

FOR PROFESSIONAL FINANCIAL ADVISERS ONLY

# MPS Analysis

**BUCKINGHAM**

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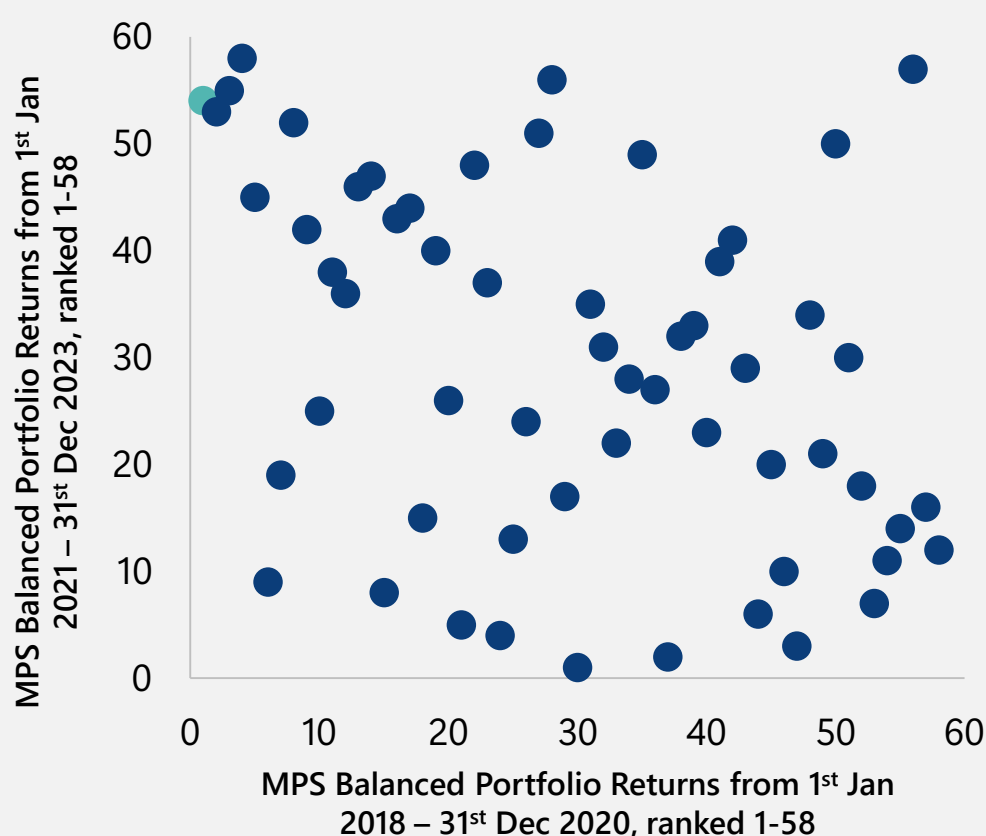
RESEARCH





With a proliferation of MPS launches, IFAs need more support when it comes to assessing their approved panel of providers. Importantly, this should come from an expert that is truly independent.

Performance is often the primary factor IFAs consider when assessing MPS providers. However, research suggests this approach may be flawed.



“No correlation between historical and future MPS performance.”

Source: Morningstar, 2024

Above shows ranks of balanced (i.e. in Morningstar’s 40-60% equity allocation) MPS portfolio returns for the **two discrete 3-year periods**: (1) 1<sup>st</sup> Jan 2018 – 31<sup>st</sup> Dec 2020; and (2) 1<sup>st</sup> Jan 2021 – 31<sup>st</sup> Dec 2023. Zooming in on the **teal dot** in the top left, this dot represents a **balanced MPS that ranked 1<sup>st</sup>** for performance in the first discrete 3-year period to end of 2020, but then the following 3-year period dropped to rank **54<sup>th</sup>** (out of 58!).

Zooming back out, you can see at best there was **no correlation between historical and future performers** – and at worst, a slight negative correlation. Buckingham Research has repeated this process going back a further 3 years, as well as running it with 5-year periods instead, and all have the same uncorrelated result.



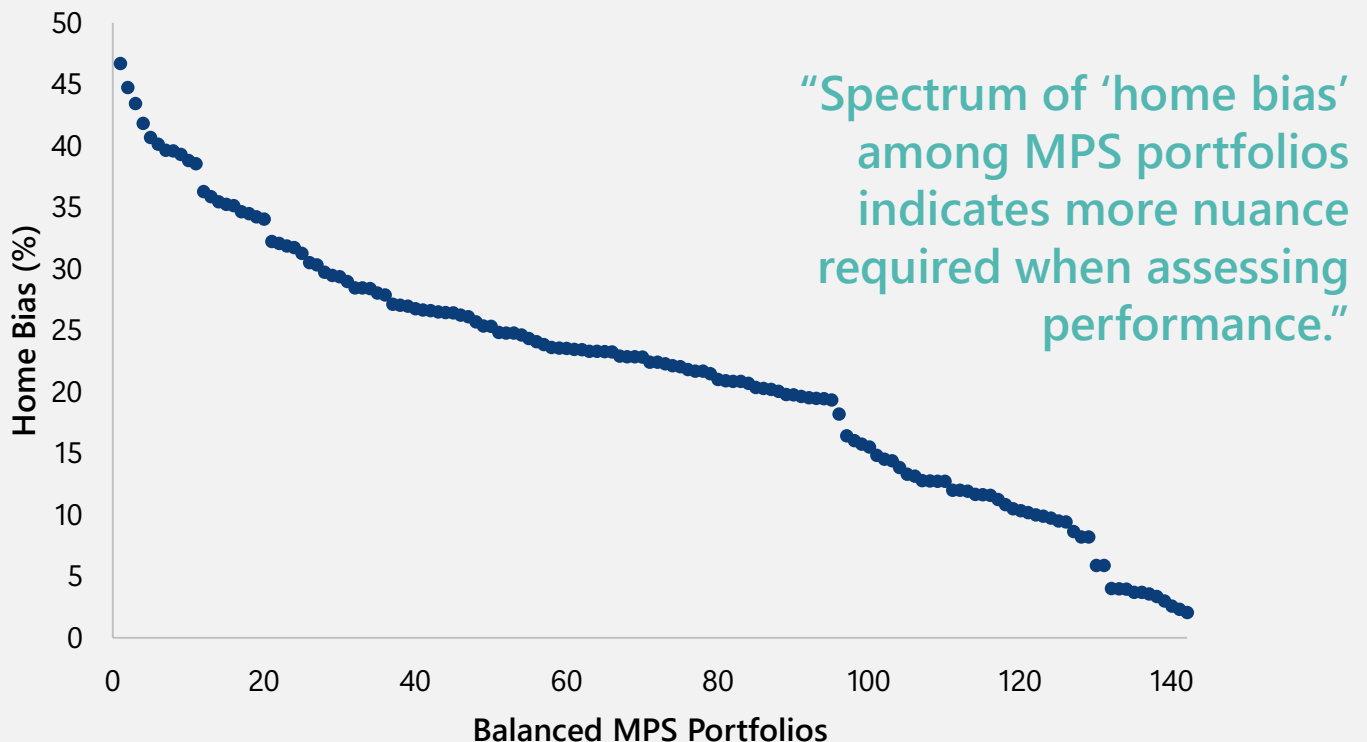
There are several reasons why performance of an MPS can revert so emphatically. That is why **understanding their return drivers in greater depth is vital**. Reasons can be attributed to either asset allocation (SAA and TAA) or fund selection, including (but not limited to):

- **Concentrated exposure to certain factor(s).** This factor may have outperformed for a period, but the MPS retained exposure as it started to underperform.
- **Asset allocation at the edge of risk level range.** In a risk level where equity exposure varies 20% (e.g. 40-60% category), relative performance is largely driven by where they sit within this range.
- **Different approach to SAA.** Different processes and objectives will result in meaningfully different SAAs and therefore return profiles. This could be at a high asset class level, or more nuanced, such as the below.

## FOR EXAMPLE

An MPS with a global SAA approach to equities may show optically high returns relative to a broad peer group due to its large US exposure. However, this may have masked value-detraction from TAA and fund selection decisions. This is important as the global approach will not always work in their favour. When it doesn't, underperformance could be compounded by additional poor TAA and fund selection decisions.

Even portfolios classified within the same 'balanced' category can vary significantly in their equity strategy. The chart below illustrates how different MPS providers allocate UK equities, i.e. 'home bias', which is the proportion of equity exposure allocated to the UK.



Source: Morningstar, 2024



The above issues that IFAs face is due to an **'MPS asymmetric information gap'**. Buckingham Research has **developed unique analysis** to be able to bridge this gap for IFAs, from an **independent and expert perspective**.

Analyses is collated into a **thorough 'MPS Analysis' report**, which follows the below **7 steps**:

1

### PORTFOLIO CONSTRUCTION & HOLDINGS ANALYSIS:

- Comments on current **portfolio holdings and construction** approach, identifying positive things but also areas that could be worth questioning.
- **Equity style** exposures.
- **Equity regional** exposures.
- **Fixed income exposure** (duration, sub asset class split).
- Alternatives exposure.

### PERFORMANCE ANALYSIS – PEER COMPARISON:

- Performance metrics **relative to broader peer group**.
- Performance metrics **relative to a focused peer group** that is **custom-built** to be the most comparable. This is focused on their 'balanced' equivalent portfolio.

2

3

### TACTICAL ASSET ALLOCATION ANALYSIS:

- Historical **asset class** allocations.
- Historical **equity regions** allocations.
- Historical **fixed income sub asset class** allocations.
- This is based on our own custom classification of funds in line with our asset class matrix to **ensure standardisation** and **ability to compare accurately**.
- This is focused on their 'balanced' equivalent portfolio.





## FUND SELECTION ANALYSIS (EQUITY & FIXED INCOME):

- A methodology Buckingham Research created that allows you to see the **value added/detracted by fund selection**.
- 'Long Term View' looks at the journey of this value addition/detraction through history.
- 'Short Term View' focuses in on detailed performance attribution over a more recent time period.
- This is focused on their 'balanced' equivalent portfolio.

4

5

## FUND SELECTION ANALYSIS (ALTERNATIVES):

- Analysis of current Alternatives fund holdings, with a view on the value they are adding to the portfolio from a **return and/or diversification perspective**.
- Alternatives are split out from Equity and Fixed Income above due to a lack of comparable benchmarks in the asset class.

## COST ANALYSIS:

- Current portfolio costs broken down and compared against the custom-built, focused peer group used for step (2).
- Historical view of costs.

6

7

## RISK MANAGEMENT:

- Any comments I think are worthwhile highlighting (e.g. rebalancing approach).



Buckingham Research has developed an **ongoing service** to give you **greater insight into your MPS providers**. After onboarding, the client journey can be outlined in two stages.

## 1 Initial

## 2 Ongoing

### INITIAL

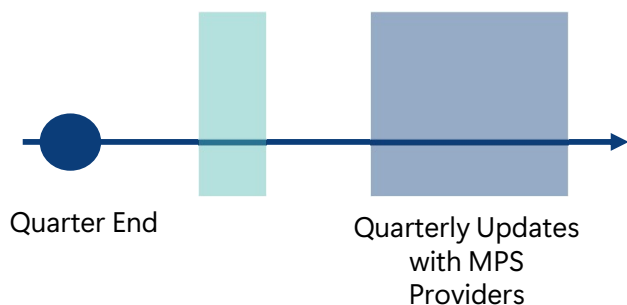
- **Meeting 1:** Discussion of your MPS providers and objectives.
- **Comprehensive Report:** Analysis on selected providers.
- **Meeting 2:** Review finding and address any questions.

### 'MPS Analysis Report'

Professional Investors Only	
<b>BUCKINGHAM RESEARCH</b>	
MPS Analysis	
XYZ Wealth Management	
1	

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### 'Prep Pack' Webinar



### ONGOING

- **Quarterly 'Prep Pack' Webinar and Report:** Prepares you for upcoming meetings with providers.
- **Biannual Review Meetings:** Review and catch up.
- **Ad-Hoc Queries:** Ongoing support for specific MPS concerns.

# How to Get Started

For a confidential discussion on how our analysis can support your MPS decision-making, contact:



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[www.buckingham-research.com](http://www.buckingham-research.com)

Ensure your MPS panel is robust, transparent and optimally structured for your clients.

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