

MANAGED PORTFOLIO SERVICE

Multi-asset investing
made easy

AJ BELL MPS FAQs



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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 both Dynamic Planner and 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 the last 15 years.
- All projected returns are before fees and any other 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 January 2018.

About AJ Bell

Who are AJ Bell?

AJ Bell was founded in 1995 and has grown to become one of the UK's largest investment platforms. In 2016 we launched AJ Bell Investments to design and manage a range of investment solutions for our customers.

By offering award-winning investment products, backed up with excellent service and online functionality at a low cost, AJ Bell has attracted more than 183,400 customers and assets under administration exceeding £42 billion.

Our purpose is to help people invest, and we do this by following a set of guiding principles that define the company. These principles inform everything we do, creating a culture in which we strive to think like our customers, make investing easier and lead our markets. The guiding principles state that we are:

Straightforward

We make investing easy and accessible

Intelligent

We know our stuff

Personal

We are human. Not robots

Principled

We do the right thing

Focused

We give customers what they need. Not what they don't

Energetic

We never stand still

What is the company structure?

AJ Bell includes AJ Bell plc and its wholly owned subsidiaries.

AJ Bell Asset Management Limited is authorised and regulated by the Financial Conduct Authority.

AJ Bell Management Limited is authorised and regulated by the Financial Conduct Authority and is the scheme administrator and operator of all AJ Bell's SIPPs.

AJ Bell Securities Limited is a member of the London Stock Exchange and is authorised and regulated by the Financial Conduct Authority. It is the plan manager for all of AJ Bell's ISAs and also provides AJ Bell's GIAs.

See [website](#) for full details.

So, who are AJ Bell Investments?

AJ Bell Investments is the trading name for AJ Bell Asset Management. It is made up of a team of experienced investment experts who manage every investment solution collegiately.

Day-to-day management of the investment solutions is undertaken by the team (see biographies section), with oversight and governance provided by the AJ Bell Investment Committee – a committee drawn from the senior management team at AJ Bell, together with external non-executive investment experts.

Why does a platform business have an investment arm?

Given our goal to make investing easy, it was a natural step for us to create and manage our own range of portfolios and funds based on our understanding of what our customers want.

With a focus on transparency and low costs, we want to lead the way for investors when it comes to **choice, costs and communication**.

The Model Portfolio Service

What is the AJ Bell MPS?

The MPS is an objective-targeted managed portfolio service that aims to deliver specific outcomes for investors. For example this could be a risk or income target.

How do the AJ Bell portfolios help advisers? The portfolios enable advisers to outsource asset allocation, investment selection and rebalancing within a single investment solution. By working seamlessly with the AJ Bell Investcentre platform, the portfolios allow advisers to focus on managing their clients, safe in the knowledge that the portfolios are in the hands of investment professionals who are managing their clients' money on a daily basis. Key benefits include:

- Actively targeting risk avoids unnecessary surprises
- Long-term asset allocation approach avoids short-term noise
- Multi-asset approach brings diversification
- A choice of active or passive solutions
- Managed by an experienced investment team to give you peace of mind

What solutions are available?

The MPS is currently made up of six growth strategies and two income strategies. All of the strategies are available as either passive or active solutions.

Why are there six different growth portfolios?

Having six growth models allows the MPS to cater for a wide range of clients along the risk spectrum. By focusing on specific risk bands, the MPS has been designed to cater for about 95% of investors.

Why are there only two different income portfolios?

The income portfolios are designed differently to the growth portfolios. Rather than being managed to remain within a specific risk band, they look instead to deliver a high level of income over time. By not targeting a set level of risk, it is not necessary to have a large number of different income portfolios.

What is the investment philosophy?

Our investment philosophy is built upon four cornerstones, each designed to provide a guiding hand for all of our investment decisions.

Outcome orientated

Our desire to create portfolios that people want leads us to adopt an outcome orientated approach. Whether built to deliver a specific risk outcome or income target, our starting point is always to consider the needs of the customer and build our products accordingly. This allows us to communicate effectively with customers on exactly what they can expect when investing with AJ Bell.

Long-term

As investors not speculators, our approach to investment is always long-term. Since time is the greatest ally an investor can have on their side, we utilise this mantra whenever managing our portfolios so that short-term periods of panic or euphoria do not blow us off course from our outcome objectives. By filtering the news from the noise, we avoid the mistakes that befall many investors in the market.

Value focused

Due to the human element of fear and greed, markets can become severely over or undervalued at times. Should we see an opportunity to protect or benefit from either situation, we will utilise our knowledge of valuations to add value to the portfolios. This intelligent approach is a feature rarely seen in the low-cost world that AJ Bell is renowned for inhabiting.

Cost-conscious

And whilst we don't know how markets will behave in the future, we do know that high costs are guaranteed to lower returns. In individual years these costs may seem small, but, as long-term investors, we know that over time this can lead to significant differences in return. Hence, all of our products are cost conscious in nature, with the most efficient route to implementation taken at all times.

Do you favour active or passive investing?

We are totally agnostic when it comes to the debate around active and passive investing; we believe there is a place for both approaches. This is evidenced by our commitment to giving advisers choice in investment solutions by offering our managed portfolios in both active and passive form.

Who manages the portfolios?

We operate on a team-based structure, recognising that our collective expertise is key to our long-term success. However, we recognise that the selection of passive and active strategies is different, and therefore our investment management team is split into two, with a Head of Passive and a Head of Active who oversee the day-to-day management of the respective portfolios.



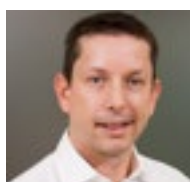
Kevin Doran
Managing Director/Chief
Investment Officer

Kevin graduated with a First in Mathematics and Theoretical Physics from the University of Liverpool, and began his career in the financial services industry as an Investment Analyst, eventually progressing to become Chief Investment Officer at a major private bank. He then took on the position of Group Head of Research & Strategy for a Luxembourg-based private banking group, before moving into a number of consultant roles for various investment management and banking businesses. In October 2017 he joined AJ Bell Investments as Managing Director and CIO. He is a CFA charterholder.



Matt Brennan
Head of Passive Portfolios

Matt is responsible for the day-to-day running of the AJ Bell Passive funds, working with our investment team to further grow the range of investment options. He joined us with over six years' experience in financial services, having previously worked at a leading provider of wealth management services as a Senior Fund Manager and Head of Fixed Income Research, with specific responsibility for managing a discretionary fixed income fund. He also formed part of a four-person fund management team that ran the company's multi-asset funds. Matt graduated from the University of York with a first class Masters degree in Mathematics, and is a CFA charterholder.



Ryan Hughes
Head of Active Portfolios

Ryan has nearly 20 years' investment experience. Prior to joining AJ Bell he was a fund manager and discretionary portfolio manager at a leading global investment management firm. Before that he spent eight years as a Senior Fund Manager at one of the UK's largest investment groups, sitting as a member of their investment committee and global asset allocation committee.



Terry McGivern
Fund Manager: Passive Portfolios

Terry's career in financial services began in 2005 on the settlements team at a major bank. He later moved to an investment management company and then a leading provider of financial services. In 2010 he took up a proprietary futures trading role at one of the world's largest independent global commodities brokers. Prior to joining AJ Bell Terry spent five years on the Investment Management Team at a discretionary investment manager in Liverpool, where he was also a member of the Asset Allocation Committee. Terry holds the CFA-UK Investment Management Certificate (IMC) and is currently studying towards the CFA Level 1 exam.



Mark Gillan
Head of Operations

Mark studied Economics at Liverpool University, and has a master's degree in International Banking & Finance from Liverpool John Moores University. Qualified to CISI Diploma level in Investment Operations, Mark came to AJ Bell with nine years' experience in operations at a custodian and an investment management firm.



Arnie Millington
Operations & Portfolio Analyst

Arnie joined the Investment Administration team at AJ Bell in August 2016, and quickly progressed to the role of Team Leader in just five months. Looking for his next challenge, he moved to the Operations role in October 2017. Arnie studied Economics at Coventry University and is currently working towards his Investment Management Certificate, with a view to gaining further qualifications in the future.



Simon Molica
Fund Manager: Active Portfolios

Before joining AJ Bell, Simon worked for an investment management company in the role of Portfolio Manager, running a variety of investment propositions - including the active range of their Managed Portfolio Service. Prior to this he worked at a global consulting firm and one of the world's largest banking and financial services organisations. Simon holds a BSc in Mathematics with Management Studies, with honours, from the University of Sussex. He also holds the Investment Management Certificate.



Natalie Yau
Operations & Portfolio Analyst

Natalie Yau joined AJ Bell Investments in the role of Operations and Portfolio Analyst following two years as a Performance Analyst at a major private bank. Natalie has a First Class (Hons) BSc Mathematics degree from the University of Salford, and is currently studying towards the Investment Management Certificate.



James Piper
Active Portfolio Analyst

James joined AJ Bell in 2015 and spent his first two years with the company working for AJ Bell Securities, with spells in the Transfers, Conversions and Market Settlements business areas. He joined the fledgling AJ Bell Investments business unit in November 2016 as an Operations Analyst, and was heavily involved in the launch and implementation of the AJ Bell Passive funds range. James has a degree in Political, Economic and Social Sciences from the University of Sydney.

And who oversees the management?

Whilst the management of the portfolios is undertaken by experienced experts in their field, it's good to know that there are robust protections in place and a proper level of oversight. Adopting a 'three lines of defence' model of governance, each line ensures proper management and monitoring of your client's investments on a day-to-day basis.

First line of defence

Line 1 defence is provided through the AJ Bell Investments Asset Allocation and Portfolio Implementation Committees, chaired by AJ Bell Investments' Managing Director & Chief Investment Officer.

The role of the Asset Allocation Committee is to oversee the strategic asset allocation process, including the creation of our capital market assumptions, and portfolio construction techniques. The committee also meets regularly to address our tactical asset allocation decisions. The Portfolio Implementation Committee is tasked with oversight of portfolio implementation, including stock selection, broker choice and unbundling policies. Any policies used within both committees are ratified by the AJ Bell Investment Committee in Line 2.

Second line of defence

Line 2 defence is provided by the AJ Bell Risk Department, which has independent oversight of AJ Bell Asset Management policies and procedures. The AJ Bell Risk Department also undertakes independent assessment of the portfolios performance and adherence to the Investment Policy Statement, providing an independent report to the AJ Bell Investment Committee and the Board.

The AJ Bell Investment Committee provides AJ Bell Group oversight of all investment policies and products provided by the Group. It consists of executive management and external independent members with extensive investment management experience.

Third line of defence

Line 3 defence is provided via the risk profilers, who provide verification that the risk objectives are adhered to on an ongoing basis, ensuring the portfolios remain suitable in changing financial markets.

Strategic asset allocation

How do you determine the strategic asset allocation for the growth portfolios?

A strategic asset allocation specifies the proportion of specific asset classes in a portfolio designed to provide an investor with an appropriate risk/return profile over the long term. Our strategic asset allocation framework specifies a range of allocations appropriate for six levels of risk tolerance. For example, investors with a lower risk tolerance will tend to have lower exposure to more volatile, higher-risk assets such as equities, and greater allocations to less volatile, lower-risk assets, like bonds and cash.

The modelling is driven by long-term return and risk expectations for the various asset classes. Although markets tend to be volatile and returns often diverge sharply from year to year, viewed over the longer term, the returns tend to become more stable, with gains in some years offsetting losses in other years.

A robust process of estimating long-term risk and return expectations should therefore not be unduly impacted by near-term activity. In fact, frequent changes to long-term risk and return expectations could seriously undermine the investment discipline provided by a strategic asset allocation framework.

Where do you get your data and modelling from?

We use our own in-house process to determine our long-term strategic asset allocation. As a starting point, we take the asset class assumptions from Distribution Technology to give us an independent input into our process. This provides us with capital market assumptions of volatility, returns, correlations and inflation. Our investment team then uses those assumptions in our own in-house model to build the optimal asset allocation for each level of risk.

Why not just use the Distribution Technology asset allocation?

Whilst the asset allocations provided by Distribution Technology are a good place to start, our innovative use of data science and human intelligence techniques leads us to believe we can improve upon the expected results for investors.

Thanks to the more granular data and the enhanced data processing capabilities we have available these days, we can undertake a review of asset classes across the globe to determine which classes generate genuine diversification benefits during portfolio construction. What we have found, for example, is that the diversification benefits of UK and Euro large caps is often overstated, whereas Global Tech, UK Small Caps and Emerging Market Debt (which are rarely considered asset classes in their own right) bring with them an improvement in portfolio efficiency.

Incorporating these into our asset class considerations and portfolio construction techniques generates 'more efficient, efficient frontiers', meaning that for a given level of expected volatility, we can extract a higher expected rate of return.

Which asset classes are in the strategic asset allocation analysis?

Cash	UK Government bonds
UK index-linked Government bonds	UK corporate bonds
Global high yield bonds	Emerging Market debt
UK Large Cap equities	European equities
UK Small Cap equities	Asia Pacific equities
US equities	UK property (REITs)
Emerging Market equities	Commodities
Japanese equities	
Global technology	

It may be the case that one or more of these asset classes is not held at a given point in time as the analysis shows that risk/return outlook for that asset is poor, and holding it will not enhance the overall portfolio.

New asset classes are regularly assessed to determine whether adding them to the portfolio will be beneficial to the risk/return profile of the portfolios.

How often is the asset allocation updated?

We review the stochastic model on a quarterly basis. If there have been any material changes in market conditions or longer-term economic views, we will then re-calculate our asset allocation accordingly.

How does the strategic asset allocation for the income portfolios differ?

The income portfolios have a specific objective to deliver 4% income per annum over the long term. In addition to this, each of the portfolios has a differing approach to capital, with Income 1 looking to deliver capital protection over the market cycle while Income 2 looks to deliver capital returns at least in line with inflation over time. This approach leads to a different asset allocation than the growth portfolios, with the income portfolios not managed to stay within specific volatility bands.



Tactical asset allocation

Do you make tactical asset allocation decisions?

From time to time, investors can become overly excited or pessimistic – particularly in the short term. In instances in which we consider asset classes to be significantly over- or under-priced, we will deviate from our strategic asset allocations to avoid or take advantage of market conditions.

At the moment, by way of example, we consider government bonds to be materially mispriced due to the interventions of central banks post the credit crisis. To avoid this overpricing, we have moved all of our government bond allocations into bonds with very low sensitivity to interest rate and yield changes, lowering the risk to investors in the process.

Who sits on the asset allocation committee?

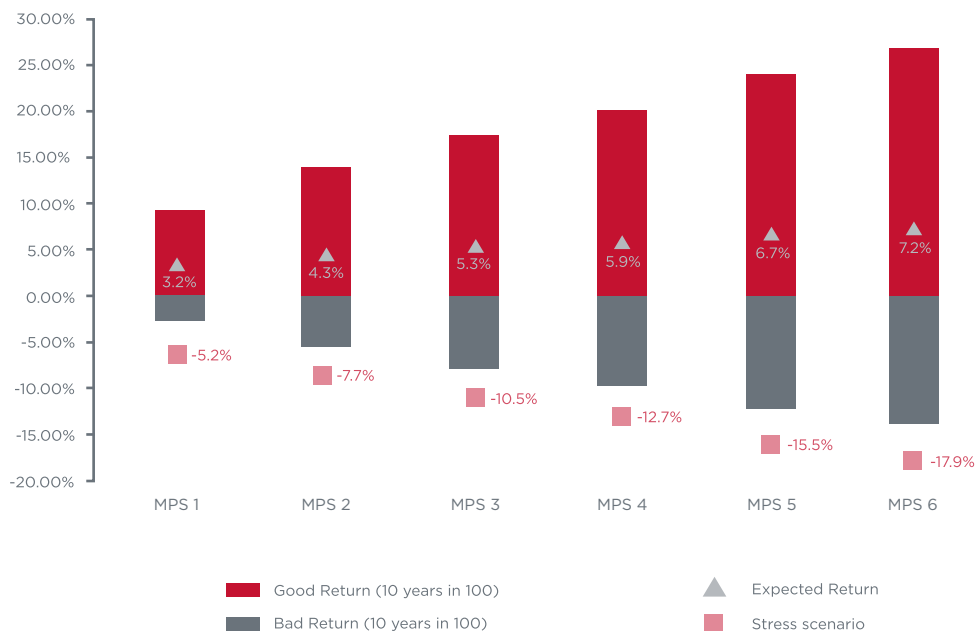
The asset allocation committee is made up of the senior investment professionals in the investment team and is chaired by the Chief Investment Officer. The committee meets monthly and reviews the positioning

of the portfolios. The responsibility for the implementation of any tactical changes is overseen by the Portfolio Implementation Committee, which looks to ensure that tactical changes are implemented in the most efficient and effective manner.

So, what can I expect from the Managed Portfolio Service?

Since all of the portfolios are managed to deliver only the level of risk that your clients are comfortable with, it's important that you understand how this translates into returns over time. We put together the chart below to help you consider the range of outcomes that you could expect to see over one year.

The value of your clients investments is not guaranteed and can go down as well as up. It's important that you understand how the portfolios could perform over time. We have used financial models to demonstrate the likely outcomes for each risk rating. The difference between the high and low return will usually be less for a lower-risk portfolio. As the output is based on statistical forecasts, the actual outcome and performance could differ from the scenarios outlined below.



In a good year your client might see a return somewhere in the red bar range. In a bad year, their losses would likely be somewhere in the grey bar.

Please refer back to 'Important Information' on page 3 for further details.

Have you tested these expectations?

The longer your client invests, the more predictable your returns become. That's because, over time, the good and bad years tend to cancel each other out.

To demonstrate how this might work, we back-tested the strategic asset allocations for each of the portfolios using data from the last five years. Investors in our portfolios would have made the gains shown in the table below.

Passive MPS	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5	MPS 6	Income 1	Income 2
5 year back tested performance ⁽¹⁾	6.5%	7.6%	8.6%	9.1%	9.3%	10.8%	7.9%	9.4%
Expected returns p.a. ⁽²⁾	3.2%	4.3%	5.3%	5.9%	6.7%	7.2%	4.0%	6.0%
Expected volatility	4.2 - 6.3%	6.3 - 8.4%	8.4 - 10.5%	10.5 - 12.6%	12.6 - 14.7%	14.7 - 16.8%		
Expected income							3.5 - 4.5%	3.2 - 4.2%

Active MPS	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5	MPS 6	Income 1	Income 2
5 year back tested performance ⁽¹⁾	6.3%	7.5%	9.0%	9.5%	10.1%	10.4%	7.2%	8.2%
Expected returns p.a. ⁽²⁾	3.2%	4.3%	5.3%	5.9%	6.7%	7.2%	4.0%	6.0%
Expected volatility	4.2 - 6.3%	6.3 - 8.4%	8.4 - 10.5%	10.5 - 12.6%	12.6 - 14.7%	14.7 - 16.8%		
Expected income							3.3 - 4.5%	3.2 - 4.2%

(1) 5 Year Back Tested performance is the annualised return calculated from 31 July 2013 to 31 July 2018. Returns are simulated, based on the strategic asset allocation, rebalanced on a quarterly basis up to portfolio launch and actual performance thereafter. Passive MPS 1 – 5 launched 18 August 2016. Passive MPS 6, Passive Income portfolios and all Active MPS portfolios launched 19 February 2018. Returns are gross of transaction and platform fees.

(2) Expected returns are forward-looking and are based on a five year time horizon.

It's worth noting that these returns are higher than what we would expect over the next five years.

Past performance is not a guide to future performance and some investments may need to be held for the long term.

What if it goes wrong?

Experience tells us that the behavioural aspects of investment lead to periods in which investors are prone to panic and react negatively to bad news.

Though longer-term investing generally makes investment returns more predictable, the longer you are invested, the more likely you are to also encounter a period of market stress or even crash. To help you understand what that could mean for your investment, we tested how each of the portfolios in the range would have performed in previous stressed conditions. By understanding how bad, as well as how well things could go, we hope to ensure that investors find the portfolio that meets their requirements.



The value of investments can go down as well as up and your client may not get back their original investment.

Investment selection – passive

What investments do you use to populate the portfolios?

We use passive investments to gain low-cost market exposure for our portfolios where the remit is to invest principally in passive structures. Our passive selection process focuses on identifying the most cost-effective and liquid index trackers that also have, in our evaluation, low counterparty risk. The universe comprises index tracker funds and Exchange-Traded Instruments (ETFs). There are four tenets that are key to investing in passives – cost, tracking error, liquidity and counterparty risk.

How do you select the underlying investments?

As these models are built using the instruments available on the AJ Bell platform, we have the full range of passive strategies available. Therefore, the models can invest in market-leading passive funds and ETFs from the largest, best-known and most cost-effective providers in the market.

When looking at passive strategies, we assess the following:

- Tracking difference – the difference in return between the strategy and its underlying benchmark index.
- Tracking error – the volatility in the difference in return between the strategy and its underlying benchmark index.
- Strategy size – successful passive investing is driven by efficiency, with larger strategies often able to keep costs and tracking errors low.
- Liquidity – as a function of strategy size, good levels of liquidity result in lower tracking error. This is particularly important when looking at ETFs.

Why do the passive portfolios mainly use ETFs?

We believe that ETFs offer a better method of tracking the performance of underlying indices and in addition offer more flexibility for us to effectively manage the portfolios. This is due to the ability to trade intraday, rather than on a forward basis. In many cases, the trading costs involved for ETFs are also lower than for funds.

Are the underlying holdings all physical assets?

Our preference is to own strategies that have a physical backing, although there may be times when we are happy to own synthetically structured ETFs.

How many holdings are in the portfolios?

Each portfolio will typically have between 8 and 15 holdings. This ensures that each portfolio is well diversified and is focused on identifying the very best passive manager for each asset class used.

How often will you change the underlying managers?

The underlying holdings are monitored on a daily basis to ensure that they are performing in line with expectations. Should we decide that a change in holding is required, this will be implemented as soon as possible.

Investment selection – active

What is your investment philosophy?

We believe that investment markets can be inefficient, and that this creates the opportunity for a high quality active manager to add value. However, we fully accept that finding managers who can consistently outperform is difficult, and that too many actively managed strategies fail to deliver. Even so, we are convinced that high quality fund managers do exist and the opportunity is there in many markets for these managers to deliver excess returns.

It is our investment philosophy to only ever use active strategies where we believe that they can deliver outperformance after all costs have been accounted for. If, when analysing an asset class, we determine that it is not possible to identify an active manager who we believe can outperform after all costs, then we will use passive strategies to ensure that we are not wasting our customers' money on unnecessary costs.

What is your investment process?

Our investment process is geared towards gaining a full understanding of the investment managers, so that we know how they are likely to think, act and make decisions. To do this, we assess each manager using a '5P' structure that looks to analyse the following:

- Their investment philosophy. This seeks to determine why they believe that their market is inefficient. This philosophy needs to be academically robust, understandable and well-articulated.
- Their investment process. This looks at how the manager goes about exploiting this inefficiency. This process needs to be repeatable, clear and aligned to the philosophy.
- The people involved. This looks at the decision-making structure within the investment process and the people involved.
- The performance. This assesses the historical performance of the investment strategy from the perspective of using it to verify our understanding of the stated investment philosophy and process.

- The price. This looks at the cost of investing in the strategy with a view to determining if it offers value for money.

By going through this detailed process we look to give ourselves a frame of reference on an investment manager so we understand how they are likely to perform in different market environments. We also gain a better understanding of what good and bad performance looks like, rather than simply comparing performance to a mainstream index which may paint a misleading picture.

What is your investment universe?

We operate on a totally unconstrained basis, with the ability to invest in all collective funds, investment trusts, offshore funds and ETFs that are available through the AJ Bell platform. We are agnostic on the investment structure used and look for the best investment solution to implement our strategy within the portfolio. This universe has over 11,000 investments and therefore we use a mixture of both qualitative and quantitative analysis to ensure only the highest quality managers make their way into the portfolio.

When are managers replaced?

We are patient, long-term investors but we will replace managers when we believe:

- they are not investing in line with our understanding of their stated philosophy and process
- we see organisational uncertainty that may be to the detriment of returns
- greater opportunity exists in an alternative idea

We will not replace a manager simply because they are underperforming. Indeed, we fully expect to have some managers underperforming at any one time in the portfolios.

In addition, we ensure that there is a readily available 'subs bench' in place should we have to replace one or more of the managers. The subs bench consists of managers who we have completed due diligence on and who have been 'buy' rated.



How many holdings are in the portfolios?

Actively managed portfolios will typically have between 10 and 20 holdings, giving a good level of diversification.

Will you have overlapping holdings with the passive MPS?

It is possible that the active portfolio will have some overlap with the passive portfolios if passive strategies are used. However, the active portfolios may choose to hold different passive strategies in order to make the active portfolios more accessible to investors with smaller investment amounts.

Do you have any portfolio construction constraints?

The active portfolios operate with a number of constraints to ensure they remain well diversified and that risk is well managed. Therefore, the following constraints are in place:

- Min weight of any position 3%
- Max weight of an active fund 15%
- Max weight of a passive fund 30%
- Max weight to any one fund group 40%

Risk mapping

Are these models risk profiled by external risk profiling tools?

Yes, the models have been mapped to Distribution Technology's Dynamic Planner, eValue, Defaqto and FinaMetrica.

How are the portfolios mapped to Distribution Technology?

We have committed to maintaining our risk levels in the growth portfolios in line with the risk parameters set out by Distribution Technology. This commitment means that the portfolios form part of the Risk Target Managed Solutions from DT, and qualify for a 'Gold Badge'. This in turns means:

- expected volatility is targeted to stay within the boundaries assigned to each Dynamic Planner risk profile; and/or targets the strategic asset allocations for the respective Dynamic Planner risk profile
- we can offer suitably diversified exposure (either directly or synthetically) to at least six asset classes included within the respective Dynamic Planner strategic asset allocations
- the underlying asset class exposure is managed in a suitably diversified manner

Will the portfolios be mapped to other risk profilers?

We constantly assess the market to determine which are the most popular risk profilers. Should there be sufficient demand to map to another provider, then this will be assessed.

What is the difference between risk mapping and risk targeting?

Different people see risks differently, and so to help investors decide what level of risk they may be comfortable with, a number of companies provide helpful questionnaires.

As the market leader in this field, Distribution Technology has a long track record of helping investors choose the right investment, thanks to their Dynamic Planner risk questionnaire.

The AJ Bell Managed Portfolio Service range is designed deliberately to deliver the risk profiles predicted by the Dynamic Planner system. Known as 'risk targeting', customers adopting the Distribution Technology approach can be sure that the portfolios align with their needs, providing a dovetailed approach to risk and return and making suitability seamless. As one of only a small number of providers in the market that provides an assurance that the risk tolerance will remain at this level both now and in the future, this 'gold badge' pledge gives a further level of comfort for investors in the portfolios.

But that doesn't mean you have to use Dynamic Planner to invest in the portfolios. Thanks to our relationships with the other major providers of risk profiling questionnaires, including Finametrica, eValue and Defaqto, all of our portfolios within the range can be 'mapped' to the profiler of your choice.

What happens if my client's risk profile is outside of your range?

The MPS range has been designed to cover a very wide variety of clients, however, we are conscious that certain client risk profiles will not fit with our approach. For these clients, advisers can build a bespoke portfolio using the wider range of investments available on the AJ Bell platform.

How do you use data science and human intelligence?

Another area in which we believe we have improved upon Modern Portfolio Theory is in the removal of some of the simplifying assumptions that come with the model. These simplifying assumptions were originally there to assist with the computational elements of calculating efficient frontiers, but are no longer necessary in a world with AI and our own human experience and understanding of investments.

A great example of this is the use of normal distributions in modelling stock and portfolio returns, together with the use of 'average' correlation matrices. These correlation matrices are especially important because they drive the predictions of how different elements of

the portfolio interact with each other. In most common models, the average returns over, say five years, are used to drive the data, whereas we know that in stressed market conditions (when you really want diversification to work for you) these correlations often break down.

To adjust for this, our model learns from the past and assumes instead that stock returns follow a Johnson distribution, rather than normal distribution, and uses a 'stressed' market correlation matrix for the purposes of calculating the most efficient asset allocations.

How does this impact on asset allocation?

To provide the 'gold badge' pledge, the asset allocation and risk taken by each portfolio within the range will be close to that provided to us by Distribution Technology. To ensure a multi-asset approach is taken, the portfolios must use at least six asset classes and deliver an expected level of risk within the Dynamic Planner volatility bands.

What are the portfolio benchmarks?

At the moment, the concept of risk-targeted portfolios is pretty new, but it is growing quickly. As a result, the portfolios do not have a specific benchmark, but are managed with reference to the Dynamic Planner asset allocations. As a cross check, we monitor regularly the performance of the portfolios against similar products in the marketplace and check performance against the long-term expectations we discuss later.

Over time, we would expect the development of new benchmarks for risk-targeted portfolios. We are currently working together with Distribution Technology to develop these benchmarks and would anticipate showing performance against these benchmarks in due course.

Rebalancing

How often are the portfolios rebalanced?

We undertake a scheduled rebalance on a quarterly basis and employ a 10% (+10/-10) tolerance level. A rebalance will only take place if the difference between the required holding and the current holding is greater than or equal to the tolerance level for at least one position in the portfolio, at which point the minimum number of trades will be undertaken to bring all holdings back within the tolerance. The tolerance percentage is calculated relative to each individual asset, not relative to the total portfolio value.

Performance measurement

What are the benchmarks for the models?

The models are not benchmarked against traditional indices as they are designed to target a specific volatility range. Over the long term, the models are looking to deliver a good risk adjusted return while staying within the confines of the risk range outlined for each model.

Governance

What is the governance process?

All of our investment solutions are overseen by our Investment Committee. This committee is made up of senior executives within AJ Bell and has an independent Chairman as well as additional independent representation. A number of other governance committees report into this, giving rigorous oversight to our investment processes. These committees cover:

- asset allocation
- portfolio implementation
- customer outcomes
- operational risk

Is there any independent risk oversight?

We have an independent risk function that sits outside of AJ Bell Investments and reports directly to the Head of Risk. This independent function monitors the investment portfolios and decisions made by the team on a day-to-day basis to ensure that they are always made in the best interests of investors.

Charges, income and reporting

What is the minimum investment?

There is no set minimum into the portfolios, however, the structure of the underlying investments means that the portfolios work more efficiently for investments above a certain size. For the passive portfolios, this is around £20,000 while for the active portfolios it is around £5,000. It should be noted that the smaller the investment amount, the greater the impact of transaction costs will be on the investment.

Can I invest regular premiums?

Monthly investment is not available in these portfolios.

What products are these portfolios available through?

The portfolios can be purchased within all of the AJ Bell products.

When did the portfolios launch?

The passive growth portfolios launched in August 2016 with all other portfolios being launched in February 2018.

Where are charges taken from?

Each of the portfolios retains 2% of the investment in cash to ensure that there is always cash available to cover charges.























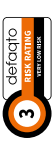



How often is income paid?

The income portfolios are designed to deliver a long-term income yield of 4% per annum. Any income generated by the underlying holdings is paid out when it is received by the platform and is not smoothed. This means that payment amounts will differ each month and there may be months where no income is generated at all. It is possible to smooth income payments within SIPP wrappers using the regular cash movement tools built into the platform. Speak to your Business Development Support contact for further details.

What is the reporting frequency?

A monthly factsheet is produced for each model. A quarterly report is also produced, providing commentary on the macro economic environment and the activity that has taken place in the portfolios over the quarter. Clients will also receive a quarterly portfolio valuation statement, which shows performance, a summary of transactions and a valuation at the end of the quarter.

Guide to costs (as of 30 November 2018)

	MPS 1	MPS 2	MPS 3	MPS 4	MPS 5	MPS 6	MPS Income 1	MPS Income 2
	 3	 4	 5	 6	 7	 8	 5	 7
	 EV 3	 EV 5	 EV 7	 EV 8	 EV 9	 EV 10		
								
	 3	 4	 5	 6	 7	 8		
Passive MPS	0.18% 0.16% 0.00% 0.20% 0.54%	0.18% 0.17% 0.00% 0.20% 0.55%	0.18% 0.17% 0.00% 0.20% 0.55%	0.18% 0.16% 0.00% 0.20% 0.54%	0.18% 0.15% 0.00% 0.20% 0.53%	0.18% 0.14% 0.00% 0.20% 0.52%	0.18% 0.33% 0.00% 0.20% 0.71%	0.18% 0.35% 0.00% 0.20% 0.73%
Active MPS	0.18% 0.40% 0.00% 0.20% 0.78%	0.18% 0.53% 0.00% 0.20% 0.91%	0.18% 0.67% 0.00% 0.20% 1.05%	0.18% 0.72% 0.00% 0.20% 1.10%	0.18% 0.79% 0.00% 0.20% 1.17%	0.18% 0.84% 0.00% 0.20% 1.22%	0.18% 0.62% 0.00% 0.20% 1.00%	0.18% 0.71% 0.00% 0.20% 1.09%
								AJ Bell AMC ⁽¹⁾ Underlying OCF ⁽²⁾ Vehicle Costs ⁽³⁾ Platform Fee ⁽⁴⁾ Total

(1) MPS Service AMC: 15bps + VAT.

(2) Underlying OCF represents the ongoing charges of the underlying investments.

(3) Vehicle costs represent third party fund administration costs.

(4) Platform fee for Passive funds waived until Jan 2019.

MPS returns exclude any transaction charges (currently £1 per trade) or platform charges (currently from 0.2% per annum)



Access

How can investors access the models?

The MPS is available through the AJ Bell Investcentre platform and can be used in all products.

What communication can I expect after I invest?

At AJ Bell we are committed to giving you and your clients what you need. No what you don't.

We are committed to making sure you are kept up-to-date with where, how and why your clients money is being invested. Check out www.investcentre.co.uk for regular updates on how we invest your client's wealth, together with our monthly factsheets, details of our tactical asset allocation calls and regular quarterly documents and videos.

Financial Assurance

Are there compensation arrangements covering my MPS investment?

Yes – the Financial Services Compensation Scheme (FSCS) is applicable to the services provided by AJ Bell.

The FSCS was created following the Financial Services & Markets Act 2000, as an independent entity designed to provide last-resort protection for customers of failed financial services firms. Compensation may be available if the failed firms themselves are unable, or likely to be unable, to pay claims. There are several factors involved in determining whether a claim is eligible.

The FSCS deals only with claims against authorised firms (that is, those that are regulated by the Financial Conduct Authority or the Prudential Regulation Authority) that are in default. The scheme covers a variety of products, including cash deposits, insurance, mortgage advice and investments, but only covers investments that are authorised by the FCA. Private individuals are generally protected but for other types of claimant, eligibility will depend on the nature of the specific claim.

There are limits to compensation pay-outs – for example, £85,000 for cash deposits for each eligible claim per banking group and £50,000 for each eligible claim relating to the failure of an investment provider.

It is important to note that the FSCS applies to financial advice and investment firms, not individual products – the scheme is designed to protect customers from institutional risk, not market risk. If individual securities go bust or perform poorly this is treated as investment risk borne by the customer and this will not result in an eligible claim.

AJ Bell customers are covered by the FSCS in the event of default by AJ Bell and therefore customers may be eligible to make a claim if losses occur in this situation. Individual investments held on the AJ Bell platform, where authorised by the FCA, are also covered by the FSCS.

For further details on the FSCS, see: <https://www.fscs.org.uk/>



This document provides general information about the Managed Portfolio Service. It should not be read or construed as investment advice. It is your responsibility to assess you client's circumstances and make a personal recommendation that is suitable for their needs.

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