

# INDEX ENHANCED PORTFOLIOS

## ADVISOR FAQ'S

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### Why did Select decide to launch the Index Enhanced Portfolios?

The idea came directly from advisors already using the Select platform. They were happy with the service from the wider Select team, and they appreciated the investment research from JMI Wealth. The performance of the core portfolios was also well received.

However, some advisors mentioned they had clients who preferred a more passive investment approach or were particularly sensitive to fees. After further discussions and input from those advisors, Select developed the Index Enhanced Portfolios to offer a simpler, cost-effective solution that would appeal to advisors and their clients.

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### How is the investment strategy for these portfolios decided?

The strategy behind the Index Enhanced Portfolios is the same as the one used for Select's Core Active Model Portfolios, Responsible Investment portfolios, and KiwiSaver funds. That means the asset allocation is consistent across all these offerings.

The foundation of the investment strategy is built on academic research like Modern Portfolio Theory and the Capital Asset Pricing Model. But it's not just theory - there are three key pillars that support the process:

1. Dr Ian Hunt provides empirical research to ensure the portfolios are efficiently built and fit for purpose.
2. The JMI Investment Committee, with over 130 years of combined experience, provide the practitioners' oversight to the investment strategy process.
3. The annual review makes sure the strategy stays relevant, even if it doesn't always lead to changes of the asset allocations.

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## What kind of risk and return can clients expect?

Each year, Select publishes return and volatility assumptions for all asset classes in the model portfolios. We believe these are like those in the industry and are based on core market exposure and after fund manager fees.

Importantly, the investment strategy formulation focuses on reducing the variation over time around return forecasts and makes sure the reward for risk is appropriate.

This is primarily achieved by having broadly diversified portfolios, which helps manage risk. And while the return assumptions are based on market indices, they do not include any value-add, the enhancements built into the Index Enhanced Portfolios are expected to deliver better outcomes over time.

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## What makes these portfolios “Enhanced”?

**Great question!** The “enhanced” part comes from a few thoughtful additions:

- The portfolios include a wider range of asset classes, like NZ listed property and global infrastructure, in addition to the core asset classes of shares and bonds.
- Within some asset classes, there are sector-specific allocations—such as mid-cap Australasian equities and small-cap/emerging markets in global equities.
- There are also style or factor exposures within global equities, like value and quality factors, which aim to boost returns beyond a standard global equity market index.

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## How are fund managers chosen for these portfolios?

Manager selection is based on the same rigorous process used in Select’s annual asset class reviews. Whether it’s an active manager, a passive fund, or an ETF, they must meet JMI’s criteria to be included.

For index-style managers, the key factors are financial stability, they are well resourced, have the ability to track an index closely, competitive fees, and support the New Zealand market.

Allocations are then made to meet the portfolio’s asset and sector targets, ensure diversification across managers, and manage fees effectively. Currently, fund manager fees sit around 30 basis points, which is very competitive.

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## Why are the fees lower for these portfolios?

The lower fees reflect the passive nature of the Index Enhanced Portfolios. Unlike the core portfolios, these don’t include tactical asset allocation overlays and are rebalanced less frequently - just once or twice a year.

There is also a tiered Select platform fee, starting at around 50 basis points for portfolios under \$250k. Despite the lower fees, advisors still get full support: client onboarding, transaction processing, quarterly reports, annual tax reporting, and ongoing investment monitoring.

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## How do these portfolios differ from other Select offerings?

**Here’s a quick comparison:**

- **Core Model Portfolios:** Actively managed, include tactical overlays, and are rebalanced quarterly.
- **Responsible Investment Portfolios:** Same as core, but with a stronger ESG focus.
- **Index Enhanced Portfolios:** Passive approach, no tactical overlays, and less frequent rebalancing.

The Index Enhanced Portfolios are ideal for clients who prefer a passive investment style or are particularly fee-conscious.