AJBell Investcentre

AJ Bell Passive Managed Portfolio Service (MPS) – three-year performance review

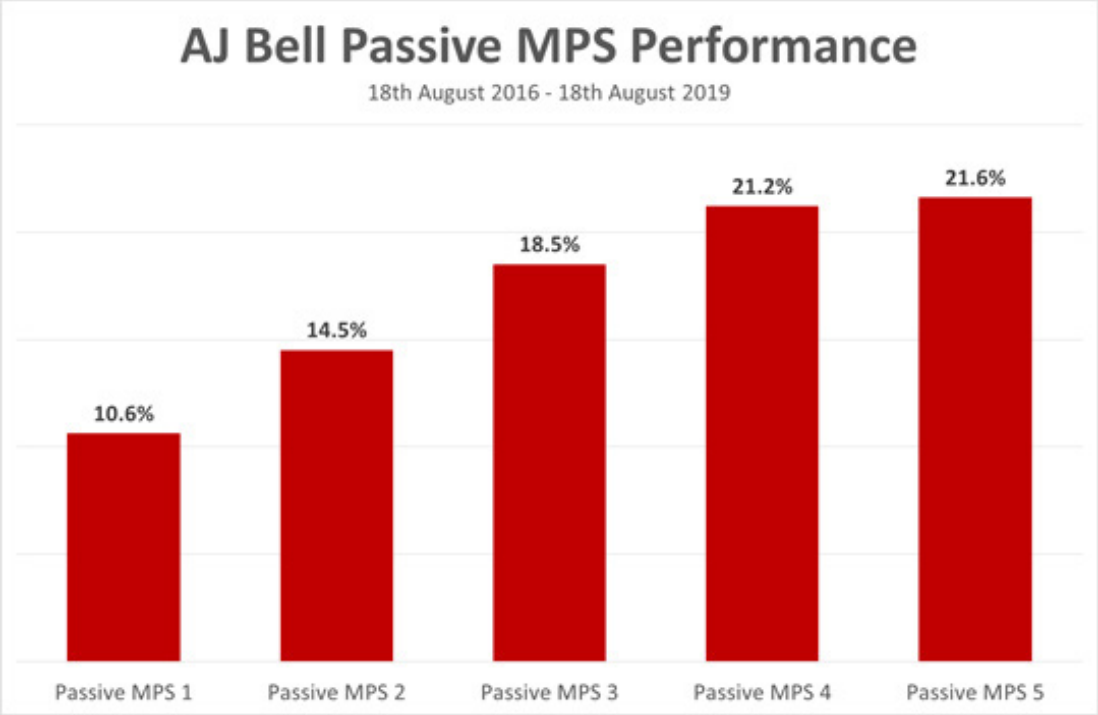
It's hard to believe it's been three years since we opened the doors on AJ Bell Investments. Back then, our aim was to help people invest through the design of simple, transparent, low-cost portfolios. The same aim drives us today.

So, three years into our journey, how are we getting on? And more importantly for investors, how are those portfolios performing? Let's take a look…

AJ Bell Passive MPS

We launched the Passive MPS back in August 2016: 18 August 2016, to be precise. Over the three years since, it's fair to say we've seen some volatility in markets but, generally, there has been an upward trend, with the MSCI World Index up 41% in sterling terms. Though there have been inflation fears and an interest rate increase from the Bank of England, gilt yields have continued to fall, leading to an 8% gain in the Bloomberg Barclays Gilt Index.

With both bonds and equities up in value, there's no surprise that multi-asset portfolios such as the AJ Bell Passive MPS have performed well. Since returns for shares have been higher than those on bonds, it's also a period in which equity investors have been rewarded for taking risk: of the original five portfolios we launched back in 2016, the lowest risk (MPS 1) portfolio returned 10.6%, ranging up to 21.6% for the highest risk (MPS 5) portfolio.



Source: Bloomberg

These are all strong numbers in absolute terms, but passing through the three-year anniversary of the portfolios also gives us a chance to see how we stack up against the competition, and whether our promise of offering simple, transparent, low-cost investment products has been delivered.

Against the competition

A common way to compare the performance of a multi-asset solution is to look at peer products with similar holdings in equities. The most popular way of measuring this is to use Investment Association methodology, which groups funds according to how much equity they hold, as follows:

- mixed 0–35% shares
- mixed 20–60% shares
- mixed 40–85% shares
- flexible

Translating that to our own range, that puts our MPS portfolios in the following sectors:

MPS 1 – mixed 0–35% shares

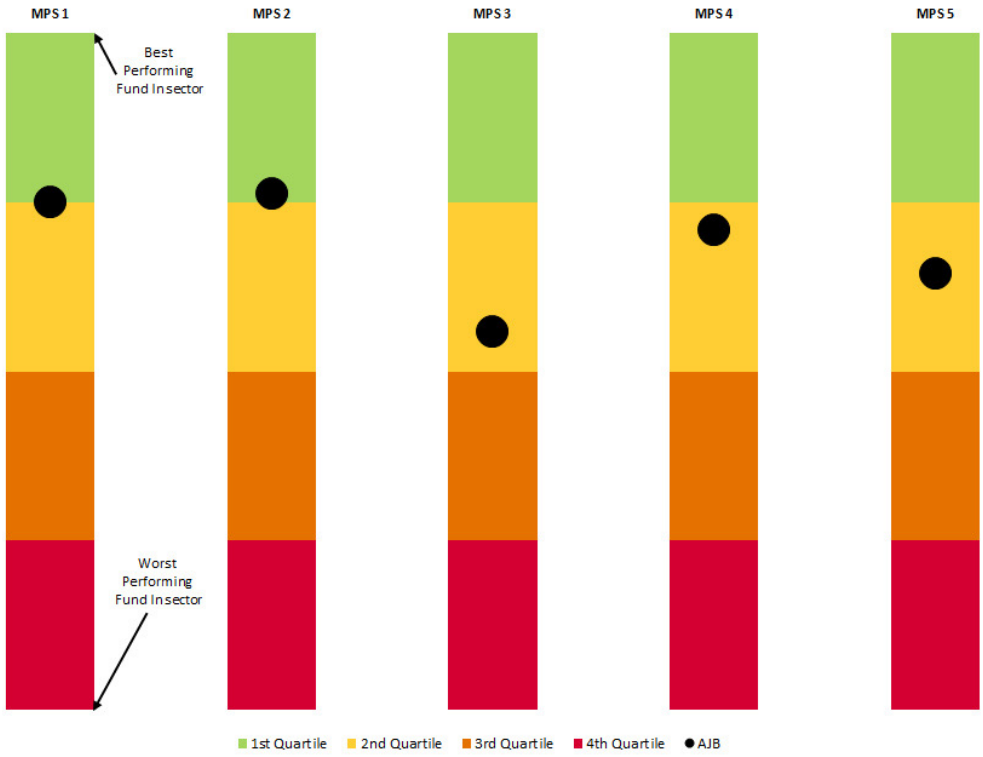
MPS 2 – mixed 20–60% shares

MPS 3 – mixed 40–85% shares

MPS 4 – mixed 40–85% shares

MPS 5 – flexible

For the three-year period from the 18 August 2016 to 18 August 2019, the below shows how the portfolios rank against funds in the sector. It is important to note that this comparison is against funds which incur some fund-related charges – such as audit fees and custody charges – not incurred in an MPS. We've done this comparison because getting data on the performance of other MPS ranges is hard to attain due to lack of transparency from other providers on performance (but that's a blog for another day). For the avoidance of doubt, the MPS performance shown here is net of the AJ Bell's Investment Management charge.



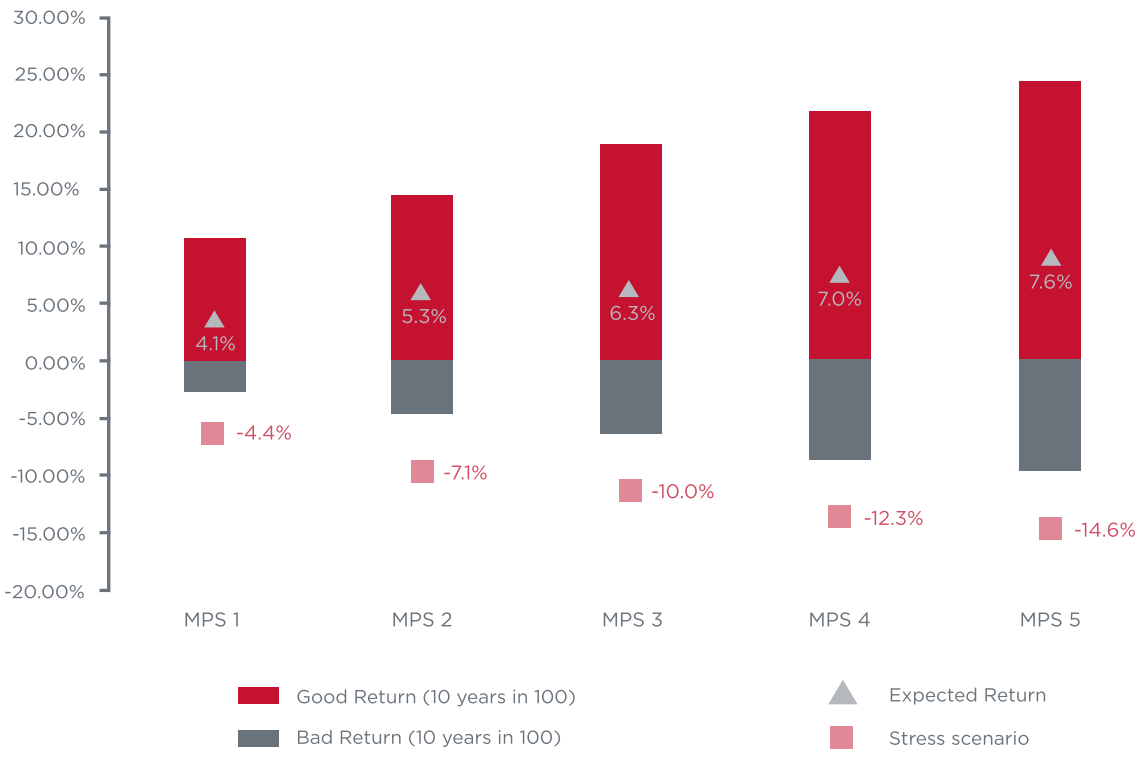
Source: AJ Bell, FE

It can be seen that all the portfolios are above the sector averages, sitting in the top half of the performance tables. The MPS 1 and 2 portfolios are in the top quartile, with the other three portfolios sitting in the second quartile. We're pleased with that outcome.

Against our expectations

But what about how the range behaved against our own expectations – or, more importantly, what we told investors they could expect from the portfolios?

We provide the following in our literature, showing the long-term expected high, low and average return.



Source: AJ Bell, Morningstar

As the output is based on statistical forecasts, the actual outcome and performance could differ from the scenarios outlined. Please refer to the important information below.

These expectations are all 'gross', and therefore before our management fee of 0.15% plus VAT.

So what have the annualised returns of the portfolios been?

Portfolio	***Expected*** **average gross return**	***Actual*** **three-year gross return**	***Actual*** **three-year net return**
MPS 1	4.1%	3.7%	3.4%
MPS 2	5.3%	4.9%	4.6%
MPS 3	6.3%	6.1%	5.8%
MPS 4	7.0%	6.9%	6.6%
MPS 5	7.6%	7.0%	6.7%

Source: AJ Bell, Bloomberg, Morningstar

Which, just three years into what we would expect to be a decade or longer investment journey, shows that our performance has been in line with expected outcomes. Regardless of the competitor comparisons – and how well we may look – we believe the performance against original expectations is the most important performance comparison to make.

Summary

When it comes to choosing which multi-asset MPS to use, we believe using historical performance alone is a red herring. For example, a bond-heavy low-risk portfolio will have performed very well as yields have fallen, but this does not mean this will continue in the future. It is much more important to buy into our process and philosophy. All of the information on our MPS and how we construct portfolios can be found here.

That being said, we understand that good performance is often a positive side-effect of a good process – especially when coupled with low fees. We are proud of our performance since we launched three year ago: we have performed as we set out to do. When this performance is compared against peers, it is encouraging, despite originally launching the portfolios on a more cautious footing with lower weightings in riskier assets such as equities.

If your process for selecting an investment product involves measuring the three-year performance, we believe our proposition is worth another look: easy to understand and explain, transparent throughout, and amongst the market leaders in the MPS world when it comes to costs. Simple. Transparent. Low-cost.

If you would like to meet a member of the AJ Bell Investments Team, please contact your Business Development Team.

Important information

- Forecasted returns are based on AJ Bell's target weights for different asset classes in each fund. We then allow for the capital market assumptions of AJ Bell for the relevant indices for each asset class. If we believe certain asset classes are over- or undervalued at any point in time, we may vary the asset allocation weightings accordingly.
- The expected return is the arithmetic mean return over a single holding period.
- There is a 10% chance of getting a return worse than the 'bad return'.
- There is a 10% chance of getting a return better than the 'good return'.
- Future returns are assumed to be in line with market returns and conditions experienced over at least the last 15 years.
- All projected returns are after underlying OCFs, but before AJ Bell's AMC, fund running costs and platform charges.
- The projected returns shown may vary according to the tax treatment of your investment.
- If you pay tax on this investment, your returns may be lower. Tax depends on your personal circumstances and the rules can change at any time in the future.
- The data used in this illustration is valid as at February 2019.

The value of investments can go down as well as up and your client may not get back their original investment. It is your responsibility to assess your client's circumstances and make a personal recommendation that is suitable for their needs. Past performance is not a guide to future performance and some investments need to be held for the long term.

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