

The background of the entire page is a photograph of several hot air balloons floating in the sky during a sunset or sunrise. The sky is a mix of deep blue, purple, and orange. Below the balloons, a city is visible with its lights glowing in the dark. The overall mood is serene and aspirational.

INTRODUCING THE ARC MPS INDICES

May 2025

ARC
RESEARCH

THE PURSUIT OF BETTER
INVESTMENT PERFORMANCE

"If I had asked people what they
wanted, they would have said faster
horses."

Henry Ford, 1863 - 1947
American industrialist and the founder of the
Ford Motor Company

WHY LAUNCH

Model Portfolio Services (MPS) were first introduced into the UK market in the mid-2000s and started gaining traction from around 2010. However, it was the FCA's introduction of Consumer Duty that led to a surge in demand as independent financial advisers (IFAs) sought to outsource the investment management of their clients' portfolios but retain the client relationship.

Consumer Duty requires IFAs to consider cost and value when investing on behalf of their clients. MPS tick both boxes. Suitability is also more straightforward as MPS tend to be delivered as a range of risk-rated portfolios. A client's risk tolerance can be demonstrably matched to an MPS offering with the appropriate risk rating, ensuring suitability and thereby mitigating regulatory risk for the IFA. Time previously spent by IFAs selecting and monitoring individual investments can be spent building stronger client relationships.

Consumer Duty has made cost and suitability key. MPS offers both, bringing professional investment access to clients beyond the ultra-wealthy.

Private client discretionary investment managers (DFMs) were quick to identify the opportunity. Most of the leading firms now offer MPS solutions on multiple platforms. Investment expertise, previously the reserve of private clients with portfolios of £1 million or more, is now available to investors of much more modest means.

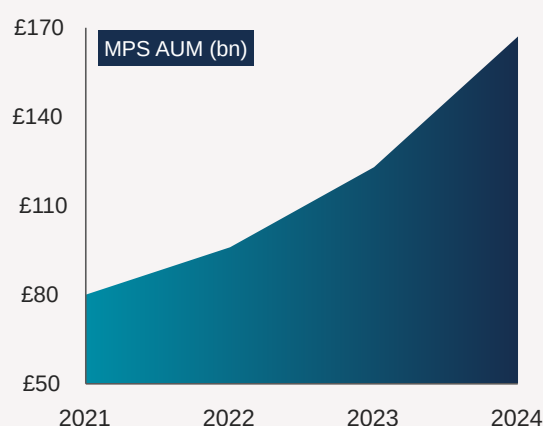
Investment management fees charged by DFMs for MPS solutions are generally lower than those charged for bespoke discretionary portfolios. The MPS model is attractive to DFMs as the responsibility for relationship management, due diligence and suitability passes to the IFA while trading, rebalancing and custody becomes the responsibility of the platform. With regulatory and administrative costs minimised, the MPS model is easily scalable for the provider and, because the average MPS investor would not meet the minimum for a bespoke portfolio, opens up an otherwise inaccessible, unprofitable client base.

The chart shows the exponential growth in assets allocated to MPS since Consumer Duty was announced in 2021.

Assets under management (AUM) are estimated to have more than doubled from £80 billion in 2021 to £167 billion in 2024.

At the current rate of growth, assets invested in MPS solutions would reach £1 trillion by the beginning of the next decade.

Growth of MPS assets



Source: NextWealth

51%

of IFAs using MPS
solutions for more than
half of their clients

70%

expect to allocate more
client assets to more
MPS solutions

Recent research undertaken by Equisoft found that 51% of IFAs were using MPS solutions for more than half of their clients. Growth in MPS is expected to continue, with almost 70% of IFAs expecting to allocate more client assets to a greater number of solutions in the future.

The increasing number of firms offering MPS solutions and the resulting explosion in the number of available solutions, estimated to be well above three thousand, makes selection increasingly challenging for IFAs.

The launch of the ARC MPS Indices gives IFAs the information needed to support MPS selection and offers MPS providers valuable analysis to understand how their solutions compare to peers.

ARC Managed Platform Solutions Indices

The ARC MPS Indices deliver robust, objective performance comparison for model portfolios and funds on adviser platforms.

750

platform
solutions

60

wealth
managers

13

years
history

THE ARC MPS INDICES



Until now, many IFAs and DFMs have also used the ARC Private Client Indices (PCI), compiled using the performance of over 350,000 private client discretionary portfolios managed by over 140 DFMs, as a proxy benchmark to compare and assess MPS solutions. However, there are distinct differences between bespoke discretionary private client portfolio outcomes and MPS offerings.

MPS data is generally presented on a “model” basis rather than being calculated from actual investor outcomes. The data is therefore “idealised” and does not take account of actual implementation costs and adviser fees; tax considerations are ignored; there are no cashflow impacts; nor are client-driven deviations accommodated.

With a strong desire by MPS providers and IFAs to be able to compare MPS offerings on a level playing field, the ARC MPS Indices have been constructed to sit alongside and complement the ARC Private Client Indices.

Simply put, the ARC MPS Indices have been designed to be used in assessing MPS offerings, *ex ante*. That is to say, categorised in advance of the known outcome.

Using the ARC MPS Indices, IFAs can understand each MPS solution’s performance dynamics and identify suitable options for their clients. Ranking functionality will be available later this year to further support comparison.

ARC PCI remain the appropriate way to place the performance outcome of a portfolio into a peer group context *ex post*, or after the delivered outcome is known.

The PCI are used ex post to assess past portfolio outcomes, while the MPS Indices are used ex ante to compare options before investing.

“

*ARC PCI tells you where
you’ve been (ex post).
ARC MPS helps you decide
where to go (ex ante).*

”

The ARC MPS Indices are available free of charge to IFAs to facilitate the selection and monitoring of MPS solutions against peers for their clients.

How are ARC MPS Indices compiled?

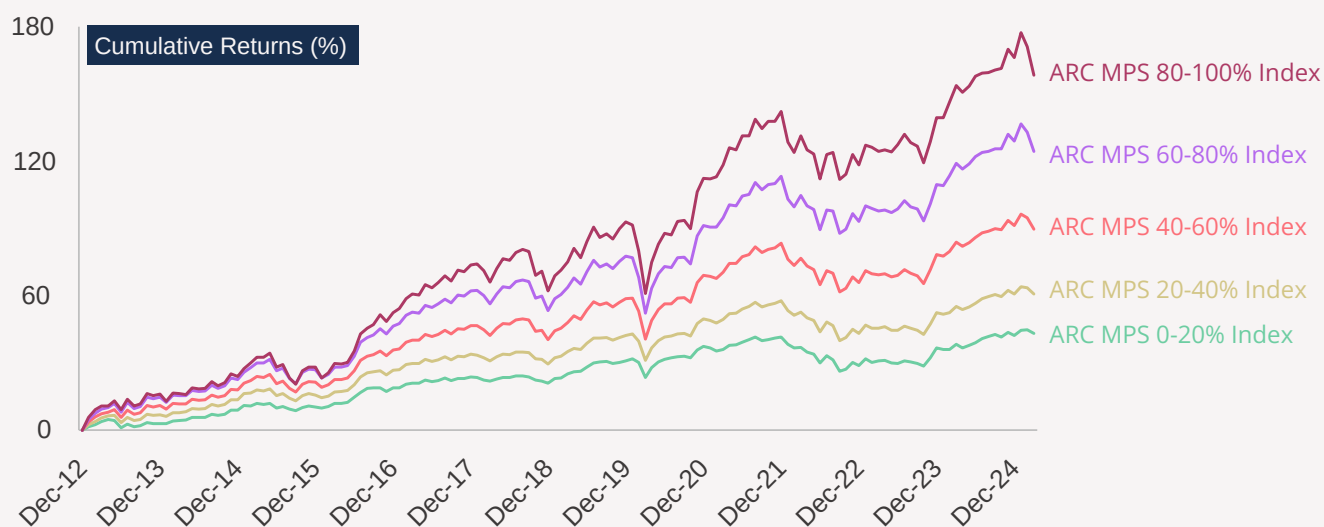
The five ARC MPS Indices are currently compiled from 750 MPS solutions provided by 60 investment firms in the form of both models and funded solutions. Based on five risk categories defined by average exposure to equities, the five ARC MPS Indices are set out in the table below:

ARC MPS Index

3-year average allocation to equities (%)

	Lower average	Upper average	Minimum	Maximum
0 – 20%	0	20	0	30
20 – 40%	20	40	10	50
40 – 60%	40	60	30	70
60 – 80%	60	80	50	90
80 – 100%	80	100	70	100

With a start date of December 2012, the ARC MPS Indices are available with both a monthly and daily resolution. Daily estimates are available on www.suggestus.com for registered users along with various comparison tools.



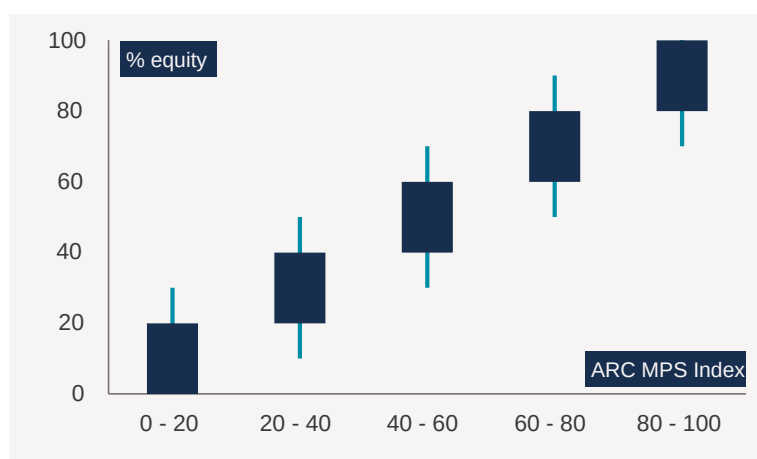
Source: ARC Research,
data to March 2025

Classification

ARC MPS Data Contributors provide ARC with monthly asset allocation and performance for all their eligible MPS solutions, net of all investment-related charges but gross of platform and adviser fees.

Classification of MPS solutions is based on their three-year rolling average equity allocation and all eligible MPS solutions are placed into one of five risk categories.

MPS solutions that deviate by more than 10 percentage points from, or fall outside, their defined equity exposure ranges for more than 12 consecutive months are reclassified.



To ensure that no one MPS solution provider dominates any of the categories a weighting factor is applied allowing all MPS solutions from each Data Contributor to be included.

Is equity exposure a reasonable risk proxy?

The decision to use equity exposure as a risk proxy reflects the idea that MPS solutions are offerings, not outcomes and should be assessed as offerings rather than outcomes.

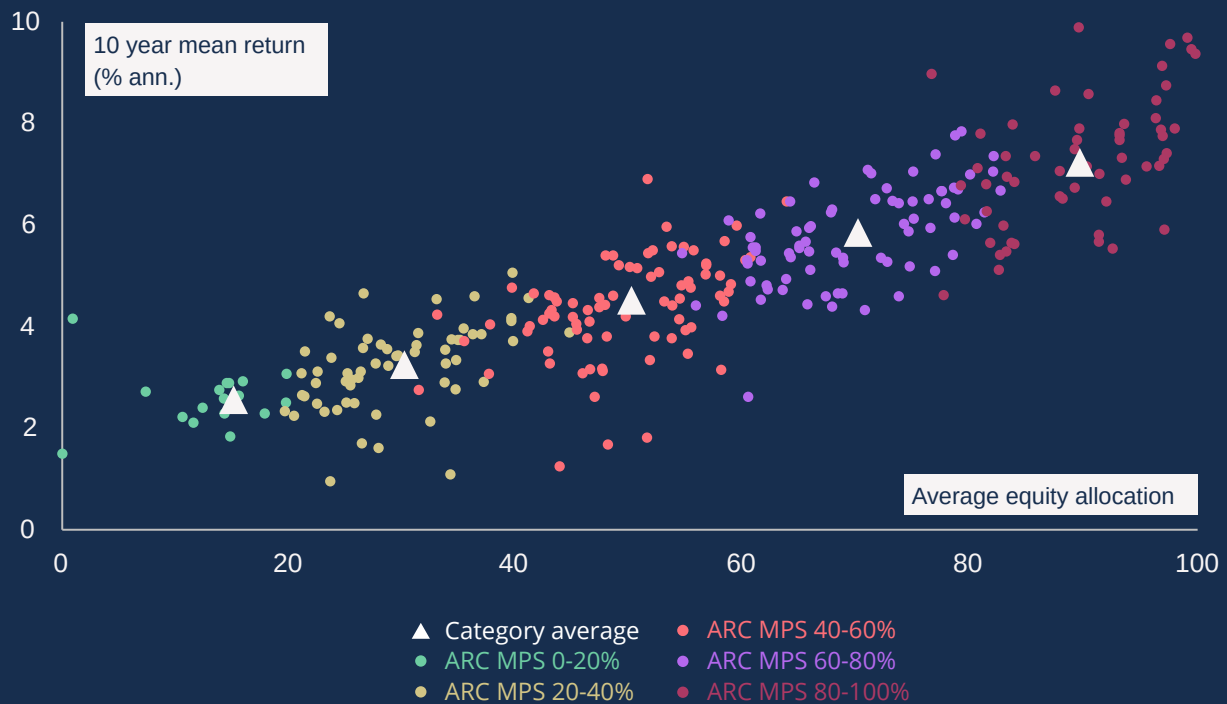
In that context, calculating the realised volatility of an MPS offering would not necessarily capture the expected volatility profile of that MPS offering in the future.

However, it is realised and accepted that the two approaches are very close to each other as the following charts illustrate.

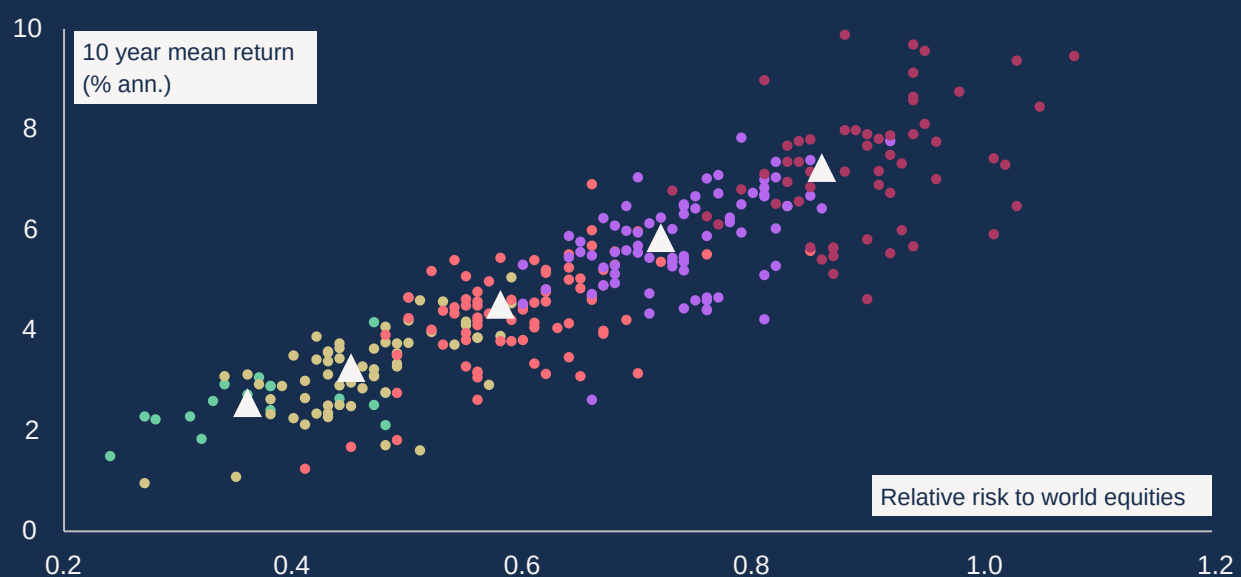
Equity exposure measures what an MPS is aiming for, not just what it happened to deliver.

The charts below set out each MPS offering with a 10-year track record plotting annualised return versus equity allocation and versus realised risk relative to world equities.

Classification by average equity exposure



Classification by relative risk to equities



As expected, these two charts look similar and confirm the close relationship between average equity exposure and realised volatility. In fact, over the 10-year period equity exposure and realised volatility both explain 77% of the variability in returns.

The new ARC MPS Indices provide a valuable peer group comparison allowing MPS solutions to be ranked according to a range of return and risk metrics. The ability to place MPS into a peer group context should greatly assist IFAs seeking to recommend MPS solutions to their clients.

To further assist in the ranking of MPS solutions, we are providing an ARC Medal rating for all eligible MPS solutions.

Good past performance may be due to luck or good judgment, or the MPS solution might have achieved high returns by taking more risk.

Equally returns may be higher than expected because the market itself is booming.

Anyone can show strong returns. ARC Medals recognise those delivering quality performance.

Developed nearly thirty years ago, the ARC Medal rating system assesses the quality of MPS performance, evaluating return, risk, style and trend in a peer group context.



Recognising that past performance is not necessarily an accurate guide to future performance, the ARC Medal rating system is designed to provide IFAs with a single metric that assesses historical performance versus peer group.

ARC MEDAL RATINGS



RETURN



The ARC Medal rating is based on performance relative to the appropriate ARC MPS Index over the past 36 months, providing a clear view of how an MPS solution compares to its peer group.

RISK



As higher risk implies higher expected returns, the ARC Medal rating adjusts for risk to ensure all MPS solutions are measured on a consistent basis. This approach assesses whether investors are receiving an appropriate reward for the level of risk taken.

TREND



Greater weight is given to recent performance. Exceptional months diminish in influence over time, allowing performance momentum to emerge more clearly over the 36-month review period.

STYLE



Investment style influences how closely an MPS solution aligns with its peer group, measured through correlation. A deep value strategy, for example, may show lower correlation than a top-down approach. The ARC Medal Rating factors in style when assessing performance quality.

There are four ARC Medal ratings as follows



Platinum: *Awarded to MPS solutions that demonstrate consistent, risk-adjusted outperformance, setting the standard within the peer group.*



Gold: *Given to solutions delivering systematic, value-adding outperformance relative to peers.*



Silver: *Recognises solutions that have outperformed their peer group on a time-weighted, risk-adjusted basis.*



Bronze: *Allocated to solutions that have underperformed on a risk-adjusted basis, but show reasonable prospects for recovery.*

SUMMARY

The traditional private client discretionary portfolio continues to thrive for those with £1 million or more to invest with a DFM.

However, alongside that traditional market, the MPS sector has emerged allowing investors with more modest portfolios to access DFM expertise via IFAs. This is great news for investors seeking to access the best investment talent.

We believe that the rapidly growing MPS sector requires a fresh approach. The ARC PCI Indices are designed to place the performance of a portfolio into context after the fact, or *ex post*. They are not designed for assessing the attractiveness of an MPS offering versus all other MPS offerings.

By launching the ARC MPS Indices, it is now possible to place the performance of an MPS offering into a peer group context. This initiative should not only assist IFAs in selecting which MPS providers to work with but also help MPS providers understand where they sit in the peer group.

As with the PCI, the ARC MPS Indices are available free of charge for registered users of our research platform, www.suggestus.com.

MPS solutions bring professional investment management to a wider range of investors.

The ARC MPS Indices offer the first independent way to compare MPS solutions clearly and fairly.

As Henry Ford noted, users of horsepower would probably not have asked for a motor car but once it arrived it changed the perception of travel.

The ARC MPS Indices are a new way for IFAs and MPS providers to assess performance that reflects the rising importance of MPS as an investment solution that is separate and distinct from traditional private client discretionary management.

The result is a new family of MPS indices that are truly fit for purpose.

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

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.

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