

AJ Bell Passive MPS - Implementation

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

Our process involves a whole-of-market review, to ascertain what the team feels is the best passive product with which to implement the asset class/region/sector allocation specified under the strategic asset allocation. All products considered are assessed and selected via a process that incorporates both quantitative screening and qualitative analysis. On the quantitative ETF screening, we use a scoring system that is a weighted composite score based on a number of core factors that the team believes are key characteristics in signposting not only efficient tracking in and trading of the product, but also value for money for our investors.

On the qualitative front, examples of factors that we consider include, but are not limited to:

- the index that is being tracked, to ensure the methodology is robust and appropriate and has characteristics in line with the asset allocation benchmarks adopted by AJ Bell;
- the way the fund implements its strategy – i.e. whether it uses swaps or physically buys the underlying securities – and the type of replication, e.g. if it buys all the securities or takes a sampling approach;
- the location and tax regime of the fund, to ensure that the vehicle selected is the most efficient for the end investor from a Dividend Tax and Capital Gains Tax perspective; and
- any securities' lending policies where a securities lending programme is present.

As is the case across the AJ Bell passive product ranges, the Passive Team prefers ETFs to index funds, believing the investment vehicle to have overall advantages for investors, so in all instances ETFs are, therefore, the first port of call for a solution. However, we do use index funds where a significant cost advantage exists, or the product is better suited for the asset class.

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 due to asset allocation updates. This sees several new asset classes come into the portfolios and several others leave. There is, however, no change to the underlying products because of us identifying a better implementation for an already-included asset class and, therefore, switching products. We believe this speaks to the quality of the products we already use to implement; where we have had to exit a holding, it is due to asset allocation changes only and not because we believe the product we previously used to be substandard.

As well as the added and removed asset classes, several existing asset class weights have been changed. We do not document all weighting changes here, but the additions and removals in the portfolios can be summarised as follows.

Additions

Asset Class	Name	Portfolio Added to	Rational
India Equity	Franklin Templeton FTSE India UCITS ETF	PMPS4, PMPS5, PMPS6	New asset class added to SAA
China Equity	Franklin Templeton FTSE China UCITS ETF	PMPS3, PMPS4, PMPS5, PMPS6	New asset class added to SAA
Energy Equity	iShares S&P 500 Energy Sector UCITS ETF	PMPS3, PMPS4, PMPS5, PMPS6	New asset class added to SAA
Utility Equity	iShares S&P 500 Utility Sector UCITS ETF	PMPS1, PMPS2, PMPS3	New asset class added to SAA
Consumer Discretionary Equity	iShares S&P 500 Consumer Discretionary Sector UCITS ETF	PMPS4, PMPS5, PMPS6	New asset class added to SAA
UK Equity (All Cap)	Lyxor Core Morningstar UK NT DR UCITS ETF	PMPS1, PMPS2	Modified asset class in SAA, switched product from UK Large and UK Small Cap
Japan Equity	Lyxor Core MSCI Japan DR UCITS ETF	PMPS1, PMPS2	Existing holding in other passive models, new position for these models in SAA
US TIPS	SPDR Bloomberg Barclays U.S. TIPS UCITS ETF	PMPS1, PMPS2, PMPS3	New asset class added to SAA
European Corporate Bonds	Amundi IS Prime Euro Corporates ETF	PMPS1, PMPS2	New asset class added to SAA
Emerging Markets Bonds (Hard Currency)	Vanguard USD Emerging Markets Government Bond Local Currency Index Fund	PMPS6	Existing holding in other passive models, new position for these models in SAA
Emerging Markets Bonds (Local Currency)	L&G Emerging Markets Government Bond Local Currency Index Fund	PMPS1	New asset class added to SAA
Global Corporate Bonds	iShares Overseas Corporate Bonds Index Fund (UK)	PMPS4, PMPS5	New asset class added to SAA
Infrastructure	L&G Global Infrastructure Index Fund	PMPS1, PMPS2, PMPS3, PMPS4, PMPS5, PMPS6	New asset class added to SAA
Absolute Return	iShare \$ Corporate Bond Interest Rate Hedged ETF	PMPS1, PMPS2, PMPS3, PMPS4	New asset class added to SAA

Removals

Asset Class	Name	Portfolio Removed From	Rational
Technology Equity	iShares S&P 500 Information Technology Sector UCITS ETF	PMPS3	Removal of asset class for this model in SAA
	iShares Automation & Robotics UCITS ETF	PMPS6	Reduction in weighting of asset class for this model in SAA
Healthcare Equity	Xtrackers MSCI USA Health Care UCITS ETF	PMPS6	Removal of asset class for this model in SAA
Asia Pacific ex-Japan Equity	Vanguard FTSE Developed Asia Pacific ex Japan UCITS ETF	PMPS1, PMPS2	Removal of asset class for this model in SAA
UK Equity (Large Cap)	iShares plc - iShares Core FTSE 100 UCITS ETF	PMPS1, PMPS2	Modified asset class in SAA, switched product to UK All-Cap
UK Equity (Small Cap)	Vanguard FTSE 250 UCITS ETF	PMPS1, PMPS2	Modified asset class in SAA, switched product to UK All-Cap
European ex-UK Equity	Xtrackers S&P Europe UCITS ETF	PMPS2	Removal of asset class for this model in SAA
US Government Bonds	Invesco US Treasury 1-3 Year UCITS ETF	PMPS2	Removal of asset class for this model in SAA
	Invesco US Treasury 7-10 Year UCITS ETF	PMPS1, PMPS2, PMPS3	Removal of asset class for these model in SAA
Emerging Markets Bonds (Hard Currency)	Vanguard USD Emerging Markets Government Bonds UCITS ETF	PMPS4	Removal of asset class for this model in SAA
UK Property	iShares Developed Real Estate Index Fund IE Basket of UK Index Linked Gilts	PMPS1, PMPS2, PMPS3, PMPS4, PMPS5	Removal of asset class for these model in SAA



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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.