PORTFOLIOMETRIX
Investment Management by Design

UNDERSTANDING THE PMX INCOME ORIENTED PORTFOLIOS

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

1. AIM OF THE PMX INCOME ORIENTED PORTFOLIOS

To construct portfolios that behave in a similar risk-controlled manner to the PMX Core Portfolios (and so correspond to Financial Personality Assessment results) but also target a higher yield to better suit investors with some preference for yield over capital growth.

Note: Introducing the income constraint most likely leads to a slight lowering of expected total return (unconstrained strategies should outperform constrained strategies over time). However, another key aim of the portfolios is to try to minimise the capital growth sacrificed to achieve higher income. ***This strategy is not an income maximisation strategy – PortfolioMetrix believes that most, if not all, income maximisation strategies sacrifice too much capital growth upside (and thus harm total returns) and potentially risk capital as well.***

2. KEY FEATURES

- Target higher yields than the PMX Core Portfolios (which likely means accepting lower capital growth)
- Invests in a manner consistent with PortfolioMetrix's Responsible Investment Policy
- Uses higher yielding funds where PortfolioMetrix has the research to support them
- Uses distributing rather than accumulation share classes, if available
- Uses the same underlying asset allocation as PMX Core Portfolios
- Have similar costs to the PMX Core Portfolios
- May be suitable for clients which require a certain level of income but with some capital growth potential. For example:
  - ◊ Interest in possession trusts

3. CONSTRUCTION METHODOLOGY

The construction of the PMX Income Oriented Portfolios starts with the PMX Core Portfolios, to which we apply an income constraint that leads to certain changes. The key changes made are to:

- Replace non income funds with income funds where sufficient conviction in the income fund exists. Essentially this boils down to the following: for Core Solutions we are agnostic between income and capital growth – we will use the fund or funds we think yield the highest total return regardless of the yield. For Income Oriented Portfolios, there is a preference for income funds whereby we might pick a fund we think will give a slightly lower total return if it targets higher income, provided we don't think the difference in overall quality is too great. We will never use an under-researched fund or funds we don't have conviction in for any solution.
- Replace all accumulation share classes with distribution share classes, where possible. This has no effect on the underlying yield characteristics of the portfolio but does make distributions, if required, easier.

4. EXPECTED YIELD

The yield of the underlying portfolio will depend on both portfolio risk level and passive tilt. COVID-19 has also made future yields more uncertain. We use July 2021 yields below to give an indicative future value:

Approximate Expected Annual Yields for no-tilt portfolios as of July 2021:

Profile (Risk Score)	1 (1)	2 (18)	3 (33)	4 (48)	5 (63)	6 (78)	7 (100)
Income Oriented Yield*	1.8%	2.2%	2.6%	2.9%	3.0%	3.0%	3.1%
Core Active Yield*	1.5%	1.7%	1.8%	2.0%	1.7%	1.5%	1.2%
Difference	0.3%	0.5%	0.8%	0.9%	1.3%	1.5%	1.9%

*For fund classes available on the Wealthtime Platform. Details for other platforms may differ slightly
Totals may not sum exactly due to rounding

Thus, the expected yield pick-up on Income Oriented Portfolios runs from **0.3% for lower risk portfolios to 1.9% for higher risk portfolios**, whilst the overall risk level targeted is similar to the Core Portfolios.

Note: The Core Multi Asset portfolios are accumulation share classes and so will not distribute any the yield they generate, unlike the Income Oriented Portfolios. The yield on Core portfolios will instead be reinvested directly back into the portfolio.

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