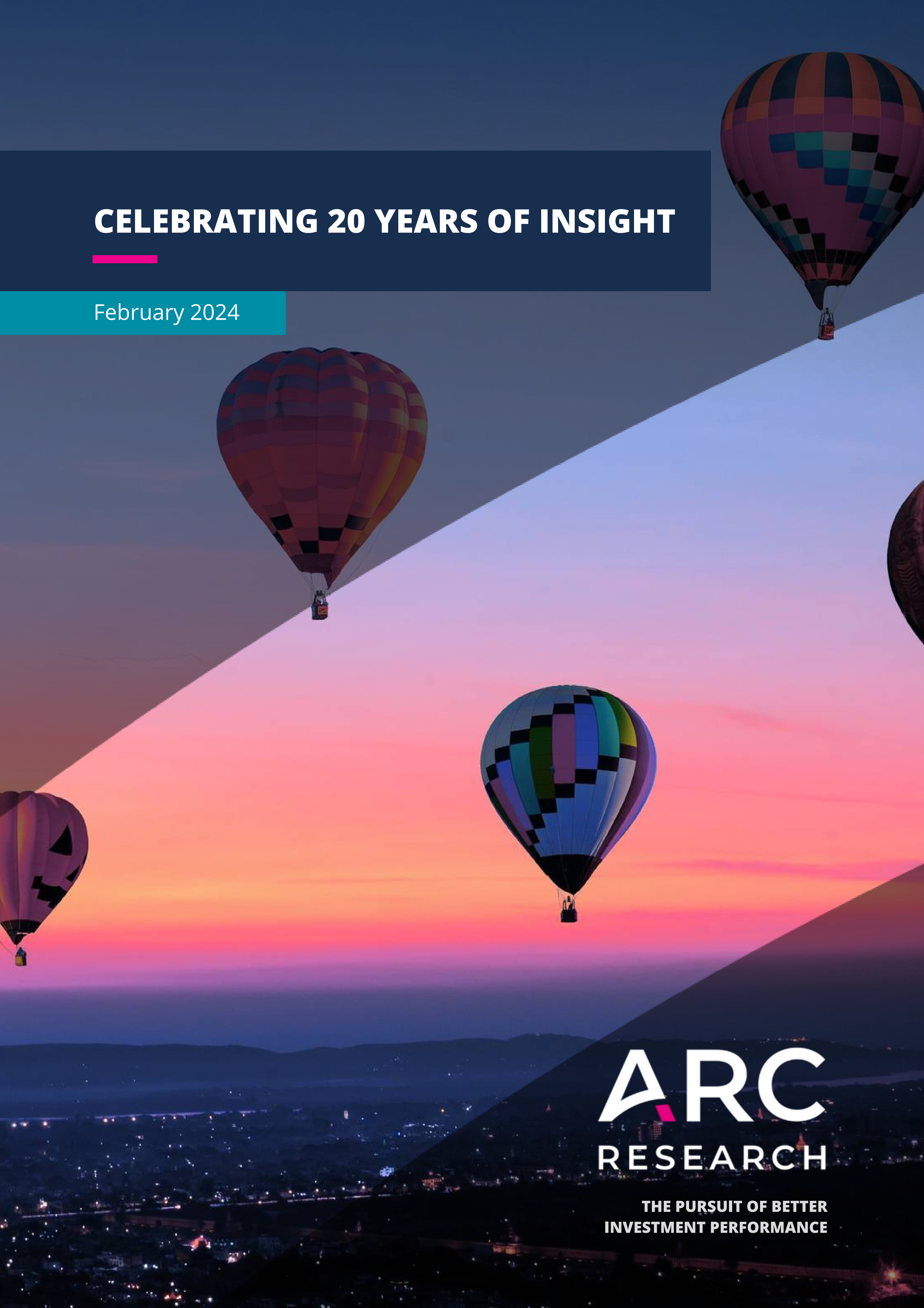
CELEBRATING 20 YEARS OF INSIGHT

February 2024



ARC RESEARCH

THE PURSUIT OF BETTER INVESTMENT PERFORMANCE

20 YEARS OF INSIGHT

"An investment in knowledge pays the best interest."

BENJAMIN FRANKLIN
1706 - 1790

Thanks to the willingness of participating discretionary investment managers to provide transparency on the performance of their private client and charity portfolios, the ARC Private Client Indices ('PCI') and the ARC Charity Indices ('ACI') are now celebrating two decades of data.

Freely available to investors, PCI and ACI provide invaluable insight into the performance of their portfolios relative to peers with similar risk appetites.

Being part of the community of data contributors is undoubtedly delivering a social good; without each data contributor being willing to provide performance details on all or substantially all of their discretionary portfolios, neither the PCI nor the ACI could exist.

Of course, data contributors do receive tangible direct benefits from being a data contributor in the form of a deeper understanding of the dynamics of their performance relative to the peer group.

However, we continue to recognise that our 125 data contributors have each chosen to provide transparency for the greater good and for that we continue to be extremely grateful.

THE EVOLUTION OF A PEER GROUP

PCI PRIVATE CLIENT INDICES
2007

PCI PRIVATE CLIENT INDICES
2008

PCI PRIVATE CLIENT INDICES
2009

ACI ARC CHARITY INDICES
2012

PCI PRIVATE CLIENT INDICES
2014

PCI PRIVATE CLIENT INDICES
2017

AIP ARC IHT PORTFOLIO INDICES
2018

"Simply put, the existence of PCI and ACI has provided investors with knowledge to support better decision making and ultimately improved investment outcomes."

GRAHAM HARRISON
Founder and Executive Chair

SEVEN SETS OF ARC INDICES

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There are seven sets of indices compiled by ARC each quarter.

Five are branded ARC Private Client Indices “PCI” and are based on the performance of private client portfolios with Sterling, US Dollars, Euros, Swiss Francs and Canadian Dollars as their reference currency.

The sixth is branded ARC Charity Indices (“ACI”) and is based on the performance of charity portfolios with Sterling as their reference currency.

The seventh is branded the ARC Inheritance Tax Portfolio Index (“AIP”) and covers Sterling based portfolios investing in those AIM shares that qualify for business property relief.

The ARC Indices provide an invaluable insight into the actual returns generated by investment managers for their discretionary private client portfolios over the last twenty years.

Being based wholly on real performance numbers delivered by participating investment managers, the ARC indices enable realistic and accurate peer group comparisons to be made.

TOTAL VALUE OF ASSETS MANAGED BY CONTRIBUTORS

£1.5 trillion

STRENGTH IN DEPTH

The ARC Indices are constructed on the basis of around 350,000 underlying portfolios submitted by 125 private client and charity discretionary managers.

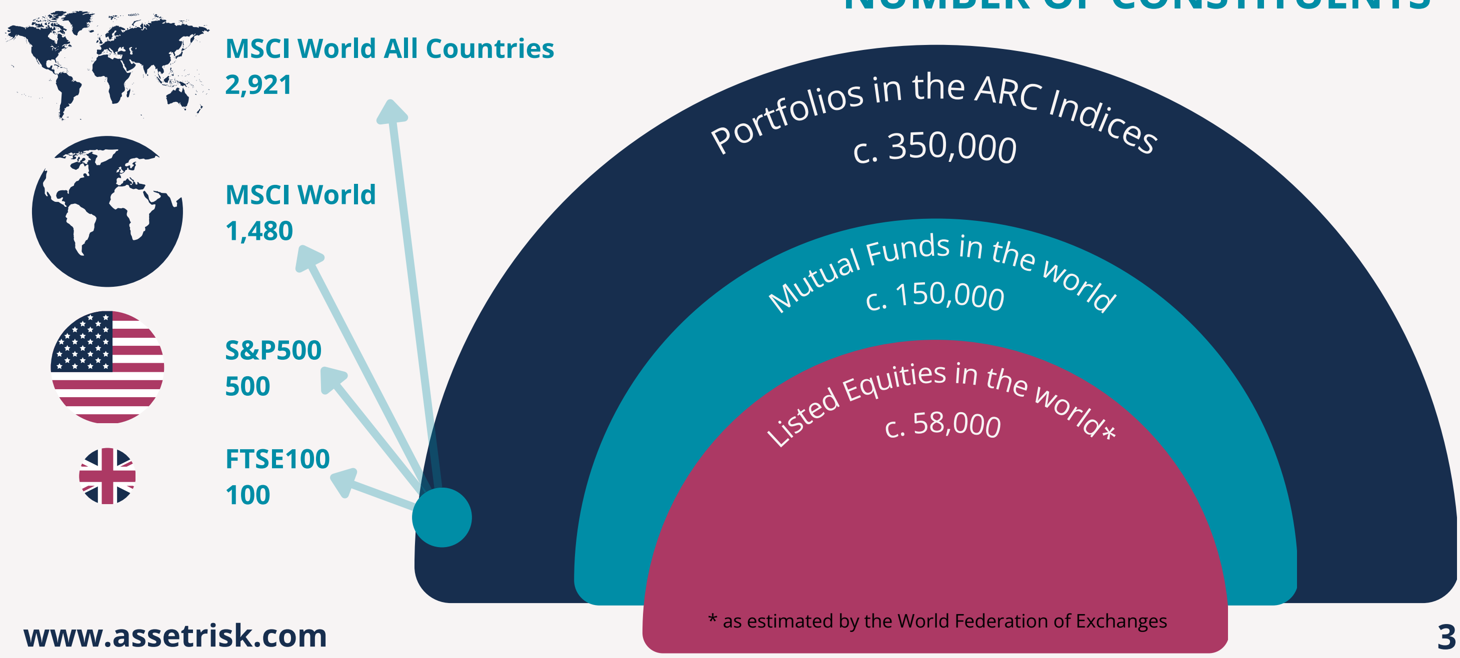
This makes the ARC Indices one of the most comprehensive financial indices available.

The graphic below reveals the strength in depth of the ARC Indices, which incorporate more constituents than there are listed equities in the world! We estimate that the total value of portfolios managed by contributors to the ARC Indices is around £1.5 trillion.

The ARC Indices are based on a comprehensive, realistic and representative peer group.

For private clients and charity advisers looking for an objective means of placing investment performance into context, the ARC Indices are the solution.

NUMBER OF CONSTITUENTS



FOUR RISK CATEGORIES

Each of the five sets of PCI indices and ACI are divided into four "risk" categories.

Relative risk to equities	up to 0.4 times	0.4 to 0.6 times	0.6 to 0.8 times	above 0.8 times
Typical equity content	up to 35%	35% to 55%	55% to 75%	above 75%
Risk Category	**Cautious**	**Balanced Asset**	**Steady Growth**	**Equity Risk**

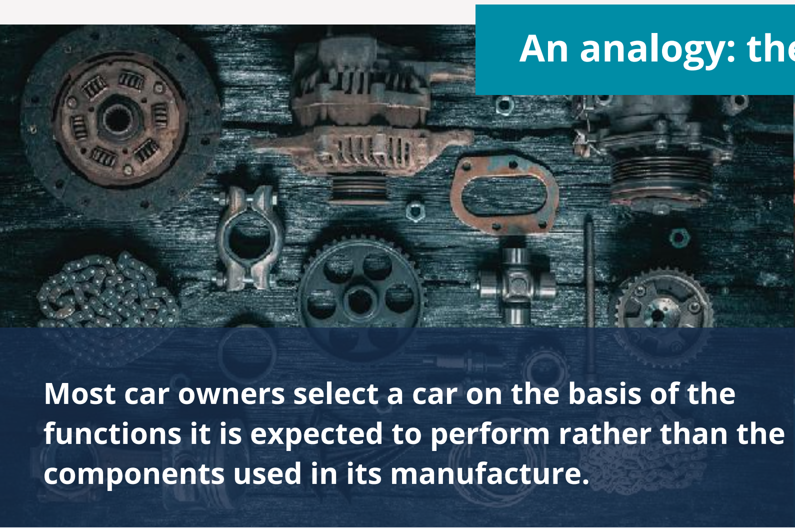
The central concept behind the design of the ARC suite of private client and charity indices is the notion that investors are interested in outputs rather than inputs. Thus, there are no pre-set asset allocations; no asset class restrictions; no concentration limits; and no index performances used. Such rules are concerned with inputs. Rather it is the output that determines the classification and ranking of each portfolio. The risk of each portfolio is compared to the risk of equity markets. The performances of portfolios that have evidenced similar risk characteristics are then compared.

Why classify portfolios according to their performance pattern rather than their asset allocation?

"Outputs not inputs"

Because consumers of investment management industry services are primarily interested in outputs not inputs.

An analogy: the World of Cars



Most car owners select a car on the basis of the functions it is expected to perform rather than the components used in its manufacture.

The same principle applies to the selection of a discretionary portfolio manager by a private investor.

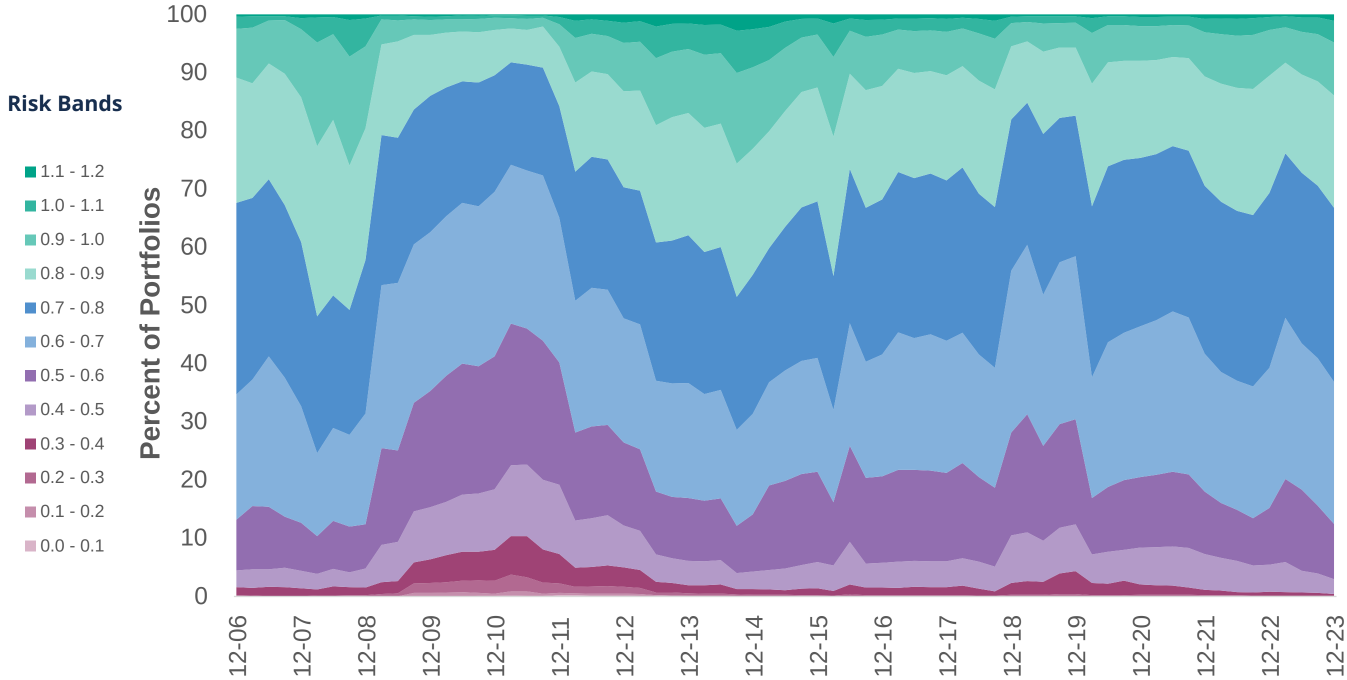
The probability of achieving the investment objective is more important to the investor than the way in which it is achieved.

PORTFOLIO DISTRIBUTION

Dividing portfolios into risk categories allows portfolios with different components but similar objectives to be compared.

The chart below plots the distribution of the PCI universe of underlying portfolios by their risk characteristics, risk being defined as realised volatility of portfolio returns compated to equities over a rolling 36 month period.

The chart has been divided into risk bands with green shades representing portfolios classified as Equity Risk, blue as Steady Growth, purple for Balanced Asset and maroon for Cautious.



HIGHLIGHTS FROM HISTORY

Steady Growth portfolios have tended to account for around 50 to 60% of the total

That is perhaps not surprising as a target equity exposure of between 60-70% is very typical of private client discretionary portfolio mandates.

The number of Equity Risk portfolios fell significantly during the Global Financial Crisis, recovered over the next few years and has stabilised at around a quarter of the total

The variability suggests not only tactical asset allocation decisions by managers but some private clients crystallising losses during the GFC.

That error was broadly avoided during the volatile financial markets of the last few years.

Private client discretionary portfolios with a calculated risk below circa 60% of world equities account for only around 20% of the PCI portfolio universe.

That surely reflects in part the fact that financial repression drove real and even nominal bonds towards negative territory, particularly if considered net of discretionary management fees.

AVERAGE PERFORMANCE

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Over the last two decades, financial markets have followed a rollercoaster ride.

Sterling investors with a Steady Growth risk appetite (60-80% of equity risk) have experienced a bumpy return path that has tested resolve, although taken as a whole **the Sterling Steady Growth PCI has delivered an annualised nominal return of 5.6% and an annualised real return of 2.7%.**

PCI STERLING STEADY GROWTH

ARC Cautious	20 Year Return	Annualised Return	Annualised Real Return	Maximum Drawdown	Annualised Volatility
Sterling PCI	98.0	3.5	0.7	-9.4	3.8
US Dollar PCI	67.2	2.6	0.0	-13.8	4.3
Euro PCI	44.9	1.9	-0.2	-11.7	4.0
Swiss Franc	30.0	1.3	0.7	-15.2	3.9
Canadian Dollar	105.2	3.7	1.4	-8.7	3.7
Sterling Charity	103.6	3.6	0.8	-9.9	3.6

ARC Balanced Asset	20 Year Return	Annualised Return	Annualised Real Return	Maximum Drawdown	Annualised Volatility
Sterling PCI	145.9	4.6	1.8	-16.6	6.3
US Dollar PCI	105.9	3.7	1.1	-23.3	7.2
Euro PCI	73.4	2.8	0.7	-23.7	6.3
Swiss Franc	56.0	2.2	1.6	-25.3	6.7
Canadian Dollar	153.2	4.8	2.5	-21.4	6.2
Sterling Charity	171.1	5.1	2.3	-18.2	6.6

ARC Steady Growth	20 Year Return	Annualised Return	Annualised Real Return	Maximum Drawdown	Annualised Volatility
Sterling PCI	195.3	5.6	2.7	-24.1	8.3
US Dollar PCI	153.4	4.8	2.1	-32.5	9.7
Euro PCI	117.7	4.0	1.8	-34.3	8.5
Swiss Franc	84.4	3.1	2.5	-35.9	9.0
Canadian Dollar	190.8	5.5	3.2	-30.4	8.2
Sterling Charity	220.5	6.0	3.1	-27.1	8.7

ARC Equity Risk	20 Year Return	Annualised Return	Annualised Real Return	Maximum Drawdown	Annualised Volatility
Sterling PCI	246.6	6.4	3.5	-30.3	10.3
US Dollar PCI	197.9	5.6	3.0	-43.6	12.6
Euro PCI	160.3	4.9	2.7	-44.2	11.1
Swiss Franc	107.9	3.7	3.1	-45.8	11.5
Canadian Dollar	226.5	6.1	3.8	-40.8	10.6
Sterling Charity	249.2	6.5	3.6	-34.4	10.7

The message from the above performance tables is that over the last two decades the financial markets have rewarded investors for taking risk. However, the maximum drawdown figures show clearly the extent of “pain” that needs to be borne during difficult market conditions.

CONCLUSIONS

Looking back over twenty years of performance data, the data reveals some important information for private client and charity investors alike.

The ARC Indices provide objective performance data for private client and charity investors seeking to place portfolio performance into peer group context.

With c.350,000 portfolios incorporated within their compilation, the ARC Indices incorporate more constituents than there are listed equities in the world with an estimated £1.5 trillion of assets managed by the contributing firms.

Over the last two decades, there is evidence that private client and charity portfolios have sought to adapt their risk profiles in reaction to financial market conditions to their detriment. Acting on prevailing market sentiment appears to have caused relative value destruction.

Despite the bumpy path over the last two decades, real returns for investors have been positive and investors have been rewarded for taking risk.

positive real returns over 20 years

For an investor with starting capital of £1 million in December 2003 and a typical "Steady Growth" investment mandate, over the 20 years to December 2023, the average portfolio would be worth £2.95 million.

£1m **31 Dec 2003** → **£2.95m** **31 Dec 2023**

The difference in performance between a top quartile and bottom quartile discretionary investment manager over a twenty year period has been around 1% per annum.

25% **1% p.a.** 75%

£600,000
difference on £1m invested in Dec 2023

As a result, a top quartile portfolio would have a value of at least £3.4 million compared to a bottom quartile value of £2.8 million or less, leading to a minimum valuation difference of around £600,000 in December 2023.

Graham Harrison
Founder & Executive Group Chair

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A full list of Data Contributors to the ARC Indices is available at **www.suggestus.com**

Sign up at assetrisk.com to receive the monthly ARC Indices updates

SIGN UP

DRIVING BETTER DECISION MAKING

We have been setting the standard in outcome-orientated investment research since 1995.

Our core expertise lies in translating investment performance and fee data into actionable intelligence for all investors. Alongside this unique intelligence, we appraise investment firms to determine how they generate value for their clients.

We work with the investment management community to promote transparency and clarity in an often-opaque space. The ARC Indices are a set of peer group benchmarks that reflect the real-world experience of investors that have their wealth professionally managed. 125 firms contribute over 350,000 portfolios and use the insights from our team to make better, data-driven decisions.

PRI Principles for Responsible Investment | *ARC is committed to making a positive contribution to our society and the planet, and is proud to be a signatory of the UN Principles for Responsible Investments (PRI) since 2020*