AJ Bell Active MPS - updated manager selection

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

Despite being called the 'Active 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. 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 three 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?

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 1–4	Royal London Short Duration Global High Yield		Reduced allocation in SAA
Portfolio 1-3	Invesco US Treasury 7–10yr ETF		Removed from SAA
Portfolio 2	iShares US Treasury 1–3yr ETF		Removed from SAA
Portfolio 4	TwentyFour Corporate Bond		Reduced allocation in SAA
Portfolio 1-2		Amundi Prime Euro Corporates ETF	Asset class added to SAA, implemented in low-cost passive
Portfolio 1-3		SPDR Bloomberg Barclays US TIPS ETF	Asset class added to SAA, implemented in low-cost passive
Portfolio 4–5		iShares Overseas Corporate Bond Index	Asset class added to SAA, implemented in low-cost passive
Portfolio 6		M&G Emerging Markets Bond	Added to SAA

Equities

Portfolio	Removed	Added	Rationale
Portfolio 1	Troy Trojan Income Man Undervalued Assets	Ninety One UK Alpha	Reduced allocation in SAA
Portfolio 2		Ninety One UK Alpha	Added to improve overall UK blend
Portfolio 3–6		Threadneedle UK Equity Income	Added to improve overall UK blend
Portfolio 2	BlackRock Continental European Income		Removed from SAA
Portfolio 3–6	BlackRock Continental European Income	Baring Europe Select	Added to improve overall portfolio blend
Portfolio 3–6	Fidelity US Index		Removed to improve US blend
Portfolio 1–6		Artemis US Select	Added to improve US blend
Portfolio 1–2		Jupiter Japan Income	Asset class added to SAA
Portfolio 2–6	Invesco Asian		Removed to improve overall Asia/EM blend
Portfolio 3–6		Allianz All China	Increased allocation in SAA
Portfolio 5–6		Jupiter Asian Income	Added to improve the Asian blend
Portfolio 1	JPM Emerging Markets Income		Removed to improve overall Asia/EM blend
Portfolio 4–6	Fidelity Emerging Markets		Removed to improve overall Asia/EM blend
Portfolio 5–6	Stewart Asia Pacific Leaders		Removed to improve overall Asia/EM blend
Portfolio 6	Fidelity Asian Values Lazard Emerging Markets		Removed to improve overall Asia/EM blend
Portfolio 4–6		Fidelity India Focus	Asset class added to SAA

Sectors and alternatives

Portfolio	Removed	Added	Rationale
Portfolio 3	Polar Capital Global Technology		Removed from SAA
Portfolio 4–6	Polar Capital Global Technology	Polar Capital Technology IT	Lower cost for very similar portfolio
Portfolio 6	Xtrackers MSCI USA Healthcare ETF		Removed from SAA
Portfolio 4–5	Xtrackers MSCI USA Healthcare ETF	Worldwide Healthcare IT	High conviction active manager
Portfolio 3–6		iShares S&P 500 Energy ETF	Asset class added to SAA, implemented in low cost passive
Portfolio 4–6		iShares S&P Consumer Discretionary ETF	Asset class added to SAA, implemented in low cost passive
Portfolio 1–6		Legg Mason Clearbridge Infrastructure Income	Asset class added to SAA
Portfolio 5	Janus Henderson UK Absolute Return		Removed from SAA

Cost impact

The underlying costs of the portfolios will change as a result of this, with Active MPS portfolios 3–6 all becoming from 0.01% to 0.09% cheaper, Active MPS 1 remaining the same, and Active MPS 2 increasing fractionally by just 0.01%.