

Passive MPS update – May 2020

The AJ Bell Passive MPS aims to deliver a simple, transparent and low-cost investment solution to investors. The range is aimed at either a risk outcome, for our growth 1–6 MPS portfolios, or an income and capital return outcome, for our Income 1 and Income 2 MPS portfolios.

In order to make sure we can achieve these objectives, we regularly review and update the portfolios and the asset classes we use within them. We also monitor any developments in the passive landscape to ensure we are aware of falling costs and new product launches from providers in the market.

As a result, we have taken the opportunity in April to make a change to one of the underlying holdings we use in the growth MPS 1–4 range.

UK corporate bonds

Currently, the growth MPS 1–4 portfolios use the **SPDR Bloomberg Barclays Sterling Corporate Bond UCITS ETF**, priced at 0.20%, to gain our exposure to UK corporate bonds within the passive MPS range.

The Passive Team at AJ Bell has seen UK corporate bond ETFs as something of an outlier in pricing terms for a while now, with the asset class not seeming to benefit from the ongoing price wars seen elsewhere, in what we would view as core asset classes. The universe of ETFs tracking UK corporate bonds has remained small, with three providers offering six ETFs.

A summary of these is below:

Provider	Ticker	Fund Name	OCF	Index Tracked	AUM (£m)
iShares	SLXX LN Equity	iShares Core GBP Corp Bond UCITS ETF	0.20%	Markit iBoxx GBP Liquid Corporates Large Cap TRI Index	1,963
iShares	ISXF LN Equity	iShares GBP Corp Bond ex-Financials UCITS ETF	0.20%	IBOXX Sterling Non-Financials Overall Total Return Index	233
iShares	ERNS LN Equity	iShares GBP Ultrashort Bond UCITS ETF	0.09%	Markit iBoxx GBP Liquid Investment Grade Ultrashort Index TRI	576
SPDR	UKCO LN Equity	SPDR Bloomberg Barclays Sterling Corporate Bond UCITS ETF	0.20%	Bloomberg Barclays Sterling Corporate TR Value Unhedged GBP	221
SPDR	SUKC LN Equity	SPDR Bloomberg Barclays 0-5 Year Sterling Corporate Bond UCITS ETF	0.20%	Bloomberg Barclays GBP Corporate 0-5 Year Total Return Index Value Unhedged GBP	165
Lyxor	COUK LN Equity	Lyxor iBoxx GBP Liquid Corporates Long Dated UCITS ETF	0.09%	Markit iBoxx GBP Liquid Corporates Long Dated Mid Price TCA TRI	94

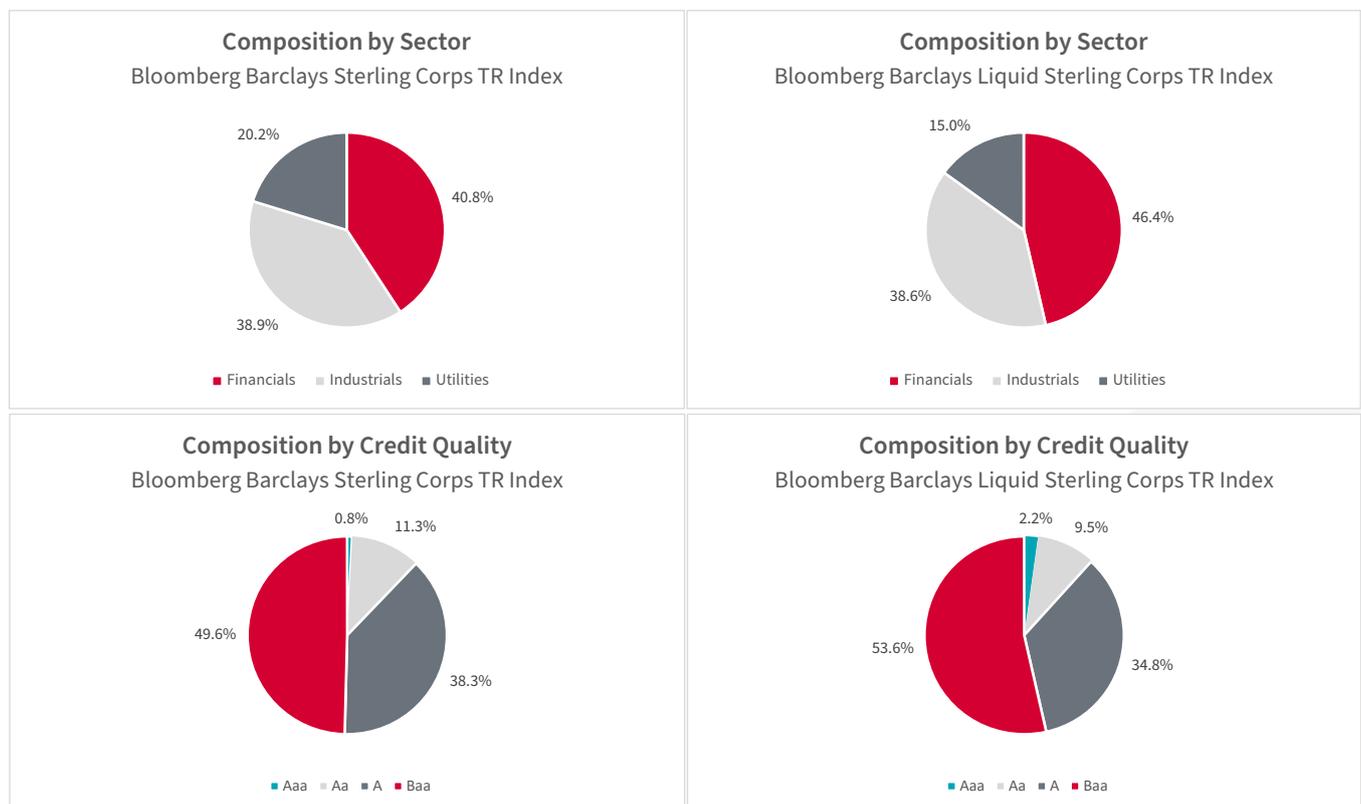
Source: AJ Bell, Bloomberg - 31 December 2019

As can be seen, 0.2% was the market level in OCF terms, with only iShares and Lyxor offering a cheaper option, where iShares is an ultra-short duration product and Lyxor's is a swap-based, synthetically replicated product. As a result of the narrow choice in the market, this has meant that OCFs in the asset class have remained higher than we believe was warranted and, as such, AJ Bell has actively engaged with several providers with regards to launching alternative ETFs to improve the breadth and choice in the asset class.

It was pleasing, as a result of this work, to see Invesco come to the fore as a provider willing to launch a new UK corporate bond product and also do so at a market-leading price point of 0.1% for a physically replicated product tracking a standard duration index.

The **Invesco GBP Corporate Bond UCITS ETF** tracks a new index, the Bloomberg Barclays Sterling Liquid Corporate Index, which Invesco launched in conjunction with Bloomberg Barclays following consultations with AJ Bell's Passive Team. This index takes the standard Bloomberg Barclays UK Corporates Index – incidentally the index that incumbent holding tracked – and then applies further liquidity screening criteria, similar to those seen on other products in the market, to ensure issues in the index have at least £350 million of issuance outstanding. This ensures that the ETF can replicate efficiently and without frictional costs, whilst also ensuring duration and yield are in line with the broad index, to ensure key characteristics of the market are captured.

Average credit rating and sector weights do differ slightly, due to the reduction in names in the eligible universe, but the scale of the difference is not significant. Furthermore, the maximum issuer weight is also capped at 3.25% to ensure concentration is managed.



Source: AJ Bell, Bloomberg LP - As at 31 December 2019

Looking at backdated performance of the index, it is clear that it offers similar performance and volatility as the broader parent, with the results over the five-year backtest actually showing better risk-adjusted performance for the newer index:

Index Name	Total Return (%)	Volatility (%)
Bloomberg Barclays Sterling Corporate TR Unhedged GBP	28.61	6.04
Bloomberg Barclays Sterling Liquid Corporate Index TR Unhedged GBP	29.31	4.87

Source: AJ Bell, Bloomberg LP - Period 31/12/2014 to 31/12/2019

Volatility calculations are based on daily price observations and assume 260 days annualisation basis, per calendar year

The ETF was launched with the help of seeding from the AJ Bell Fund range and we are now pleased to advise that we have also exited the SPDR Bloomberg Barclays Sterling Corporate Bond UCITS ETF in the Passive MPS models in favour of the **Invesco GBP Corporate Bond UCITS ETF**. This will see a saving of 50% in OCF terms for achieving UK corporate bond exposure in the portfolios, as well as the portfolios tracking what the team feels is a more efficient UK corporate bond index.



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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