

Passive Portfolio Changes

Portfolio Change Rationale – Effective February 2021

**Morningstar Investment Management
Europe Limited**
24th February 2021



Mark Murray
Investment Analyst



Nicolo Bragazza
Investment Analyst

For Professional Clients only

Benefits of the change

The changes to the Passive Portfolios detailed in this document aim to improve the total portfolio outcomes. In light of the opportunities and challenges ahead of us, we believe these changes are for the benefit of investors.

The key changes are outlined below:

➤ **Recalibration of fixed income exposure**

Credit spreads have tightened over the last months and this has reduced the returns we expect from credits going forward. Therefore, we have removed the exposure to Emerging Market Bonds in hard currency, as their attractiveness has been decreasing and they were the main source of credit risk in the portfolios. Along with EM debt, we have reduced the exposure to both Global and UK corporate bonds. We see this as a good opportunity to recalibrate our fixed income exposure offering more protection via higher exposure to government bonds and slightly higher duration. Overall, we have reduced our exposure to fixed income.

➤ **Increase in money markets exposure**

Low yields across developed markets make holding higher levels of cash more attractive, allowing us to increase it and to keep some dry powder to exploit new opportunities presenting themselves.

➤ **Introduction of Pacific ex Japan equities and carefully increasing equities**

Overall, we have slightly increased the equity exposure of the portfolios via UK equities that are still representing one of the most attractive asset class in our universe. Along with this, we have reduced our exposure to Japanese equities, amid lower relative attractiveness, and we have introduced a new position in Pacific ex Japan, to increase the geographic diversification and to more appropriately size our exposure to opportunities in this area, such as Taiwan and Korea.

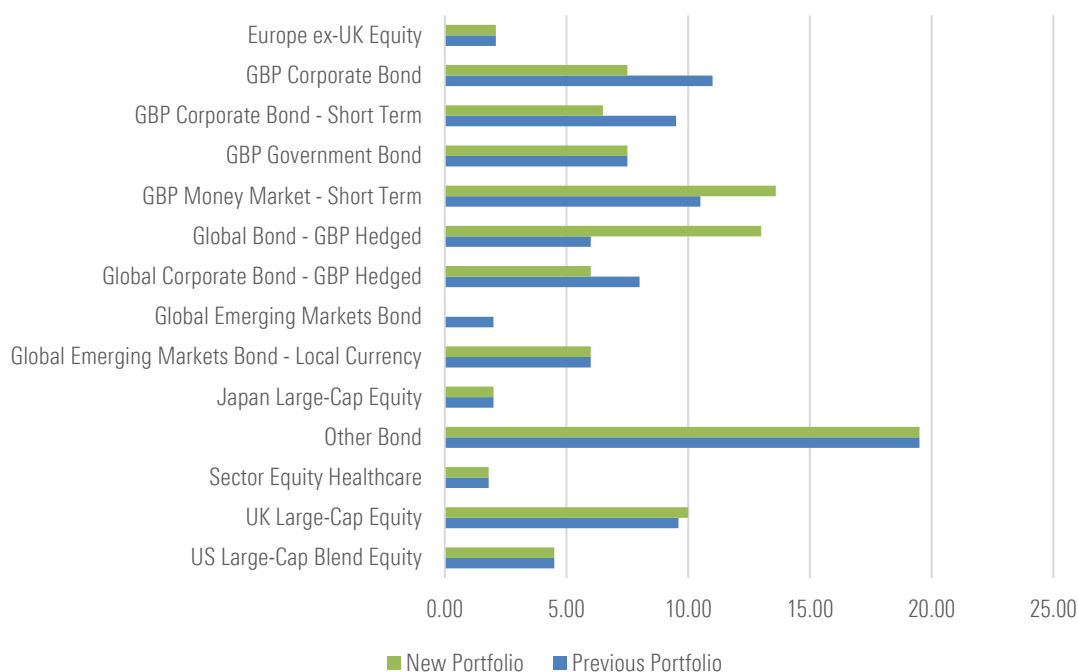
Bringing this together, we wish to reiterate our belief that this change is in the best interests of investors. We continue to monitor the proceedings closely and remain focused on helping investors achieve their goals over the long term.

Morningstar Cautious Passive Portfolio

Perspective on the impact of the changes

The portfolio changes are as follows:

- Fixed Income: 3.5% decrease in overall weighting, increasing exposure to Global Bond - GBP Hedged with a decrease in GBP Corporate Bond, GBP Corporate Bond - Short Term and Global Corporate Bond - GBP Hedged, and removing Global Emerging Markets Bond.
- Equities: 0.4% increase in UK Large-Cap Equity.
- Money Market: 3.1% increase in GBP Money Market – Short Term.



Morningstar Cautious Passive Portfolio

Summary of the new portfolio positioning

There were no fund additions to the portfolio.

The following fund was removed from the portfolio:

- L&G Emerging Markets Government Bond US\$ Index

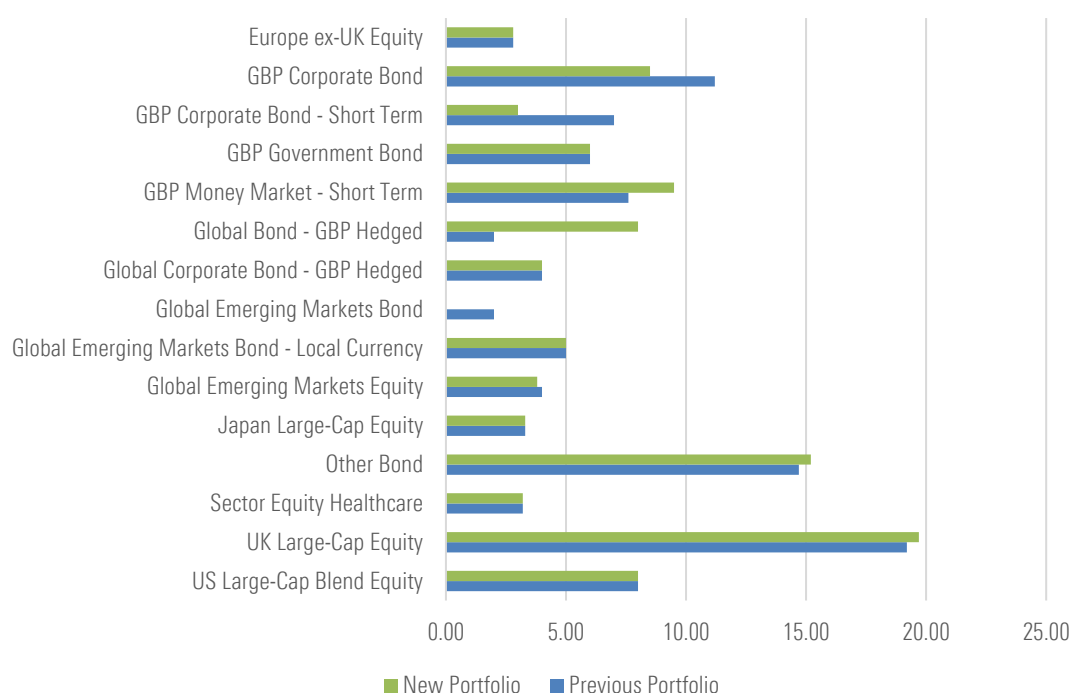
Morningstar Category	Fund Name	Change (%)	Weight (%)
Europe ex-UK Equity	Vanguard FTSE Dev Epe ex-UK Eq Idx £ Acc		2.10
Japan Large-Cap Equity	iShares Japan Equity Index (UK) H Acc		2.00
Sector Equity Healthcare	L&G Global Health & Pharma Index I Acc		1.80
UK Large-Cap Equity	L&G UK 100 Index I Acc	0.40	10.00
US Large-Cap Blend Equity	Vanguard U.S. Eq Idx £ Acc		4.50
Equity Total			20.40
GBP Corporate Bond	BlackRock Corporate Bond 1-10 Year D Acc	-3.50	7.50
GBP Corporate Bond - Short Term	L&G Short Dated £ Corporate Bd Idx I Acc	-3.00	6.50
GBP Government Bond	iShares UK Gilts All Stks Idx (UK) H Acc		7.50
Global Bond - GBP Hedged	Vanguard Glb Bd Idx £ H Acc	7.00	13.00
Global Corporate Bond - GBP Hedged	Vanguard Glb Corp Bd Idx £ H Acc	-2.00	6.00
Global Emerging Markets Bond	L&G EM Govt Bond US\$ Index I Acc	-2.00	0.00
Global Emerging Markets Bond - Local Currency	L&G EM Govt Bond Lcl Ccy Index I Acc		6.00
Other Bond	Vanguard U.S. Govt Bd Idx £ H Acc		19.50
Fixed Income Total			66.00
GBP Money Market - Short Term	Royal London Short Term Money Mkt Y Acc	3.10	13.60
Money Market Total			13.60
TOTAL			100.00

Morningstar Moderately Cautious Passive Portfolio

Perspective on the impact of the changes

The portfolio changes are as follows:

- Fixed Income: 2.2% decrease in overall weighting, increasing exposure to Global Bond - GBP Hedged and US Treasuries GBP Hedged (indicated as Other Bonds in the charts) with a decrease in GBP Corporate Bond and GBP Corporate Bond - Short Term, and removing Global Emerging Markets Bond.
- Equities: 0.3% increase in overall weighting, increasing UK Large-Cap Equity with a decrease in Global Emerging Markets Equity.
- Money Market: 1.9% increase in GBP Money Market – Short Term.



Morningstar Moderately Cautious Passive Portfolio

Summary of the new portfolio positioning

There were no fund additions to the portfolio.

The following fund was removed from the portfolio:

- L&G Emerging Markets Government Bond US\$ Index

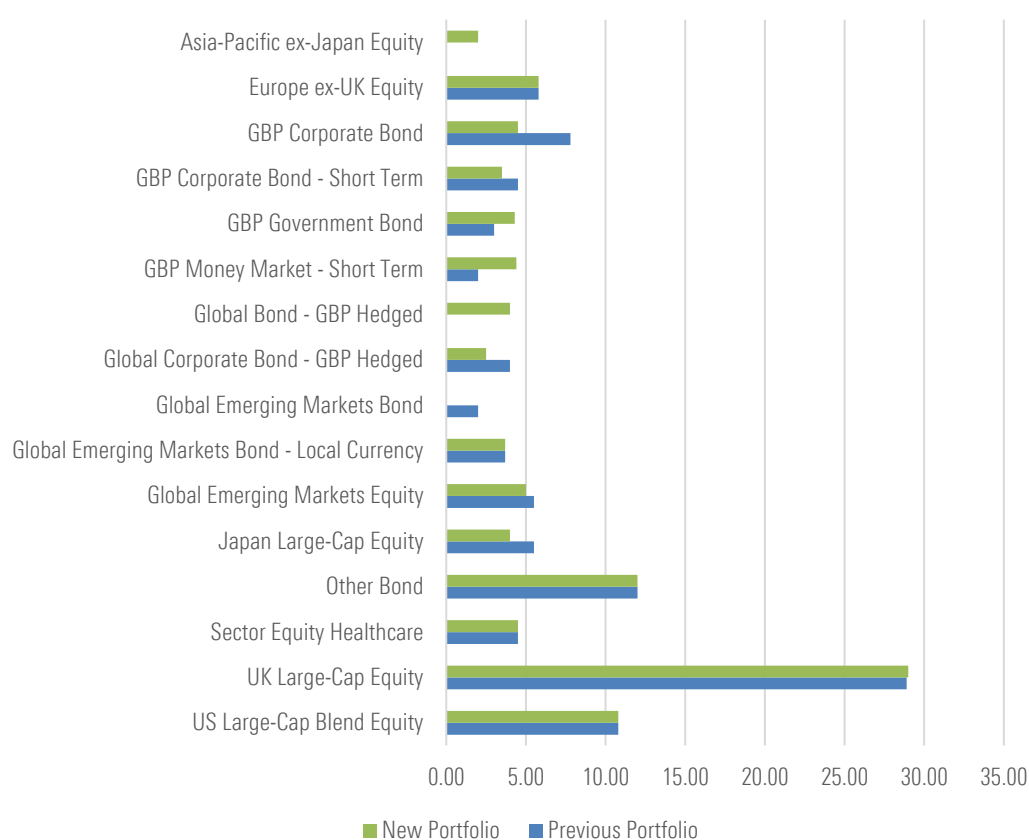
Morningstar Category	Fund Name	Change (%)	Weight (%)
Europe ex-UK Equity	Vanguard FTSE Dev €pe ex-UK Eq Idx £ Acc		2.80
Global Emerging Markets Equity	Vanguard Em Mkts Stk Idx £ Acc	-0.20	3.80
Japan Large-Cap Equity	iShares Japan Equity Index (UK) H Acc		3.30
Sector Equity Healthcare	L&G Global Health & Pharma Index I Acc		3.20
UK Large-Cap Equity	L&G UK 100 Index I Acc	0.50	19.70
US Large-Cap Blend Equity	Vanguard U.S. Eq Idx £ Acc		8.00
Equity Total			40.80
GBP Corporate Bond	BlackRock Corporate Bond 1-10 Year D Acc	-2.70	8.50
GBP Corporate Bond - Short Term	L&G Short Dated £ Corporate Bd Idx I Acc	-4.00	3.00
GBP Government Bond	iShares UK Gilts All Stks Idx (UK) H Acc		6.00
Global Bond - GBP Hedged	Vanguard Glb Bd Idx £ H Acc	6.00	8.00
Global Corporate Bond - GBP Hedged	Vanguard Glb Corp Bd Idx £ H Acc		4.00
Global Emerging Markets Bond	L&G EM Govt Bond US\$ Index I Acc	-2.00	0.00
Global Emerging Markets Bond - Local Currency	L&G EM Govt Bond Lcl Ccy Index I Acc		5.00
Other Bond	Vanguard U.S. Govt Bd Idx £ H Acc	0.50	15.20
Fixed Income Total			49.70
GBP Money Market - Short Term	Royal London Short Term Money Mkt Y Acc	1.90	9.50
Money Market Total			9.50
TOTAL			100.00

Morningstar Moderate Passive Portfolio

Perspective on the impact of the changes

The portfolio changes are as follows:

- Fixed Income: 2.5% decrease in overall weighting, introducing Global Bond - GBP Hedged, increasing exposure to GBP Government Bond with a decrease in GBP Corporate Bond, GBP Corporate Bond - Short Term and Global Corporate Bond - GBP Hedged, and removing Global Emerging Markets Bond.
- Equities: 0.1% increase in overall weighting, introducing Asia-Pacific ex-Japan Equity, increasing UK Large-Cap Equity with a decrease in Global Emerging Markets Equity and Japan Large-Cap Equity.
- Money Market: 2.4% increase in GBP Money Market – Short Term.



Morningstar Moderate Passive Portfolio

Summary of the new portfolio positioning

The following funds were added to the portfolio:

- iShares Pacific ex Japan Equity Index (UK)
- Vanguard Global Bond Index

The following fund was removed from the portfolio:

- L&G Emerging Markets Government Bond US\$ Index

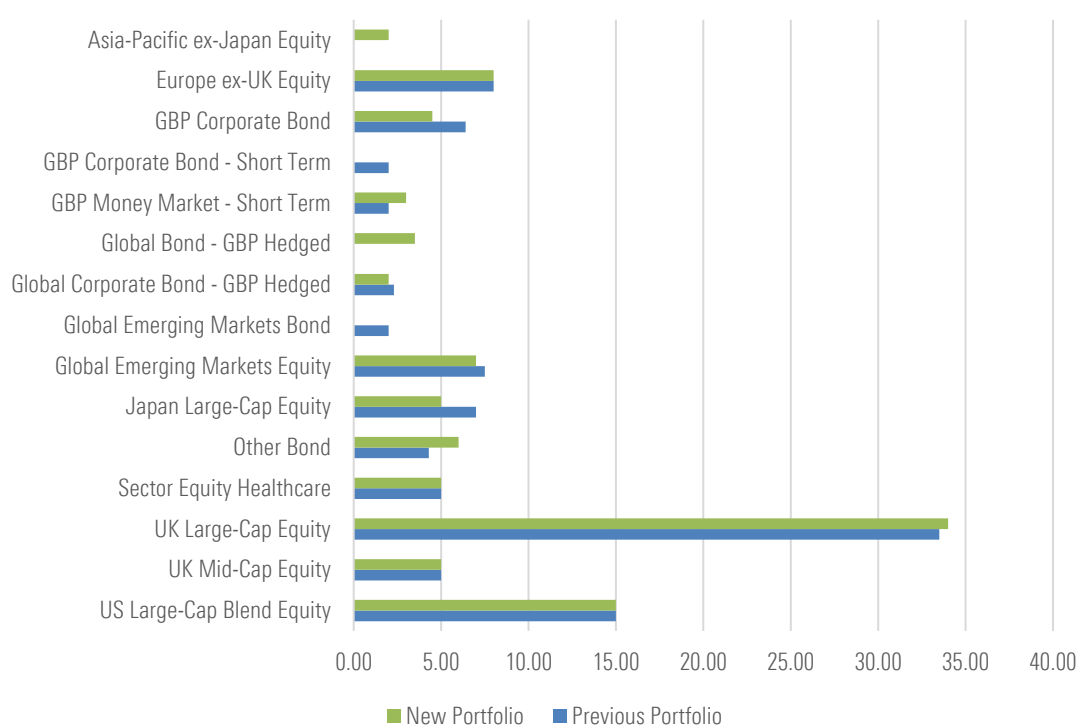
Morningstar Category	Fund Name	Change (%)	Weight (%)
Asia-Pacific ex-Japan Equity	iShares Pacific ex Jpn Eq Idx (UK) D Acc	2.00	2.00
Europe ex-UK Equity	Vanguard FTSE Dev €pe ex-UK Eq Idx £ Acc		5.80
Global Emerging Markets Equity	Vanguard Em Mkts Stk Idx £ Acc	-0.50	5.00
Japan Large-Cap Equity	iShares Japan Equity Index (UK) H Acc	-1.50	4.00
Sector Equity Healthcare	L&G Global Health & Pharma Index I Acc		4.50
UK Large-Cap Equity	Fidelity Index UK P Acc	0.10	11.00
UK Large-Cap Equity	L&G UK 100 Index I Acc		18.00
US Large-Cap Blend Equity	Vanguard U.S. Eq Idx £ Acc		10.80
Equity Total			61.10
GBP Corporate Bond	BlackRock Corporate Bond 1-10 Year D Acc	-3.30	4.50
GBP Corporate Bond - Short Term	L&G Short Dated £ Corporate Bd Idx I Acc	-1.00	3.50
GBP Government Bond	iShares UK Gilts All Stks Idx (UK) H Acc	1.30	4.30
Global Bond - GBP Hedged	Vanguard Glb Bd Idx £ H Acc	4.00	4.00
Global Corporate Bond - GBP Hedged	Vanguard Glb Corp Bd Idx £ H Acc	-1.50	2.50
Global Emerging Markets Bond	L&G EM Govt Bond US\$ Index I Acc	-2.00	0.00
Global Emerging Markets Bond - Local Currency	L&G EM Govt Bond Lcl Ccy Index I Acc		3.70
Other Bond	Vanguard U.S. Govt Bd Idx £ H Acc		12.00
Fixed Income Total			34.50
GBP Money Market - Short Term	Royal London Short Term Money Mkt Y Acc	2.40	4.40
Money Market Total			4.40
TOTAL			100.00

Morningstar Moderately Adventurous Passive Portfolio

Perspective on the impact of the changes

The portfolio changes are as follows:

- Fixed Income: 1% decrease in overall weighting, introducing Global Bond - GBP Hedged, increasing exposure to GBP Government Bond and US Treasuries GBP Hedged (indicated as Other Bonds in the charts) with a decrease in GBP Corporate Bond, and Global Corporate Bond - GBP Hedged, and removing GBP Corporate Bond - Short Term and Global Emerging Markets Bond.
- Equities: No change in overall weighting, introducing Asia-Pacific ex-Japan Equity, increasing UK Large-Cap Equity with a decrease in Global Emerging Markets Equity and Japan Large-Cap Equity.
- Money Market: 1% increase in GBP Money Market – Short Term.



Morningstar Moderately Adventurous Passive Portfolio












Summary of the new portfolio positioning

The following funds were added to the portfolio:

- iShares Pacific ex Japan Equity Index (UK)
- Vanguard Global Bond Index

The following funds were removed from the portfolio:

- L&G Short Dated £ Corporate Bond Index
- L&G Emerging Markets Government Bond US\$ Index

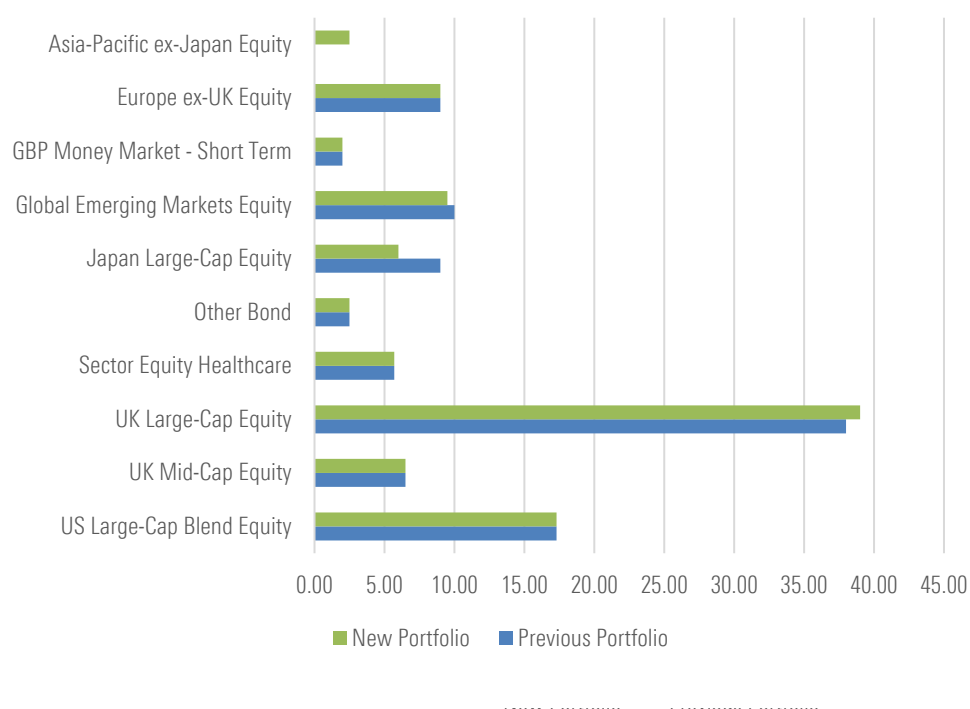
Morningstar Category	Fund Name		Change (%)	Weight (%)
Asia-Pacific ex-Japan Equity	iShares Pacific ex Jpn Eq Idx (UK) D Acc		2.00	2.00
Europe ex-UK Equity	Vanguard FTSE Dev €pe ex-UK Eq Idx £ Acc			8.00
Global Emerging Markets Equity	Vanguard Em Mkts Stk Idx £ Acc		-0.50	7.00
Japan Large-Cap Equity	iShares Japan Equity Index (UK) H Acc		-2.00	5.00
Sector Equity Healthcare	L&G Global Health & Pharma Index I Acc			5.00
UK Large-Cap Equity	Fidelity Index UK P Acc		0.50	15.50
UK Large-Cap Equity	L&G UK 100 Index I Acc			18.50
UK Mid-Cap Equity	HSBC FTSE 250 Index C Acc			5.00
US Large-Cap Blend Equity	Vanguard U.S. Eq Idx £ Acc			15.00
Equity Total				81.00
GBP Corporate Bond	BlackRock Corporate Bond 1-10 Year D Acc		-1.90	4.50
GBP Corporate Bond - Short Term	L&G Short Dated £ Corporate Bd Idx I Acc		-2.00	0.00
Global Bond - GBP Hedged	Vanguard Glb Bd Idx £ H Acc		3.50	3.50
Global Corporate Bond - GBP Hedged	Vanguard Glb Corp Bd Idx £ H Acc		-0.30	2.00
Global Emerging Markets Bond	L&G EM Govt Bond US\$ Index I Acc		-2.00	0.00
Other Bond	Vanguard U.S. Govt Bd Idx £ H Acc		1.70	6.00
Fixed Income Total				16.00
GBP Money Market - Short Term	Royal London Short Term Money Mkt Y Acc		1.00	3.00
Money Market Total				3.00
TOTAL				100.00

Morningstar Adventurous Passive Portfolio

Perspective on the impact of the changes

The portfolio changes are as follows:

- Fixed Income: no change to the Fixed Income allocation
- Equities: No change in overall weighting, introducing Asia-Pacific ex-Japan Equity, increasing UK Large-Cap Equity with a decrease in Global Emerging Markets Equity and Japan Large-Cap Equity.
- Money Market: no change to the Money Market allocation.








Morningstar Adventurous Passive Portfolio

Summary of the new portfolio positioning

The following fund was added to the portfolio:

- iShares Pacific ex Japan Equity Index (UK)

There were no fund removals from the portfolio.

Morningstar Category	Fund Name	Change (%)	Weight (%)
Asia-Pacific ex-Japan Equity	iShares Pacific ex Jpn Eq Idx (UK) D Acc	 2.50	2.50
Europe ex-UK Equity	Vanguard FTSE Dev Epe ex-UK Eq Idx £ Acc		9.00
Global Emerging Markets Equity	Vanguard Em Mkts Stk Idx £ Acc	 -0.50	9.50
Japan Large-Cap Equity	iShares Japan Equity Index (UK) H Acc	 -3.00	6.00
Sector Equity Healthcare	L&G Global Health & Pharma Index I Acc		5.70
UK Large-Cap Equity	Fidelity Index UK P Acc	 0.50	19.50
UK Large-Cap Equity	L&G UK 100 Index I Acc	 0.50	19.50
UK Mid-Cap Equity	HSBC FTSE 250 Index C Acc		6.50
US Large-Cap Blend Equity	Vanguard U.S. Eq Idx £ Acc		17.30
Equity Total			95.50
Other Bond	Vanguard U.S. Govt Bd Idx £ H Acc		2.50
Fixed Income Total			2.50
GBP Money Market - Short Term	Royal London Short Term Money Mkt Y Acc		2.00
Money Market Total			2.00
TOTAL			100.00

Please note

The portfolio composition reflects the changes made to the model portfolios and the actual changes may vary from platform to platform. Please check with the individual platform regarding the recent changes. For instance, a fund may not be available on all platforms and hence it is not always possible for us to replicate the model portfolios through all platforms. In this case, different funds will be used and weightings may also differ for portfolio construction reasons. Our aim is for this to be temporary as we work closely with the platforms to get additional funds added, however, this is not always possible for platform-specific reasons. The changes noted in this document are based on the previous target weightings of the portfolios and does not take into consideration the effects of market drift.

Risk Warnings

This commentary does not constitute investment, legal, tax or other advice and is supplied for information purposes only. Morningstar Investment Management Europe Limited cannot guarantee positive results from our investment decisions, and we cannot guarantee that our portfolios will meet their objectives or that losses will be avoided in any of the portfolios. Past performance is not a guide to future returns. The value of investments may go down as well as up and an investor may not get back the amount invested. Reference to any specific security is not a recommendation to buy or sell that security. The information, data, analyses, and opinions presented herein are provided as of the date written and are subject to change without notice. Every effort has been made to ensure the accuracy of the information provided, but Morningstar Investment Management Europe Limited makes no warranty, express or implied regarding such information. The information presented herein will be deemed to be superseded by any subsequent versions of this commentary. Except as otherwise required by law, Morningstar Investment Management Europe Limited shall not be responsible for any trading decisions, damages or losses resulting from, or related to, the information, data, analyses or opinions or their use.

Morningstar Investment Management Europe Limited Disclosure

The Morningstar Managed Portfolios are offered by Morningstar Investment Management Europe Limited which is the entity providing the discretionary management services. Morningstar Investment Management Europe Limited is authorised and regulated by the UK Financial Conduct Authority to provide services to Professional clients. Morningstar Managed Portfolios are intended for citizens or legal residents of the United Kingdom. These portfolios can only be made available through the use of an Investment Adviser appropriately authorised and regulated by the Financial Conduct Authority. Registered Office: 1 Oliver's Yard, 55-71 City Road, London, EC1Y 1HQ.

Our investment principles



We put investors first



We're independent-minded



We invest for the long term



We're valuation-driven investors



We take a fundamental approach



We strive to minimise costs



We build portfolios holistically