

Passive Growth MPS update – 20 July 2020

At AJ Bell, we believe in building genuine multi-asset portfolios, rather than focusing on just equities and bonds, to ensure our portfolios remain diversified.

Within our Income portfolios, we use both infrastructure and property investments, whereas in our Growth portfolios we use property.

Property can be implemented in a passive portfolio in a number of ways; we discussed this in our [Monthly Insight article](#) in May 2019.

We prefer to use a REIT (Real Estate Investment Trust) tracker blended with a short-maturity asset such as inflation-linked bonds, especially in our lower-risk portfolios. We believe this provides a return profile similar to an open-ended property fund without the liquidity risk.

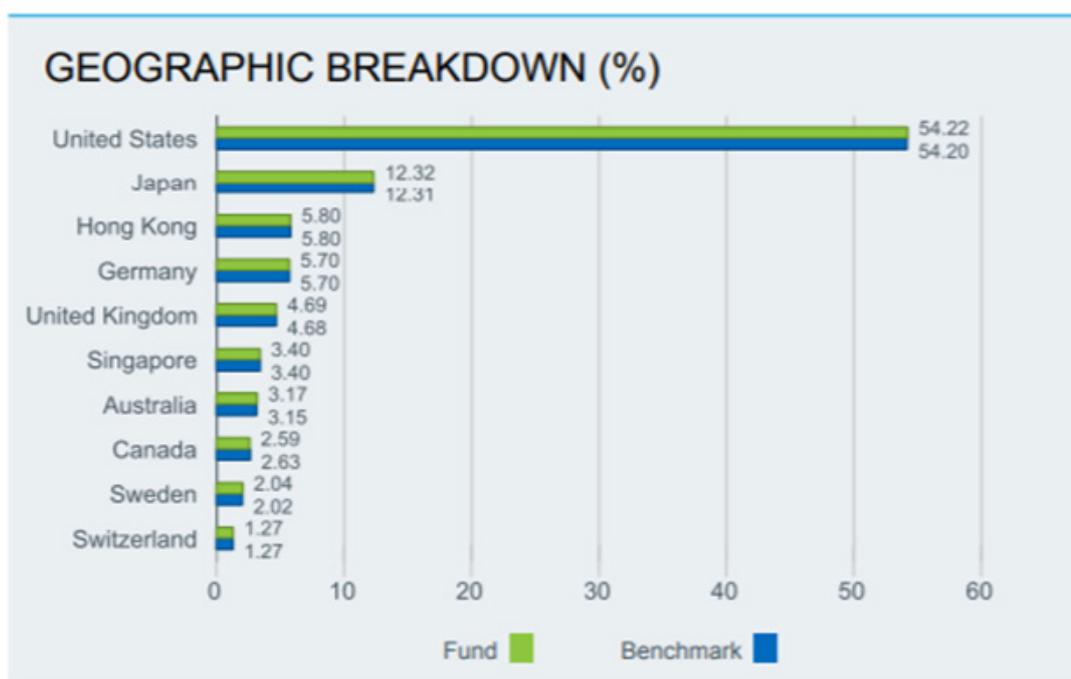
Within MPS 1 to MPS 5, this has been implemented through the **iShares MSCI Target UK Real Estate ETF** since July 2018. In total, it has 42 holdings, 36 of which are LSE-listed REITs and 6 of which are short-dated UK inflation-linked gilts.

Despite the uncertainty of the UK property market over the last two years – following Brexit and the COVID-19 pandemic – the ETF we have used has done a good job of dampening risk, returning -4.2% from 18 July 2018 through to the 14 July 2020, with an annualised volatility of 9.2%. This compares to an alternative product, the **iShares UK Property ETF**, tracking a portfolio of REITs without any inflation linked bonds, which is down -15.0% over the same period with an annualised volatility of 17.9%.

However, with a rather concentrated portfolio of 36 REITs, and the high-profile issues faced by the sector – such as the recent administration of Intu – coupled with a high ongoing charge figure of 0.4%, we are changing our implementation to a blend of currency-hedged global REITs, with the volatility dampened down in MPS 1–3 using our existing money market fund holding. In MPS 4 and MPS 5, we are switching all 3% of our weighting into the global REIT product.

We have worked closely with Blackrock, and it has recently launched a sterling-hedged version of its **iShares Developed Real Estate Index Fund**. Although in general we prefer to use ETFs, we believe the diversified mix of investments, coupled with a lower running cost of 0.24%, justifies this switch.

As of 14 July, the fund has assets of \$1.9 billion, split across 332 securities. Although just over half of the portfolio is in the US, it is spread across 10 developed nations in total. It is also spread across a number of different REIT sectors and is focused towards REITs with AuM above £2 billion, with around a sixth of the portfolio in smaller REITs:

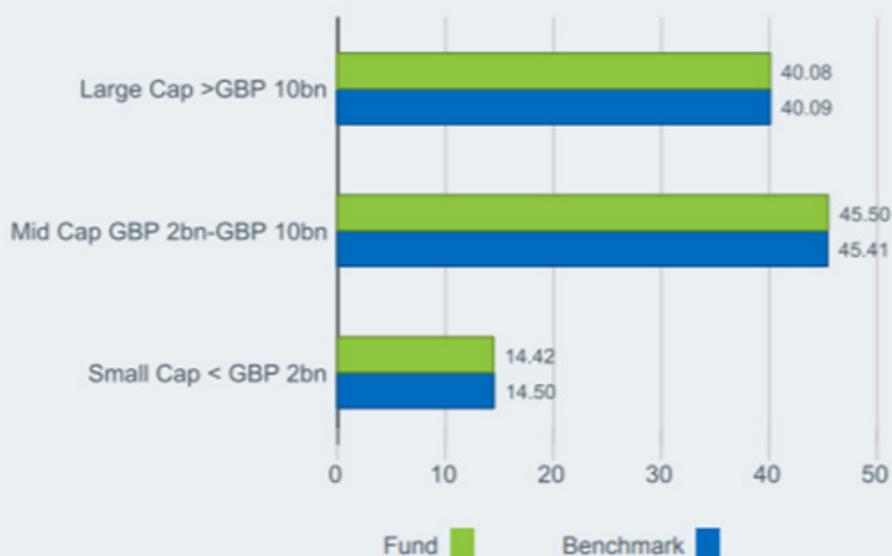


SECTOR BREAKDOWN (%)

	Fund	Benchmark	Active
Industrial & Office Reits	28.73	28.82	-0.09
Real Estate Holding & Development	19.80	19.79	0.01
Specialty Reits	15.40	15.35	0.05
Residential Reits	14.75	14.74	0.01
Retail Reits	13.16	13.13	0.03
Diversified Reits	5.91	5.96	-0.04
Hotel & Lodging Reits	2.10	2.08	0.02
Real Estate Services	0.15	0.15	0.00

Negative weightings may result from specific circumstances (including timing differences between trade and settlement dates of securities purchased by the funds) and/or the use of certain financial instruments, including derivatives, which may be used to gain or reduce market exposure and/or risk management. Allocations are subject to change.

MARKET CAPITALISATION (%)



Source: Blackrock, May 2020 (URL [ishares.com/uk/individual/en/literature/fact-sheet/ishares-developed-real-estate-index-fund-\(ie\)-inst-usd-factsheet-ie00b7w1n443-gb-en-individual.pdf](https://www.ishares.com/uk/individual/en/literature/fact-sheet/ishares-developed-real-estate-index-fund-(ie)-inst-usd-factsheet-ie00b7w1n443-gb-en-individual.pdf))

We believe this change delivers the following benefits:

- lowers the OCF of the portfolios;
- allows the portfolios to remain multi-asset whilst reducing portfolio concentration; and
- keeps the currency position unchanged given the hedge in place.

A summary of the changes, and any changes to the OCF of the portfolios, is given below.

Fund	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5
iShares MSCI Target UK Real Estate ETF	-3%	-3%	-3%	-3%	-3%
iShares Developed Real Estate Index Fund	2%	2%	2%	3%	3%
Blackrock Institutional Sterling Liquidity Fund	1%	1%	1%		

Underlying portfolio OCFs

	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5
Underlying OCF as at 30th June 2020	0.14%	0.14%	0.14%	0.14%	0.13%
Updated OCF following change	0.13%	0.13%	0.13%	0.13%	0.12%

Source: Morningstar July 2020



Past performance is not indicative of future performance. The value of investments may go down as well as up and the income generated by investments is not guaranteed and may fluctuate. You may receive back less than the amount that you invested.

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The information and data presented in this document were believed to be correct at the time of writing and we are not liable for any subsequent changes.