

AJ Bell Active Income MPS - updated manager selection

As part of the process to review the strategic asset allocation (please read separate document for details), the Active Income MPS has also been reviewed to determine the most appropriate method of implementation.

Despite being called the 'Active Income MPS', our investment approach to manager selection is always to ensure that we only use active managers where we believe there is the ability to outperform the index over time while delivering sustainable income. Where we are not able to identify this, then passive strategies will be used so that the higher level of fees associated with active managers are only paid where there is conviction that doing so is worth it.

In this annual asset allocation update, perhaps unsurprisingly given the scale of events in the world over the past 12 months, there is a reasonable amount of change occurring in the portfolios. When deciding on how best to implement the revised asset allocation, the following four major factors have been considered.

1. Can the overall blend of the portfolios be improved to reduce any unintended biases?
2. Can the overall cost of the portfolios be improved by using lower cost managers?
3. Are there higher conviction active managers that can be introduced to the portfolios to enhance performance?
4. Can the income generation be improved?

As a result of this approach, a number of new managers have been added, while some holdings have been removed from the portfolios. At the same time, various weights have been changed for the remaining holdings. Ultimately, the outcome of this review has been to make the portfolios more diversified. We feel this is appropriate given the changing nature of the global economy, while also ensuring we have our highest conviction active managers in the portfolios.

While various weight changes have been made, the additions and removals can be summarised as follows.

Fixed interest

Portfolio	Removed	Added	Rationale
Portfolio 1	TwentyFour Corporate Bond		Alternative manager has higher yield
Portfolio 1		Invesco USD corporate Bond GBP Hdgd ETF	Asset class added to SAA, implemented in low-cost passive
Portfolio 1	L&G Emerging Markets Government Bond index		Removed from SAA
Portfolio 1	SPDR 0-5yr US High Yield Bond ETF		Removed from SAA
Portfolio 1	Invesco US Treasury 3-7yr ETF		Removed from SAA
Portfolio 1	Vanguard USD Corporate Bond ETF		Removed from SAA
Portfolio 1		iShares US TIPS GBP Hdgd ETF	Asset class added to SAA, implemented in low-cost passive
Portfolio 2		iShares Overseas Corporate Bond index	Asset class added to SAA, implemented in low-cost passive

Equities

Portfolio	Removed	Added	Rationale
Portfolio 1-2		Threadneedle UK Equity Income	Added to improve overall UK blend
Portfolio 1-2	JPM US Equity Income	Fidelity US Quality Income ETF Invesco S&P 500 High Dividend Low Vol ETF	Reduced cost & improved yield prospects
Portfolio 1-2		Jupiter Japan Income	Asset class added to SAA
Portfolio 1-2		Schroder Global Equity Income	Added to improve blend & yield

Sectors and alternatives

Portfolio	Removed	Added	Rationale
Portfolio 2	L&G Global Real Estate Dividend index iShares MSCI UK Target Real Estate ETF		Asset class removed from SAA

Cost impact

The underlying costs of the portfolios will change as a result of this. Active Income MPS 1 will increase in cost slightly by 0.06% as a result of moving more towards equities, which have higher charges, while Active Income MPS 2 sees its underlying charges remain the same.

Yield impact

With dividends coming under huge pressure in 2020 and many companies cutting, suspending or cancelling their dividends, the market has seen yields move lower. This is particularly noticeable in the UK, which pre-COVID offered a substantial yield pick-up over global equities. While it still offers a yield premium, the extent of this has reduced sharply in the last 12 months.

As part of this asset allocation update, we have looked to provide some stability to the yield while also looking to maintain it at an attractive level. With a targeted yield over the long term of between 3% and 5%, the recent falls in income have pushed the current yields back towards the 3–3.5% level at the present time. With dividend prospects currently improving and many companies now restoring their dividends, we are hopeful that the equity exposure in the portfolio once again provides the prospect of dividend growth going forward. However, this of course comes with a large caveat that assumes that, as the COVID vaccine rollout continues, economic activity can begin to recover in the coming months.



This report provides general information about the AJ Bell Managed Portfolio Service. It should not be read or construed as investment advice. It is your responsibility to assess your circumstances and make sure it is suitable for your needs.

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

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

The target yields are not guaranteed and can fluctuate.