Investment & Portfolio Solutions Group

BlackRock

Portfolio construction in the new regime: key trends

September 2024

The investment landscape is being reshaped by a new regime of greater macro and market volatility, in a world driven by supply constraints. We see a number of unfolding structural trends ('mega forces') at play, including the transition to a low-carbon economy; digital disruption and artificial intelligence (AI); demographic divergence; geopolitical fragmentation and economic competition; and the future of finance – structural shifts in public financing markets that are enabling private debt to expand its addressable market.

Some of these trends are interconnected – for example, AI is one area where we see economic competition unfolding between countries, while the power-hungry nature of AI data centres, combined with tech company net-zero and renewable energy targets, impact the energy transition.

In this study, BlackRock's Investment & Portfolio Solutions Group analyses how investors' portfolio construction practices have evolved in the new regime and how they are incorporating mega forces into their investment process. To that end, we surveyed 54 Wealth[1] and Asset Management investors on this topic, and looked at over 250 largest multi-asset moderate portfolios in EMEA in Q2[2] to see how these trends manifested themselves in actual portfolios.

Investors are getting more agile...

Over 70% of respondents review their asset allocation at least quarterly, and most are using a wide range of investment vehicles. We think investors need to be more dynamic in portfolios in the new regime.

...and positioning for mega forces...

Over 95% of respondents have incorporated at least one of the five mega forces in their investment process – and we expect this figure to grow.

...with a focus on AI and the transition

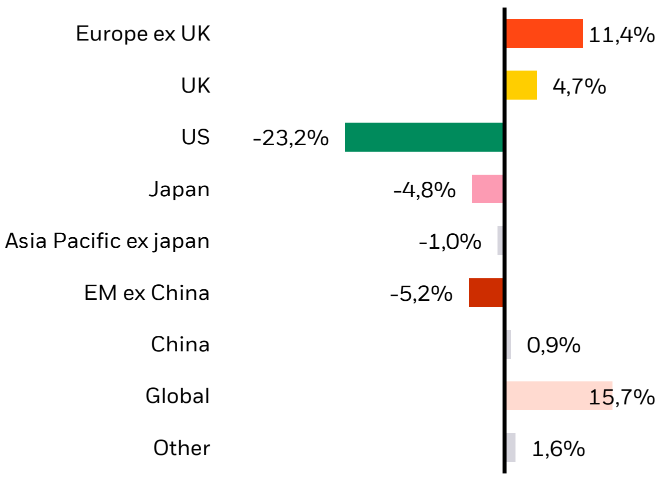
The most popular mega forces have been digital disruption and AI (c.90%) and the low-carbon transition (c.60%). Key challenges include maintaining performance, and avoiding regional, sector and style biases.

Portfolio construction approaches in the new regime

The majority of respondents (>70%) report they review their asset allocation at least once every three months, with most doing so monthly. 30% have increased the frequency of their asset allocation changes in the last 12 months. In the new regime of macro and market volatility, we think investors need to be more dynamic with their asset allocation – the cost of getting the asset mix wrong may be much higher than in the past – and monitor risk and stress test portfolios more frequently.

In terms of asset allocation, if we compare the average EMEA portfolio to BlackRock's EUR Strategic model, we observe an underweight to US equities and accordingly the tech sector, given the domestic bias of European investors. Meanwhile, the underweight to Japanese equities that we highlighted in Q1 has been closing for a select group of portfolios (but overall, we see room for Japanese equity exposure in the sample to grow broader). In fixed income, we observed underweights to rates – which could offer an opportunity to lock in elevated yields in the current rate environment.

Regional equity sleeve differences[3]



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance.

1 Wealth includes independent financial advisors / wealth managers, private and retail banks and unit-linked insurance.
2, 3 Source: BlackRock Portfolio Consulting EMEA, BlackRock Aladdin, Morningstar, June 2024. Portfolio average allocation based on 256 moderate risk multi-asset EMEA domiciled portfolios collected by between 30/04/2024 – 28/06/2024. We also show the BlackRock MPS EUR Strategic Moderate Model as of 20/06/2024. For Illustrative purposes only, and subject to change.

Investors are using a wide range of implementation vehicles: most respondents (c.90%) use index funds/ETFs to implement their asset allocation views, followed by alpha-seeking funds/ETFs (c.70%), with single-lines stocks and bonds being relatively less popular (c.60%). The choice of implementation vehicles depends on the risk and alpha targets, fees and operational budgets, liquidity considerations, and how much control investors want to have over their asset allocation: index mutual funds and index ETFs allow investors to have full control of market timing and asset allocation decisions in a quick, cost-efficient manner, while alpha-seeking strategies enable investors to outsource market timing decisions, security selection and volatility management to an active manager. Overall, we see attractive alpha opportunities within equities and credit – for investors who have access to highly-skilled managers – yet prefer beta within government bonds.

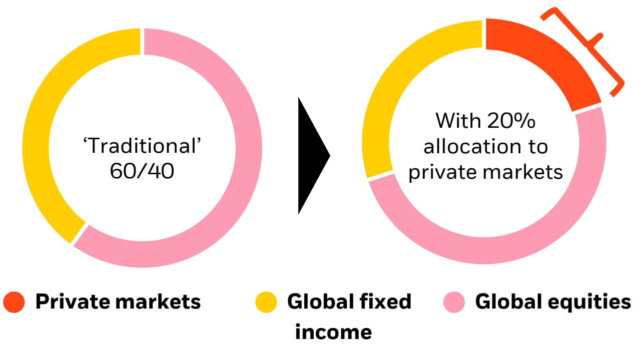
Increasingly, we are seeing investors blending index and alpha-seeking strategies within their portfolios, with alpha-seeking funds aiming to outperform the market and index exposures being used to enhance portfolio resilience in times of market volatility, implement overweights and underweights versus strategic asset allocation, and gain quick exposure to new investment opportunities. We also see usage of active ETF strategies emerging as a portfolio construction trend.

Getting active with ETFs

Investors are increasingly seeking actively managed strategies amid today's higher volatility, and they're frequently choosing to access them through ETFs due to the wrapper's benefits, including efficiency and transparency. The active ETF universe is broad, with three distinct categories: alpha-seeking, outcomes, and exposures. We see active ETFs becoming an increasingly important part of investor toolkits, alongside mutual funds, closed-end funds (including private markets), separately managed accounts, and index ETFs.

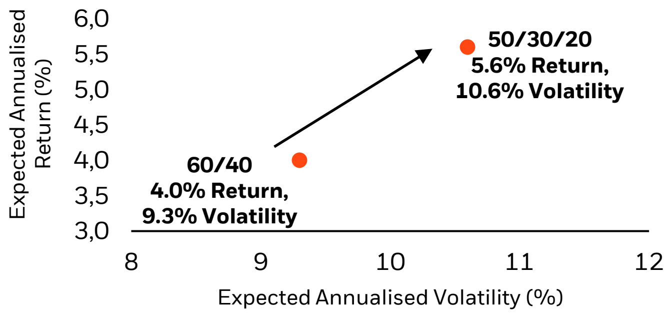
Private markets are becoming increasingly popular among EMEA Wealth and Asset Managers, with c.40% of respondents planning to allocate to private equity, c.30% to private debt, and c.30% to real estate in the next 12 months. This is supported by the ELTIF 2.0 regime, which simplifies investor suitability and offers DPMs the ability to change allocations over time due to their open-ended nature. Private market exposures may provide investors with differentiated sources of risk and return against increased uncertainty around equity/bond correlations, which challenge the role of long duration government bonds as the go-to portfolio diversifier. Currently, private markets make up <2% of the portfolios in our sample, which is much lower than the 20% allocation we see as optimal for clients who can invest in the private markets asset class.

20% allocation to private markets



Source: BlackRock, as of April 2024; CMA data as of 29/12/2023; currency: EUR; Global Fixed Income Proxy: Barclays Global Aggregate Index hedged, Global Equity Proxy: MSCI All Country World Index; Please refer to slide 14 for Multi Alternative building block proxies.

Expected return and risk



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance. Forecasts are not a reliable indicator of future performance. Source: BlackRock, as of April 2024; CMA data as of 29/12/2023; currency: EUR; time period: 10 years. Return assumptions are total nominal returns. Asset return expectations are net of assumed fees. Fees and alpha are estimates for illustrative purposes only and do not represent any actual fund performance. Indices are unmanaged and one cannot invest directly in an index. These portfolios represent a sample of just four of the various possible solutions on the efficiency frontier. BlackRock has not considered the specific needs of the client and is not making any recommendation of any particular option. You should consider the most appropriate allocation for your needs.

Incorporating mega forces into portfolio construction

Over 95% of respondents have incorporated at least one of the five mega forces referenced on p.1 in their investment process. We expect mega force allocations to continue growing over the next 12 months: c.60% of respondents are planning to increase their exposure – with the majority aiming to reach up to 30% mega force allocation this year – and none planning to decrease it. The majority of respondents describe such investments as a way to generate returns on a strategic horizon (c.80%). Indeed, investors have not been changing allocations to mega forces too frequently: in the last 12 months, over 40% of respondents changed their allocation to mega forces semi-annually, and over 20% didn't change the allocation at all. Other reasons for mega force allocations, based on the survey, include being able to offer a compelling investment narrative for the end-clients (c.60% of respondents), and generating tactical returns and portfolio diversification (with each chosen by c.50%).

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The most popular mega forces have been digital disruption and artificial intelligence (chosen by c.80% of respondents) as well as transition to a low-carbon economy (c.60%), followed by demographic divergence and geopolitical fragmentation (c.50% each). The future of finance mega force – a structural trend referring to the increased role of private credit in companies' financing – is embedded by only 13% of investors, likely due to adoption of the private market asset class in EMEA Wealth space being at an early stage. Although the survey and our client conversations show a significant focus from EMEA investors on the AI theme – unsurprisingly, given the AI-fuelled rally this year – our portfolio sample shows that, within equity sleeves, EMEA portfolios are underweight AI relative to MSCI ACWI. This is a by-product of the strong domestic bias shown by European portfolios. To gain a significant exposure to AI theme, investors need to overcome their domestic bias and increase exposure to US equities, even if this is done in a targeted way via sector or thematic products. In contrast, we see an overweight across EMEA portfolios to the low-carbon transition mega force compared to ACWI – a consequence of their overweight to European equities, as well as explicit selection of investment products.

Investors are using a wide range of vehicles to implement mega forces in portfolios. The most popular have been thematic index mutual funds / index ETFs, implemented by c.60% of the respondents, followed by single-line securities and traditional index funds / index ETFs (for example, single country bets to express a view on demographic divergence or sector bets to express low-carbon transition views), implemented by roughly half of the respondents. Around 40% of respondents use thematic alpha-seeking funds and traditional (i.e. regional or sector) alpha-seeking funds. 17% of investors are already implementing mega forces with private markets despite the relatively nascent adoption of private markets among Wealth clients.

Finally, c.10% of investors prefer to access thematics via a multi-theme approach – diversified dynamic strategies that use individual themes as building blocks, tailoring exposures to themes based on the economic outlook.

What investment vehicles do you use to implement investments into structural trends?

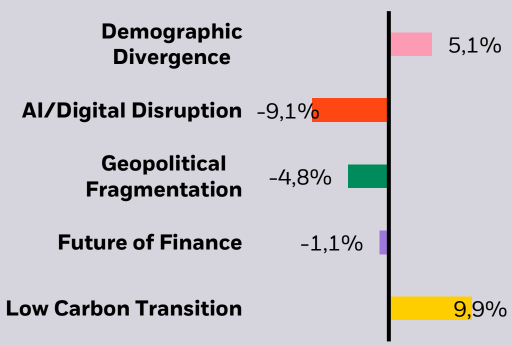
Thematic index funds/ETFs	**61%**
Baskets of single line securities	**54%**
Traditional (i.e. regional or sector) index funds/ETFs	**46%**
Traditional (i.e. regional or sector) alpha-seeking funds/ETFs	**43%**
Thematic alpha-seeking funds/ETFs	**41%**
Private markets	**17%**
Multi-thematic offering combining thematic index and alpha-seeking funds/ETFs	**7%**
None of the above	**2%**

Source: BlackRock Portfolio Consulting EMEA, August 2024. Based on 54 EMEA respondents collected between May and August 2024.

Country/regional/sector/style biases is the most frequently cited challenge when it comes to mega force investing (selected by c.70% of respondents). Other common challenges include defining mega forces, timing them and measuring exposure to such trends (selected by ~40% respondents, respectively). The BlackRock Portfolio Consulting team can set up workshops with BlackRock experts to address these challenges. It can also test different mega force exposures in portfolios to show the impact on the portfolio's mega force load and financial characteristics (such as sector and style biases). If the biases are too pronounced, the team can help adjust them by adding additional counterbalancing exposures and running an optimisation process to reduce those biases.

How we assess the mega force load of EMEA portfolios

Mega force load in average EMEA portfolio versus MSCI ACWI (%)



We construct proxies for the five key mega forces, built via equally-weighted baskets of products that BlackRock has mapped to each mega force. We illustrate the risk factor decomposition of the proxies versus the peer group of portfolios analysed.

1. Assess any equity allocation through the Aladdin risk factor decomposition framework.
2. Assess the EMEA portfolio peer group against the mega force proxy baskets in a multivariate factor fashion, which allows us to assign weights to each mega force proxy in terms of their ability to explain the positioning of the peer group.
3. Define the mega force load to be the delta of the weight assigned to each mega force proxy when assessing the peer group versus the weights assigned when assessing the MSCI ACWI.

This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance. Source (Portfolio Average Q2'24), June 2024: BlackRock Portfolio Consulting EMEA, BlackRock Aladdin, Morningstar. Portfolio average allocation based on 256 moderate risk multi-asset EMEA domiciled portfolios collected by between 30/04/2024 – 28/06/2024. We also show the BlackRock Multi-Theme Model as of June 2024. All risk analytics as of 28/06/2024 utilising Aladdin. For Illustrative purposes only, and subject to change.

Zooming into the low-carbon transition mega force

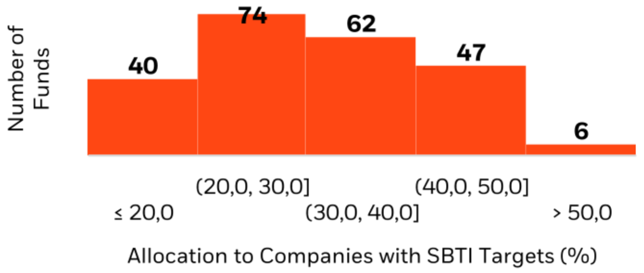
At BlackRock, we define transition investing as: investing with a focus on **preparing for, being aligned to, benefitting from and/or contributing to** the transition to a low-carbon economy.[4]

- **Preparing for:** investing in assets better positioned for the transition, such as those improving and/or leading on mitigating greenhouse gas emissions within their peer group on either business operations or business models.
- **Aligned to:** investing in portfolios or assets on a decarbonisation pathway that is aligned to an industry accepted low-carbon scenario.
- **Benefiting from:** investing in assets, such as those that provide key inputs necessary for decarbonisation, that will benefit from the macroeconomic trends offered by the transition to a low-carbon economy.
- **Contributing to:** investing in solutions, or interim low-carbon alternatives (or assets providing those solutions or interim low-carbon alternatives) that are needed to mitigate emissions in the real world.

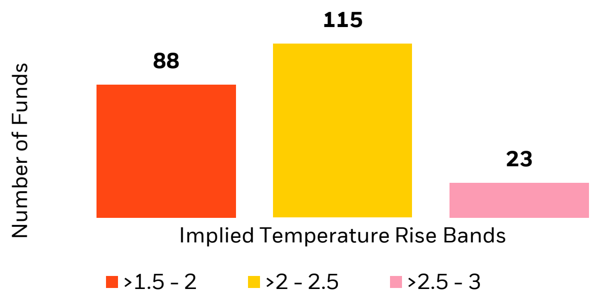
Based on our survey, the most popular way to position portfolios for the low-carbon transition was via investing in assets contributing to the transition, such as renewable power (chosen by c.50% of respondents), followed by investing in low-carbon transition beneficiaries (for example, lithium producers) and strategies aligned to CTB/PAB requirements (c.40% to each). While a PAB approach can deliver a predictable year-over-year decarbonisation rate, some investors may not want to pivot away from high emitters (should the existing holdings in the strategy not decarbonise at the same rate) and underweight high-emitting sectors. Therefore, we see increased interest in transition strategies that aim to be sector-neutral and focus on selecting companies with the strongest decarbonisation potential within each sector – as demonstrated by disclosure of green revenues and SBTi. On the latter, our survey shows that already a quarter of clients are focusing on companies that have carbon reduction targets.

EMEA portfolios in our sample still have room to improve on various transition metrics. The public market sleeve has only c.4% exposure to green revenues,[4] on average – much lower than the MSCI World Index's exposure at 8%. Carbon emissions intensity (measured as Scope 1,2 tonnes CO2e / $m sales) has improved for our portfolios sample versus 2023 (91 in this sample year versus 94 for sustainable portfolios, and 128 for traditional last year[3]). This could partly be driven by increased allocations to the tech sector – a low-carbon emitting exposure – given AI-fuelled rally this year as well as higher weight of the tech sector within market-cap weighted indices. Finally, when it comes to forward-looking transition metrics, the majority of portfolios in our sample have a lower allocation to companies with SBTi targets relative to MSCI World (which has an allocation of c.46%) and are not aligned to 1.5-2C as assessed by the MSCI Implied Temperature Rise metric.

MSCI SBTI Targets



MSCI Implied Temperature Rise



The ITR metric estimates a fund's alignment with the Paris Agreement temperature goal. However, there is no guarantee that these estimates will be reached. Source: Portfolio average allocation based on 256 moderate risk multi-asset EMEA domiciled portfolios collected between 30/04/2024 – 28/06/2024. For information only, subject to change. The ratings, metrics, methodologies and scores may differ from those of other providers. For explanations about the methodology, refer to 'Sustainability – Methodologies and Assumptions'. Certain information © 2024 MSCI ESG Research LLC.

When positioning their portfolios to the low-carbon transition, 40% of respondents see ensuring they do not compromise on financial performance as one of their biggest challenges – which highlights the importance of understanding the sources of active risk a portfolio incurs when allocating to different sustainable / transition-focused strategies – something that the BlackRock Portfolio Consulting service (and regular publications such as Unlocking sustainable & transition indices) can support with. Other challenges include identifying attractive transition-focused investment opportunities, defining an internal transition framework, navigating transition investing in the absence of a single regulatory definition and assessing the portfolio's physical and transition climate risks over the long run (c.30% for each).

The BlackRock Portfolio Consulting team can set up workshops with BlackRock experts to help investors with the topics above and with aligning their portfolios to transition goals, consistent with the investor's investment objectives. Specifically, the team can help test different transition-focused products in the portfolio showing the impact on the portfolio's transition profile (for example, carbon intensity projection or green revenue exposure) as well as financial characteristics like tracking error and sector exposures – so that investors can choose strategies that work best for their goals. The team can also help investors monitor their portfolio's progress towards its transition objectives on an annual basis and make suggestions on how to course-correct, if needed.

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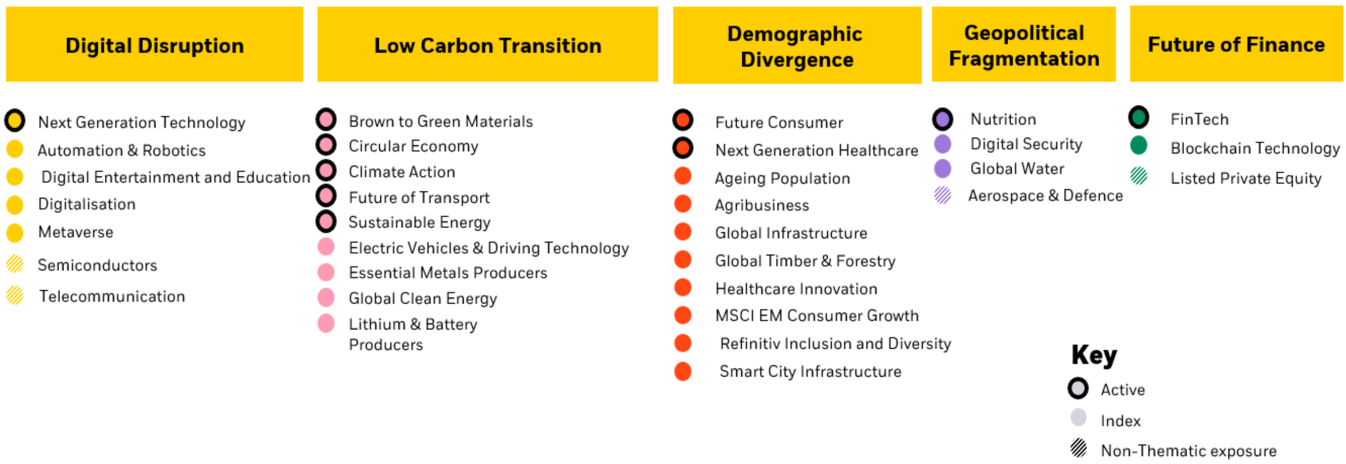
Appendix

Our mega force load measures alignment of a client portfolio to the mega forces compared to a global equity indices such as the MSCI ACWI.

Methodology

1. **We have created proxies for each mega force, building equally weighted baskets of exposures that BlackRock has classified as aligned to each mega force:**



2. **Constructing the baskets,** we then assess any equity portfolio allocations against those utilising the standard Aladdin risk factor approach to arrive at the active risk of the equity portfolio allocation against the mega force proxies.

2. **We then assess the equity portfolios against the proxies in a multi-variate factor fashion which allows us to identify:**

- Whether a portfolio can be explained by the mega forces with statistical significance (meaning with low active risk which we interpret as an R2 of our regression).
- If the active risk is acceptably low (<4%), we are then able to assign weights to each mega force proxy in terms of their ability to explain the portfolio we are analysing.
- We define 'mega force load' as the delta of the weight assigned to each mega force proxy in terms of its ability to explain any equity allocation compared to the weight the same mega force proxy is assigned versus the MSCI ACWI Index.

Appendix

Sustainability Methodologies and assumptions

Emissions Intensity (EVIC)[2]: A portfolio's Carbon Emissions Intensity by EVIC is achieved by calculating the carbon intensity (resp. Scope 1 + 2, and Scope 3 Emissions / $M EVIC) for each portfolio company and calculating the weighted average by portfolio weight. The underlying holdings' data is sourced from MSCI. Scope 1+2+3 carbon coverage is assumed the minimum between Scope 1+2 carbon coverage and Scope 3 carbon coverage.

Emissions Scopes are defined as indicated below:

Scope 1 emissions are those from sources owned or controlled by the company, typically direct combustion of fuel as in a furnace or vehicle.

Scope 2 emissions are those caused by the generation of electricity purchased by the company.

Scope 3 emissions include an array of indirect emissions resulting from activities such as business travel, distribution of products by third parties, and downstream use of a company's products (i.e. by customers).

MSCI Implied Temperature Rise % Coverage: Percentage of the portfolio's holdings for which MSCI Implied Temperature Rise data is available.

Implied Temperature Rise (ITR)[3]: The ITR metric is used to provide an indication of alignment to the temperature goal of the Paris Agreement for a company or a portfolio. ITR employs open source 1.55 C decarbonization pathways derived from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). These pathways can be regional and sector specific and set a net zero target of 2050, in line with GFANZ (Glasgow Financial Alliance for Net Zero) industry standards. We make use of this feature for all GHG scopes. This enhanced ITR model was implemented by MSCI on February 15, 2024.

Review the MSCI methodology behind the Sustainability Characteristics:

2https://www.msci.com/index-carbon-footprint-metrics

3 https://www.msci.com/our-solutions/climate-investing/net-zero-solutions/implied-temperature-rise

4 https://carbonaccountingfinancials.com/files/consultation-2021/pcaf-draft-new-methods-public-consultation.pdf

Implied Temperature Rise

To address climate change, many of the world's major countries have signed the Paris Agreement. The temperature goal of the Paris Agreement is to limit global warming to well below 2°C above pre-industrial levels, and ideally 1.5 °C, which will help us avoid the most severe impacts of climate change.

What is the ITR metric?

The ITR metric is used to provide an indication of alignment to the temperature goal of the Paris Agreement for a company or a portfolio. ITR employs open source 1.55 C decarbonization pathways derived from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). These pathways can be regional and sector specific and set a net zero target of 2050, in line with GFANZ (Glasgow Financial Alliance for Net Zero) industry standards. We make use of this feature for all GHG scopes. This enhanced ITR model was implemented by MSCI on February 15, 2024

How is the ITR metric calculated?

The ITR metric is calculated by looking at the current emissions intensity of companies within the fund's portfolio as well as the potential for those companies to reduce its emissions over time. If emissions in the global economy followed the same trend as the emissions of companies within the fund's portfolio, global temperatures would ultimately rise within this band.

Note, only corporate issuers are covered within the calculation. A summary explanation of MSCI's methodology and assumptions for its ITR metric can be found: https://www.msci.com/documents/1296102/27422075/Implied-Temperature-Rise-Methodology-Summary.pdf">here.

Because the ITR metric is calculated in part by considering the potential for a company within the fund's portfolio to reduce its emissions over time, it is forward-looking and prone to limitations. As a result, BlackRock publishes MSCI's ITR metric for its funds in temperature range bands. The bands help to underscore the underlying uncertainty in the calculations and the variability of the metric.

What are the key assumptions and limitations of the ITR metric?

This forward-looking metric is calculated based on a model, which is dependent upon multiple assumptions. Also, there are limitations with the data inputs to the model. Importantly, an ITR metric may vary meaningfully across data providers for a variety of reasons due to methodological choices (e.g., differences in time horizons, the scope(s) of emissions included and portfolio aggregation calculations).

- There is not a universally accepted way to calculate an ITR.
- There is not a universally agreed upon set of inputs for the calculation
- At present, availability of input data varies across asset classes and markets. To the extent that data becomes more readily available and more accurate over time, we expect that ITR metric methodologies will evolve and may result in different outputs. Funds may change bands as methodologies evolve.

Appendix

- Where data is not available, and / or if data changes, the estimation methods vary, particularly those related to a company's future emissions

The ITR metric estimates a fund's alignment with the Paris Agreement temperature goal based on a credibility assessment of stated decarbonization targets. However, there is no guarantee that these estimates will be reached. The ITR metric is not a real time estimate and may change over time, therefore it is prone to variance and may not always reflect a current estimate.

The ITR metric is not an indication or estimate of a fund's performance or risk. Investors should not rely on this metric when making an investment decision and instead should refer to a fund's prospectus and governing documents. This estimate and the associated information is not intended as a recommendation to invest in any fund, nor is it intended to indicate any correlation between a fund's ITR metric and its future investment performance.

ITR employs open source 1.55 C decarbonization pathways derived from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). These pathways can be regional and sector specific and set a net zero target of 2050. We make use of this feature for all GHG scopes.

Source: BlackRock as at 29/12/2023. Certain information ©2024 MSCI ESG Research LLC. Reproduced by permission; no further distribution.

Modelling Methodology for Ex-Ante Analysis

BPAS leverages Aladdin® portfolio risk modelling process to capture the systematic risk factors that typically drive a fund's risk and return profile. The process utilises a combination of fund holdings disclosures, historical returns and fund summaries such as fact sheets and fund commentaries.
As described in more detail below, the specific modelling process applied to a fund will depend on the asset class as well as the investment style (e.g. active, passive).

Equity Funds:

For all equity index mutual funds, ETFs and European domiciled active equity funds with an AUM > $500mn USD, fund holdings disclosures (where available) are used to model the funds' risk exposures. If unavailable, historical return series, and information found on fact sheets and fund commentaries will be used in order to regress the funds' returns to a series of appropriate factors.

For all other registered investment company products, the holdings of the Morningstar Category benchmark are used to model the funds' risk exposures.

Fixed Income Funds:

For all fixed income index mutual funds and ETFs, fund holdings disclosures are used to model the funds' risk exposures.

European domiciled active fixed income funds with an AUM > $500mn USD have been modelled using a combination of fund holdings disclosures, fund asset allocations and returns-based style analysis. These results are validated with statistical analysis.

For all other fixed income funds, the holdings of the Morningstar Category benchmark are used to model the funds' risk exposures.

Multi-asset Funds:

Multi-asset funds are modelled based on the funds' exposure to major asset classes. A combination of fund holdings disclosures, fund asset allocations and returns-based style analysis is used to derive each fund's asset class exposure. These results are validated with statistical analysis.

Alternatives Funds:

Alternative funds are modelled using Aladdin's alternative asset risk factors based on the fund type and the fund strategy. Alternative funds are mapped to a set of primary, secondary and idiosyncratic risk factors. A combination of fund strategy disclosures, fund asset allocations and returns-based style analysis is used to derive each fund's risk exposures.

Appendix

Risk Factor Summary

Factors are **fundamental** and **technical** characteristics of asset returns. The BlackRock Aladdin® Risk Factor Models decompose the overall risk/return of a financial asset into the underlying factor drivers. Risk models used are: BlackRock Fundamental Risk for Equities Model (BFRE World), BlackRock Fixed Income Risk Factor Model and BlackRock Alternatives Risk Factor Model. As a default, we measure risk in one standard deviation annualised volatility or 84% confidence annualised analytical VaR, with a one year risk horizon. 72 monthly observations are used, with a half life of 36 months (decay: 0.9809).The risk contribution of any portfolio component is equal to the portfolio exposure to that component multiplied by its volatility, multiplied by the correlation to the portfolio. Portfolio risk is the linear sum of contributions from all components.

Equity Factors:

Equity Market Factor: Contribution to portfolio risk arising from a portfolio's exposure to the returns across the equity market. This factor captures the risk associated with general equity market movements.

Equity Style Factor: Contribution to portfolio risk arising from a portfolio's exposure to the returns of factors such as value, growth, size and momentum. Style factors are constructed from company fundamentals, analyst estimate data and historical market data. These are modelled through the BlackRock Fundamental Risk for Equities Model (BFRE).

Equity Sector Factor: Contribution to portfolio risk arising from a portfolio's exposure to the returns of sector-specific equities, adjusting for market, country and style effects.

Equity Country Factor: Contribution to portfolio risk arising from a portfolio's exposure to returns of country-specific equities, adjusted for market, sector and style effects.

Equity Specific Factor: Contribution to portfolio risk arising from a portfolio's exposure to stock specific idiosyncratic risk not captured by the common risk factors.

Fixed Income Factors:

Rates Factor: Contribution to portfolio risk arising from a portfolio's exposure to the risk associated with changes in yield curves. This can be at a high level (overall exposure) or broken down by different yield curves

Inflation Factor: Contribution to portfolio risk arising from a portfolio's exposure to the risk associated with changes in inflation curves. This can be at a high level (overall exposure) or broken down by different inflation curves.

Spreads Factor: Contribution to portfolio risk arising from a portfolio's exposure to credit spreads factor. Credit spreads factors capture risk associated with investment grade, high yield and distressed debt credit spreads over benchmark interest rates.

FX Factors: Contribution to portfolio risk arising from a portfolio's exposure to the risk associated with changes in foreign exchange rates.

Alternatives Factors: Contribution to portfolio risk arising from a portfolio's exposure to alternative assets and strategies including Private Equity, Infrastructure Equity, Commodities, Hedge Funds and Real Estate.

Risk warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

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