

Passive MPS update – 21 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 May to make a change to one of the underlying holdings we use in the growth MPS 1–5 range and the income range.

Global high-yield bonds

Until November 2019, we used the BMO Global High Yield £ Hedged UCITS ETF to achieve high-yield exposure – an ETF priced at 0.35%. Unfortunately, BMO decided to close this fund and withdraw from the UK and European ETF market. This meant the team chose to invest in the only other global high-yield sterling-hedged product available to UK investors, **the iShares Global High Yield Corporate Bond UCITS ETF**, priced at 0.55%.

Faced with the lack of choice and increased cost for this asset class, the team has been busily monitoring the marketplace and engaging with providers to improve the choices available. In April 2020, JP Morgan brought their offering to market – the **JP Morgan Global High Yield Corporate Bond Multi-Factor UCITS ETF**, priced at 0.35%.

This product tracks the JP Morgan AM Global High Yield Multi-Factor Index, an index that targets high-yield bonds. However, this index then applies additional selection criteria, including only bonds that display strong value, quality and momentum characteristics. This means that the new ETF takes something of a hybrid approach. It tracks an index and has no active manager running the strategy, but the index it tracks is designed to replicate the types of investments an active bond manager would make.

We're comfortable with this approach, believing this style of product is likely to become more widespread in the next evolution of bond ETFs. Past performance is no guarantee of future performance, but in the five-year backdated data, the JP Morgan index has shown better returns, with less risk than the iBoxx index tracked by the iShares product:

Index Name	Total Return (%)	Volatility (%)
JP Morgan AM Global High Yield Multi-Factor TR USD	37.28	0.86
Markit iBoxx Global Developed Liquid High Yield USD Tri-Capped	29.31	1.47

Source: AJ Bell, Bloomberg - 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

On top of its market-leading price of 0.35% – a 30% saving on the price we pay for our current exposure – we believe this ETF product will attract significant scale into the future. So we're pleased to confirm that, to achieve our global high-yield bond exposure, we've switched from the higher-priced iShares product to the new JP Morgan ETF.

Old Holding

iShares Global High Yield Corporate Bond UCITS ETF	0.55%
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Cost

New Holding

JP Morgan Global High Yield Corporate Bond Multi-Factor UCITS ETF	0.35%
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Cost

We have enacted the switch using the MPS switch function; this allows us to trade the two ETFs back-to-back, remaining in the market at all times and reduce trading costs. We take the decision to trade based on a comparison of OCF savings compared to the trading costs, and believe the trade makes sense for any investor holding across a fairly short time horizon (around two years).

Alongside this trade, we recently updated our UK corporate bond ETF. These two changes have helped us to reduce the underlying OCF of the portfolios affected.

	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5	MPS 6	Income 1	Income 2
30 th April 2020 Underlying OCF	0.16%	0.17%	0.17%	0.16%	0.13%	0.13%	0.22%	0.29%
Current Underlying OCF	0.14%	0.14%	0.14%	0.14%	0.13%	0.13%	0.19%	0.27%

Source: Bloomberg LP, May 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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