal
We put people first

Ambitious
We set high standards

What is the company structure?

AJ Bell includes AJ Bell plc and its wholly owned subsidiaries.

AJ Bell Asset Management Limited is authorised and regulated by the Financial Conduct Authority.

AJ Bell Management Limited is authorised and regulated by the Financial Conduct Authority and is the scheme administrator and operator of all AJ Bell's SIPPs.

AJ Bell Securities Limited is a member of the London Stock Exchange and is authorised and regulated by the Financial Conduct Authority. It is the plan manager for all of AJ Bell's ISAs and also provides AJ Bell's GIAs.

See website for full details.

So, who are AJ Bell Investments?

AJ Bell Investments is the trading name for AJ Bell Asset Management. It is made up of a team of experienced investment experts who manage every investment solution collegiately.

Day-to-day management of the investment solutions is undertaken by the team (see biographies section), with oversight and governance provided by the AJ Bell Investment Committee – a committee drawn from the senior management team at AJ Bell, together with external non-executive investment experts.

Why does a platform business have an investment arm?

Given our goal to make investing easy, it was a natural step for us to create and manage our own range of portfolios and funds based on our understanding of what our customers want.

With a focus on transparency and low costs, we want to lead the way for investors when it comes to **choice, costs and communication**.

The Managed Portfolio Service

What is the AJ Bell MPS?

The MPS is an objective-targeted managed portfolio service that aims to deliver specific outcomes for investors. For example this could be a risk or income target.

How do the AJ Bell portfolios help advisers?

The portfolios enable advisers to outsource asset allocation, investment selection and rebalancing within a single investment solution. By working seamlessly with the AJ Bell Investcentre platform, the portfolios allow advisers to focus on managing their clients, safe in the knowledge that the portfolios are in the hands of investment professionals who are managing their clients' money on a daily basis. Key benefits include:

- Actively targeting risk avoids unnecessary surprises
- Long-term asset allocation approach avoids short-term noise
- Multi-asset approach brings diversification
- A choice of active, passive or 'Pactive' solutions
- Managed by an experienced investment team to give you peace of mind

What solutions are available?

The MPS is currently made up of six growth strategies and two income strategies. All of the strategies are available as either passive, active or blended 'Pactive' solutions.

Why are there six different growth portfolios?

Having six growth models allows the MPS to cater for a wide range of clients along the risk spectrum. By focusing on specific risk bands, the MPS has been designed to cater for about 95% of investors.

Why are there only two different income portfolios?

The income portfolios are designed differently to the growth portfolios. Rather than being managed to remain within a specific risk band, they look instead to deliver a high level of income over time. By not targeting a set level of risk, it is not necessary to have a large number of different income portfolios.

What is the investment philosophy?

Our investment philosophy is built upon a set of 5 ‘good’ principles, each designed to provide a guiding hand for all our investment decisions.

Good design

We aim to offer choice which enables customers to meet their objectives. This choice encompasses a wide range of risk-rated products. These include products which generate capital growth and income, offer accumulation, decumulation and glidepath options, a variety of implementations covering passive, active, ‘pactive’ and a responsible range.

Good performance

The products we offer cover a wide range on the risk-return spectrum, and we want them to perform as such. Thus, our risk targeted portfolios should perform in line with their assigned volatility bands.

Good value

We take the approach of consistently aiming to be amongst the lowest-cost asset managers in the industry. We consistently pass on the benefits of economies of scale to our customers through negotiating access to cheaper share classes, subsequent OCF cuts, and delivering better value products.

Good communications

We never forget whose money it is that we manage, and this drives us to deliver market-leading communications to customers at all points of the investment journey.

Good faith

To put simply, we do the right thing. Whether that’s when we make investment decisions or when we represent our customers in the market, we work hard to ensure their best interests are represented.

Wider good

We feel a duty to promote a wider good within the investment industry. We do this by promoting competition and health capital markets, lobbying decision-makers when we believe it is necessary, and continuing to drive transparency within the industry.

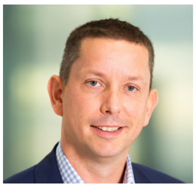
Do you favour active or passive investing?

We are totally agnostic when it comes to the debate around active and passive investing; we believe there is a place for both approaches. This is evidenced by our commitment to giving advisers choice in investment solutions by offering our managed portfolios in active, passive or a ‘Pactive’ blend of the two.

Who manages the portfolios?

We operate a team-based structure, recognising that our collective expertise is key to our long-term success. With more than 100 years' combined experience of managing funds for retail and institutional investors, this is the team that we trust to provide all of AJ Bell's in house fund management structure.

In addition to their investment experience, several members of the team have also worked for and alongside independent advice firms, building centralised investment propositions and other investment management solutions for advisers. In other words, we don't just understand investments, we understand your business too.



Ryan Hughes
Investments Director

Ryan started his career in 1999 working for an independent financial adviser, progressing to become Head of Portfolio Management at an award-winning advisory firm. Ryan then joined a global asset management firm as a Fund Manager, where he oversaw more than £10bn of multi-asset portfolios and also sat on the investment and global asset allocation committees. After seven years, Ryan joined a small multi-asset boutique managing portfolios for clients all around the world, before joining AJ Bell three years later to help establish our investment capability.

Paul Angell
Head of Investment Research

Paul began his investment career with a global investment bank in 2010, holding various roles across London and Hong Kong over the following years. In 2016 Paul then joined a UK-based investment consultancy business. Here he was responsible for selecting investment strategies across asset classes, to support the firm's £2.5 billion managed portfolio service, as well as numerous external clients. Paul joined AJ Bell in 2023 to lead the firm's investment research offering, ensuring clients across the business have a great selection of investment options to work with.

Samantha Andersen
Head of Investment Operations

Samantha joined AJ Bell Investments in 2021, bringing more than 15 years' operations experience – including 11 years across a variety of financial services sectors. As well as managing departments helping vulnerable customers and investigating retail banking complaints, she's also headed up the operations of an independent asset finance company. She has a CMI Level 6 Diploma in Management and Leadership.

Richard Slattery-Vickers
Head of Product

Richard started his career in financial services in 2005. He worked for a global custodian for eleven years, primarily providing investment operation and accounting services for asset managers on their UK domiciled fund ranges. He then joined a boutique asset manager, where he helped establish and head up the operations for its Authorised Corporate Director ("ACD") business, joining its Board in 2020, where it supported a range of UK domiciled funds. He holds the CISI Investment Advice Diploma (IAD), CISI Certificate in Investment Management and CFA ESG Certificate. Richard joined AJ Bell in 2023 with responsibility for leading the investment operations and product governance for AJ Bell's investment solutions.

James Flintoft
Head of Investment Solutions

James has over a decade of experience running MPS for intermediaries alongside a variety of other mandates. After graduating from Northumbria University with a first class degree in Finance & Investment Management, James joined a regional DFM, where he most recently served as Head of Investments. He joined AJ Bell Investments in 2023 as a Fund Manager. James is a CFA charterholder.

Terry McGivern
Senior Research Analyst

Terry's career in financial services began in 2005 on the Settlements Team at a major bank. He later moved to an investment management company and then to a leading provider of financial services. In 2010, he took up a proprietary futures trading role at one of the world's largest independent global commodities brokers. Prior to joining AJ Bell, Terry spent five years on the Investment Management Team at a discretionary investment manager in Liverpool, where he was also a member of the Asset Allocation Committee. Terry holds the CFA-UK Investment Management Certificate (IMC) and is currently studying towards the CFA Level 2 exam.

Tom McGoldrick
Fund Manager

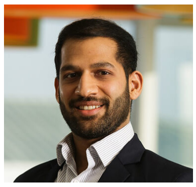
Tom joined AJ Bell in October 2018, after graduating from Durham University with a master's degree in Mathematics. He is now part of the Investment Management Team at AJ Bell Investments. Tom is a CFA charterholder and holds the CFA Certificate in ESG Investing.

Alexandra Farrell
Product Manager

Alex first joined AJ Bell Securities in 2020 in the Client Services department and moved to join the Investments team in August 2021. She has a first class degree from the University of Leeds in Philosophy, Politics and Economics (International) and spent a year of this studying in Australia. She holds the Investment Management Certificate (IMC) and the PRINCE2 Practitioner Certificate in project management. Alex is currently studying towards her Level 5 CMI qualification in Management and Leadership.

Alex Wickham
Research Analyst

Alex initially joined AJ Bell Securities in 2013 as part of the Dealing Team, where he worked as the Fund Dealing Manager, and moved to the AJ Bell Investments Team in 2022. He holds an Investment Advice Diploma (IAD), and is working towards the Investment Management Certificate (IMC).



Manan Goyal
Investment Analyst

Manan joined us after completing his Master's degree in Market and Quantitative Finance from Emlyon Business School. He initially joined as an Investments Intern in 2021, moving on to being a Junior Portfolio Analyst in the Investment Management Team, before being promoted to Investment Analyst in 2023. He holds the Investment Management Certificate (IMC).

Ruby Bollington
Product Analyst

Ruby initially joined AJ Bell Investments as an Intern, during which time she helped to produce two whole-of-the-market overview reports on funds and MPSs. Following her internship she permanently joined the Investments Team as a Junior Product Analyst. She graduated from the University of Manchester with a first-class degree in International Business, Finance and Economics and holds the Investment Management Certificate (IMC).

Hassan Ali
Business Analyst

Hassan joined AJ Bell Investments in 2022 as a Junior Business Analyst, after graduating from the University of Nottingham with a Master's in Finance and Investment. He supports the Investments Team, ensures the product proposition is maintained and that new proposition ideas are formulated with regards to market and competitor trends. Hassan holds the Investment Management Certificate (IMC) and is currently studying towards Level II of the CFA Program.

Jack Shorrock
Product Analyst

Jack first joined AJ Bell in March 2021 on the Customer Support Team, after obtaining a second-class degree in Business Economics from Leeds Beckett University. He spent 18 months on the team assisting customers and then joined the AJ Bell Investments Team in September 2022. Jack has completed the CISI Investment Operations Certificate (IOC) and holds the Investment Management Certificate (IMC).

Harry Lynch
Junior Investment Analyst

Harry joined us in March 2024 as a Junior Investment Analyst, previously working for a large discretionary investment manager in operations. He has a first-class degree in Chemistry with Honours from Liverpool University, during which he did a work placement at a boutique MPS provider. He is currently studying towards the Investment Management Certificate (IMC).

And who oversees the management?

Whilst the management of the portfolios is undertaken by experienced experts in their field, it's good to know that there are robust protections in place and a proper level of oversight. Adopting a 'three lines of defence' model of governance, each line ensures proper management and monitoring of your client's investments on a day-to-day basis.

First line of defence

Line 1 defence is provided through the AJ Bell Investments Asset Allocation and Portfolio Implementation Committees, chaired by AJ Bell Investments' Managing Director & Chief Investment Officer.

The role of the Asset Allocation Committee is to oversee the strategic asset allocation process, including the creation of our capital market assumptions, and portfolio construction techniques. The committee also meets regularly to address our tactical asset allocation decisions. The Portfolio Implementation Committee is tasked with oversight of portfolio implementation, including stock selection, broker choice and unbundling policies. Any policies used within both committees are ratified by the AJ Bell Investment Committee in Line 2.

Second line of defence

Line 2 defence is provided by the AJ Bell Risk Department, which has independent oversight of AJ Bell Asset Management policies and procedures. The AJ Bell Risk Department also undertakes independent assessment of the portfolios performance and adherence to the Investment Policy Statement, providing an independent report to the AJ Bell Investment Committee and the Board.

The AJ Bell Investment Committee provides AJ Bell Group oversight of all investment policies and products provided by the Group. It consists of executive management and external independent members with extensive investment management experience.

Third line of defence

Line 3 defence is provided via the risk profilers, who provide verification that the risk objectives are adhered to on an ongoing basis, ensuring the portfolios remain suitable in changing financial markets.

Strategic asset allocation

How do you determine the strategic asset allocation for the growth portfolios?

A strategic asset allocation specifies the proportion of specific asset classes in a portfolio designed to provide an investor with an appropriate risk/return profile over the long term. Our strategic asset allocation framework specifies a range of allocations appropriate for six levels of risk tolerance. For example, investors with a lower risk tolerance will tend to have lower exposure to more volatile, higher-risk assets such as equities, and greater allocations to less volatile, lower-risk assets, like bonds and cash.

The modelling is driven by long-term return and risk expectations for the various asset classes. Although markets tend to be volatile and returns often diverge sharply from year to year, viewed over the longer term, the returns tend to become more stable, with gains in some years offsetting losses in other years.

A robust process of estimating long-term risk and return expectations should therefore not be unduly impacted by near-term activity. In fact, frequent changes to long-term risk and return expectations could seriously undermine the investment discipline provided by a strategic asset allocation framework.

Where do you get your data and modelling from?

We use our own in-house process to determine our long-term strategic asset allocation, derived using asset class assumptions based upon historical data. The historical datais provides us with capital market assumptions of volatility, returns, correlations and inflation. Our investment team then uses those assumptions to model the optimal asset allocation for each level of risk.

Why not just use the Distribution Technology asset allocation?

Whilst the asset allocations provided by Distribution Technology are a good place to start, our innovative use of data science and human intelligence techniques leads us to believe we can improve upon the expected results for investors.

Thanks to the more granular data and the enhanced data processing capabilities we have available these days, we can undertake a review of asset classes across the globe to determine which classes generate genuine diversification benefits during portfolio construction. What we have found, for example, is that the diversification benefits of UK and Euro large caps is often overstated, whereas Global Tech, UK Small Caps and Emerging Market Debt (which are rarely considered asset classes in their own right) bring with them an improvement in portfolio efficiency.

Incorporating these into our asset class considerations and portfolio construction techniques generates 'more efficient, efficient frontiers', meaning that for a given level of expected volatility, we can extract a higher expected rate of return.

Which asset classes are currently owned within the strategic asset allocation?

UK equity	UK corporate bonds
Europe ex-UK equity	Global High Yield
North America equity	Global High Yield (GBP Hedged)
Japan equity	Global Inflation-Linked bonds
Asia Pacific ex-Japan equity	Emerging market government bonds
Emerging markets equity	Property
UK government bonds	Cash

This is the current mix of assets used within the strategic asset allocation as the analysis shows that this gives the optimum risk/return trade off to ensure the portfolios are operating efficiently.

New asset classes are regularly assessed to determine whether adding them to the portfolio will be beneficial to the risk/return profile of the portfolios.

How often is the asset allocation updated?

We review the stochastic model on a quarterly basis. If there have been any material changes in market conditions or longer-term economic views, we will then re-calculate our asset allocation accordingly.

How does the strategic asset allocation for the income portfolios differ?

The income portfolios have a specific objective to deliver 4% income per annum over the long term. In addition to this, each of the portfolios has a differing approach to capital, with Income 1 looking to deliver capital protection over the market cycle while Income 2 looks to deliver capital returns at least in line with inflation over time. This approach leads to a different implementation than the growth portfolios, with the income portfolios not managed to stay within specific volatility bands.

Tactical asset allocation

Do you make tactical asset allocation decisions?

From time to time, investors can become overly excited or pessimistic – particularly in the short term. In instances in which we consider asset classes to be significantly over- or under-priced, we will deviate from our strategic asset allocations to avoid or take advantage of market conditions.

By way of example, ahead of 2022 we considered government bonds to be materially mispriced due to the interventions of central banks post the credit crisis. To avoid this overpricing, we moved all of our government bond allocations into bonds with very low sensitivity to interest rate and yield changes, lowering the risk to investors in the process.

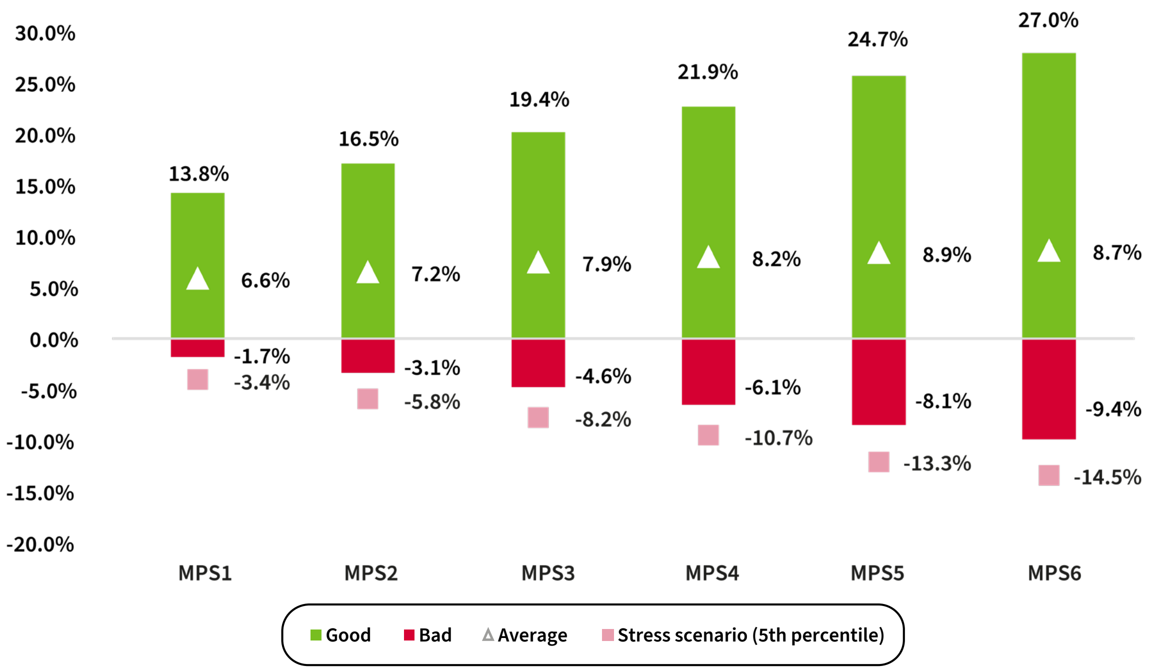
Who sits on the asset allocation forum?

The asset allocation forum is made up of the senior investment professionals in the investment team. The forum meets quarterly and reviews the positioning of the portfolios. The responsibility for the implementation of any tactical changes is overseen by the Portfolio Implementation Forum, which looks to ensure that tactical changes are implemented in the most efficient and effective manner.

So, what can I expect from the Managed Portfolio Service?

Since all of the portfolios are managed to deliver only the level of risk that your clients are comfortable with, it's important that you understand how this translates into returns over time. We put together the chart below to help you consider the range of outcomes that you could expect to see over one year.

The value of your clients investments is not guaranteed and can go down as well as up. It's important that you understand how the portfolios could perform over time. We have used financial models to demonstrate the likely outcomes for each risk rating. The difference between the high and low return will usually be less for a lower-risk portfolio. As the output is based on statistical forecasts, the actual outcome and performance could differ from the scenarios outlined below.



In a good year, your client might see a returns somewhere in the green bar range. In a bad year, their losses would likely be somewhere in the red bar.

Please refer back to 'Important Information' on page 3 for further details.

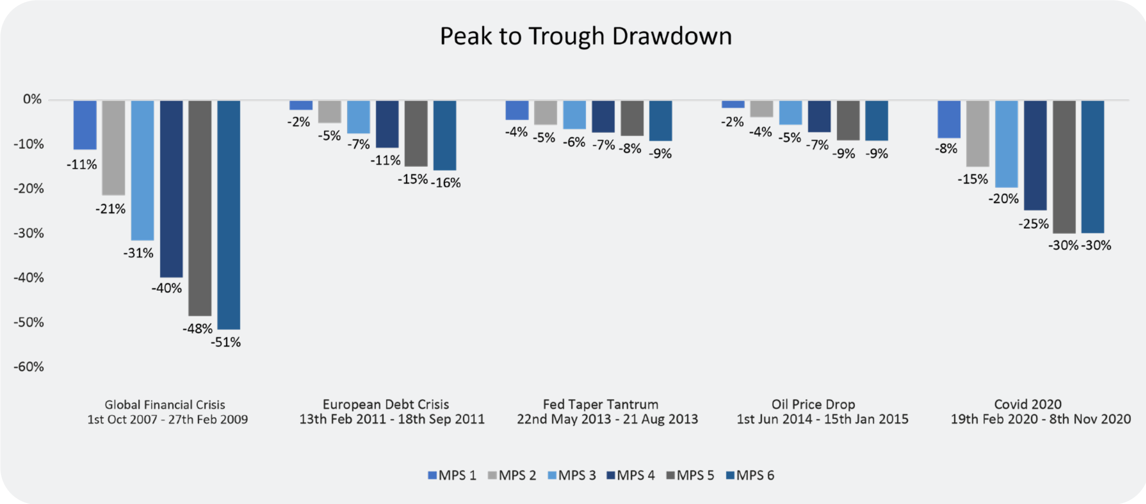
How would the funds have fared during different historical market stress scenarios?

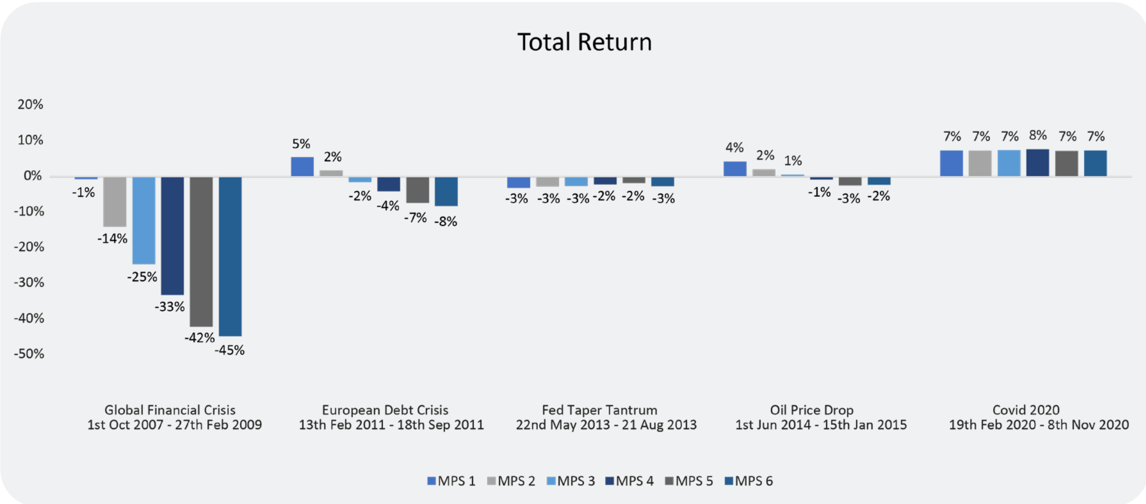
Experience tells us that the behavioural aspects of investment lead to periods in which investors are prone to panic and react negatively to bad news.

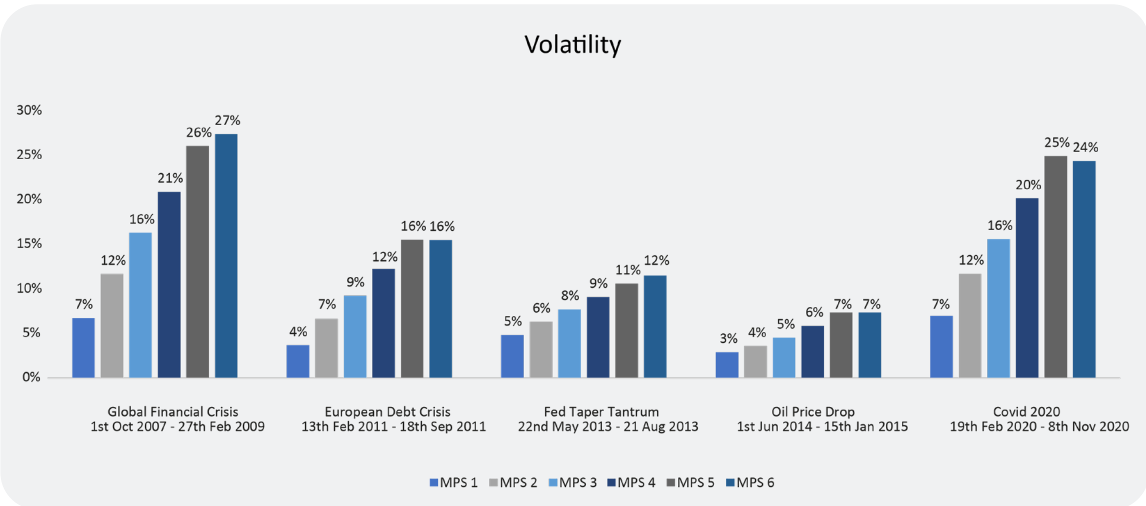
Though longer-term investing generally makes investment returns more predictable, the longer you are invested, the more likely you are to also encounter a period of market stress or even crash. To help you understand what that could mean for your investment, we tested how each of the portfolios in the range would have performed in previous stressed conditions. By understanding how bad, as well as how well things could go, we hope to ensure that investors find the portfolio that meets their requirements.

We have already outlined the average expected return for each fund, alongside 'good return' outcomes (with this return or better expected 10 years in 100) and 'bad return' outcomes (with this return or worse expected 10 years in a 100). However, as investors we want to know what returns might be when things get ugly. We have therefore used Morningstar's factor model to understand what may have happened if each of the funds had existed during each of the market stress scenarios before the funds launched. As lots of the ETFs we invest in didn't exist back then, Morningstar uses a technique where it models the characteristics of the investments the funds held in October 2021 (such as sectors, currencies, bond maturities and styles), and looks at how each of these performed during the scenario. We show the maximum drawdown each fund may have suffered during the scenario (this is the point from the highest return to the point with the lowest return), the total return during the scenario (this captures any immediate recovery after the market stress) and the volatility, which highlights the variation in returns over the period. This can be compared to the long-run expected volatility range we have for each fund, which we show in the expectations table.

The value of investments can go down as well as up and your client may not get back their original investment.







Past performance is not a guide to future performance and some investments may need to be held for the long term.

Investment selection – passive

What investments do you use to populate the portfolios?

We use passive investments to gain low-cost market exposure for our portfolios where the remit is to invest principally in passive structures. Our selection process focuses on identifying the most cost-effective and liquid index trackers that also have, in our evaluation, low counterparty risk. The universe comprises index tracker funds and Exchange-Traded Instruments (ETFs). There are four tenets that are key to investing in passives – cost, tracking error, liquidity and counterparty risk.

How do you select the underlying investments?

As these models are built using the instruments available on the AJ Bell platform, we have the full range of passive strategies available. Therefore, the models can invest in market-leading index-tracking funds and ETFs from the largest, best-known and most cost-effective providers in the market.

When looking at passive strategies, we assess a number of factors, including the following key areas:

- Product Provider - ensuring products are from reputable providers, that have passed our due diligence process, to confirm the strength of their business and the robustness of their range.
- Benchmark Index – ensuring that the benchmark index tracked is from a reputable provider, that it is rules based, diverse, investible and has low-turnover.
- Tracking Efficiency – assessing both the difference in total return between the strategy and its underlying benchmark index (tracking difference) and the volatility of those returns (tracking error).
- Strategy size – successful passive investing is driven by investment efficiency, with larger strategies more often able to keep annual costs and tracking low.
- Liquidity – often a function of strategy size, good levels of liquidity result in lower transaction costs for investors. This is particularly important when looking at ETFs.

Why do the portfolios mainly use ETFs?

We believe that ETFs offer a better method of tracking the performance of underlying indices and in addition offer more flexibility for us to effectively manage the portfolios. This is due to the ability to trade intraday, rather than on a forward basis. In many cases, the trading costs involved for ETFs are also lower than for funds.

Are the underlying holdings all physical assets?

Our preference is to own strategies that have a physical backing, although there may be times when we are happy to own synthetically structured ETFs.

How many holdings are in the portfolios?

Each portfolio will typically have between 10 and 20 holdings. This ensures that each portfolio is well diversified and is focused on identifying the very best passive manager for each asset class used.

How often will you change the underlying managers?

The underlying holdings are monitored on a daily basis to ensure that they are performing in line with expectations. Should we decide that a change in holding is required, this will be implemented as soon as possible.

Investment selection – active

What is your investment philosophy?

We believe that investment markets can be inefficient, and that this creates the opportunity for a high quality active manager to add value. However, we fully accept that finding managers who can consistently outperform is difficult, and that too many actively managed strategies fail to deliver. Even so, we are convinced that high quality fund managers do exist and the opportunity is there in many markets for these managers to deliver excess returns.

It is our investment philosophy to only ever use active strategies where we believe that they can deliver outperformance after all costs have been accounted for. If, when analysing an asset class, we determine that it is not possible to identify an active manager who we believe can outperform after all costs, then we will use passive strategies to ensure that we are not wasting our customers' money on unnecessary costs.

What is your investment process?

Our investment process is geared towards gaining a full understanding of the investment managers, so that we know how they are likely to think, act and make decisions. To do this, we assess each manager using a '5P' structure that looks to analyse the following:

- Their investment **philosophy.** This seeks to determine why they believe that their market is inefficient. This philosophy needs to be academically robust, understandable and well-articulated.
- Their investment **process.** This looks at how the manager goes about exploiting this inefficiency. This process needs to be repeatable, clear and aligned to the philosophy.
- The **people** involved. This looks at the decision-making structure within the investment process and the people involved.
- The **performance.** This assesses the historical performance of the investment strategy from the perspective of using it to verify our understanding of the stated investment philosophy and process.
- The **price.** This looks at the cost of investing in the strategy with a view to determining if it offers value for money.

By going through this detailed process we look to give ourselves a frame of reference on an investment manager so we understand how they are likely to perform in different market environments. We also gain a better understanding of what good and bad performance looks like, rather than simply comparing performance to a mainstream index which may paint a misleading picture.

What is your investment universe?

We operate on a totally unconstrained basis, with the ability to invest in all collective funds, investment trusts, offshore funds and ETFs that are available through the AJ Bell platform. We are agnostic on the investment structure used and look for the best investment solution to implement our strategy within the portfolio. This universe has over 11,000 investments and therefore we use a mixture of both qualitative and quantitative analysis to ensure only the highest quality managers make their way into the portfolio.

When are managers replaced?

We are patient, long-term investors but we will replace managers when we believe:

- they are not investing in line with our understanding of their stated philosophy and process
- we see organisational uncertainty that may be to the detriment of returns
- greater opportunity exists in an alternative idea

We will not replace a manager simply because they are underperforming. Indeed, we fully expect to have some managers underperforming at any one time in the portfolios.

In addition, we ensure that there is a readily available 'subs bench' in place should we have to replace one or more of the managers. The subs bench consists of managers who we have completed due diligence on and who have been 'buy' rated.

How many holdings are in the portfolios?

Actively managed portfolios will typically have between 10 and 20 holdings, giving a good level of diversification.

Will you have overlapping holdings with the passive MPS?

It is possible that the active portfolio will have some overlap with the passive portfolios if passive strategies are used. However, the active portfolios may choose to hold different passive strategies in order to make the active portfolios more accessible to investors with smaller investment amounts.

Do you have any portfolio construction constraints?

The active portfolios operate with a number of constraints to ensure they remain well diversified and that risk is well managed. Therefore, the following constraints are in place:

- Max weight of an active fund 15%
- Max weight of an index-tracking fund 30%
- Max weight to any one fund group 40%

Investment selection – ‘Pactive’

Who are the ‘Pactive’ portfolios for?

The ‘Pactive’ MPS portfolios are designed for clients and advisers who like the potential for outperformance that comes with active management, but who are also fans of the low costs associated with a passive approach.

How are the portfolios constructed?

We build the ‘Pactive’ portfolios with the same rigour and discipline applied to the Passive and Active MPS range. Dependent upon the degree of active management we believe is suitable for the market conditions, we take an appropriate ‘slice’ of the Active MPS portfolio and then top up the remainder of the portfolio using the appropriate AJ Bell Growth Funds.

Why do you use your own funds in the ‘Pactive’ portfolios?

Our Passive MPS portfolios and AJ Bell Growth Funds are managed by the same team, using the same approach to passive investment selection. Using our AJ Bell Growth Funds instead of ‘slicing’ the Passive MPS portfolio means that the overall portfolio holds fewer positions and is easier to understand. It also means that any changes made within the AJ Bell Growth Funds held in the portfolio benefit from not generating any capital gains tax for investors as changes made within a collective investment scheme are exempt from this tax.

But doesn’t this lead to ‘double charging’?

The cost of all of our AJ Bell Growth Funds is capped at 0.31% p.a. and our management fee is variable as we have an ‘all in’ management fee. This includes the underlying OCF, the annual management fee, and the costs for running and administering the fund structure. The annual management fee is variable, as it consists of the fixed OCF, minus all other costs.
The cost of our Passive MPS Growth portfolios change from 0.27% - 0.32% p.a. of which the fee payable to AJ Bell is 0.15% p.a.

We believe that any additional fee payable as a result of using our own funds represents good value, considering the Capital Gains Tax and simplicity benefits we describe above.

Full details of the costs on all of our portfolios are available via our ‘Commitment on costs’ document.

Risk mapping

Are these models risk profiled by external risk profiling tools?

Yes, the models have been mapped to Distribution Technology's Dynamic Planner, eValue, FinaMetrica, Synaptic, Defaqto and Oxford Risk.

How are the portfolios mapped to Distribution Technology?

We have committed to maintaining our risk levels in the growth portfolios in line with the risk parameters set out by Distribution Technology. This commitment means that the portfolios form part of the Risk Target Managed Solutions from DT, and qualify for a 'Gold Badge'. This in turns means:

- expected volatility is targeted to stay within the boundaries assigned to each Dynamic Planner risk profile; and/or targets the strategic asset allocations for the respective Dynamic Planner risk profile
- we can offer suitably diversified exposure (either directly or synthetically) to at least six asset classes included within the respective Dynamic Planner strategic asset allocations
- the underlying asset class exposure is managed in a suitably diversified manner

Will the portfolios be mapped to other risk profilers?

We constantly assess the market to determine which are the most popular risk profilers. Should there be sufficient demand to map to another provider, then this will be assessed.

What is the difference between risk mapping and risk targeting?

Different people see risks differently, and so to help investors decide what level of risk they may be comfortable with, a number of companies provide helpful questionnaires.

As the market leader in this field, Distribution Technology has a long track record of helping investors choose the right investment, thanks to their Dynamic Planner risk questionnaire.

The AJ Bell Managed Portfolio Service range is designed deliberately to deliver the risk profiles predicted by the Dynamic Planner system. Known as 'risk targeting', customers adopting the Distribution Technology approach can be sure that the portfolios align with their needs, providing a dovetailed approach to risk and return and making suitability seamless. As one of only a small number of providers in the market that provides an assurance that the risk tolerance will remain at this level both now and in the future, this 'gold badge' pledge gives a further level of comfort for investors in the portfolios.

But that doesn't mean you have to use Dynamic Planner to invest in the portfolios. Thanks to our relationships with the other major providers of risk profiling questionnaires, including Finametrica, eValue, Synaptic, Oxford Risk and Defaqto all of our portfolios within the range can be 'mapped' to the profiler of your choice.

What happens if my client's risk profile is outside of your range?

The MPS range has been designed to cover a very wide variety of clients, however, we are conscious that certain client risk profiles will not fit with our approach. For these clients, advisers can build a bespoke portfolio using the wider range of investments available on the AJ Bell platform.

How do you use data science and human intelligence?

Another area in which we believe we have improved upon Modern Portfolio Theory is in the removal of some of the simplifying assumptions that come with the model. These simplifying assumptions were originally there to assist with the computational elements of calculating efficient frontiers, but are no longer necessary in a world with AI and our own human experience and understanding of investments.

A great example of this is the use of normal distributions in modelling stock and portfolio returns, together with the use of 'average' correlation matrices. These correlation matrices are especially important because they drive the predictions of how different elements of the portfolio interact with each other. In most common models, the average returns over, say five years, are used to drive the data, whereas we know that in stressed market conditions (when you really want diversification to work for you) these correlations often break down.

To adjust for this, our model learns from the past and assumes instead that stock returns follow a Johnson distribution, rather than normal distribution, and uses a 'stressed' market correlation matrix for the purposes of calculating the most efficient asset allocations.

How does this impact on asset allocation?

To provide the 'gold badge' pledge, the asset allocation and risk taken by each portfolio within the range will be close to that provided to us by Distribution Technology. To ensure a multi-asset approach is taken, the portfolios must use at least six asset classes and deliver an expected level of risk within the Dynamic Planner volatility bands.

What are the portfolio benchmarks?

At the moment, the concept of risk-targeted portfolios is pretty new, but it is growing quickly. As a result, the portfolios do not have a specific benchmark, but are managed with reference to the Dynamic Planner asset allocations. As a cross check, we monitor regularly the performance of the portfolios against similar products in the marketplace and check performance against the long-term expectations we discuss later.

Over time, we would expect the development of new benchmarks for risk-targeted portfolios. We are currently working together with Distribution Technology to develop these benchmarks and would anticipate showing performance against these benchmarks in due course.

Rebalancing

How often are the portfolios rebalanced?

We undertake a scheduled rebalance on a quarterly basis and employ a 10% (+10/-10) tolerance level. A rebalance will only take place if the difference between the required holding and the current holding is greater than or equal to the tolerance level for at least one position in the portfolio, at which point the minimum number of trades will be undertaken to bring all holdings back within the tolerance. The tolerance percentage is calculated relative to each individual asset, not relative to the total portfolio value.

Performance measurement

What are the benchmarks for the models?

The models are not benchmarked against traditional indices as they are designed to target a specific volatility range. Over the long term, the models are looking to deliver a good risk adjusted return while staying within the confines of the risk range outlined for each model.

Governance

What is the governance process?

All of our investment solutions are overseen by our Investment Committee. This committee is made up of senior executives within AJ Bell and has an independent Chairman as well as additional independent representation. A number of other governance forums report into this, giving rigorous oversight to our investment processes. These forums cover:

- asset allocation
- portfolio implementation
- customer outcomes
- operational risk

Is there any independent risk oversight?

We have an independent risk function that sits outside of AJ Bell Investments and reports directly to the Head of Risk. This independent function monitors the investment portfolios and decisions made by the team on a day-to-day basis to ensure that they are always made in the best interests of investors.

Charges, income and reporting

What is the minimum investment?

There is no set minimum into the portfolios, however, the structure of the underlying investments means that the portfolios work more efficiently for investments above a certain size. For the Passive and 'Pactive' portfolios, this is around £20,000; for the Active portfolios, this is around £10,000. It should be noted that the smaller the investment amount, the greater the impact of transaction costs will be on the investment.

Can I invest regular premiums?

Monthly investment is not available in these portfolios.

What products are these portfolios available through?

The portfolios can be purchased within all of the AJ Bell products.

When did the portfolios launch?

	Growth	Income
Passive	Aug 2016	Feb 2018
Active	Feb 2018	Feb 2018
'Pactive'	Feb 2019	-

Where are charges taken from?

Each of the portfolios retain at least 2% of the investment in cash to ensure that there is always cash available to cover charges.

How often is income paid?

The income portfolios are designed to deliver a long-term income yield of 3% - 5% per annum. Any income generated by the underlying holdings is paid out when it is received by the platform and is not smoothed. This means that payment amounts will differ each month and there may be months where no income is generated at all. It is possible to smooth income payments within SIPP wrappers using the regular cash movement tools built into the platform. Speak to your Business Development Support contact for further details.

What is the reporting frequency?

A monthly factsheet is produced for each model. A quarterly report is also produced, providing commentary on the macro economic environment and the activity that has taken place in the portfolios over the quarter. Clients will also receive a quarterly portfolio valuation statement, which shows performance, a summary of transactions and a valuation at the end of the quarter.

What are the arrangements for voting on corporate actions in the portfolios?

As the manager of the MPS portfolios, AJ Bell has the discretion to act as it considers appropriate in relation to corporate actions. For events affecting securities held within the MPS, AJ Bell will therefore instruct a bulk election at nominee level.

The precise nature of any corporate action event cannot be predicted in advance and so a comprehensive set of rules cannot be detailed here, however our policy is to assess each event on a case-by-case basis and as a general principle, AJ Bell will act in a way that is in the long-term best interests of its MPS customers.

You will be made aware of any corporate action events, but please note that AJ Bell's bulk election as discretionary manager will override any individual instructions that are processed from advisers.

Is the MPS available on other investment platforms?

The MPS is available on the following platforms:

- Abrdn
- Aviva
- Hubwise
- Morningstar Wealth Platform
- Transact
- Quilter

Guide to costs (as at 31 March 2024)

AJBell	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5	MPS 6	MPS Income 1	MPS Income 2
	Cautious	Moderately Cautious	Balanced	Moderately Adventurous	Adventurous	Global Growth	Income	Income & Growth
Dynamic Planner	Dynamic Planner Targeted 3	Dynamic Planner Targeted 4	Dynamic Planner Targeted 5	Dynamic Planner Targeted 6	Dynamic Planner Targeted 7	Dynamic Planner Targeted 8	Dynamic Planner Profiled 5 Dynamic Planner Profiled 6	Dynamic Planner Profiled 7
ev	ev 3	ev 5	ev 7	ev 8	ev 10	ev 10		
FinaMetrica Risk Tolerance Profiling	FinaMetrica Score Range 36-48	FinaMetrica Score Range 48-58	FinaMetrica Score Range 56-68	FinaMetrica Score Range 64-77	FinaMetrica Score Range 74-100	FinaMetrica Score Range 75-100	FinaMetrica Score Range 56-68	FinaMetrica Score Range 74-100
Risk Rated by Synaptic	Synaptic Risk Rating 3 1-10	Synaptic Risk Rating 4 1-5	Synaptic Risk Rating 6 1-10	Synaptic Risk Rating 7 1-10	Synaptic Risk Rating 8 1-10	Synaptic Risk Rating 9 1-10	Synaptic Risk Rating 5 1-10	Synaptic Risk Rating 8 1-10
defaqto	defaqto 4 RISK RATED	defaqto 4 RISK RATED	defaqto 5 RISK RATED	defaqto 7 RISK RATED	defaqto 8 RISK RATED	defaqto 9 RISK RATED	defaqto 5 RISK RATED	defaqto 8 RISK RATED
Oxford Risk	Oxford Risk 2/5 2/7	Oxford Risk 3/5 3/7	Oxford Risk 3/5 4/7	Oxford Risk 4/5 5/7	Oxford Risk 4/5 6/7	Oxford Risk 5/5 6/7		
Funds	**0.31%** 0.08%	**0.31%** 0.11%	**0.31%** 0.11%	**0.31%** 0.10%	**0.31%** 0.07%	**0.31%** 0.08%	**0.65%** 0.15%	**0.65%** 0.13%
Passive MPS	**0.25%** 0.03%	**0.26%** 0.04%	**0.27%** 0.05%	**0.26%** 0.05%	**0.27%** 0.05%	**0.28%** 0.05%	**0.33%** 0.08%	**0.39%** 0.10%
Active MPS	**0.53%** 0.12%	**0.63%** 0.16%	**0.75%** 0.17%	**0.82%** 0.20%	**0.90%** 0.22%	**0.92%** 0.24%	**0.72%** 0.14%	**0.82%** 0.17%
Pactive MPS	**0.49%** 0.10%	**0.54%** 0.13%	**0.60%** 0.14%	**0.64%** 0.15%	**0.68%** 0.15%	**0.69%** 0.16%	Guide to Costs	OCF (1) Transaction cost (2)
Responsible MPS	**0.34%** 0.02%	**0.37%** 0.04%	**0.39%** 0.07%	**0.41%** 0.09%	**0.44%** 0.12%	**0.44%** 0.14%	**Responsible Growth Fund**	**0.45%** 0.00%
							Money Market MPS	0.10% 0.01%

Data as at March 2024

(1) Ongoing Charges Figure (OCF) inclusive of AJ Bell AMC (AJ Bell takes a fixed fee of 0.15% across the MPS range) and ongoing charges of underlying investments. The VT AJ Bell Funds take a fixed Fund OCF inclusive of fund running costs, ongoing charges of underlying investments and a variable AMC.
(2) Transaction costs represent the net costs incurred in buying and selling underlying investments. For the VT AJ Bell Fund range, these are the gross costs offset with any pricing mechanisms used by the fund to protect investors from the cost of transactions (such as swing pricing). In some instances this may result in a negative number.

Past performance is no guarantee of future results.

Access

How can investors access the models?

The MPS is available through the AJ Bell Investcentre platform and can be used in all products.

What communication can I expect after I invest?

At AJ Bell we are committed to giving you and your clients what you need. Not what you don't.

We are committed to making sure you are kept up-to-date with where, how and why your clients money is being invested. Check out www.investcentre.co.uk for regular updates on how we invest your client's wealth, together with our monthly factsheets, details of our tactical asset allocation calls and regular quarterly documents and videos.

Financial Assurance

Are there compensation arrangements covering my MPS investment?

Yes – the Financial Services Compensation Scheme (FSCS) is applicable to the services provided by AJ Bell.

The FSCS was created following the Financial Services & Markets Act 2000, as an independent entity designed to provide last-resort protection for customers of failed financial services firms. Compensation may be available if the failed firms themselves are unable, or likely to be unable, to pay claims. There are several factors involved in determining whether a claim is eligible.

The FSCS deals only with claims against authorised firms (that is, those that are regulated by the Financial Conduct Authority or the Prudential Regulation Authority) that are in default. The scheme covers a variety of products, including cash deposits, insurance, mortgage advice and investments, but only covers investments that are authorised by the FCA. Private individuals are generally protected but for other types of claimant, eligibility will depend on the nature of the specific claim.

There are limits to compensation pay-outs – for example, £85,000 for cash deposits for each eligible claim per banking group and £85,000 for each eligible claim relating to the failure of an investment provider.

It is important to note that the FSCS applies to financial advice and investment firms, not individual products – the scheme is designed to protect customers from institutional risk, not market risk. If individual securities go bust or perform poorly this is treated as investment risk borne by the customer and this will not result in an eligible claim.

AJ Bell customers are covered by the FSCS in the event of default by AJ Bell and therefore customers may be eligible to make a claim if losses occur in this situation. Individual investments held on the AJ Bell platform, where authorised by the FCA, are also covered by the FSCS.

For further details on the FSCS, see: https://www.fscs.org.uk/

This document provides general information about the Managed Portfolio Service. It should not be read or construed as investment advice. It is your responsibility to assess you client's circumstances and make a personal recommendation that is suitable for their needs.

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