











## Consumer Duty Product Value Assessment Summary: AJ Bell Passive Income MPS




April 2023  
Version: 1.0

The Financial Conduct Authority (FCA) requires all UK asset managers to conduct a fair value assessment of their products and services as part of Consumer Duty. This covers a variety of areas from benefits and limitations to costs and potential harm. At AJ Bell, we pride ourselves on being transparent with our customers and so we are pleased to present a summary of the assessment for the AJ Bell Passive Income MPS.

The assessment has been carried out against four factors, using a ‘traffic light’ system; where green indicates good value, amber indicates room for improvement, and red indicates poor value. The overall results of the assessment are below:

Category	Passive Income MPS 1	Passive Income MPS 2
Nature of the product and its benefits		
Limitations in the product and services		
Total cost of ownership		
Mitigating foreseeable harm and potential customer vulnerability		
Overall value		

**Key**

-  Good value
-  Room for improvement
-  Poor value

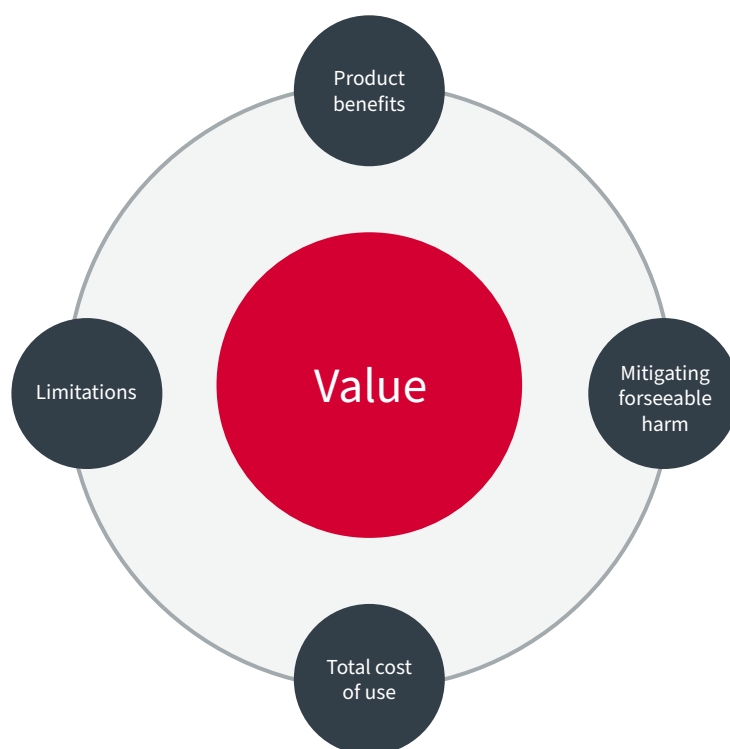
The assessment was completed by the AJ Bell Investments Product Team and approved by the Investment Proposition Committee on 20 April 2023. We review the assessment annually and will make more frequent updates if there are material changes to outcomes.

Overall, we believe the Passive Income MPS offers fair value to customers, and we continue to look for areas to improve. We are confident that the Passive Income MPS is well-positioned to continue providing good outcomes and fair value for its customers into the future.

## Factors used to assess value and pricing

Based on the Final Guidance issued by the FCA as well as our own consideration, the following factors have been used to assess the value provided by the Passive Income MPS range:

- The nature of the service, expected benefits to customers and their quality.
- Any limitations of the service and its features.
- The expected total annual cost, including non-financial cost, paid by customers over the life of the relationship between the customer and the firm.
- Costs incurred in the manufacturing process and whether any material changes to the service have impacted the price.
- Foreseeable harm and mitigating actions / controls in place.
- Any elements of vulnerability that may affect customers' ability to understand or achieve value from the product.



## Assessment of value

The below is a high level, non-exhaustive summary of the features and benefits provided by our Passive Income MPS range, upon which value has been assessed:

- Outcome-orientated, multi-asset portfolios delivered in accordance with agreed objectives of the defined target market.
- Passive Income MPS 1 aims to preserve capital whilst delivering a sustainable level of income over 5+ years to advised customers.
- Passive Income MPS 2 aims to deliver capital growth whilst delivering a sustainable level of income over 5+ years to advised customers.
- Aims to deliver income of 3-5% on average over a trailing three-year basis\*.
- Portfolios are risk profiled by third-party providers.
- A competitively priced Annual Management Charge (AMC).
- No exit fees, notice periods, or written cancellations, enabling customers to divest without barriers to exit.
- Available to be purchased across six well-respected platforms.
- Suite of literature produced including factsheets, quarterly reports, articles, FAQs, and guides.

\*Five years is the recommended holding period, but we expect the income derived to lie between 3-5% on average over a three-year period.

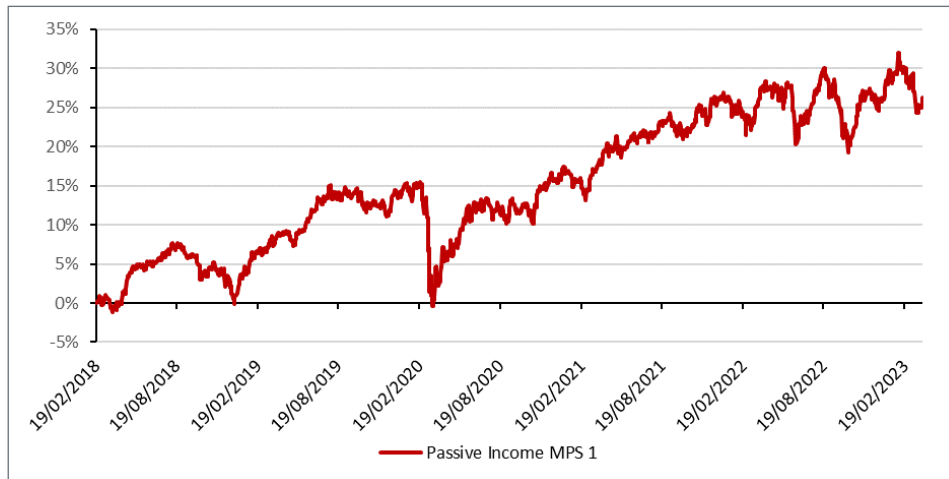
The benefits outlined above have been designed to provide simple, transparent, low-cost investment solutions that deliver good customer outcomes, and are appropriate and proportionate to the needs, characteristics, and objectives of the target market. An overview of the target market can be found on the Consumer Duty Hub on the AJBIC website<sup>1</sup>.

<sup>1</sup> <https://www.investcentre.co.uk/support/consumer-duty>

## Financial performance

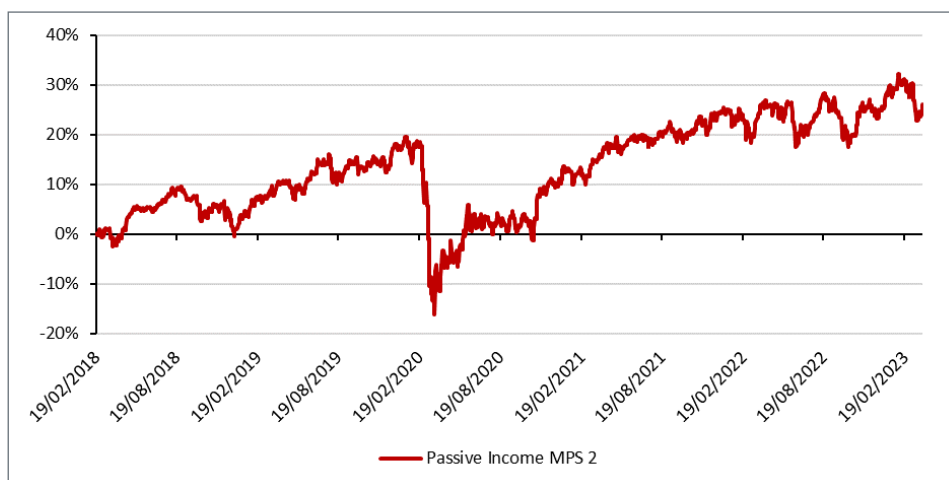
As a provider of a passive MPS range, we aim to deliver a sustainable level of income whilst preserving or growing capital for customers over a period of at least five years, consistent with the levels of risk appetite expressed within each portfolio. The portfolios are multi-asset in nature and their asset allocation is dependent on achieving the target levels of income. This means there is no single financial instrument or index that represents a fair benchmark. Consequently, there are no meaningful comparators for us to use as an objective assessment of performance. The following charts show the cumulative, non-annualised total return (%) of the portfolios:

### Passive Income MPS 1



Passive Income MPS	1 Year Return (%)	3 Year Return (%)	5 Year Return (%)
Passive Income MPS 1	-0.72	22.33	27.26

### Passive Income MPS 2



Passive Income MPS	1 Year Return (%)	3 Year Return (%)	5 Year Return (%)
Passive Income MPS 2	0.48	37.54	28.65

The portfolios aim to deliver income of 3-5% on average over a trailing three-year basis and the approximate yield delivered over this period is 3.06% for Passive Income 1 and 3.29% for Passive Income 2. Historical yield values are summarised in the table below.

## Passive Income MPS Range Yields

Trailing 12-month Period	Passive Income MPS 1 Yield (%)	Passive Income MPS 2 Yield (%)
March 2021	2.88	2.86
March 2022	3.07	3.42
March 2023	3.22	3.58
<i>Average</i>	3.06	3.29

Throughout the period, all portfolios have behaved as expected.

## Risk profiling

We have adopted an outcome-orientated approach to product design, that we believe assists in delivering good customer outcomes. There are two model portfolios across the Passive Income MPS range, each catering for a different risk profile. As part of our commitment to choice, the third-party risk profilers that rate the AJ Bell Passive Income MPS range include Dynamic Planner, FinaMetrica, and Synaptic, allowing advisers to use the risk rating of their preferred profiler. Customers can gain access to solutions chosen by advisers which align with their needs, providing a dovetailed approach to risk and return to meet their financial objectives.

## Platform availability

The Passive Income MPS range is distributed via six platforms – AJ Bell Investcentre, abrdn Wrap, Aviva, Morningstar Wealth Platform, Quilter and Transact. Increasing platform availability is important to us as it provides advisers (and ultimately customers) with greater choice. We have recently onboarded Transact.

## Literature and support

AJBAM is committed to delivering simple, transparent, jargon-free literature at all points of the investment lifecycle. We believe customers should always know where, why, and how their money is invested. The literature produced for the Passive Income MPS range includes monthly factsheets, quarterly reports, guides, FAQs and articles. We also publish portfolio changes alongside the rationale behind the changes. The provision of this literature is designed to enhance customer understanding, either directly through client guides or via support for their adviser.

## Limitations

Considering the target market of our Passive Income MPS range is defined as digital advised customers, and the resultant product design features, we do not believe there are further legal or non-regulatory limitations embedded within our Passive Income MPS range.

### Total cost of ownership

Overall cost of ownership consists of three component parts:

#### AJ Bell Annual Management Fee: 0.15%

The standard AJ Bell MPS charges an AMC of 0.15%. This reflects the fee for the investment management process, covering research, strategic and tactical asset allocation decisions, and the ongoing management of the portfolios. This compares competitively against the average fee of 0.21% in the wider market, as reported by NextWealth<sup>2</sup>.

#### Synthetic Ongoing Charge Figure: 0.24-0.28%

The Synthetic OCF accounts for the cost of the underlying holdings within the portfolios. The portfolios can implement the asset allocation in a variety of ways, including, but not limited to, ETFs and Index Funds. Selection of index-tracking funds is undertaken by AJBAM from the investment universe of vehicles with UK reporting status and who have completed the AJ Bell Asset Management Due Diligence Questionnaire.

The portfolios are designed to offer a simple, transparent, low-cost investment solution to retail investors. Once a fund is selected, AJBAM uses its scale to try and access the best share class, including institutional share classes which are not widely available elsewhere.

#### Transaction Costs: 0.09-0.13%

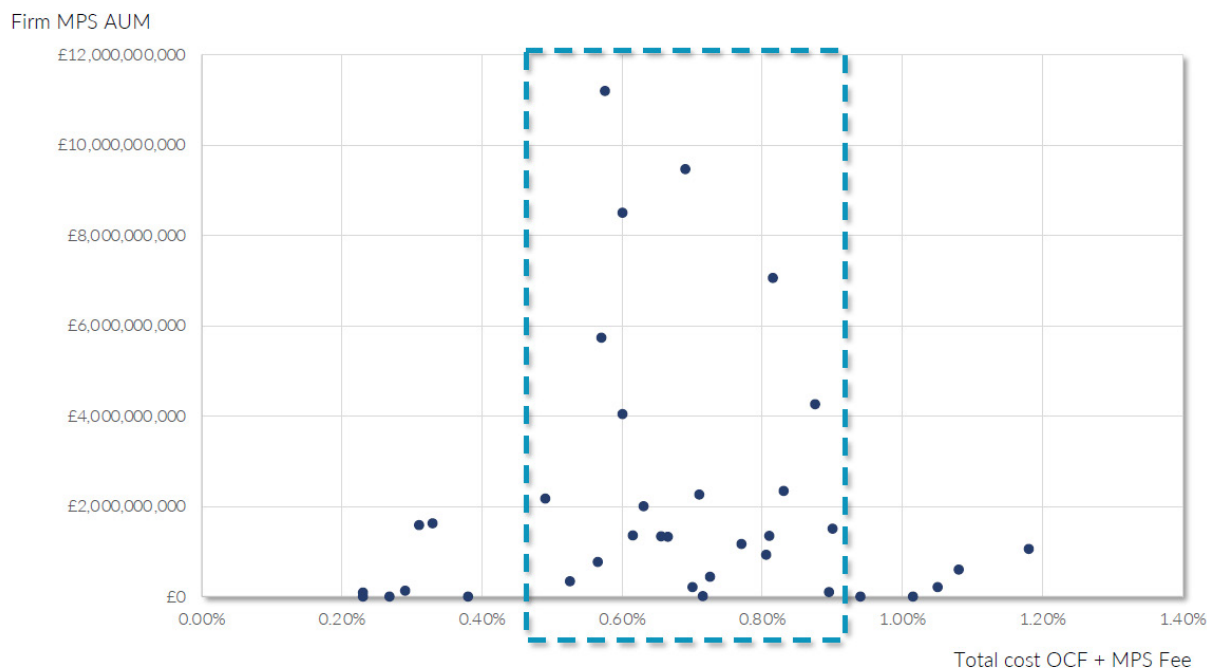
Transaction costs account for the aggregated cost of trading taking place in the underlying holdings. In general, passive funds have lower transaction costs as they aim to track an index and do not tend to trade frequently.

### Passive Income MPS Range Costs

	Passive Income MPS 1	Passive Income MPS 2
AMC	0.15%	0.15%
Synthetic OCF	0.24%	0.28%
Transaction costs	0.09%	0.13%
Total cost	0.48%	0.56%

AJBAM does not engage in discriminatory pricing and all Passive Income MPS customers pay the same charges. These charges rank competitively in the market. The chart below, taken from NextWealth, shows the majority of AUM is concentrated within a total cost range of 0.50% to 0.90%. The cost of the Passive Income MPS range stands at the lower end of this average.

<sup>2</sup> NextWealth MPS Proposition Comparison Report 2022



We aim to be one of the lowest-cost providers in the asset management industry as we see costs as key to delivering good customer outcomes. We consistently monitor the marketplace, actively seeking opportunities to reduce costs such as negotiating access to cheaper institutional share classes, reducing the underlying OCF and passing on savings to customers.

## Mitigating foreseeable harm

The target market for the Passive Income MPS range is defined as “UK retail advised digital investors”. We also define a negative target market as customers who are uncomfortable taking any risk, and potentially vulnerable customers who have low financial resilience or capability.

Further detail on Target Market and Vulnerable Customer policies can be found on the AJ Bell Consumer Duty Hub<sup>3</sup>.

## Conclusion

This document provides a summary of the fair value assessment for the AJ Bell Passive Income MPS range. In carrying out the assessment, we are satisfied that we have considered all relevant factors and available information relating to the range’s value. Following this analysis, we believe the Passive Income MPS range has successfully delivered fair value to customers and have rated the portfolios ‘green’ across all four categories.

We monitor all products on an ongoing basis to ensure they are delivering good value, and we always look for opportunities to improve. The governance and oversight of the fair value assessment process, along with how this is managed, is carried out in the relevant committees. AJ Bell’s quarterly committee cycle actively monitors consumer outcomes through Key Risk Indicators, performance analysis and product features. We take action to mitigate risk where necessary and make improvements where possible.

We are confident that the AJ Bell Passive Income MPS range is well-positioned to continue providing good outcomes and fair value for its customers into the future.

<sup>3</sup> <https://www.investcentre.co.uk/support/consumer-duty>