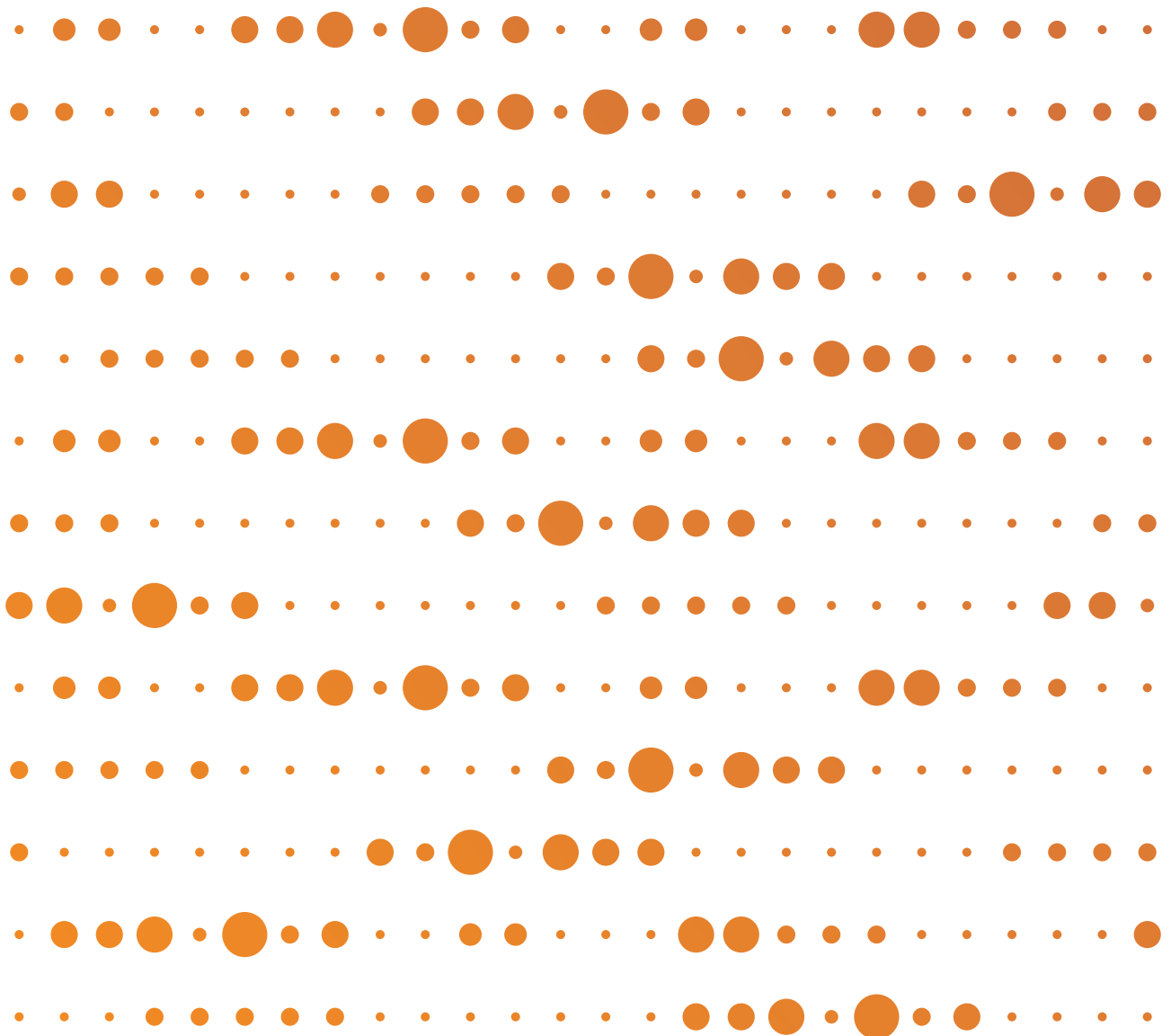




Individually engineered

## Investment principles





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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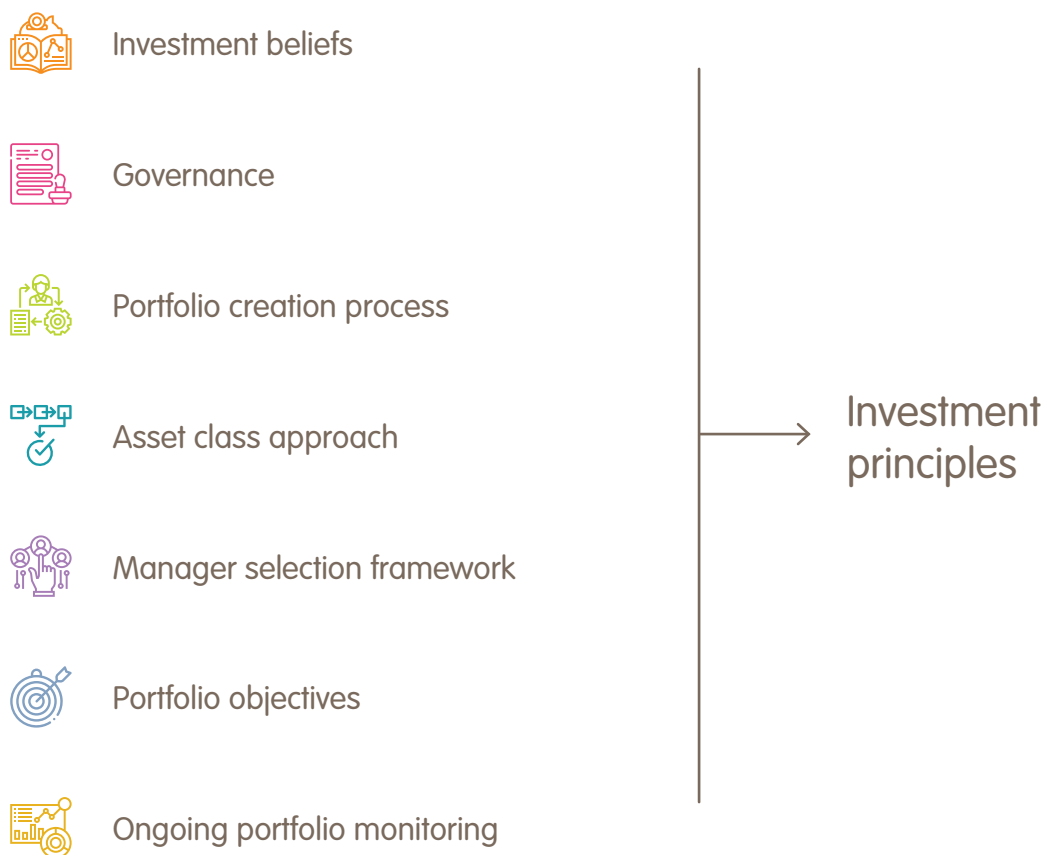
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## Our goal for IMX

Our goal is for IMX to help advisers create better value for their clients by improving the alignment between the clients' goals and their investments.

Through using the IMX service, advisers retain their relationship with their client and the responsibility for selecting the most appropriate IMX portfolio for their client's goal. Nucleus is responsible for managing the portfolios in line with their stated objectives and the IMX investment principles.

This document sets out our investment principles that cover our investment approach and the building blocks used to construct IMX portfolios.



# Investment beliefs

Our investment beliefs provide a clear framework for how we help advisers achieve their client's goals. They influence our views on markets and provide the foundation for all investment decision making, ensuring a robust and repeatable process that enables us to deal with the broadest range of circumstances. Putting these beliefs into practice is key to delivering results.

## Client goals

All our investment decisions should be made with the aim of helping advisers achieve their clients' investment goals.

## Evidence

Investment decisions should be evidence based and supported by robust economic rationale.

## Asset allocation

Investment outcomes will be primarily determined by asset allocation which should be made appropriate for the term of the investment.

## Simplicity

Investment solutions should be as simple as possible but as complex as necessary to drive the right client outcome.

## Risk management

Underlying risk exposures of an asset allocation should be understood and appropriately managed.

## Responsible investing

We believe that environmental, social and governance (ESG) factors should be considered in manager selection and will adapt our approach and strategy as responsible investing continues to evolve.

## Costs

Costs and charges impact client outcomes and need to be effectively managed.

## Governance and transparency

Good governance adds value and we'll be transparent and accountable in all our actions and communications.

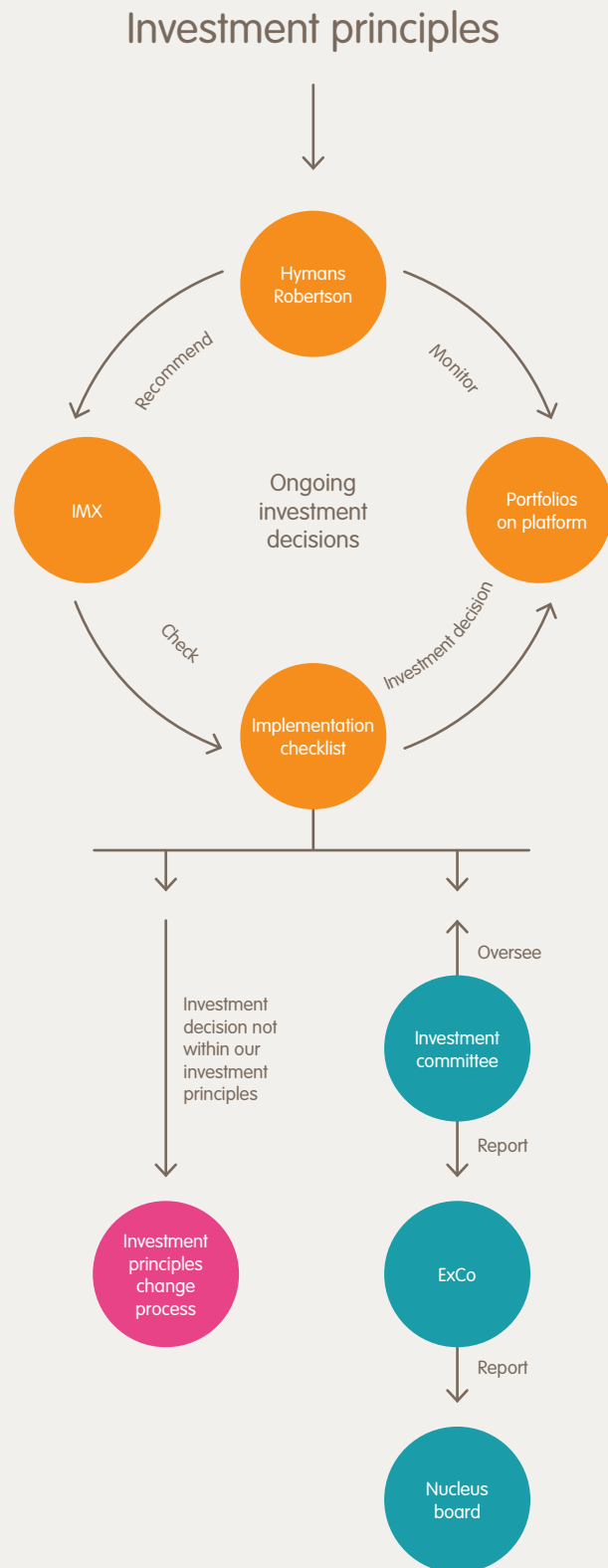
# Governance

We believe that good governance adds value and have created a decision making structure that includes clear responsibilities and accountabilities along with appropriate oversight. Effective governance helps ensure that the creation and management of IMX portfolios is in line with our investment beliefs and investment principles.

We have formed an investment committee to oversee IMX's investment management activities and to monitor adherence to our investment principles. The committee includes two independent members with extensive relevant experience as well as the Nucleus chief financial officer and the head of IMX. The investment committee reports to our executive committee (ExCo), which in turn reports to our board.

Our dedicated IMX team runs the overall proposition and has responsibility for making investment decisions in accordance with clearly defined authorities, the investment principles and supporting documentation. We have partnered with Hymans Robertson, a leading investment consultant with experience in providing objective-led investment advice in the institutional market. Our portfolio creation process and asset allocation approach have been developed with Hymans Robertson and we use their expertise when selecting fund managers. Hymans Robertson monitor the IMX portfolios on an ongoing basis and recommend asset allocation and fund manager changes in line with our investment principles and supporting documentation.

Our investment committee meets on a quarterly basis to monitor and review the performance of portfolios and fund managers, any portfolio changes and general adherence to the investment principles. Any proposed investment decisions not within the agreed investment principles and policies trigger a change process which requires prior review by the investment committee and final approval by our board before implementation. The investment principles and approach to creating portfolios are formally reviewed by our investment committee on an annual basis.



## Portfolio creation process

We believe that investment outcomes are largely determined by asset allocation and that our role is to design a set of portfolios with asset allocations that cater for a wide range of client goals.

Our portfolio creation process has been designed with Hymans Robertson to achieve this. Rather than focusing only on volatility to determine our asset allocations, we have created a process to design a set of portfolios which take a holistic view of potential client goals.

In line with our belief in evidence based decision making, our process uses a data-led approach. We focus on the likelihood of achieving client goals, following three key stages:

- The first stage defines a large set of hypothetical client goals.
- Then the most appropriate portfolio for each goal is determined.
- Finally, the number of portfolios is consolidated to define the IMX portfolio range.

### Define hypothetical client goals

Our aim is to define a diverse set of goals that is representative of clients. Informed by our understanding of client requirements and Nucleus platform data, we define a realistic range of client goals across different dimensions:

Is the client aiming to grow their investment or spend their investment pot by taking regular withdrawals?

#### Grow their investment:

- What is the target portfolio value and how much is the initial investment size?
- How long will the money be invested for?
- How much will be invested over time?
- Is their goal linked to inflation?
- Are they looking to limit losses, maximise gains, or have a balanced outlook?

#### Spend their investment:

- How much are they aiming to spend each year?
- Over what period are they taking withdrawals?
- What is the target portfolio value at the end of the investment period?
- Is their goal linked to inflation?
- Are they looking to limit losses, maximise gains, or have a balanced outlook?

## Determine the appropriate portfolio for each goal

We test over 10,000 potential portfolios with different asset allocations (using asset classes as described in the asset class approach section).

By measuring how each portfolio is projected to perform against each goal in thousands of simulated economic scenarios, we determine the asset allocation most appropriate for each of the hypothetical client goals.

We achieve this by measuring how each portfolio impacts on the likelihood of achieving each goal and assessing the potential spread of long-term and short-term client outcomes.

## Consolidate portfolios

After determining the most appropriate portfolio for each of the goals, we analyse whether similarities between portfolios mean the number of portfolios can be reduced without detriment to the achievement of the hypothetical goals.

Our solution is one that reduces the number of portfolios without materially impacting the outcomes achieved and enables us to provide a consistent set of portfolios to advisers and clients over time.

The resulting IMX range is 12 portfolios for clients aiming to grow their investments and 11 portfolios for clients aiming to take regular withdrawals, with both portfolio sets spanning the risk and return spectrum.

Our approach to monitoring this range of portfolios and overall process is covered in the ongoing portfolio monitoring and review section on page 13.

**IMX**grow

For clients aiming to grow their investments

**IMX**spend

For clients aiming to take regular withdrawals

# Asset class approach

Our approach includes the asset classes considered in the portfolio creation process, our approach to investing in those asset classes, and our investment risk management framework.

## Asset class criteria

In the creation of portfolios, we consider asset classes that fulfil the following criteria, and are consistent with our investment beliefs.

- The asset classes comprise a mix of growth, income and capital preservation characteristics appropriate for a wide range of client goals.
- Established asset classes are favoured over more complex investment products (like structured products) or more expensive products, where we don't believe the additional complexity and cost will result in better outcomes for clients.
- The underlying risk and return drivers are backed by empirical evidence and economic rationale which can be articulated to advisers and their clients.
- We can access the asset class by allocating to professional fund managers via pooled investment vehicles available to retail clients.

The asset classes considered currently include:

- Developed market equity
- Global multi-factor equity
- Emerging market equity
- UK corporate bonds
- Global (ex UK) fixed income
- High-yield bonds
- Emerging market debt
- Multi-asset credit
- Property
- UK fixed interest and index-linked gilts
- Short-dated bonds and cash

Other asset classes may be considered for inclusion as markets evolve.

## Investment risk management

All investment approaches carry risk and could lead to underperformance. We aim to understand and appropriately manage the risk exposures of the asset classes in the IMX portfolios.

We have considered risks from a number of perspectives and the list below is not exhaustive but covers the main risks. Through effective investment risk management application, we seek to manage or mitigate these and the investment committee monitors the effectiveness of our approach.





## Approach to investing in asset classes

Fees impact client outcomes and need to be effectively managed - our aim is, therefore, to invest in sources of return as efficiently as possible.

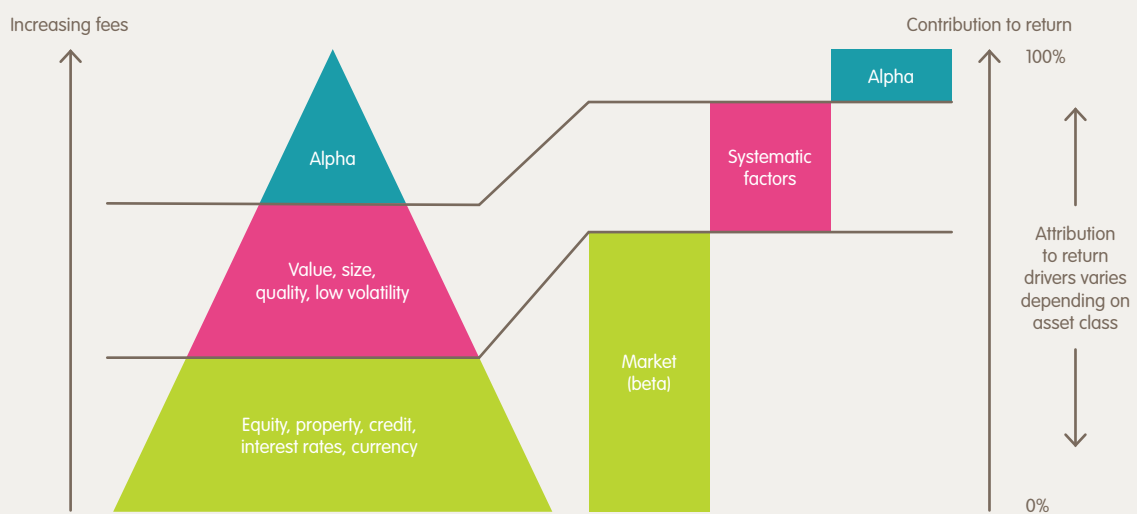
When implementing an asset class, we look at sources of return and risk in three categories:

- Market – returns experienced from simply holding an asset and exposure to general market movements ('beta'). Typically, market returns can be accessed through low-cost passive funds.
- Systematic factors – deviations from market returns experienced through systematic approaches that add value over the long term. Systematic factors can be accessed through 'factor' or 'smart beta' funds.
- Alpha – deviations from market returns experienced due to the application of fund manager skill. Active fund managers aim to achieve positive 'alpha' (or returns in excess of general market returns).

We believe that the opportunity in, and the return attribution to, each of these categories is dependent on the asset class and is impacted by characteristics such as efficiency, liquidity and size of the asset class. We take a view as to the most appropriate method of accessing the sources of return of an asset class, considering the cost and availability of suitable products.

Our approach results in a mix of passive, factor-based, and active allocations in our portfolios which we believe improves the risk and return profile of IMX portfolios.

Sources of risk and return by cost and contribution to return\*



\*illustrative diagram

# Manager selection framework

We allocate to pooled investment funds to fulfil the asset class strategies in IMX portfolios. It's important to note that portfolio creation and asset allocation leads fund manager selection, never the reverse. Our aim is to allocate to the most suitable fund managers to implement each asset class strategy.

Hymans Robertson provide fund manager recommendations and ongoing monitoring of our appointed fund managers within IMX portfolios. Their manager selection framework consists of a three-stage process.

## Initial assessment

Within a given asset class, the initial stage assesses managers against key criteria, including:

- Their philosophy and process
- Objectives, suitability and cost
- Performance and risk

The initial assessment establishes a long-list of manager strategies that have passed the set criteria and meet the investment objectives of the particular asset class. The assessment screens out managers where there are concerns at the firm or strategy level.

## Further due diligence

The next stage is an in-depth review of the manager and strategy. This provides a forward-looking assessment of the manager's likelihood of success in managing the product.

The review includes a more detailed interview with the manager to allow deeper investigation into the set criteria.

Responsible investment (RI) criteria are also considered at this stage. This includes whether the manager is a signatory of the UN-sponsored Principles for Responsible Investment, integration of RI considerations into their investment process, voting policy and stewardship activity. Managers that demonstrate strong credentials against all criteria are assessed further.

## Ongoing manager and strategy monitoring

Appointed managers and the relevant strategies are monitored by Hymans Robertson on a regular basis to identify any issues which may warrant a review, and any deviation from expected performance is highlighted to our investment committee.

This monitoring involves regular dialogue, quarterly updates and review meetings if there are any areas of concern.

The managers are reviewed at least annually to ensure they remain suitable. In addition, a review can be triggered by other factors including, but not limited to, a prolonged period of underperformance, a significant change in investment personnel or significant fund outflows.

# Framework for setting portfolio objectives

IMX operates under a reliance on others relationship framework with advisers and their clients. We have a contractual relationship with both the adviser and underlying client.

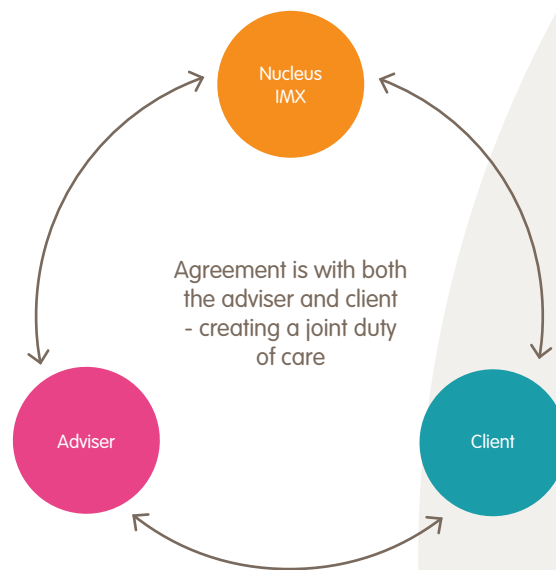
Using this structure, advisers retain their relationship with their client and responsibility for assessing the suitability of portfolios for their client's goal. Our responsibility is to manage the portfolio to the portfolio's objective and in line with our investment principles.

The purpose of the portfolio objective is to inform advisers and clients of how the portfolio will be invested over time and to help advisers assess the suitability of a portfolio. We also set portfolio objectives using a methodology which enables us to update portfolio allocations (as set out in ongoing portfolio monitoring and review) when appropriate but with the portfolio remaining in line with the set description.

The portfolio objectives are set to describe whether the portfolio is designed for clients aiming to grow or take regular withdrawals from their investments and give a range of growth assets the portfolio is expected to invest in. Growth assets are higher risk asset classes (such as equity and property) which are expected to provide higher returns over the long-term.

In addition to the portfolio objectives, we provide information on the typical client as well as return and risk expectations for the portfolio.

The IMX portfolio objectives and other portfolio information are included in our factsheets.



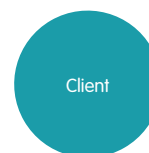
## Responsibilities



Adviser



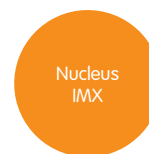
Selection of IMX portfolio suitable for client's goal



Client



Manage portfolio to the portfolio's objective and in line with investment principles



Nucleus IMX

# Ongoing portfolio monitoring, rebalancing and review

In the creation of IMX portfolios, we take a strategic approach to setting our asset allocations. We don't believe there is value to be added by making short-term, reactive changes to portfolios and do not make tactical tilts at the portfolio level.

However, we are cognisant of market movements that impact forward-looking assumptions and therefore the appropriate asset allocation to meet the set of hypothetical client goals. We also regularly rebalance client portfolios to the portfolio allocation and review our overall approach annually.

## Portfolio monitoring framework

Through updating the forward-looking assumptions in the portfolio creation process, Hymans Robertson regularly tests the continued appropriateness of IMX portfolio allocations against the set of hypothetical client goals. Portfolio asset allocations are updated when the revised asset allocations are deemed to result in improved outcomes for the set of goals and the stated objectives of the portfolio.

Although we do not expect frequent updates to portfolio asset allocations, regular monitoring and testing ensure we have a dynamic process in place to respond to changes in market conditions that impact on the achievement of client goals.

## Regular rebalancing

We believe that regularly rebalancing to the portfolio allocation will result in improved risk adjusted returns for clients. We aim to take an approach to keep clients in line with the set portfolio allocations whilst avoiding excessive transaction costs.

IMX portfolios will also be rebalanced through the asset allocation monitoring framework as required.

## Annual review

We conduct a full review of our investment principles and investment approach annually. This includes a refresh of the portfolio creation process and a review of our asset allocation approach and manager selection framework. The review is overseen by our investment committee.



Individually engineered

Our investment principles have been designed to provide a clear framework for the design and ongoing monitoring of IMX. By creating this framework, we can provide you and your clients with transparency on our investment process.

This combined with 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.

To find out more, visit [imx.nucleusfinancial.com](http://imx.nucleusfinancial.com) or contact your regional business development director.



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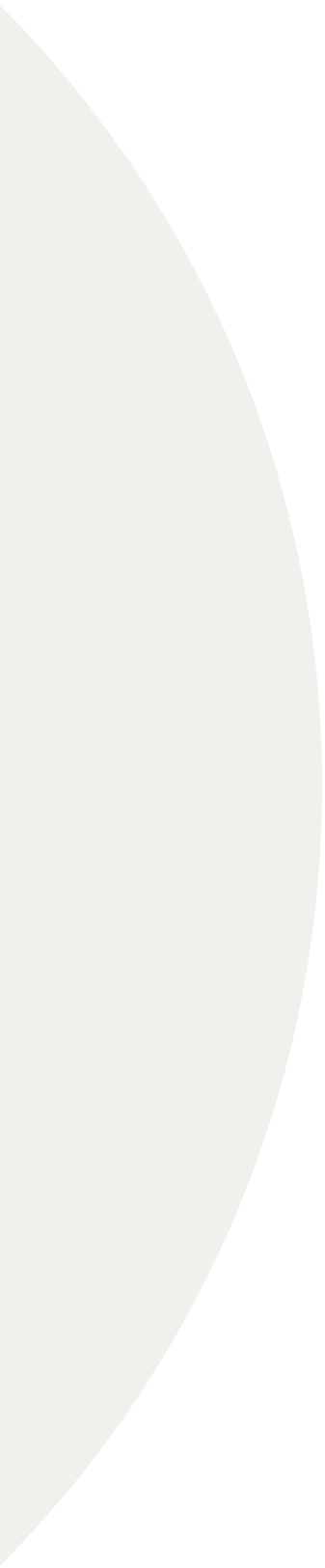


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Past performance is not a reliable guide to future performance, nor a reliable indicator of future results or performance. The value of an investment can go down as well as up, and may be less than the amount(s) paid in.



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