



# MODEL PORTFOLIO SERVICE

Due Diligence guide for the  
Passive Portfolios

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Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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# Executive summary

The M&G MPS (Model Portfolio Service) offers three different investment styles: Passive, Hybrid and Global ESG Themes. 'ESG' stands for environment, social and governance. This document covers the Passive MPS, which is a range of six risk-managed portfolios that aim to deliver competitive returns. The portfolios are designed for investors who want a diversified mix of asset classes and regions.

To build and manage the portfolios, we leverage M&G plc's investment capabilities in investing, asset allocation, fund research, and portfolio management. This document covers the investment processes.

M&G Wealth Investments LLP is part of M&G plc. M&G plc's purpose is to give everyone real confidence to put their money to work.

This document has been prepared for information only and does not contain or constitute investment advice or recommendation and is accurate at the time of issue.

# Why use the M&G Model Portfolio Service (MPS)?

Investment management responsibilities take a lot of time, and rightly so, as it's incredibly important. Not only are there increasing regulatory pressures, markets change rapidly and it takes time to do the research to keep on top of everything.

Using the M&G MPS allows advisers to let go of the day-to-day underlying investment management responsibilities, giving them to our investment professionals. We take care of the portfolio management, asset allocation, fund research, and risk monitoring required to deliver the aims of the portfolios. We also help advisers keep their customers informed by providing monthly factsheets, weekly market commentary, client guides, and quarterly market outlooks. This means advisers can have more time for building relationships with their clients and delivering financial planning services.

We offer three different MPS ranges with different investment styles: Passive, Hybrid and Global ESG Themes.

This document covers the Passive portfolios.

# What are the Passive portfolios?

Passive is a range of six risk-managed portfolios, with the following characteristics:

## Uses passive investments

The portfolios are predominantly invested in passive funds. Passive investment funds are designed to rise and fall in line with the index they track, rather than outperform it.

## Invested regionally

The majority of the portfolio is invested in funds that hold equities and bonds from specific regions, such as a US equity fund or European corporate bond fund.

# What is the target market?

## What type of investor is this suitable for?

The portfolios are suitable for retail investors through various wrappers, including ISAs, Pensions, General Investment Account (GIA) or Investment Bonds.

## How much knowledge and experience does your client have?

Based on the standard definitions of types of investors included in the European Financial Management Association, the target market includes Basic Investors, Informed Investors and Advanced Investors. Advisers are responsible for assessing the suitability of the portfolios for their clients given their capacity to bear losses; risk tolerance; and objectives and needs. We've based the following table on the standard definitions of types of investors included in the European Financial Management Association.

Type	Definition
Basic Investor	<ul style="list-style-type: none"><li>• Basic knowledge of how investments work</li><li>• Can make decisions based on regulated and authorised documents or with the right advice</li><li>• No experience of the financial industry</li><li>• Usually a first-time investor</li></ul>
Informed Investor	<ul style="list-style-type: none"><li>• Average knowledge of how investments work</li><li>• Can make an informed decision based on regulated and authorised documents or with their own knowledge</li><li>• Understands specific factors or risks</li><li>• Some experience of the financial industry</li></ul>
Advanced Investor	<ul style="list-style-type: none"><li>• Good knowledge of how investments work</li><li>• Good financial industry experience</li><li>• Has access to professional investment advice</li></ul>

## What is your client's capacity to lose capital?

The portfolio can be offered to clients who are able to accept a limited fall in capital depending on their attitude to risk and those that are able to lose unlimited capital. The portfolio management service does not have any capital guarantees.

### Negative target market

- The portfolio should not be offered to clients that do not have capacity to absorb a loss.

## What is your client's risk appetite?

The client must be happy to accept some degree of investment risk. There are six different risk profiles offered in the Passive portfolio range which can be matched to the client's attitude to risk. See the equity ranges and volatility ceilings in the 'Investment Objectives' section of this document.

### Negative target market

- The portfolio should not be offered to clients who are not prepared to accept some degree of investment risk.

## How does this portfolio management service meet your client's objectives and needs?

The portfolio is designed for capital growth. However, M&G recognises that advisers may utilise the portfolios in scenarios where clients are taking regular income from capital (decumulation). In these cases, advisers should consider the impact of Sequence of Returns Risk for clients. Sequence of Returns Risk is the risk created by the order in which portfolios generate weak or strong years of performance for clients that are withdrawing funds. If portfolio returns are weak and unsustainably high income is withdrawn, this can affect the long-term value of the portfolio and its ability to meet future income needs. It affects investors who are relying on their portfolios for an income, and particularly investors in the 'decumulation' phase.

It is expected that clients would have an investment time horizon of least five years or more.

### Negative target market

- The portfolios are not designed for the preservation of capital.
- The portfolios are not suitable for investors seeking a 'smoothed', 'absolute' or 'guaranteed' return.
- The portfolios are not suitable for clients who have an investment time horizon of less than five years.
- The portfolios are not suitable for clients who require a proportion of their portfolio to be held as cash for liquidity purposes.

## How do clients invest in this product?

The portfolio management service is only available to retail clients with investment advice. The portfolios are held on a platform recommended by an adviser to the end client. The direct contractual relationship is between M&G Wealth Investments LLP and the adviser, who is treated as a professional client under MiFID. The underlying retail client is not the client of M&G Wealth Investments LLP.

### Negative target market

- The portfolios are not available to clients who do not have a financial adviser.

## Is your client vulnerable?

Advisers should consider within their initial and ongoing suitability processes whether a customer displays characteristics of vulnerability or their personal circumstances make them especially susceptible to harm, as this may impact the appropriateness of the chosen portfolio.

# What we believe gives the M&G MPS offering the edge

## Adviser and customer service

We help advisers deliver a better customer experience with our suite of marketing materials. We publish factsheets, market commentary, guides and quarterly outlooks that can be sent to retail customers.

## Investment expertise

The model portfolios draw on M&G plc's expertise in asset allocation, manager research and investment risk oversight. These resources are used as inputs for a dedicated team to build portfolios specifically for the MPS market.

## Size and scale

M&G Wealth Investments LLP is part of M&G plc, one of the UK's leading savings and investment companies, with £343.5 billion of assets under management (as at 31 December 2023). We aim to leverage the knowledge, experience and buying power of M&G plc to deliver good outcomes for clients.



# The investment process

We believe it's wise for most investors to hold a portfolio constructed from a wide range of assets, implemented with diverse managers. We aim to keep costs low and have a robust risk management framework in place. We leverage M&G plc's wide ranging investment capabilities in long term asset allocation, fund research, and risk analysis to deliver for our customers. Several teams feed into the investment process at different stages. They carry out clearly defined roles whilst also working closely together to ensure the smooth running of the portfolios.

An Investment Committee oversees the investments services offered by M&G MPS. The committee members are responsible for evaluating risk and monitoring performance.

The investment process can be broken down into five areas:

- Strategic asset allocation
- Tactical asset allocation
- Fund selection and manager oversight
- Portfolio management
- Investment risk oversight.

## Strategic Asset Allocation (SAA)

M&G Wealth Investments LLP sets the overall approach for the MPS, covering the investment objectives, permitted asset classes, liquidity requirements, cost constraints and risk profiles. The team uses analysis of the multi-asset peer group to set parameters for the regional equity allocations.

The Long-Term Investment Strategy team (LTIS) develops the asset allocation for the MPS based on the parameters. This team is part of M&G's Treasury & Investment Office (T&IO).

The process for creating the Strategic Asset Allocation is:

The team produces a set of capital market assumptions for future expected returns, volatility and correlation of different asset classes. This is completed with historical data, forward-looking analysis, and internal and external research.

The LTIS team then uses proprietary models and economic scenario generators based on these assumptions, and develop a recommended asset allocation. The asset allocation takes views on markets, based on what regions and asset classes are expected to deliver growth. The asset allocation is regularly reviewed to consider material changes in volatility or growth prospects, as well as whether new asset classes should be included.

## Tactical asset allocation

The MPS investments team adjusts the asset allocation in portfolios on a short-term basis to take advantage of situations where the team believes assets are mispriced. These short-term adjustments are the 'tactical' asset allocation component.

The MPS investments team has a time horizon of six months to one year for tactical views, although market movements will determine how long a position is maintained in portfolios.

The team can set views in three areas:

1. Equities vs. fixed income
2. Relative views in equities, such as regions or sectors
3. Relative views in fixed income, such as the duration, credit quality or region.

The MPS investments team considers the three factors below when making tactical decisions. The team only takes a position when they believe the mispricing to be significant or the opportunity has a high likelihood of being rewarded.

- **Macro:** relating to economic and market fundamentals
- **Valuation:** based on views of appropriate valuation parameters for asset classes
- **Behavioural:** resulting from short-term mispricing due to excessive pessimism or optimism, or a clear trend that is likely to be sustained.

## Fund selection and manager oversight

The Manager Oversight team within M&G's Treasury & Investment Office (T&IO) recommends the investment vehicles for the M&G MPS.

The fund selection process combines quantitative factors, including measures of performance and holdings analysis, with qualitative analysis focused on the business, people, process, philosophy and infrastructure.

The team monitors the fund managers through formal regular reviews.

## Portfolio management

The MPS investments team is responsible for portfolio construction and ongoing portfolio management.

To build portfolios, the team brings together the Strategic Asset Allocation, Tactical Asset Allocation, preferred fund managers, portfolio risk limits and cost budget. These factors are considered when selecting the funds and exact allocations within each portfolio. Portfolios are rebalanced at the discretion of the MPS investments team. The team reviews the overall exposure to different regions, sectors, asset classes and companies to ensure that the portfolio positioning is aligned with strategy.

The MPS investments team is responsible for the ongoing portfolio management and risk monitoring. The team monitors performance of the individual funds and their contribution to the overall portfolio performance. Each portfolio has a set of defined risk limits for the equity exposure, volatility and tactical asset allocation.

## Investment risk oversight

The portfolios are reviewed on a regular basis by an independent risk team within M&G plc. This provides challenge to the MPS investments team, and helps to build more robust portfolios.

# Meet some of the team behind the scenes



**Shanti Kelemen**  
Chief Investment Officer  
M&G Wealth Investments LLP

Shanti joined M&G Wealth Investments in November 2021 as Chief Investment Officer. She is responsible for the development and ongoing management of discretionary investment solutions offered by M&G Wealth Investments. Prior to joining M&G, she worked in private banking for 10 years. She held the role of Investment Director at Brown Shipley, with responsibilities for communicating investment views, improving investment processes and integrating acquired businesses. Whilst working at Coutts, she was a director on the portfolio management team, and managed multi-asset advisory and discretionary portfolios. She is a regular guest on BBC's Radio 4 Today and Wake Up to Money programmes. She holds a PCIAM qualification and a Masters in Management from the London School of Economics.



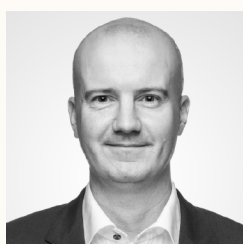
**Parit Jakhria**  
Director of Long-Term Investment Strategy  
M&G Treasury & Investment Office

Parit is responsible for the long-term investment strategy at the M&G Investment Office which includes Strategic Asset Allocation for circa £152 billion (as at 31 December 2022) of multi-asset and annuity funds, as well as providing client advice on hedging and product design. He has held this role since 2010. Prior to joining the Treasury & Investment Office, Parit undertook a variety of roles within the Prudential Group across Risk, Finance and Actuarial functions which culminated in the overall responsibility for the production of the Prudential UK's regulatory capital requirements. He graduated with a Masters in MORSE from Warwick University, covering mathematics, operational research, statistics and economics. Post-graduation, he has qualified as a Fellow of the Institute of Actuaries as well as a CFA Charter holder.



**Ciaran Mulligan**  
Co-Head Treasury & Investment Office

Ciaran joined the company in May 2015 and co-heads the Treasury & Investment Office, having previously led the Manager Oversight team. Prior to joining, Ciaran worked at Buck Consultants investment consultancy as Head of Global Research, and was Head of Research and Portfolio Manager for Fixed Income Strategies at Investment Solutions (part of the Alexander Forbes group).



**Simon Iversen**  
Co-Head Treasury & Investment Office

Simon joined the company in 2004 and co-heads the Treasury & Investment Office, having previously led the Annuity team within the Treasury & Investment Office. He has previously worked in a variety of roles at M&G and Prudential, including actuarial, risk, capital and finance. Simon holds an MA in Economics from the University of Cambridge and is a Fellow of the Institute of Actuaries.

# Asset allocation

## SAA Level 1 – asset class diversification

The Passive MPS uses an asset allocation that was developed specifically for this range of model portfolios.

The Investment Team reviews the alignment of the model portfolio to the strategic asset allocation on a regular basis. In normal market conditions, the asset allocation of the model portfolios will be close to the weights listed below. There will be differences in the weights of each asset class and these can be caused by:

- Daily market movements impacting the value of investments

- The tactical views implemented by the investment team
- A fund manager investing in an asset class that differs from the high-level classification of the fund. For example, an emerging market equity fund could include a Chinese company that is listed on a US stock exchange. This might be classified as a US equity, rather than an emerging market equity.

The following table shows strategic asset allocation by asset class, as of 2 January 2025.

### Strategic asset allocation by asset class

SAA Level 1	Passive portfolio 1	Passive portfolio 2	Passive portfolio 3	Passive portfolio 4	Passive portfolio 5	Passive portfolio 6
<b>Asset class</b>	<b>SAA weight %</b>	<b>SAA weight %</b>	<b>SAA weight %</b>	<b>SAA weight %</b>	<b>SAA weight %</b>	<b>SAA weight %</b>
UK Equity	3	6.25	8.5	10.75	13	15.5
Europe ex UK	1.75	3.75	5.25	6.75	8.25	9.5
North America Equity	5.25	10.75	14.75	19	22.75	27
Japan Equity	1.25	2.25	3.25	4	5	5.75
Asia ex Japan Equity	2.25	4.75	6.5	8.5	10	12
Emerging Market Equity	1.5	3	4	5.25	6.25	7.25
<b>Total Equity</b>	<b>15</b>	<b>30.75</b>	<b>42.25</b>	<b>54.25</b>	<b>65.25</b>	<b>77</b>

SAA Level 1	Passive portfolio 1	Passive portfolio 2	Passive portfolio 3	Passive portfolio 4	Passive portfolio 5	Passive portfolio 6
Global Property	1.25	1.5	2	2.25	2.5	2.75
Listed Infrastructure Equity	1.75	2.25	2.75	3	3.25	3.5
<b>Total Alternatives</b>	<b>3</b>	<b>3.75</b>	<b>4.75</b>	<b>5.25</b>	<b>5.75</b>	<b>6.25</b>
UK Investment Grade	24	18.5	14.25	10.25	6.75	3.5
European Investment Grade	7.75	6	4.5	3.25	2.25	1
UK Government Bonds	6.5	5.25	4.25	3.25	2.25	1.5
US Investment Grade	21.5	17	13.5	9.75	6.75	3.25
US Government Bonds	6.5	5.25	4.25	3.25	2.25	1.5
Global High Yield	3	3	2.75	2.5	2	1.25
Emerging Market Debt	7.75	7.5	7	6.25	4.75	2.75
<b>Total Fixed Income</b>	<b>77</b>	<b>62.5</b>	<b>50.5</b>	<b>38.5</b>	<b>27</b>	<b>14.75</b>
Cash	5	3	2.5	2	2	2
<b>Total Cash</b>	<b>5</b>	<b>3</b>	<b>2.5</b>	<b>2</b>	<b>2</b>	<b>2</b>

# Platform availability

The Passive portfolio range is available on 14 platforms.  
The Passive portfolios invest in mutual funds.

The list below shows platform availability:

- Quilter
- Nucleus
- Aviva
- Aegon Retirement Choices (ARC)
- Aegon Platform (previously Cofunds)
- M&G Wealth Platform
- Wealthtime (Novia)
- Transact
- Scottish Widows (previously Embark)
- Fidelity Adviser Solutions
- abrdn Wrap
- LV
- Parmenion
- Platform One

# Fund selection

This table shows the funds used in the Passive range, their asset class, and how they are managed. The information is accurate as of 2 January 2025.

In the rare instance where an appropriate passive fund is not available, we may have to select an active fund as an alternative.

Asset class	Fund name	Active/Passive
UK Equities	Fidelity Index UK Fund	Passive
Europe ex UK Equities	HSBC European Index Fund	Passive
North America Equities	Fidelity US Index Fund	Passive
North America Equities	HSBC American Index Fund	Passive
North America Equities	Fidelity US Index Fund Hedged	Passive
Japan Equities	L&G Japan Index Fund	Passive
Asia ex Japan Equities	iShares Pacific ex Japan Equity Index Fund	Passive
Emerging Market Equities	L&G Global Emerging Markets Index Fund	Passive
Global Property	iShares Environment & Low Carbon Tilt Real Estate Index Fund	Passive
Listed Infrastructure Equity	Legal & General Global Infrastructure Index Fund	Passive
UK Investment Grade	iShares Corporate Bond Index Fund	Passive
Europe Investment Grade	Vanguard Euro Investment Grade Bond Index Hedged	Passive
UK Government	L&G All Stocks Gilt Index Fund	Passive
UK Government	L&G All Stocks Index Linked Gilt Index	Passive
US Investment Grade	Vanguard US Investment Grade Credit Index Hedged Acc Fund	Passive
US Government Bonds	Vanguard US Government Bond Index GBP Hedged	Passive
Global High Yield Bonds	Federated Hermes SDG Engagement High Yield Credit Fund	Active
Emerging Market Bonds	L&G Emerging Market Gov Bond Local Currency Index Fund	Passive
Emerging Market Bonds	L&G Emerging Gov Bond (USD) Index	Passive
Money Market	Royal London Short Term Money Market Fund	n/a



# Costs and charges

Costs and charges may vary in the future. As of 2 January 2025, the costs for the Passive range were as below. The product costs will vary over time, in response to changes in the funds used within the portfolio and the tactical asset allocation of the portfolio. The product costs may also vary based on the fund share classes available on different platforms. The product costs represent the ongoing charging figure for the funds. This does not include transaction costs incurred within the platform.

Passive range	Passive portfolio 1	Passive portfolio 2	Passive portfolio 3	Passive portfolio 4	Passive portfolio 5	Passive portfolio 6
Reference codes	P-MP1, PF-MP1	P-MP2, PF-MP2	P-MP3, PF-MP3	P-MP4, PF-MP4	P-MP5, PF-MP5	P-MP6, PF-MP6
Product costs	0.13%	0.13%	0.12%	0.12%	0.11%	0.10%
M&G management fee	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
<b>Total cost</b>	<b>0.28%</b>	<b>0.28%</b>	<b>0.27%</b>	<b>0.27%</b>	<b>0.26%</b>	<b>0.25%</b>

# Investment objectives

## Investment objective for the Passive range, portfolios 1-6

The investment objective is to achieve a total return (the combination of income and growth of capital) by investing in a mix of assets from around the world, whilst aiming to limit the average volatility per annum over rolling five-year periods. The portfolio invests in equities, bonds, cash and alternatives, such as infrastructure and global real estate.

Equity exposure varies by portfolio, with the likely ranges highlighted below.

The time horizon for the strategy is five years or more.

The portfolio will be invested in predominantly passively managed investment funds. These funds typically employ quantitative techniques to achieve their objectives.

Passive range	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6
Reference codes	P-MP1 PF-MP1	P-MP2 PF-MP2	P-MP3 PF-MP3	P-MP4 PF-MP4	P-MP5 PF-MP5	P-MP6 PF-MP6
Volatility ceiling	9% pa	10% pa	12% pa	14.5% pa	17% pa	19% pa
Equity ranges	Limited exposure	Moderate exposure	Medium exposure	Significant exposure	Significant exposure	Significant exposure
Min-Max	10-30%	30-50%	40-60%	50-70%	65-85%	75-95%

# Appendix

## Appendix 1 Supporting documentation

Additional supporting documents links:

- [Sustainability report](#) from M&G plc
- M&G [Model Portfolios Service web page](#).

## Appendix 2 Risk profiling

M&G has worked with a number of risk profiling companies to assess our MPS Passive range and reports are available from the following:

- Distribution Technology (Dynamic Planner)
- Defaqto
- Oxford Risk
- E-Value.

## Appendix 3 Business Resilience and Recovery

M&G plc's Business Resilience and Recovery approach includes:

### Business resilience

- M&G plc has documented plans to allow appropriate responses to interruptions to business as usual at a departmental level. Plans are maintained by department managers for localised incidents. An annual assurance programme is in place, with results reported to the Operational Resilience Forum (ORF).
- M&G plc has a wider Operational Resilience programme in flight to implement heightened resilience capabilities for the business services that are most important to our customers.

### IT disaster recovery

- M&G plc plans for loss of data centre or failure of critical enterprise architecture or applications. Detailed plans are maintained by relevant Technology teams.

### Incident management

- M&G plc implements a defined framework by which actual or potential disruptions are identified, escalated and managed. This is supported by an annual exercising schedule.

### Third party oversight

- M&G plc has identified its critical dependencies on third parties and manages these through a rigorous review and assessment programme, undertaking due diligence around operational resilience, business and IT recoverability.

### Pandemic response

- M&G plc has established effective measures to mitigate any potential disruption from future pandemic scenarios. These measures are an extension of the firm's well-established Business Resilience programme.

## Appendix 4 Proposition Development Framework

M&G has a Propositional Development Framework which is designed to consider the requirements of FCA PROD rules and guidance. It is overseen and challenged by committees and individuals with delegated authority. Oversight occurs throughout the development cycle to make sure we develop and review our services in a consistent and well-controlled way.

The framework includes the following steps:

1. **Imagine/Create** – initial ideas generated.
2. **Proposition Design** – designed with input from across our business including our customer committee, customer insights team and proposition governance committee.
3. **Solution Design and Development** – we use an iterative approach, adopting agile development and market testing. We continuously loop back to check that our solution meets the target customer requirements.
4. **Deliver** – this is where we build the solution and get it ready for implementation.
5. **Launch** – we assess readiness and create a plan for after the launch.
6. **Manage/Run** – we review what we're delivering and challenge ourselves to continually deliver good customer outcomes, in a manner that's aligned with our firm's strategy.

## Appendix 5 Service Value Assessment

M&G publishes a Service Value Assessment (the 'Assessment') for the Passive Range on an annual basis. The Assessment is designed to help you to see whether M&G is delivering value for customers. It covers the quality of the service, whether the service is competitively priced and long-term investment performance. You can view the most recent Assessment on our [website](#).

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