

PASSIVE MPS PERFORMANCE UPDATE

FOR PROFESSIONAL FINANCIAL ADVISERS ONLY

Passive MPS Cumulative Performance (data to 30/09/2021)

Outperformance	Year to Date	1 Year	2 Year	3 Year	4 Year	5 Year	Start Date (31/07/2016)
Portfolio 0	1.95	4.44	4.61	10.20	12.88	16.18	17.29
30/70 Comp. Mny Mrkt & IA Mixed 0-35%	1.26	4.18	4.62	8.38	9.37	11.83	13.09
Portfolio 1	2.86	6.27	6.39	12.37	15.45	20.20	21.71
IA Mixed Investment 0-35%	1.83	6.02	6.39	11.57	12.88	16.47	18.32
Portfolio 2	4.30	9.52	9.27	15.97	20.22	27.49	29.54
IA Mixed Investment 20-60%	5.30	12.21	10.87	15.32	18.32	25.60	28.13
Portfolio 3	5.14	11.78	10.94	18.22	23.17	32.24	34.94
50/50 IA Mixed 40-85% & 20-60%	6.64	14.40	13.62	18.30	22.99	32.36	35.20
Portfolio 4	5.61	12.91	11.75	19.22	24.41	35.13	38.21
IA Mixed Investment 40-85%	7.99	16.63	16.40	21.30	27.78	39.40	42.57
Portfolio 5	6.15	14.29	12.70	20.39	26.00	38.09	41.41
50/50 IA Mixed 40-85% & Flexible	8.42	17.47	17.87	22.26	28.81	41.44	44.77
Portfolio 6	6.55	15.33	13.66	21.55	27.31	40.37	43.82
IA Flexible Investment	8.84	18.31	19.35	23.22	29.84	43.51	46.99
Portfolio 7	7.24	16.83	15.20	23.31	29.69	44.32	48.11
IA Flexible Investment	8.84	18.31	19.35	23.22	29.84	43.51	46.99

Passive MPS Discrete Performance

Outperformance	2017	2018	2019	2020
Portfolio 0	3.63	-1.66	8.16	2.31
30/70 Comp. Mny Mrkt & IA Mixed 0-35%	3.40	-2.23	6.23	2.87
Portfolio 1	4.87	-2.25	9.35	2.92
IA Mixed Investment 0-35%	4.84	-3.35	8.70	3.90
Portfolio 2	6.46	-3.09	11.79	3.78
IA Mixed Investment 20-60%	7.16	-5.10	11.84	3.51
Portfolio 3	8.13	-3.89	13.42	4.27
50/50 IA Mixed 40-85% & 20-60%	8.56	-5.60	13.80	4.42
Portfolio 4	9.26	-4.42	14.29	4.42
IA Mixed Investment 40-85%	9.98	-6.11	15.78	5.32
Portfolio 5	10.31	-4.64	14.94	4.54
50/50 IA Mixed 40-85% & Flexible	10.59	-6.41	15.72	6.01
Portfolio 6	10.72	-5.11	15.83	4.91
IA Flexible Investment	11.21	-6.72	15.66	6.70
Portfolio 7	11.70	-5.70	17.03	5.41
IA Flexible Investment	11.21	-6.72	15.66	6.70

Passive MPS Defensive Characteristic 5 Year Ratios (data to 30/09/2021)

[Click here for ratio definitions](#)

Outperformance	Alpha	Beta	Downside Risk	Info. Ratio Rel.	Max Draw-down	Max Loss	Sharpe	Sortino	Volatility	Downside Capture	r2
Portfolio 0	0.68	1.04	4.19	0.72	-5.96	-5.96	0.27	0.25	3.83	106.62	0.93
30/70 Comp. Mny Mrkt & IA Mixed 0-35%	0.00	1.00	4.10	0.00	-6.00	-6.00	0.07	0.06	3.53	100.00	1.00
Portfolio 1	1.05	0.86	4.87	0.44	-7.09	-7.09	0.39	0.36	4.53	87.66	0.93
IA Mixed Investment 0-35%	0.00	1.00	5.86	0.00	-8.59	-8.59	0.22	0.19	5.07	100.00	1.00
Portfolio 2	1.09	0.82	6.43	0.15	-9.93	-9.93	0.48	0.46	6.20	85.79	0.95
IA Mixed Investment 20-60%	0.00	1.00	8.49	0.00	-12.89	-12.89	0.36	0.31	7.39	100.00	1.00
Portfolio 3	0.67	0.87	7.83	-0.01	-12.00	-12.00	0.51	0.48	7.40	89.45	0.97
50/50 IA Mixed 40-85% & 20-60%	0.00	1.00	9.36	0.00	-14.15	-14.15	0.45	0.40	8.37	100.00	1.00
Portfolio 4	0.34	0.85	8.53	-0.31	-13.12	-13.12	0.52	0.49	8.08	87.93	0.97
IA Mixed Investment 40-85%	0.00	1.00	10.50	0.00	-15.41	-15.41	0.52	0.46	9.40	100.00	1.00
Portfolio 5	0.12	0.91	9.06	-0.27	-14.41	-14.41	0.53	0.52	8.76	92.86	0.97
50/50 IA Mixed 40-85% & Flexible	0.00	1.00	10.80	0.00	-15.47	-15.47	0.55	0.48	9.48	100.00	1.00
Portfolio 6	-0.09	0.95	9.51	-0.25	-15.15	-15.15	0.54	0.53	9.24	96.49	0.97
IA Flexible Investment	0.00	1.00	10.67	0.00	-15.53	-15.53	0.57	0.51	9.58	100.00	1.00
Portfolio 7	-0.09	1.03	10.26	0.06	-16.39	-16.39	0.56	0.55	10.05	103.55	0.97
IA Flexible Investment	0.00	1.00	10.67	0.00	-15.53	-15.53	0.57	0.51	9.58	100.00	1.00

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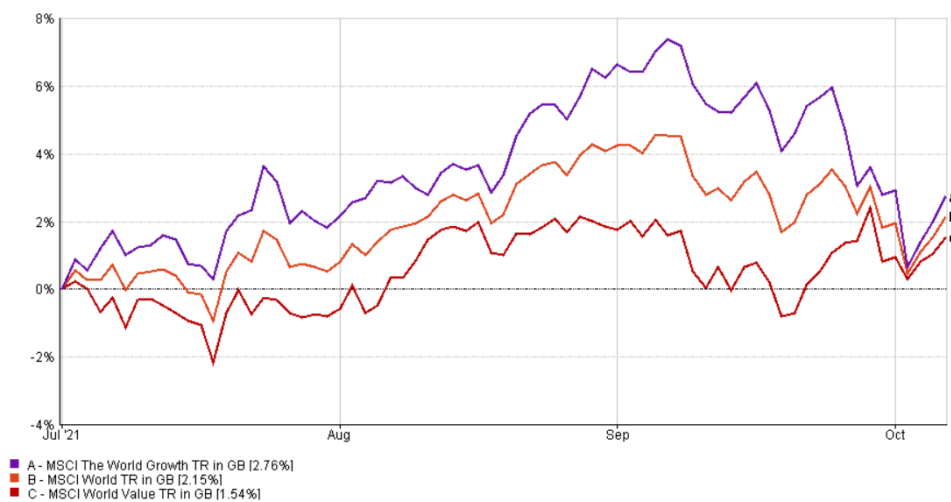
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Equity: Performance Drivers – Style & Sector

Though the quarter started positively for our Passive portfolios and their respective benchmarks, the positive market sentiment faded as we moved into September. Losses then accelerated towards the month's end, resulting in relatively flat returns for the quarter (fig 6). Multiple factors created this increased volatility across asset classes; however, those most acutely affected were funds and portfolios with a bias toward growth.

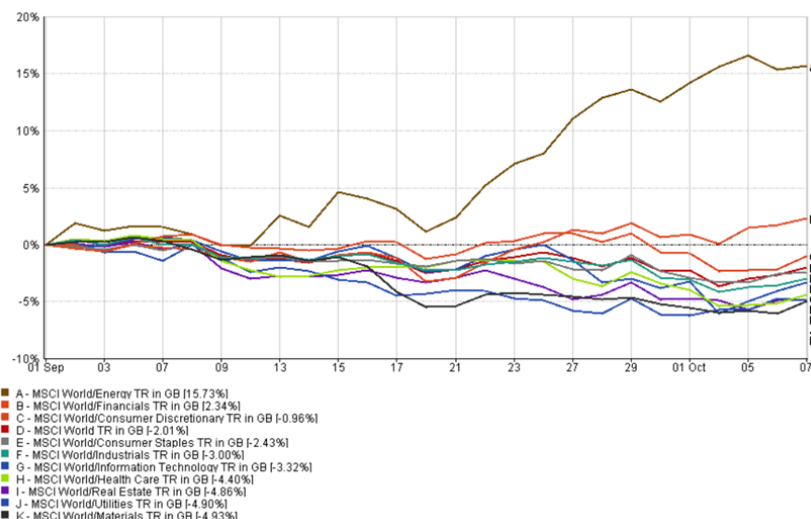
The growth style has been in favour for much of the last five years, often predicated on the belief that any rise in interest rates was being pushed out even further into the future. The chart below (fig 1) outlines this pattern, as value stocks outperformed growth on a relative basis throughout September, even producing positive returns as the broader market fell.

Fig 1: Value Vs Growth – 01.07.2021 – 07.10.2021



The situation becomes more evident when looking at the performance of global equity sectors throughout September (Fig 2), as all international sectors produced negative returns, excluding energy and financials. It is worth highlighting that these two sectors make up a significant portion of the value index but hold relatively small positions within the growth equivalent and the broader market (Fig 3). In short, any allocation to these sectors or styles within the equity portion of a portfolio helped reduce losses coming into September.

Fig 2: Sector performance through September (01.09.2021-07.10.2021)



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Fig 3: Index Sector Weighting (Largest 10 Value Sectors)

	MSCI World Value (%)	MSCI World Growth (%)	MSCI World
Financials	24.04	3.90	13.69
Health Care	14.00	11.3	12.61
Industrials	11.33	9.37	10.32
Information Technology	9.00	35.32	22.53
Consumer Staples	8.65	5.22	6.89
Consumer Discretionary	7.18	16.82	12.13
Energy	6.03	0.52	3.20
Utilities	5.30	0.23	2.69
Materials	5.13	3.17	4.12
Communication Services	4.94	13.08	9.13

These points are particularly pertinent for sustainable investors due to the composition of many sustainable funds that favour growth stocks and naturally underweight 'value' areas such as oil & gas and energy. The same points are also relevant for market-cap-weighted, global and North American equity trackers with persistent ever-increasing overweights to technology and growth stocks. Additionally, it is perhaps not surprising that many passive funds have similarly struggled in the same market environment.

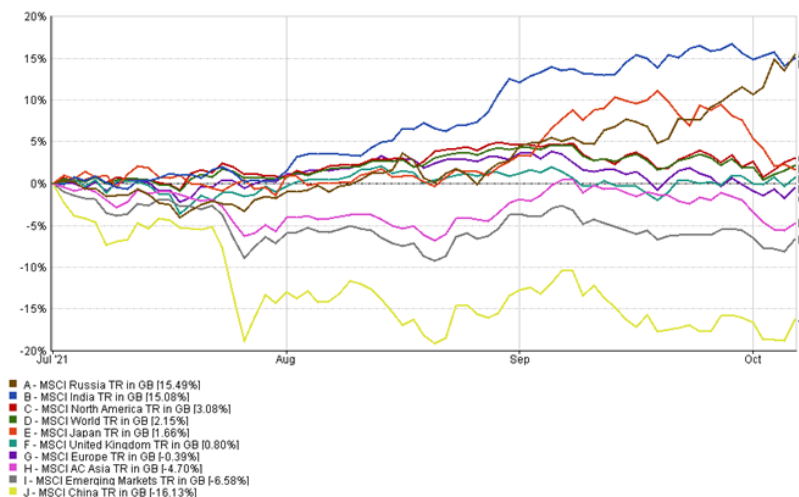
Equity: Performance Drivers – Geography

As we look at the performance of equity markets more broadly, this quarter has seen a continued divergence between emerging and developed markets (fig 4).

One of the widely reported and most significant reasons for this divergence is the underperformance of Chinese equities. This underperformance has had a meaningful impact on the returns of many Asian and emerging markets. However, areas such as India and Russia have produced very positive returns over the same period, 15.08% and 15.49%, respectively.

It is becoming increasingly important when allocating monies to Asia and emerging markets to understand the sectoral makeup of the benchmarks or funds. Furthermore, even in pure investment terms, it is now necessary to include issues such as potential political interference and individual government agendas within an investment case for Chinese and Chinese related stocks.

Fig 4: Geographical Performance – 01.07.2021 – 07.10.2021



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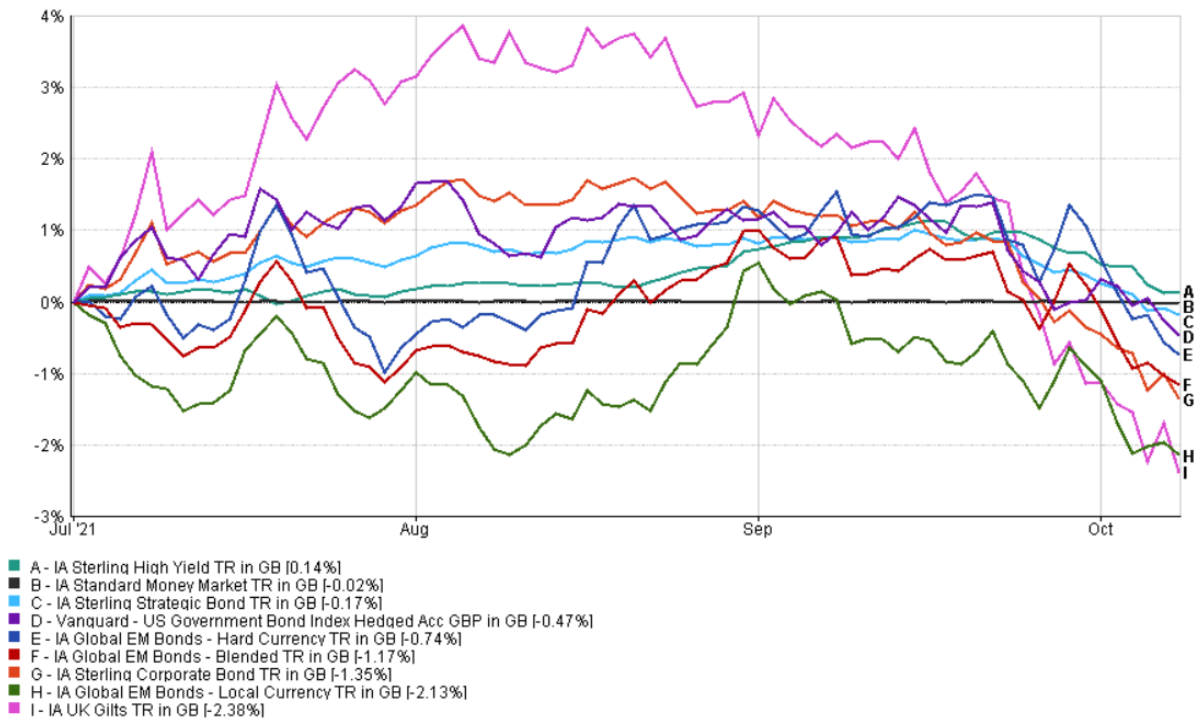
Fixed Income: Performance Drivers

As is usually the case, the performance of fixed income instruments had less impact on returns than equities over the quarter (depending on portfolio). That being said, understanding the movements in bond markets is key to predicting future equity movements, and a few points need to be considered both when looking back and extrapolating into the future for likely trends.

Firstly, UK gilts fell 6% from the 5th of August following a positive start to the quarter (fig 5). This is an important point as they lost value alongside equities and many multi-asset funds use gilts (and sovereigns more generally) to offset their equity risk. This so-called barbell approach has worked more often than not over many decades. In recent months though, sovereign bonds have sold off simultaneously with growth stocks, so in effect, all the weight is at one end of the barbell.

Secondly, and at the time of writing, all fixed income sectors, excluding high yield, are underwater for the quarter, with high yield up only 0.14% (fig 5). These paltry returns in high yield do not seem sufficient to justify the ongoing risks associated with investing in junk-rated bonds. Our combination of shorter-dated assets and higher credit quality have added meaningful outperformance within the fixed income space across the range in Q3.

Fig 5: Fixed Income Performance – 01.07.2021 – 08.10.2021



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Performance Summary

The Passive portfolios under-performed their respective benchmarks in Q3 with the exception of portfolios 0 and 1 which performed very well due to the make-up of the fixed income portion of their portfolios. In addition, the ranges overall position in strategic bond, short-dated corporate bonds, and cash performed well into a more difficult fixed income environment. On the other hand, portfolios 3-7 have struggled on a relative basis due to their higher allocation to Asia and emerging market equities which spent much of the quarter under pressure following the Chinese authority crackdown. As can be seen in the chart (fig.6) the difference across the range was probably one of the tightest ever, with only 12bps separating the lowest and highest performing portfolios.

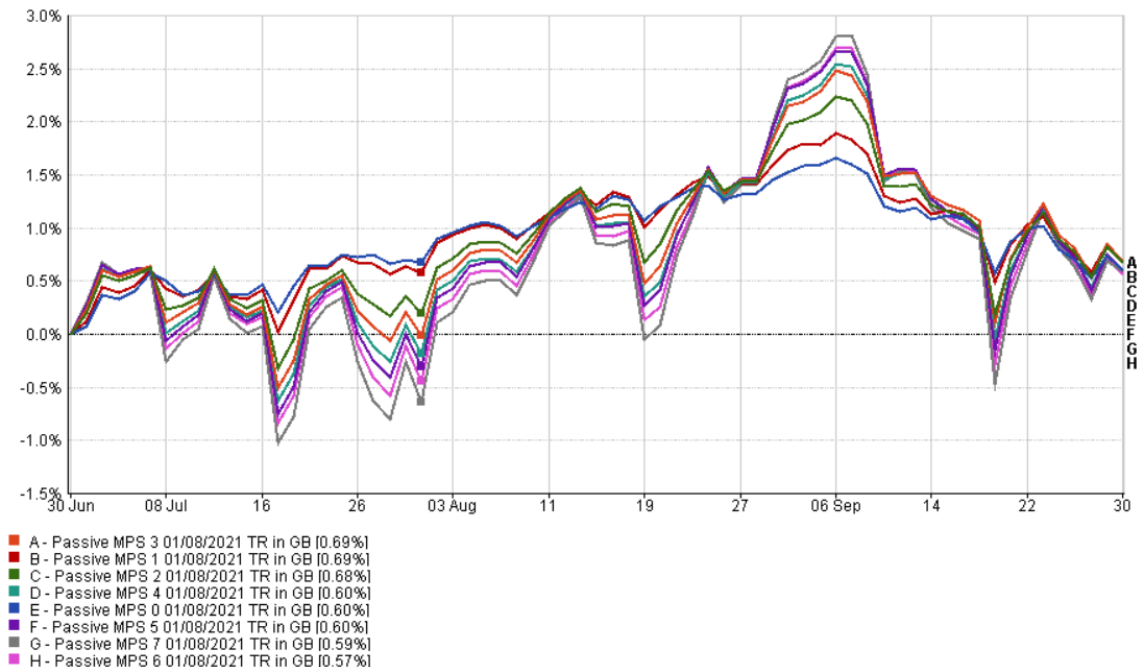
We have said for some time that we expect diversification to be an increasingly important factor from here. This has proven to be the case over the last quarter, and though emerging market equities have, on the whole, underperformed, a more broad allocation to areas such as Japan and the UK have contributed to performance for the full quarter outperforming the US and global indices.

The portfolios diversifying holdings performed well as growth underperformed from September. Allocations to Japan, natural resources, global equity income and small caps contributed to performance alongside the fixed income portion of each portfolio.

Overall in absolute terms, the quarter was slightly positive for the Passive range but with a backdrop of increased volatility.

After the current repricing, we believe that the same Asian and emerging markets are more reasonably valued than their US peers. Coming into Q4, we retain these same overweights and overweights to commodities, UK and European stocks.

Fig 6: Performance Line - 30.06.2021 – 30.09.2021



30/06/2021 - 30/09/2021 Data from FE fundinfo 2021

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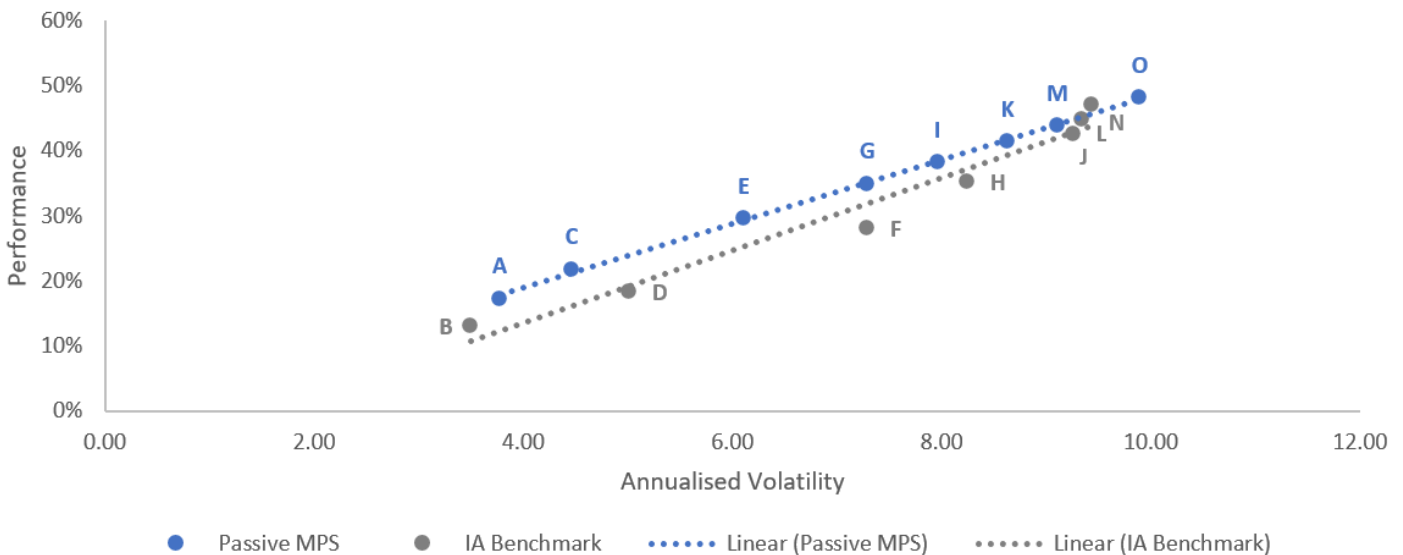
Passive MPS Ratios from Start of Data (31/07/2016 to 30/09/2021)

	Alpha	%	Beta	%	Downside Risk	%	Info. Ratio Rel.	%	Jensens Alpha	%	Max Draw-down	%	Max Loss	%	r2	%	Sharpe	%	Sortino	%	Tracking Error	%	Treynor	%	Volatility	%
Portfolio 1	1.01	16	0.86	20	4.87	16	0.38	14	0.72	14	-7.09	28	-7.09	28	0.93	22	0.42	14	0.38	16	1.43	10	2.19	16	4.46	20
Portfolio 2	1.06	25	0.82	19	6.43	8	0.11	44	0.69	33	-9.93	17	-9.93	19	0.95	17	0.51	23	0.49	19	1.98	17	3.83	27	6.11	11
Portfolio 4	0.40	44	0.85	19	8.53	8	-0.30	71	0.09	50	-13.12	24	-13.12	24	0.97	7	0.56	45	0.52	39	2.00	13	5.27	46	7.96	9
Portfolio 6	-0.06	45	0.95	28	9.51	13	-0.25	74	-0.16	55	-15.15	29	-15.15	33	0.97	7	0.58	45	0.56	33	1.71	2	5.57	51	9.10	19
Portfolio 7	-0.07	47	1.03	41	10.26	21	0.08	50	0.00	48	-16.39	45	-16.39	49	0.97	5	0.60	42	0.58	28	1.76	3	5.71	46	9.89	34

Quartiles Key: Colour code explanation of squares in tables representing the quartiles.



Passive MPS Risk/Return Profiles from Start of Data (31/07/2016 to 30/09/2021)



Key	Portfolio	Performance	Volatility
A	Portfolio 0	17.29%	3.77
B	30/70 Comp. Mny Mrkt & IA Mixed 0-35%	13.09%	3.50
C	Portfolio 1	21.71%	4.46
D	IA Mixed Investment 0-35%	18.32%	5.01
E	Portfolio 2	29.54%	6.11
F	IA Mixed Investment 20-60%	28.13%	7.29
G	Portfolio 3	34.94%	7.29
H	50/50 IA Mixed 40-85% & 20-60%	35.20%	8.25
I	Portfolio 4	38.21%	7.96
J	IA Mixed Investment 40-85%	42.57%	9.26
K	Portfolio 5	41.41%	8.63
L	50/50 IA Mixed 40-85% & Flexible	44.77%	9.33
M	Portfolio 6	43.82%	9.10
N	IA Flexible Investment	46.99%	9.43
O	Portfolio 7	48.11%	9.89
N	IA Flexible Investment	46.99%	9.43

Outperformance A blue filled box indicates outperformance.

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