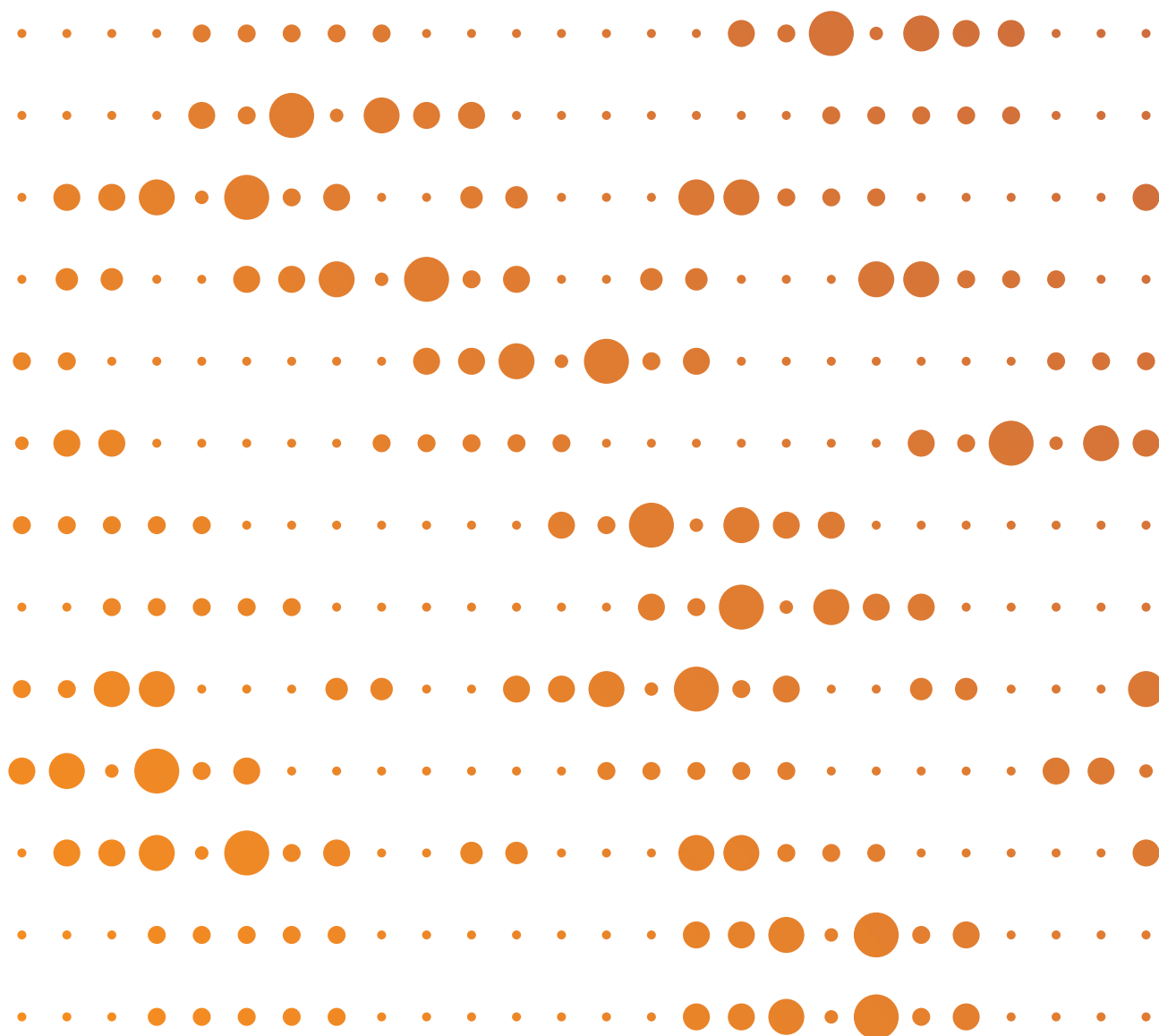




Individually engineered

The IMX process





Individually engineered

Ever since we were founded in 2006, Nucleus has aimed to create value through greater alignment of adviser and client interests. We consider value for money as a key suitability threshold and believe this should be measured against what a client is trying to achieve. IMX, our discretionary managed portfolio service (MPS), has been built on this premise and in keeping with our founding purpose.

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Take the first step...

... in selecting the IMX portfolio most likely to meet your client's objectives.

IMX, our discretionary managed portfolio service (MPS), including an easy-to-use portfolio modelling tool, will help you identify the portfolio most suited to your client.

Being an outcome-led approach to investment management, IMX offers a holistic investment solution. Client goals are at the forefront of our design process allowing us to provide portfolios that are relatable to your client's needs.

In this guide, we give a short overview of the IMX portfolios, demonstrate how you can select a portfolio for your client, provide a guide to the output in the IMX portfolio modeller tool, and use a case study to show the IMX solution in practice.



IMX
portfolio
summary



Choosing
an IMX
portfolio



IMX tool
output
guide



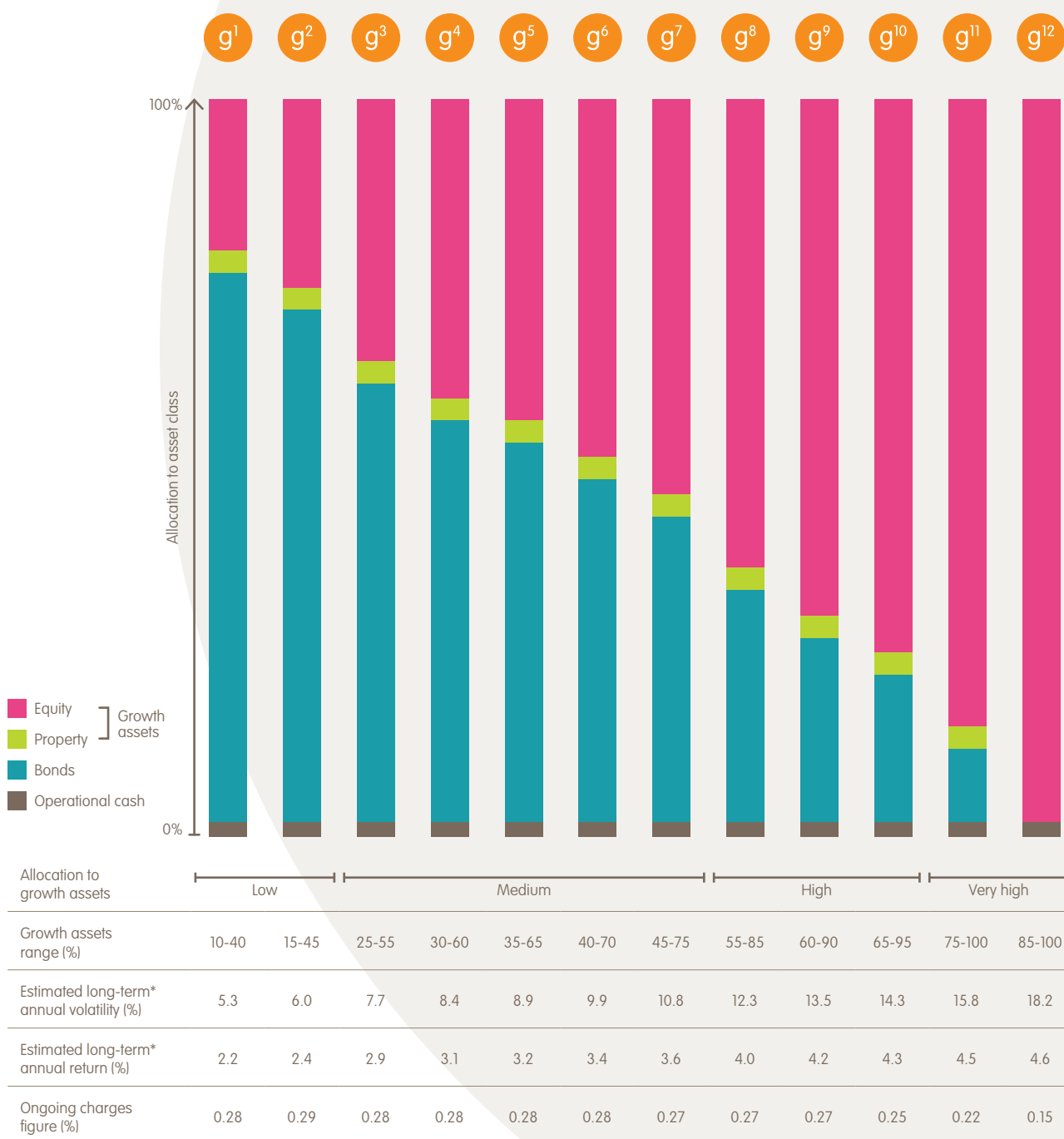
IMX in
practice

IMX portfolios at a glance

These summaries show the high-level asset allocations and key facts for both ranges of portfolios. You can find details on each portfolio in our factsheets.



The grow portfolios have been designed for client goals focused on investment growth.



*10 years All data as at 30 June 2020.

IMX spend

The spend portfolios have been designed for client goals focused on withdrawing a regular income.



*10 years All data as at 30 June 2020.

Choosing an IMX portfolio

In this section, we've provided guidance on how to align a client's goal to an IMX portfolio. There are three steps you can follow.

Step one – understanding your client's goal

By understanding your client's broad investment goals, you'll be able to identify the most appropriate IMX portfolios.

Questions that can help this process are:

- What is the broad investment goal? Investment growth or regular withdrawals?
- How long is the likely term of investment?
- Is a low/medium/high growth or withdrawal rate required?
- What is your client's risk tolerance and capacity for loss?

Step two – identify a range of suitable portfolios

Due to the holistic nature of the IMX portfolios in delivering client goals, you should select a range to model in the IMX portfolio modeller.


1. IMX grow or IMX spend portfolios?

If your client's goal is for investment growth, you can choose from the IMX grow range of portfolios. When it's focused on taking income, our range of IMX spend portfolios can provide the right option.

2. Level of growth assets?

Our portfolios are managed to a range of growth asset allocations, which we label from 'very low' to 'very high' to help narrow your selection. Portfolios with higher growth asset allocations will have greater expected return in the long term, but greater risk of losing money. If a client's goal suggests they'll need a high rate of return, then starting the comparison with a portfolio that has a greater allocation to growth assets may be more appropriate. The opposite is the case for client goals that require low growth to achieve the outcome.

Step three – compare portfolios using the IMX portfolio modeller



The next stage is to use the IMX tool to compare the portfolios you've identified.

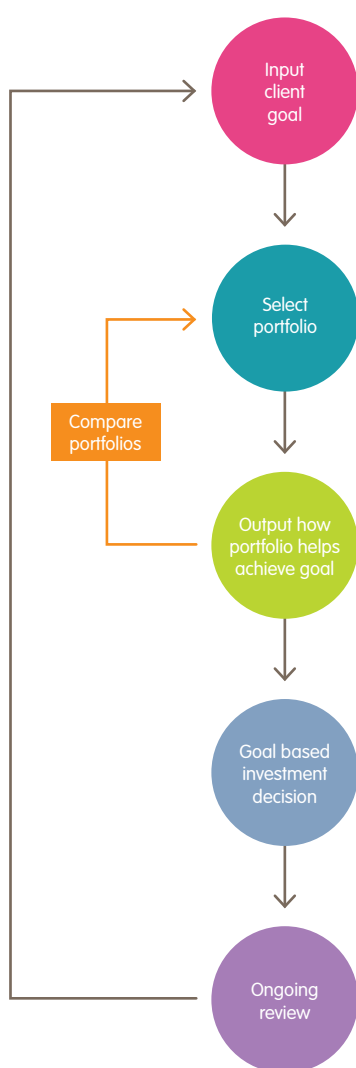
All you need to do is input the client details to the IMX portfolio modeller, including their goals, and select a portfolio from the drop down menu. You can then model the portfolio and compare it to the others you're considering for the client. This is a good starting point but you also have the option to compare portfolios outside your selected range, which may produce results more aligned to the client goal.

Through using the tool and discussing the outputs with the client, you can identify and recommend the most appropriate IMX portfolio.

On page 10, you'll find a case study that demonstrates how different portfolios can deliver client goals.

Using the IMX portfolio modeller tool

Our innovative and easy-to-use tool lets you model the different portfolios from the selected range, to help identify the right solution for your client.



The tool simulates thousands of future economic scenarios and measures how the selected IMX portfolio performs in these. As each IMX portfolio has different investment exposures, the outcomes for individual portfolios will differ in the varying simulated economic conditions. Importantly, the tool measures how IMX portfolios behave in future outcomes, in relation to the client's specific investment goal.

Outcome-based dashboard

After inputting the client's details and goal and selecting an IMX portfolio, the tool runs the calculations and a dashboard is displayed to help you understand how well the portfolio achieves the desired outcome. The metrics shown cover the long- and short-term impacts of the IMX portfolio on the achievement of the client's goal across a wide range of scenarios.

Depending on the particular circumstances, some metrics will be more important to the client's investment decision than others.

The three economic measures used by the tool are:

- ✓ Pessimistic – the average of the worst 10% of projected outcomes i.e. the average outcome in 1 in 10 projected future scenarios when poor performance is experienced.
- ↔ Neutral – the central economic scenario when average performance is experienced.
- ^ Optimistic – the upper 10% outcome i.e. in 1 in 10 projected future scenarios, this outcome is achieved when good performance is experienced.

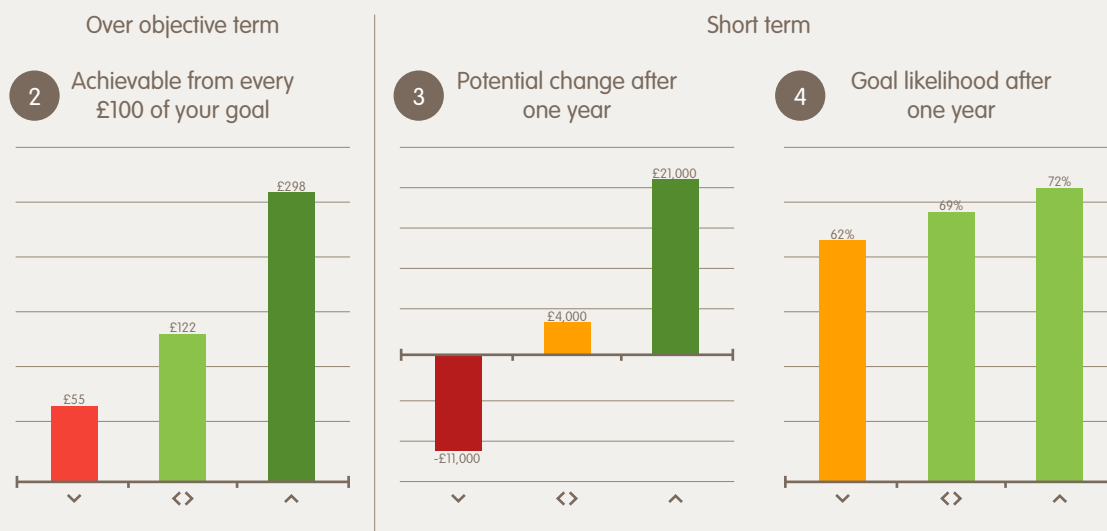
The dashboard

IMX grow 5

1

Likelihood of achieving a retirement pot size of £235,000 in 20 years' time

67%



1 Goal likelihood and what it means

The most prominent metric displayed on the dashboard is the goal likelihood measure.

What does this tell me?

The goal likelihood measure displays the probability of achieving the desired goal, based on the IMX portfolio being modelled (in this case IMX grow 5). Out of the thousands of simulated future scenarios, this is the proportion where the goal is achieved, which is shown as 67%. This result is important in a goal-based investment decision as a measure of how well a portfolio helps achieve the client's goal.

What doesn't this tell me?

The goal likelihood doesn't measure the spread of potential outcomes. For example, of the scenarios where the client's goal isn't achieved, the metric doesn't show by how much the goal is missed. In addition, it doesn't provide the level of short-term risk of the IMX portfolio being modelled.

Scenario metrics and what they mean

There are three more results shown on the tool dashboard to help you understand the spread of potential outcomes. These illustrate the long- and short-term impact of investing in the portfolio to achieve the client's goal. Each result is measured in the three economic scenarios to demonstrate potential outcomes if the portfolio experienced pessimistic, neutral or optimistic performance.

2 Proportion of goal achieved (long term)

This shows out of every £100 of the client goal, the proportion achieved in each of the economic outcomes over the term of the goal.

3 Potential change after one year (short term)

Here you'll see how much the client's portfolio size could change over the next year in the different economic outcomes.

4 Goal likelihood after one year (short term)

This shows the client's projected goal likelihood in one year if pessimistic, neutral, or optimistic investment performance is experienced.

IMX in practice

To help demonstrate how IMX helps achieve the desired goal, here's a case study.

Sam's story

Sam is 40 years old, recently widowed with two school-age children. He works as an engineer, earning £65,000 pa and is a member of his employer's pension plan.

His annual expenditure is £43,000 and he has a small Isa portfolio and some general savings, including £90,000 from his wife's estate. There are two small deferred workplace DC pension pots from previous roles too. His mortgage has been repaid through the benefits from his late wife's estate and his house is worth £400,000. His current workplace pension will start at age 65, with his state pension starting at age 68.

Initial pot size	Desired pot size
£120,000	£600,000
Profiled attitude to risk	Investment term
Medium	20 years

Step one – understanding the client goal

Financial goals and priorities

- Continuing to fund school fees for his children.
- Future funding of university costs (10-15 years).
- Maximising pension savings to phase retirement from age 60. Targeting a fund of £600,000.

Client profile

Sam's most recent risk profile shows a medium attitude to risk and a strong aversion to loss but he understands that a degree of risk needs to be taken to provide the potential investment return.

Step two – identify a range of suitable portfolios

IMX grow or IMX spend portfolios?

Given Sam's long-term investment growth target and as he is contributing to his retirement pot, you select from the IMX grow portfolios.

Level of growth assets?

Sam's attitude to risk is aligned to IMX grow portfolios with a medium level of growth assets. Considering the length of his investment horizon and the growth target, it's also appropriate to assess portfolios with a high growth asset allocation.

Step three – compare portfolios using the IMX tool

You input Sam's details into the IMX portfolio modeller, his financial goal (£600,000 in 20 years time) and future contributions and withdrawals.

The first portfolio you input is IMX grow 4 which is aligned to Sam's attitude to risk.

IMX grow 4

The results show a 60% probability of achieving Sam's goal. This is Sam's primary focus and he's uncomfortable with this level of likelihood of achieving his goal.

You discuss potentially changing his goal to a lower growth target but he would prefer to test another portfolio with a higher growth allocation.

A comparison is run using IMX grow 7 which contains the lowest proportion of growth assets of the high growth portfolios.

IMX grow 7

This portfolio gives Sam a 70% likelihood of achieving his goal which he is more comfortable with.

As he has a reasonably high aversion to loss, he would like to understand the potential outcomes in the pessimistic scenarios.

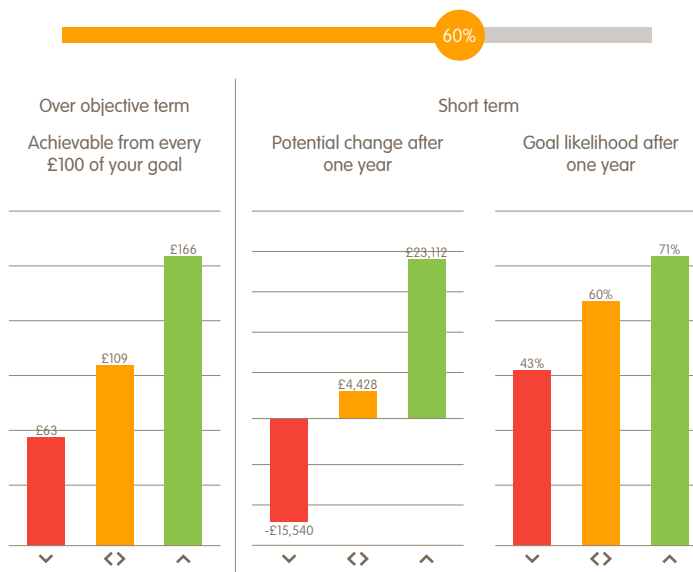
Over the term of his goal, if poor performance is experienced, then he could achieve only £60 out of every £100 he was aiming for i.e. c. £360,000 of his £600,000. This may mean he would need to reassess his plans but he recognises the situation would not be much improved if he invested in the lower risk portfolio where £63 out of every £100 of his goal would be achieved, if poor performance was experienced.

As IMX grow 7 increases his goal likelihood he is comfortable with this trade-off.

IMX grow 7 also has a higher loss over one year compared IMX grow 4 in a pessimistic scenario (-£22,404 versus -£15,540). Given the long investment time horizon, he recognises that the goal likelihood after one year in the pessimistic scenario is still higher for IMX grow 7, versus IMX grow 4 (56% versus 43%). Seeing these results, Sam believes that IMX grow 7 is an appropriate portfolio for the purposes of achieving his goal.

IMX grow 4 results

Likelihood of achieving a retirement pot size of £600,000 in 20 years' time



IMX grow 7 results

Likelihood of achieving a retirement pot size of £600,000 in 20 years' time



IMX in practice

Three years later... a good scenario

Three years later, Sam's portfolio has experienced positive performance due to prevailing economic conditions. His pot size has increased to £230,000. You revisit his portfolio choice versus his goal using the IMX tool.

IMX grow 7

The good performance of the portfolio has resulted in an increase in goal likelihood to 80%. Sam wants to understand how a portfolio level of lower growth assets would impact the projected achievement of his goal.

IMX grow 4

With a lower growth rate required to achieve his goal, IMX grow 4 has a 78% likelihood of achieving his goal.

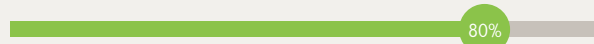
Sam decides to take this opportunity to change to this portfolio and is comfortable giving up the upside potential in the optimistic scenarios and the slight reduction in goal likelihood for lower losses in the pessimistic scenario.

Based on the projections, over the life of his goal, he could achieve £74 out of every £100 (c. £426,000 of £600,000 target) he was aiming for if he experienced poor performance. He reckons he could still achieve early retirement at this level.

Profiled attitude to risk	Investment term	Initial pot size	Desired pot size
Medium	17 years	£230,000	£600,000

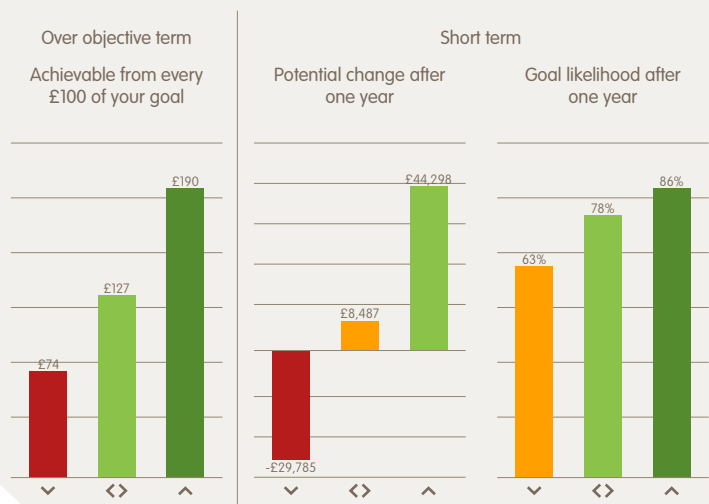
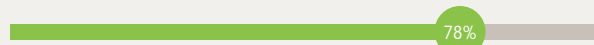
IMX grow 7 results

Likelihood of achieving a retirement pot size of £600,000 in 20 years' time



IMX grow 4 results

Likelihood of achieving a retirement pot size of £600,000 in 17 years' time



Three years later... an alternative bad scenario

As with any investment, there is always the chance of poor performance. In this scenario, due to prevailing economic conditions, Sam's portfolio experiences poor performance. Despite pension contributions of £10,000 per year, his pot size is only £130,000.

IMX grow 7

The poor performance of the portfolio has resulted in a reduction in goal likelihood to 52%.

He's still able to make his £10,000 annual contribution, and would like to achieve the same goal, but understands that the market movements mean he may need to make a change.

However, he's uncomfortable in investing in a portfolio with a higher level of growth assets.

You suggest to Sam that he delays his goal by two years. The tool output shows what this means for Sam's outcome.

The two extra years mean a lower growth rate is required for Sam to achieve his goal. IMX grow 7 has a 72% likelihood of achieving this.

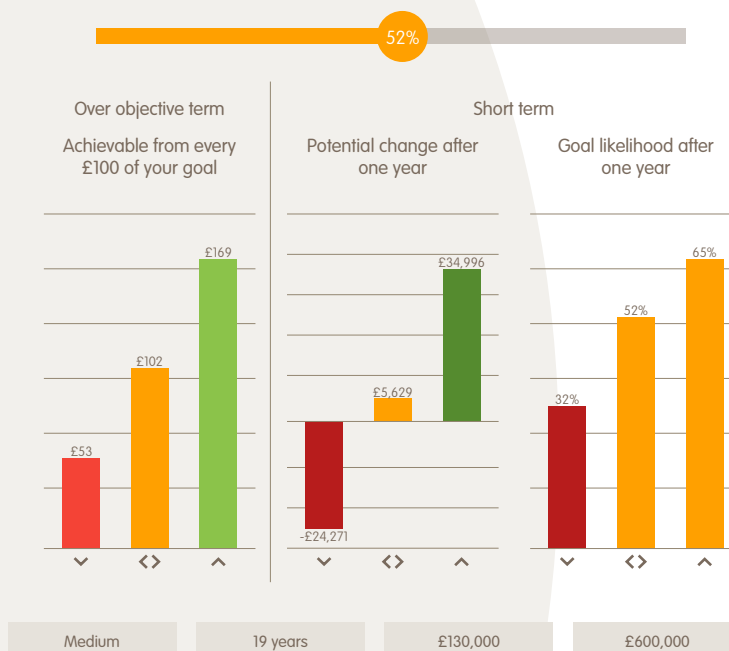
Sam also notes that even in a very poor scenario, IMX grow 7 would still leave him with £62 of every £100 of his goal, greater than without extending his goal by two years as above.

Sam opts to stay invested in IMX grow 7 as he's happy with the likelihood it offers in achieving his goal, even with the poor market conditions. He looks forwards to next year's consultation with his adviser...

Profiled attitude to risk	Investment term	Initial pot size	Desired pot size
Medium	17 years	£130,000	£600,000

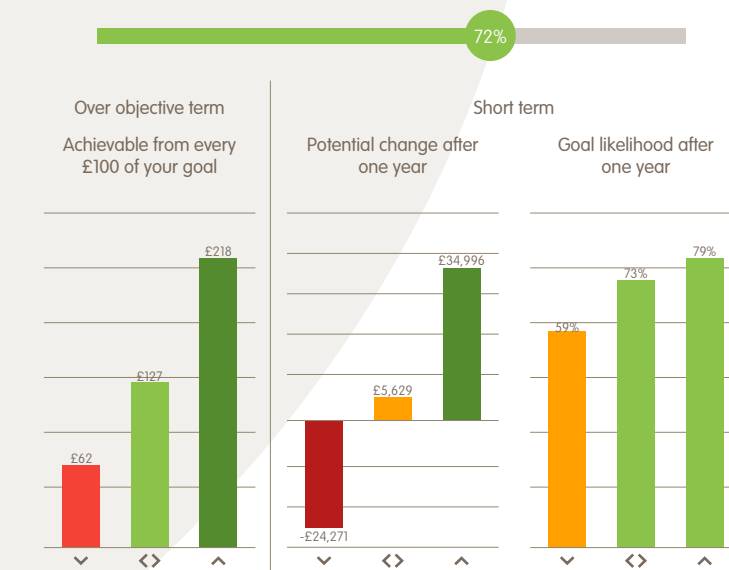
IMX grow 7 results

Likelihood of achieving a retirement pot size of £600,000 in 17 years' time



IMX grow 7 results

Likelihood of achieving a retirement pot size of £600,000 in 19 years' time





Individually engineered

We're sure you'll agree, IMX, our discretionary managed portfolio service really does help you fine-tune the best investment option for clients.

The combination of a range of outcome-led portfolios and our innovative portfolio modeller tool will truly support your advice process, from day one and throughout the client lifecycle.

Whether your clients are accumulating wealth or looking to take an income now or in the future, IMX offers a more personal option at a cost that represents real value for money.

Use IMX now, to deliver great client outcomes.

To find out more, visit imx.nucleusfinancial.com or contact your regional business development director.



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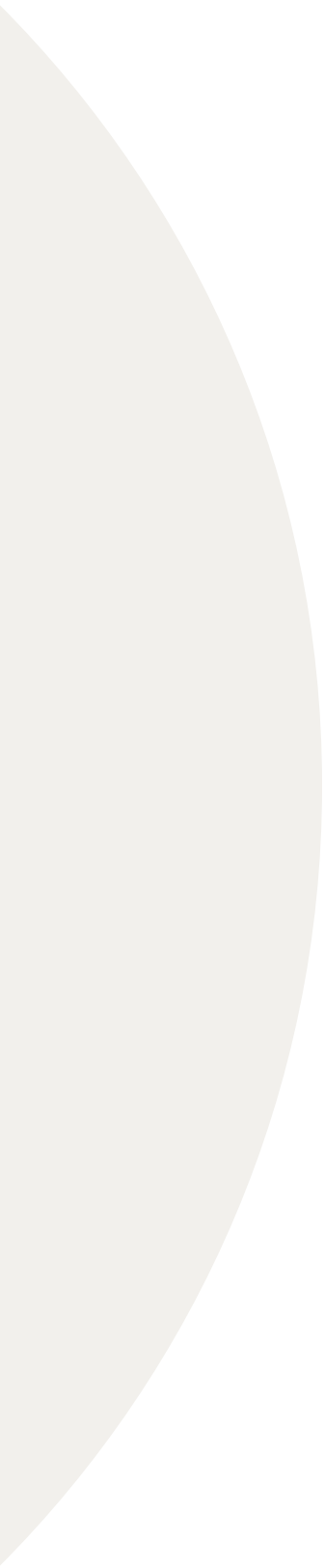


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Past performance is not a reliable guide to future performance, nor a reliable indicator of future results or performance. The value of an investment can go down as well as up, and may be less than the amount(s) paid in.



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