AJ Bell Investcentre

AJ BELL RESPONSIBLE MANAGED PORTFOLIO SERVICE

Adviser guide

Responsible investing made easy

Contents

Easy, transparent, low-cost responsible investing	3
What we invest in	4
A responsible approach	5
Communication is key	6
Expectations	7
Keeping an eye on costs	9
Why not contact us to see how we can help?	10

Easy, transparent, low-cost responsible investing

A strong pedigree

AJ Bell Investcentre is part of AJ Bell, one of the UK's largest investment platforms.

As a company that has always strived to make investing easier and more accessible, we want to provide you with a simple way of selecting the right investment solutions for your clients. With that in mind, we have designed the AJ Bell Responsible Managed Portfolio Service (MPS) – built for investors who care about people and the planet, but who still aim to make a profit.

The Responsible MPS is an addition to our existing range of managed portfolios, all of which are designed and managed by the team at AJ Bell Investments. With more than 100 years of combined experience in the industry, this highly respected team currently manages over £5 billion of clients' money.

As you would expect from AJ Bell, the whole service is provided with a focus on transparency, clear communication, and the need to keep costs low. This is underpinned by our focus on innovation, and a desire to constantly enhance both the level of service and value we provide for you and your clients.

Adapting to demand

Now more than ever before, clients are looking to invest in a manner that limits any negative impact on the planet and society. For many advisers and their clients, this means incorporating environmental, social and governance (ESG) factors into their investment strategies is becoming increasingly important.

On top of that, regulators are moving toward a world where financial advisers will be mandated to establish client ESG preferences ahead of any recommendations, making responsible products a key part of a Central Investment Proposition.

We have built a solution which will help advisers and their clients navigate this changing world. The Responsible MPS is designed to invest in the best-in-class companies which are serious about sustainability. Where possible, it also excludes companies involved in controversial industries such as firearms, genetically-modified organisms and tobacco.

! The value of your clients' investments can go down as well as up and they may not get back what they put in.

Risks and wrappers

To ensure that we cater for the needs of clients at all parts of the risk spectrum, the Responsible MPS is available in a variety of options – from the most cautious MPS 1, to the more adventurous MPS 6.

The portfolios are available in the Funds & Shares Service, in SIPP, ISA and GIA wrappers, with a suggested minimum guide investment of £20,000. Investments can be made via lump sums or through regular contributions.

What we invest in

The Responsible MPS is for clients who wish to invest for long-term growth, but who want to ensure that their money is focused on companies that are committed to sustainability and making a positive impact.

In common with the other products in the AJ Bell managed portfolio range, the Responsible MPS is made up of well-diversified, multi-asset portfolios using cash, bonds, equities, and alternatives.

The portfolios are implemented in a largely passive fashion, and predominantly made up of ETFs.

When choosing ETF and fund providers to invest in, we undertake due diligence on the provider to ensure it is taking its responsibility towards stewardship and voting seriously. We will not use providers that do not meet our expectations.

In each portfolio, we make a 25% allocation to the VT AJ Bell Responsible Growth Fund, which is also managed by the AJ Bell Investments Team. This helps to keep costs low, and gives us a number of other advantages, including:

- the power to make investment decisions within the fund wrapper, rather than needing a full, formal rebalance of the entire model – thereby increasing the speed of implementation;
- the ability to run tactical asset allocation calls within the fund rather than in the wider portfolio, reducing Capital Gains Tax exposure for your GIA clients if we need to sell assets; and
- broadening the investment universe, allowing us to invest in securities within the fund that may not be available within the wider portfolio, for example ETFs whose unit price would be prohibitive for smaller portfolio sizes.

A responsible approach

Where possible, we invest in ETFs that track an MSCI SRI index, which gives a robust range of values-based exclusions and ensures that we target companies with high ESG rankings to invest in. For fixed income investments, we use various ETFs taking ESG into account where appropriate. The multi-layered approach ensures that you and your clients can feel confident that their principles are consistently being taken into account within the investment process.

Firstly, a series of exclusions removes companies from controversial industries. There are a wide variety of exclusion criteria and a non-exhaustive list is shown in the table below.

Business	Exclusion criteria
Controversial weapons	0% tolerance
Civilian firearms	0% tolerance for producers; 5% for distributors
Nuclear weapons	0% tolerance for manufacturers and related manufacturers
Tobacco	0% tolerance for producers; 5% for distributors
Adult entertainment	5% tolerance for producers; 15% for distributors
Alcohol	5% tolerance for producers; 15% for distributors
Conventional weapons	5% tolerance for producers; 15% for distributors
Genetically-modified organisms	5% tolerance for any activity
Nuclear power	15% tolerance based on revenues; 5% of total output or capacity
Fossil fuel reserves ownership	0% tolerance based on proven and probable coal, oil and natural gas reserves used for energy purposes
Fossil fuel extraction	0% tolerance for companies deriving any revenue from thermal coal mining or oil and gas extraction
Thermal coal power	5% tolerance

Then, a 'best-in-class' ranking system means that, of the remaining companies, only those that score more highly on ESG credentials are included.

You can find more details of the MSCI SRI methodology here: **msci.com/msci-sri-indexes**. Please note that the exclusions listed above are correct at the time of writing, but they are subject to change.

Traditionally, responsible investing involved a simple process of screening out certain companies if they didn't meet an investor's values. This could mean sacrificing returns.

More sophisticated, modern approaches to responsible investment – such as the one we have taken within our Responsible MPS – focus not just on exclusions, but also on positively selecting companies with solid ESG credentials. Academic research demonstrates that this process may actually aid long-term returns, and therefore does not mean foregoing performance. You can read some of this research here: **msci.com/what-is-esg**.

Communication is key

At AJ Bell, we are committed to clear, transparent communication. You can therefore expect to receive factsheets and regular commentary on where, how and why your clients' money is being invested, to help you help your clients meet their investment objectives.

It is also important that your clients know that their investment in the Responsible MPS is making a positive societal impact. An analysis of the holdings within the portfolios allows us to make a comparison of various metrics with a 'standard' portfolio, and this shows the following, versus a suite of standard MPS portfolios:

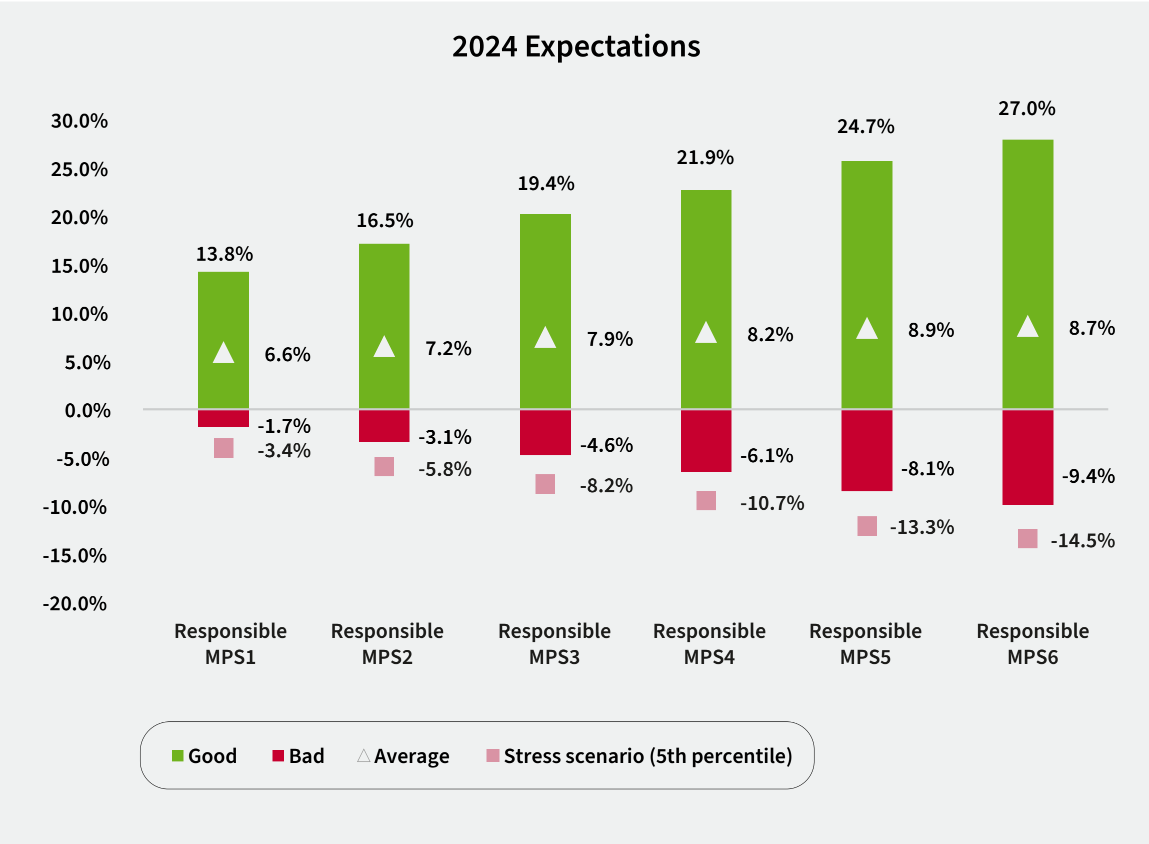
- The estimated carbon intensity of the Responsible MPS decreases by an average of 65%
- The average ESG score is uplifted by 21%
- The ESG score ranking amongst all listed funds increases by 31 percentiles on average
- 7% of companies in the Standard MPS are removed due to SRI screens, and the average exposure to SRI 'offenders', where we have data, is 0.6%
- The average exposure to UN Compact violators is 0.2%, which is a 2.4% decrease compared to the standard MPS
- The average exposure to companies with severe controversies is 0.3%, which is a decrease of 2.8% compared to the standard MPS

Source: AJ Bell Investments Calculations & MSCI

Expectations

It is important for you and your clients to understand how the different risk levels translate into returns over time, so we have put together the following charts in order to help you consider the range of outcomes that you could expect to see over one year from the Responsible MPS portfolios.

The value of your clients' investments is not guaranteed and can go down as well as up. We have used financial models to demonstrate the likely outcomes. As the output is based on statistical forecasts, the actual outcome and performance could be different from the scenarios below.



The red and grey bars represent a typical year (representing an 80 out of 100 outcome). In a good year, you might see a return somewhere in the green bar range, at or above, the white triangle. In a bad year, your losses would likely be somewhere in the red bar. In a very bad year, such as a repeat of the credit crisis, the loss could be significant. Since your clients ought to be prepared to witness bad market conditions at some point on their investment journey, we show the range of outcomes that they should allow for.

The longer your clients invest, the more predictable their returns become. That's because, over time, the good and the bad years tend to cancel each other out. Using our back-testing data, based on testing the strategic asset allocations for the portfolios over the last five years, had your clients invested in our Responsible MPS, they would have made the gains shown in the performance chart and table below.

Responsible MPS	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5	MPS 6
5 year back tested performance [1]	1.13%	2.65%	3.40%	4.80%	5.80%	4.01%
Expected returns	6.6%	7.2%	7.9%	8.2%	8.9%	8.7%
Expected volatility	4.2% - 6.3%	6.3% - 8.4%	8.4% - 10.5%	10.5% - 12.6%	12.6% - 14.7%	14.7% - 16.8%

Source: AJ Bell Investments

All returns are gross of underlying product OCF, transaction and platform charges. These figures are forward-looking, and are based on returns over a complete economic cycle, which would typically be around five years or more.

[1] 5 year Back Tested performance is the annualised return based on current portfolio allocations as at 31 January 2024. Returns are simulated using fixed weights. Where the holding has not existed for 5 years a proxy security or index is used where appropriate prior to its launch.

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

Target yields are not guaranteed and can fluctuate.

Keeping an eye on costs

We firmly believe that high charges are one of the biggest threats to investment returns, and that's why we work so hard to keep charges for our range of managed portfolios as low as possible.

In common with the rest of our MPS range, the Responsible MPS carries an investment management charge of 0.15% p.a., with no VAT applicable. This figure is lower than many of our competitors in the market offer.

Please note that other platform, product and dealing charges will apply in addition to the charge for the Responsible MPS – please refer to our charges and rates document on investcentre.co.uk for more details.

To ensure that the management charge remains as low as possible, we work with suppliers to achieve the best deals, and make sure that the running costs of our portfolios are minimised. When investing in the underlying funds in our portfolios, we use our buying power as part of one of the UK's biggest platforms to negotiate special rates with the managers of the products whenever we can. This approach means that we can deliver a low-cost solution to you and real value for money.

Why not contact us to see how we can help?

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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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