

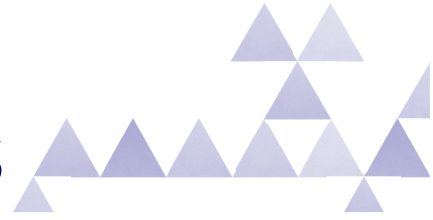


Investments • Pensions • Financial Planning



# Guide to: Atkins Bland's Use of Benchmarks

# Why we use Benchmarks



Benchmarks are useful to assess the success, or otherwise, of an investment strategy, providing the benchmark is sensibly selected and represents a fair and rational comparator.

## Why we use the ones we do

Atkins Bland uses two sets of benchmarks.

One set, operated by the Investment Association (IA), reflects the actual performance of publicly available multi-asset managed investment funds in different risk classifications.

The second set, operated by Asset Risk Consultants (ARC), reflects the reported results from a range of the UKs largest private client portfolio managers.

There is a lot of similarity between these, but the funds making up the IA benchmarks are under more constraint and are not allowed to deviate from set broad asset allocation thresholds, while the private client portfolios measured by ARC have far more discretion, provided they do not step outside their overall target risk exposures.

This means the underlying portfolios that make up the ARC indices are a little more in line with our own approach to asset allocation while those that make up the IA benchmarks are more in line with a typical Multi Asset Managed (MAM) fund approach.

Neither set of benchmarks is constructed from simple market indices, as both show the results from actively managed portfolios where the managers are deciding the allocation by asset type, sector, geographic region and, in some cases, fund manager choice, based on their analysis of the merits and attractions of each, and obviously reflecting the required risk characteristics of the fund.

This aligns with both our own core service which is structured to provide ongoing advice on geographic, sector and fund manager allocations, so means we are comparing ourselves with others doing the same thing, rather than simple market indices which would not be a rational comparator.

It also aligns with our service where we outsource all the asset allocation decisions to third party fund managers, using Multi Asset Managed (MAM) funds.

Tracking indices, such as the FTSE 100 in the UK or the S&P 500 in the US, is good enough for comparing the performance of an individual fund investing in that market, but not for multi-asset managed portfolios.

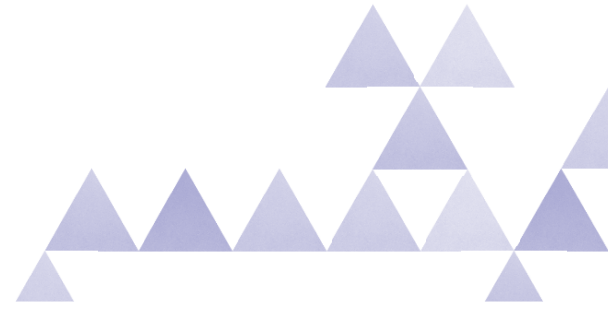
## How relevant are the benchmarks we use?

The ideal would be to benchmark on a completely 'like-for-like' basis, so comparing our clients results net of advice and third-party administration costs with the average results net of advice and administration costs in the same risk category.

This would enable us, and our clients, to see very clearly the extent to which our decisions on asset allocation, and the selection of funds to create that asset allocation, or our choice of MAM funds, has enabled then to outperform, or caused us to underperform, the average.

Unfortunately, the main industry benchmarks do not facilitate this since they exclude both third party administration and advice costs. All they include is the internal fund management costs.

This means that, if our underlying performance exactly matched the benchmarks, the net results would be underneath the benchmark since we are not able to operate a portfolio without administration or advice costs.



## Do benchmarks reflect investment objectives rather than just risk profile?

Sadly, they don't.

All the benchmarks are made up primarily of funds with a growth objective. For an investor with an income objective, this creates a mismatch that translates to a further headwind to outperformance, especially as you move up the risk ladder. There are three reasons for this:

- An income objective makes some investment sectors unsuited to their needs. An example is gold, but there are many others
- Many sectors, where income can be achieved, only offer this with a tiny proportion of the investment universe otherwise available, so an income portfolio is very restricted in where it can invest in these markets
- Investments that generate income tend to be more stable than investments where a return is only achieved if they are sold. In rising markets, that can be a headwind to overall returns, compared with a fund that can invest in areas that offer no income, such as most technology shares.

Someone wanting 'income' from their capital could invest in a growth portfolio to remove the above factors, and then regularly sell investments to raise the money for their 'income' withdrawals, but that adds a lot of risk and is not an approach we normally recommend.

For more information on this please request a copy of our **Guide to Generating Investment Income from Natural Yields**.

In addition, there are currently no suitable benchmarks for a portfolio applying SRI or ESG screening, which creates a significant mismatch between the fund strategy and the benchmark.

## Do we expect to outperform our benchmarks?

While we can never predict the future with confidence, we certainly hope to outperform our benchmarks over the long term, after adjusting for costs.

However, reflecting the fact that our benchmarks exclude plan administration and advice costs, while our results are always shown net of these, if we manage to get net results in line with the benchmark, we feel this is an excellent outcome. This is because it means we are outperforming the average, as measured by our benchmarks, by enough to fully cover our own advice fees and third-party administrator charges and expenses.

As our clients know, our advice fees can cover a lot more than just the asset allocation advice on a portfolio.

In this respect, it is worth remembering that the advice costs we are considering are not just for our asset allocation advice, but also cover other areas of advice we provide on our clients' financial and tax planning, as well as a lot of administration and general support.

If the results from our investment advice cover our overall advice fees, we therefore feel this is a very good outcome for our clients.

In terms of the prospect of outperforming the benchmarks we use after deducting all advice and administration costs, this is a demanding target, but one which is achievable over the longer term if asset allocation strategies are sufficiently more successful than the average.





## Are we likely to underperform our benchmarks sometimes?

This is almost inevitable.

To achieve the potential for long term outperformance by an amount which exceeds the administration and advice costs on a portfolio, we believe a portfolio needs to avoid getting hijacked by short term speculative activity from the stock markets and focus on realistic medium to long term economic outlook and fundamental analysis.

This strategy means that, in shorter time periods, a portfolio may well underperform a benchmark, sometimes by quite considerable margins, just as this can reverse at other times, with a strategy outperforming by a considerable margin.

With our full asset allocation advice service our investment strategies are not constructed with any reference to what our peer groups are doing or with too much concern over the very short term, as we are not advising on short term investment portfolios.

We take the view that our clients should rightly expect us to be applying our best judgement from our own internal research, rather than simply following the decision making of other companies, many of whom are likely to be 'closet index trackers' and more concerned with avoiding lagging their benchmarks than achieving longer term outperformance.

With our service based on Multi Asset Managed (MAM) funds, we accept that most fund managers get uncomfortable straying too far from what everyone else is doing. While we try to find those that are happy to follow their convictions even if it sends them a little out on a limb, the tendency to group around benchmark or traditional asset allocation models can make it hard to find funds that are truly as "benchmark agnostic" as we are.

We therefore expect the results from our MAM service to deviate from the benchmarks less than the results from our full asset allocation advice. However, the future is unknown and unknowable, so we may well be proved wrong.

## What is our ambition against our benchmarks?

It would be irrational to express any expectation on how our investment results will compare with those of the benchmarks we use over any specified period, since that involves pretending that the unknown future is, in fact, predictable. It isn't.

Likewise, we certainly cannot guarantee that we will achieve our objectives of outperforming our benchmarks over the longer term at all. However, we can guarantee that we will try our best to do so.

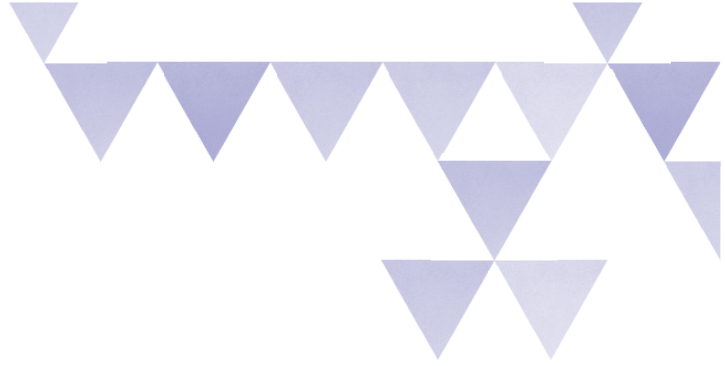
We will also try to achieve attractive actual returns for our clients, which is a different discipline than simply trying to outperform a benchmark and, in reality, is rather more important.

## How do we report results against the benchmarks?

We do this in our scheduled reports and reviews and add commentary where relevant.

Please note that we will do this from the commencement date of a portfolio (or from the date the benchmarks change due to a change in risk profile) but we feel it requires at least 5 years before the success or otherwise of an investment strategy can be judged. This is because our approach is designed for a period at least this long and is not designed for a period of less than 5 years.

# Important notes



Any opinions expressed on the merits or disadvantages of any options are intended as a general comment only and not as specific advice to the reader.

This document is intended as a supplement to full independent advice and not as a replacement for it and should be read in conjunction with any personalised recommendations provided by Atkins Bland Ltd and with any product brochures supplied.

The value of investments will fall as well as rise, as can any income produced or generated. An investor may, therefore, get back less than invested.

Inflation can reduce the real value of capital and the income it generates.

Past investment performance is not a reliable guide to the future.

Any reference to taxation, regulation or legislation is based on our current understanding and details should be checked before any reliance is placed upon its accuracy.

The impact of taxation and tax planning depends on individual circumstances and may be subject to change, which can be retrospective.

Errors and omission excepted.

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