



PORTFOLIO/METRIX
Investment Management **by Design**

UNDERSTANDING THE PMX CORE PORTFOLIOS

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The guide below provides an explanation of the construction of, and targeted behaviour of, the PMX Core Portfolios with the aim of helping advisers to understand which clients they could be suitable for.

1. AIM OF THE PMX CORE PORTFOLIOS

To construct portfolios that:

- Behave in a risk-controlled manner and are mapped to the PortfolioMetrix Financial Personality Assessment results
- Are efficient in the sense of using optimised weights of granular asset classes to target the highest total long-term return per unit of risk
- Use the best funds to implement each asset class in terms of likely outperformance per unit of cost and unit of risk
- Are diversified across asset classes, currencies, funds, styles, factors, sectors and underlying security holdings

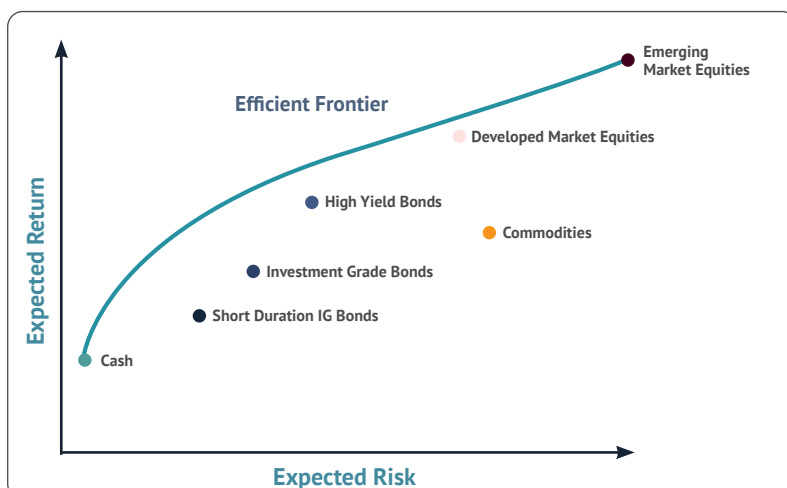
2. KEY FEATURES

- The default, least constrained approach offered by PortfolioMetrix
- Invests in a manner consistent with PortfolioMetrix's Responsible Investment Policy
- Uses a blend of asset classes including: Equities (broken down by region), Bonds (broken down by type of bond), Cash and Short-Term Bonds, Listed Property and Listed Infrastructure. May also include Absolute Return, Commodities and other alternative asset classes as long as they come in the form of regulated funds.
- Uses specialist managers (collectives) to implement asset allocation rather than individual securities and, although not constrained to, tends to use open ended funds over ETFs or Investment Trusts (rationale available upon request)
- Is unconstrained in terms of types of funds used to implement the asset allocation, so may use:
 - ◊ Passives
 - ◊ Active managers
 - ◊ Factor/Smart Beta Funds
 - ◊ Income Funds
 - ◊ Absolute Return Funds
- Aims to maximise total return per unit of risk (not maximise income or capital growth separately which tends to lower total returns overall)
- Uses a mixture of distributing and accumulation share classes

3. CONSTRUCTION METHODOLOGY

The construction of the PMX Core Portfolios involves the following steps:

3.1 ASSET ALLOCATION



Break down the retail investment universe into non-overlapping asset class 'building blocks' such as UK Equities and Global Corporate Bonds.

For each possible risk level combine these building blocks in such a way as to maximise expected returns (whilst still ensuring sufficient diversification).

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3.2 FUND SELECTION

For each asset class used, generate a universe of potential funds that could implement that asset class. Include Passives, Active Funds, Smart Beta and Factor Funds.

Use quantitative and qualitative research to whittle that list of funds down to a limited number of funds to implement that asset class. Use the best value funds in terms of expected future outperformance per unit of risk and per unit of cost.

Fund Selection Process



4. RELATIONSHIP TO OTHER PORTFOLIOMETRIX APPROACHES

The Core portfolios are the default, unconstrained approach provided by PortfolioMetrix and thus the basis for other approaches. Adding further constraints results in the following:

Approach	Constraint
Core	Unconstrained
Sustainable World	Use funds focused both on returns and having a net benefit on society and the planet.
Income Oriented	Increase income (whilst minimising reduction in expected total return)
Factor Based	Target outperformance but limit active managers



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