

The rise (& rise!)

of Evidence Based Investing
and Passive Investing.

timeline.co

We **empower**
financial advisers



Who are Timeline?

**Evidence-based
low cost
DFM**

**Fastest
growing MPS
in the UK**

**£6.5bn
AUM**

**10-year
track
record**

Making headlines!



Tatton, Quilter and Timeline to emerge as 'dominant' MPS players

Each added more than £3bn in assets in the last year, NextWealth finds

MPS upstart Timeline adds another £3bn in a year

Four years after its launch, Timeline could be a top three MPS provider within months, financial services consultancy NextWealth has predicted.

2023 Rank	2024 Rank	DFM Name	Q4 2023	Q1 2024
1	1	Tatton Investment Management	£13,800,000,000	£15,300,000,000
2	2	Quilter Wealth (WealthSelect)	£13,755,245,714	£15,268,730,593
3	3	Parmenion Investment Management	£8,720,000,000	£8,980,000,000
4	4	LGT Wealth Management UK LLP	£7,875,699,218	£7,991,521,282
5	5	RBC Brewin Dolphin	£6,707,891,081	£7,130,684,176
11	6	Timeline Portfolios	£4,073,713,087	£5,244,336,454
6	7	Schroder Investment Solutions	£4,515,005,299	£4,739,127,152
8	8	Brooks Macdonald Asset Management	£3,930,696,036	£4,163,467,856
7	9	Financial Express Investments Ltd	£3,821,624,656	£3,954,532,053
-	10	Omnis Investments	£2,550,412,313	£2,829,335,493
12	11	ebi Portfolios	£2,400,000,000	£2,730,000,000
10	12	Waverton Investment Management	£2,600,000,000	£2,700,000,000

Δ Assets growth rank	DFM Name	Q1 2023	Δ Assets YoY	Q1 2024
1	Quilter Wealth (WealthSelect)	£11,036m	£4,232m	£15,269m
2	Tatton Investment Management	£12,000m	£3,300m	£15,300m
3	Timeline Portfolios	£2,123m	£3,121m	£5,244m
4	Brooks Macdonald Asset Management	£3,191m	£973m	£4,163m
5	RBC Brewin Dolphin	£6,174m	£957m	£7,131m
6	ebi Portfolios	£1,857m	£873m	£2,730m
7	P1 Investment Management Ltd	£731m	£857m	£1,588m
8	Hymans Robertson Investment Services	£655m	£835m	£1,490m
9	Fundhouse	£458m	£747m	£1,205m
10	AJ Bell Asset Management Ltd	£1,800m	£710m	£2,510m

Learning Objectives

Understand the rise of passive investing, highlighting the surpassing of US passive fund assets over active funds in 2023 and the key factors behind this trend, such as cost efficiency and performance.

1

Examine recent market trends, noting the inflows into European long-term index funds and outflows from active funds, to understand investor preferences and the impact on market share.

2

Assess different investment approaches, including passive and evidence-based investing, and discuss strategies for achieving alpha performance through passive benchmarking and factor-based investing, focusing on client outcomes and cost implications.

3

Agenda:

- 1.** Passive & active management
- 2.** Evidence based, or factor, investing
- 3.** The Efficiency of the Global Markets
- 4.** The impact of costs
- 5.** Good client outcomes



The rise (& rise)...

“Index funds have grown because of the validity of the core insight underpinning them: conventional investment funds are, by and large, a terrible proposition. The vast majority fail to beat the market over the year.”

The
Economist

“There is a continued shift toward passive instruments. We are able to quantify a 14% shift in the asset-weighted average allocation from active to passive instruments over the last 18 months. In the last year, 19 out of 34 DFMs have increased weighting to passive instruments while only 3 have increased their weighting to active.”



NEXTWEALTH

How do we define active management?



Active managers are market timers

Really?

They are buying and selling assets in the hope of outperforming a benchmark

Surely there is more to it?

Active management is based on the mathematics and principles of risk and return from basic mean–variance portfolio theory but with a focus on value-added compared with a benchmark portfolio

Can you translate that to English?

Active managers forecast and invest in the securities most likely to outperform, based on research, analytics, experience and skill with the ultimate goal of outperforming a particular benchmark

YES!!!!

How do we define passive management?



It's a buy-and-hold investment strategy

NO!!!

Passive management is any rules-based, transparent, and investable strategy that does not involve identifying mispriced securities, mostly with the intention to match, not beat, the performance of an index

An investing strategy that tracks a market index. They don't focus on short term fluctuations of a stock's price and execute little to no analysis of individual securities, industries or markets

Okay, but that sounds somewhat active?

GREAT JOB!!!

Capture global markets

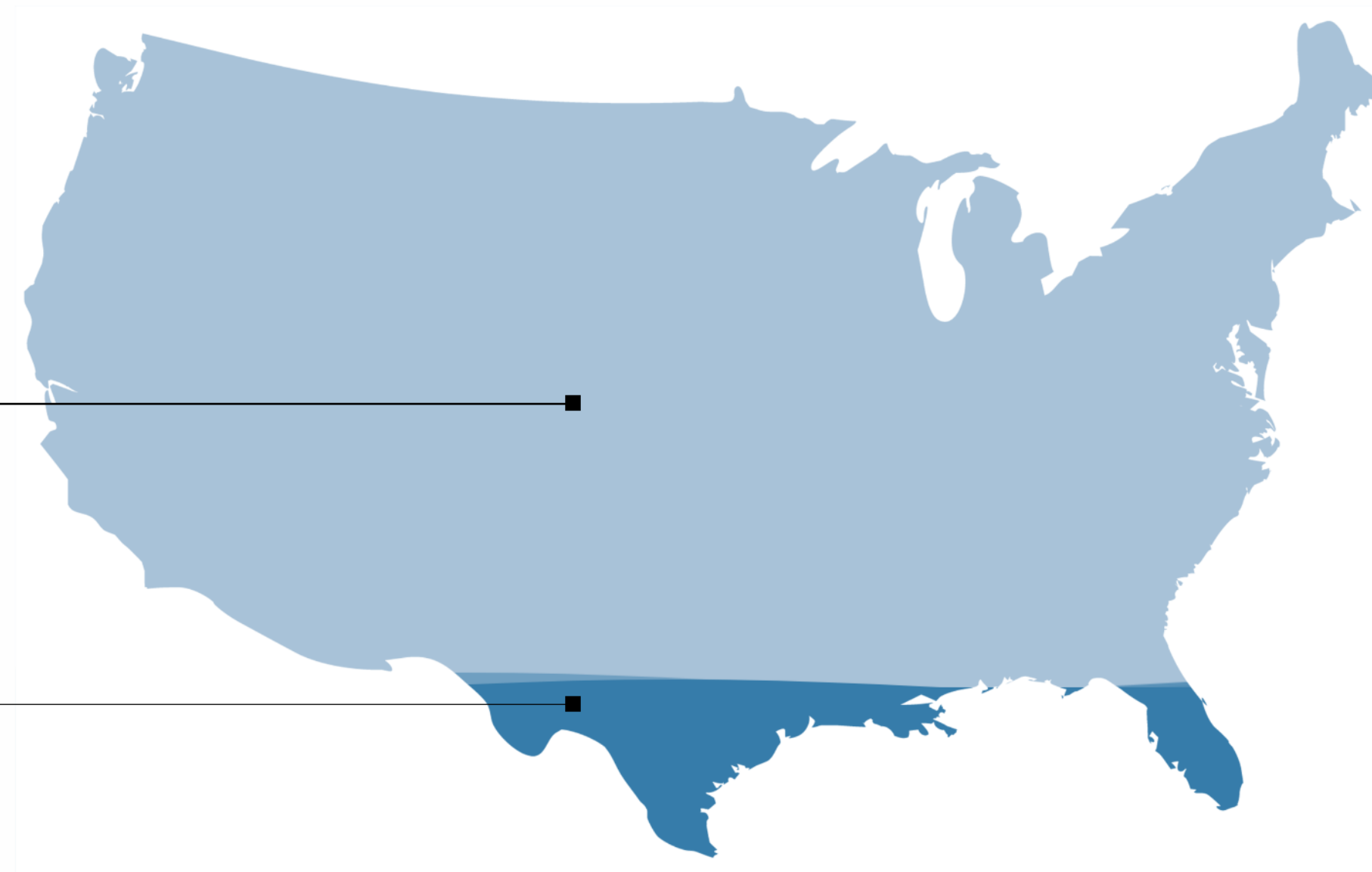


United States

Percentage of All Large-Cap funds that underperformed the S&P 500®

87.98% of funds underperformed the S&P 500®

12.02% of funds outperformed the S&P 500®



1 YEAR

3 YEARS

5 YEARS

10 YEARS

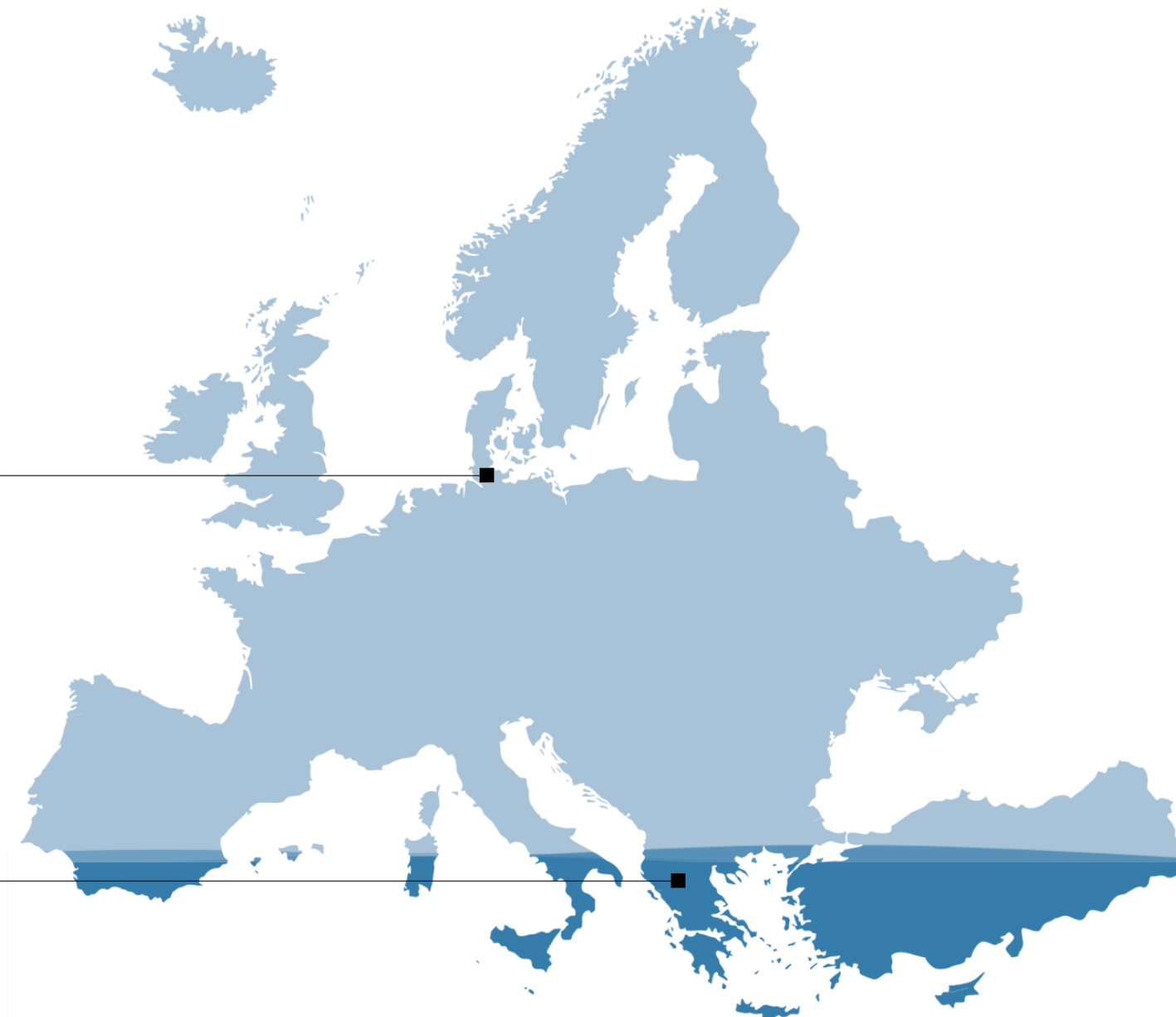
15 YEARS

Europe

Percentage of Europe Equity funds that underperformed the S&P Europe 350

92.31% of funds underperformed the S&P Europe 350

7.69% of funds outperformed the S&P Europe 350



1 YEAR

3 YEARS

5 YEARS

10 YEARS

Brazil

Percentage of Brazil Equity funds that underperformed the S&P Brazil BMI

91.65% of funds underperformed the S&P Brazil BMI

8.35% of funds outperformed the S&P Brazil BMI




1 YEAR

3 YEARS

5 YEARS

10 YEARS

		Active Investing	Passive Investing
	Believes	Perceive markets to be inefficient	Subscribes to the Efficient Market Hypothesis
	Goal	Attempts to “ beat the market ”, focus on absolute returns	Attempts to match a particular benchmark, focus on relative returns
	Strategy	Hand picking securities, using fundamental/technical research	Securities selection dictated by benchmark
	Main Focus	Alpha	Diversification
	Costs	Higher expenses	Lower expenses
	Trading Frequency	More buying and selling	Less buying and selling
	Long-term Vs Short-term	Exploit short term price fluctuations	Ignore short-term fluctuations
	Expertise Required	Superior skills needed for research, analysis and decision making	Requires little decision-making by manager. Less research and analysis involved

What is evidence-based investing?

...the process of making decisions based on decades of research and historical data

Ignoring short-term market trends

Not making any predictions of the near future

Long-term observation of markets

Researching empirical evidence

Academic research

Tilt towards performance premiums (“factors”)

Let's revisit our broad definitions



Active

Forecast and invest in the securities **most likely to outperform**, based on **research, analytics**, experience and skill with the ultimate **goal of outperforming a particular benchmark**.



**EBI IS
ACTIVE**



Passive

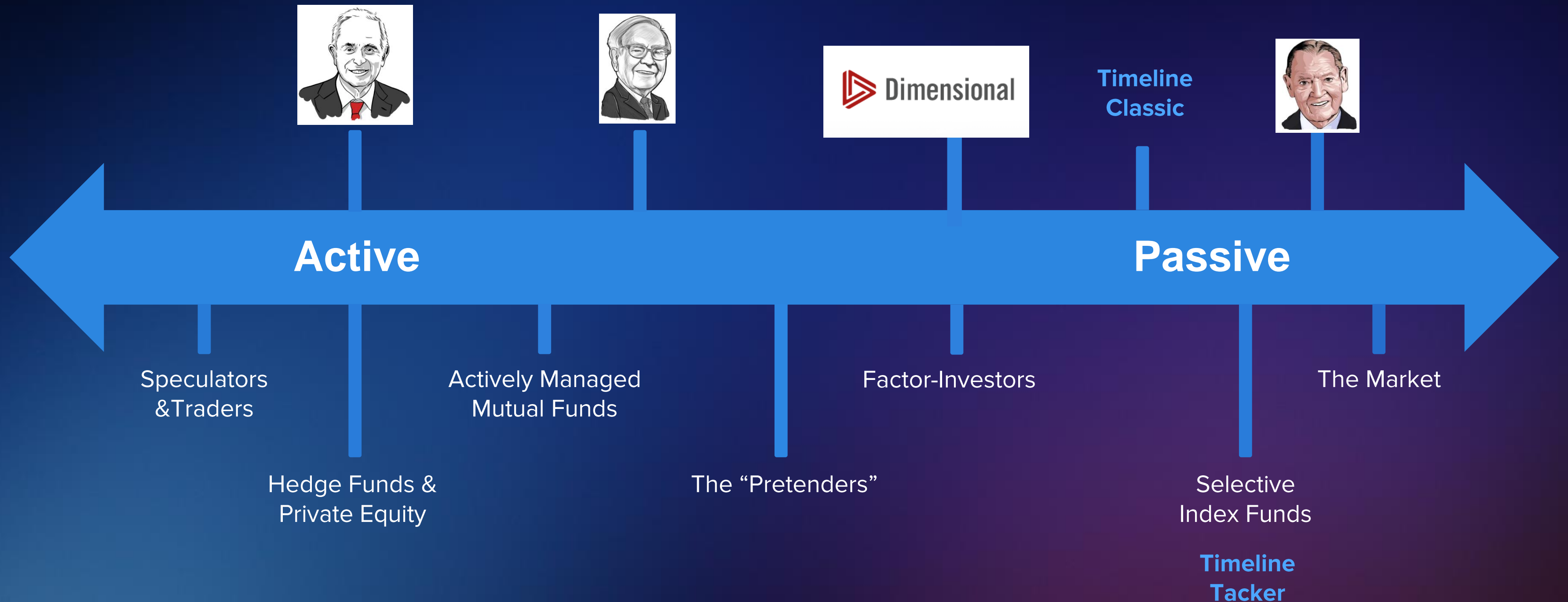
Any **rules-based, transparent, and investable strategy** that does **not involve identifying mispriced securities**, mostly with the intention to match, not beat, the performance of an index.



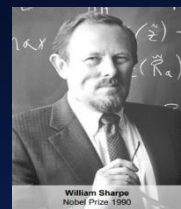
**EBI IS
PASSIVE**

Active vs Passive

Not a Black or White approach



The History of Factor Investing



1964

Market Risk -
CAPM

1981

Size -
RW Banz

1992

Value – Fama
French 3 Factor
Model

1997

Momentum –
Carhart 4
Factor Model

2012

Profitability
Investment –
Fama French 5
Factor Model

A Factor Zoo



- | | | | |
|--------------------------------|-----------------------------------|------------------------------------|----------------------------------|
| 1. Market Risk | 21. Equity Issuance Factor | 41. Currency Risk | 61. Model Risk |
| 2. Size Effect | 22. Merger Arbitrage Factor | 42. Regulatory Risk | 62. Beta Mismatch Risk |
| 3. Value Effect | 23. Long-Term Reversal Factor | 43. Geopolitical Risk | 63. Factor Correlation Risk |
| 4. Momentum Effect | 24. Credit Risk Factor | 44. Technology Risk | 64. Factor Crowding Risk |
| 5. Liquidity Risk | 25. Small Size Value Factor | 45. Supply Chain Risk | 65. Overfitting Risk |
| 6. Volatility Factor | 26. Term Spread Factor | 46. Legal Risk | 66. Data Integrity Risk |
| 7. Quality Factor | 27. Liquidity Risk Premium Factor | 47. Accounting Risk | 67. Factor Rotation Risk |
| 8. Dividend Yield Factor | 28. Leverage Factor | 48. Health Crisis Risk | 68. Transaction Cost Risk |
| 9. Beta Factor | 29. Value Momentum Factor | 49. Market Sentiment Risk | 69. Style Drift Risk |
| 10. Low Volatility Anomaly | 30. Credit Quality Factor | 50. Currency Hedging Risk | 70. Short Squeeze Risk |
| 11. Earnings Yield Factor | 31. Event Risk | 51. Sector Rotation Risk | 71. Factor Timing Consistency |
| 12. Growth Factor | 32. Consumption Risk | 52. Market Timing Risk | 72. Contagion Risk |
| 13. Profitability Factor | 33. Foreign Exchange Risk | 53. Hedging Risk | 73. Pension Fund Risk |
| 14. Idiosyncratic Risk | 34. Real Estate Risk | 54. Factor Timing Risk | 74. Political Instability Risk |
| 15. Value-to-Book Ratio Factor | 35. Political Risk | 55. Black Swan Events | 75. Fiscal Policy Risk |
| 16. Credit Spread Factor | 36. Interest Rate Risk | 56. VIX Index Risk | 76. Behavioural Bias Risk |
| 17. Default Risk Factor | 37. Inflation Risk | 57. Dividend Risk | 77. Lack of Diversification Risk |
| 18. Liquidity Premium Factor | 38. Cybersecurity Risk | 58. Tax Policy Risk | 78. Counterparty Risk |
| 19. Price Momentum Factor | 39. Environmental Risk | 59. Interest Rate Sensitivity Risk | 79. Market Manipulation Risk |
| 20. Profit Momentum | 40. Commodity Price Risk | 60. Market Efficiency Risk | 80. Algorithmic Trading Risk |

A Factor Zoo

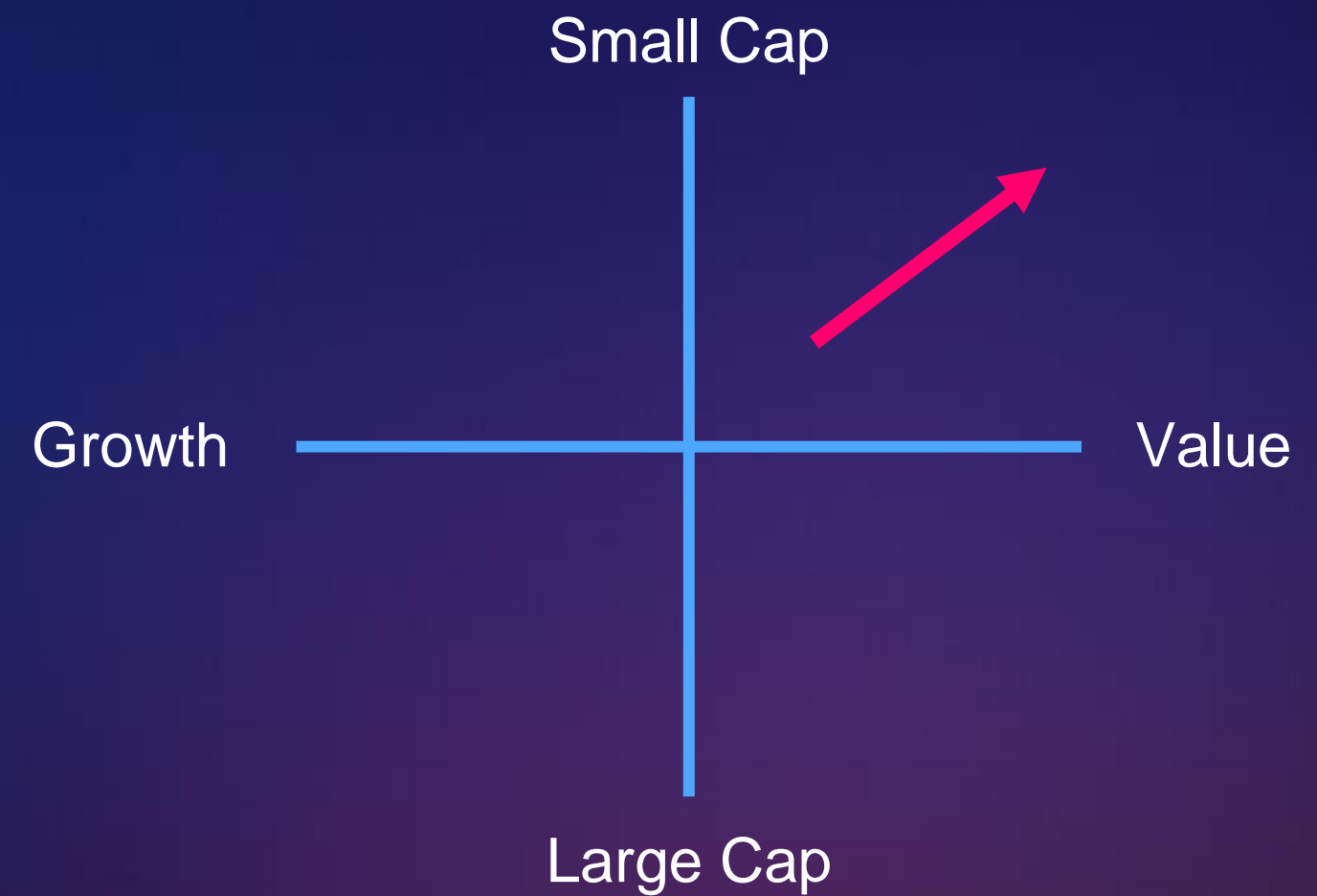
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Put simply...

Global Markets



Factor Tilts



Historical Factor Returns



Global Equities

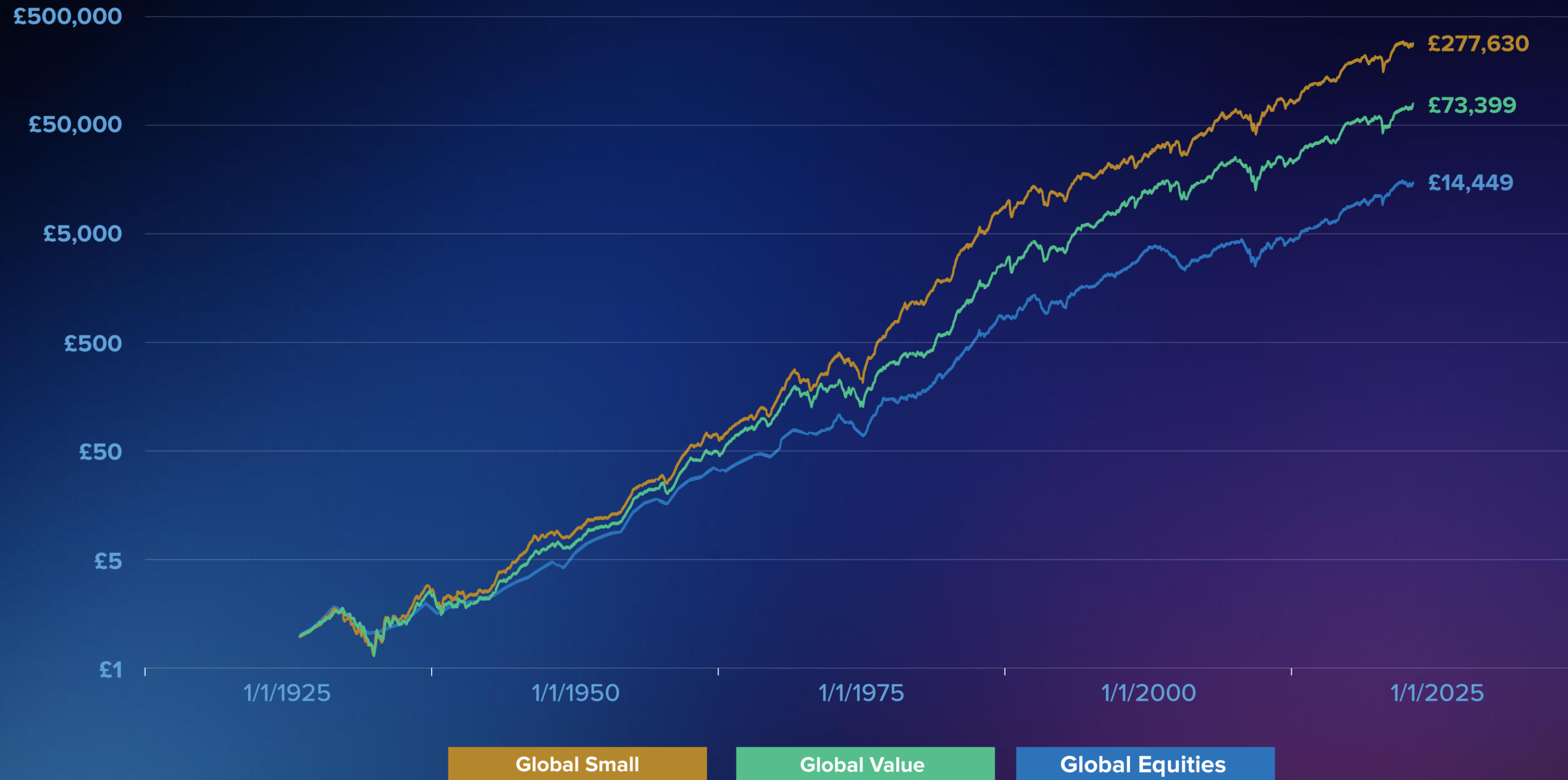
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Historical Factor Returns



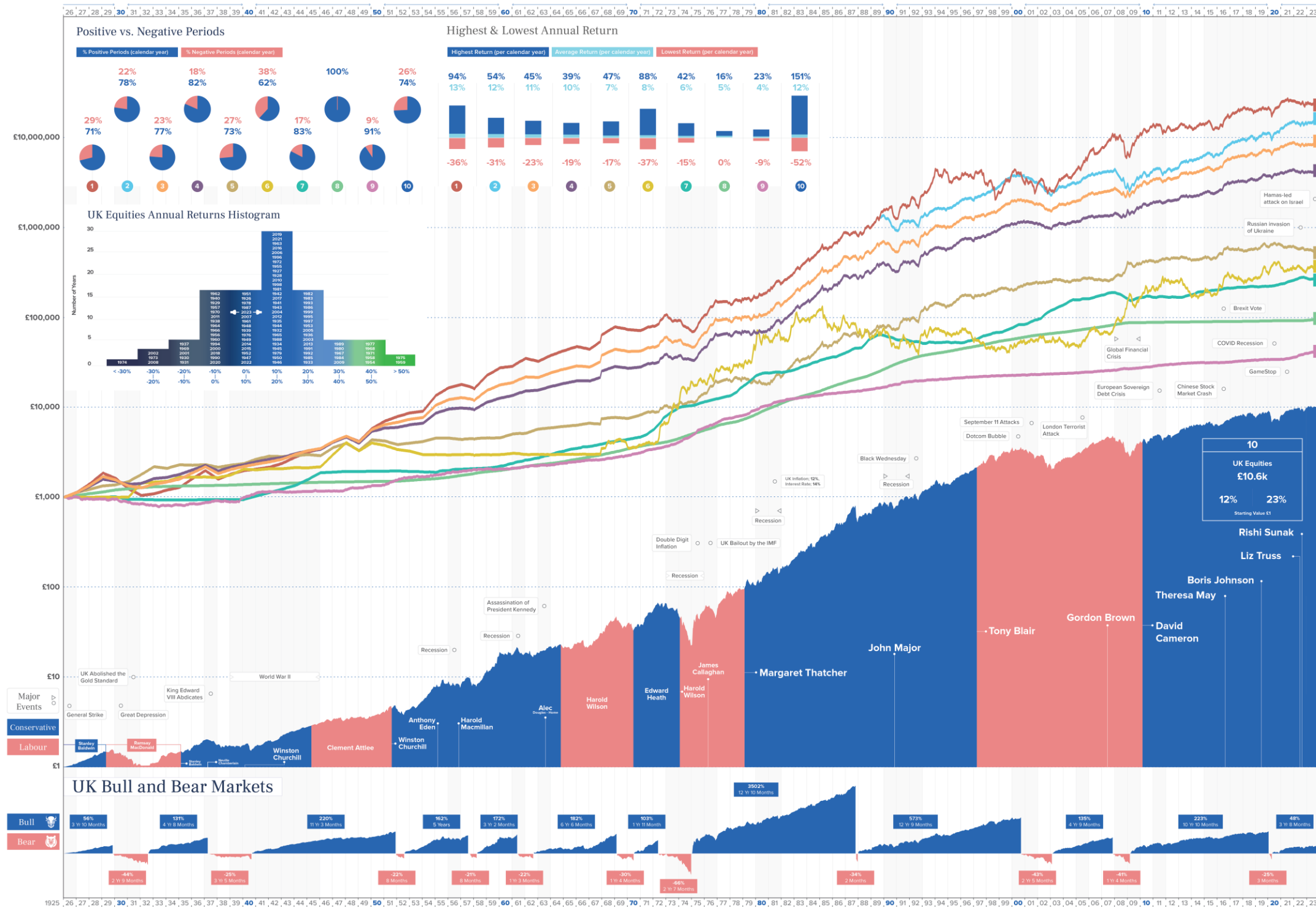
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Historical Factor Returns



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Timeline Chart 2024



Global Balanced Portfolio is made up of 50% Global Equities and 50% Global Bonds. Global Growth Portfolio is made up of 60% Global Equities, 10% Emerging Markets and 30% Global Bonds.

This chart is for illustrative purposes only; it does not constitute investment advice and must not be relied on as such. The value of investments and the income from them can go down as well as up so you may get back less than you invested. Past performance is not a guide to what might happen in the future. Transaction costs, taxes and inflation reduce investment returns. This chart shows the inferred growth of money invested on January 1st, 1926. The return of each asset class is the average of calendar returns and the volatility of each asset class is the standard deviation of the calendar returns. Major political and financial events are indicated by - and +. The portfolios are hypothetical and are rebalanced annually on the 1st of January. All investment income is assumed to be reinvested, unless otherwise stated. No transaction costs or taxes are included. Sources: UK Equities: Timeline UK Equity 10 Index; Bank of England 3 Centuries of Macroeconomic Data and FTSE All Share 10. Global Equities: Morningstar Global All Cap Target Market Exposure Index, Emerging Markets Equities: Fama/French Emerging 5 factors Index, UK 7 Bills: UK One Month Treasury Bill Index, Global Bonds: Morningstar Global Core Bond Index, Gold: Timeline Gold Index, Gold prices index via OxyGold and London Bullion Market Association, UK Property: Timeline UK Property House Price Index, UK House prices via Bank of England 3 Centuries of Macroeconomic Data and UK Nationwide House Price Index, UK Inflation: Headline Consumer Price Index via Bank of England 3 Centuries of Macroeconomic Data and the ONS.

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Why costs
matter...

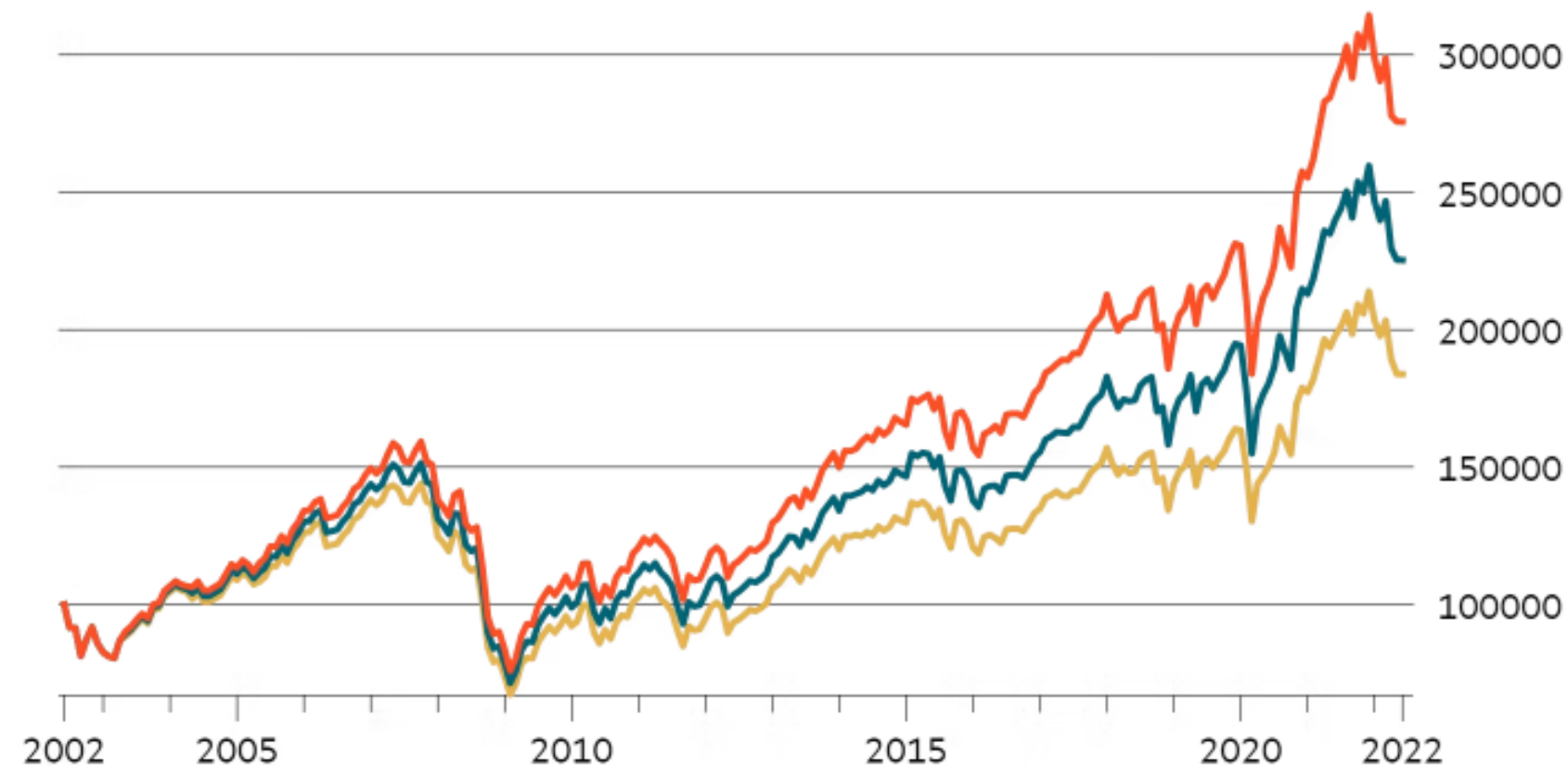




WHY FEES ARE SO IMPORTANT

Chart shows £100,000 invested in MSCI World Index over two decades

— 0.3% annual fee — 1.3% annual fee — 2.3% annual fee



Source: IC analysis of FactSet data. Chart illustrative. Assumes fee charged annually at the end of each year.

0.3% = £275,640

1.3% = £225,310

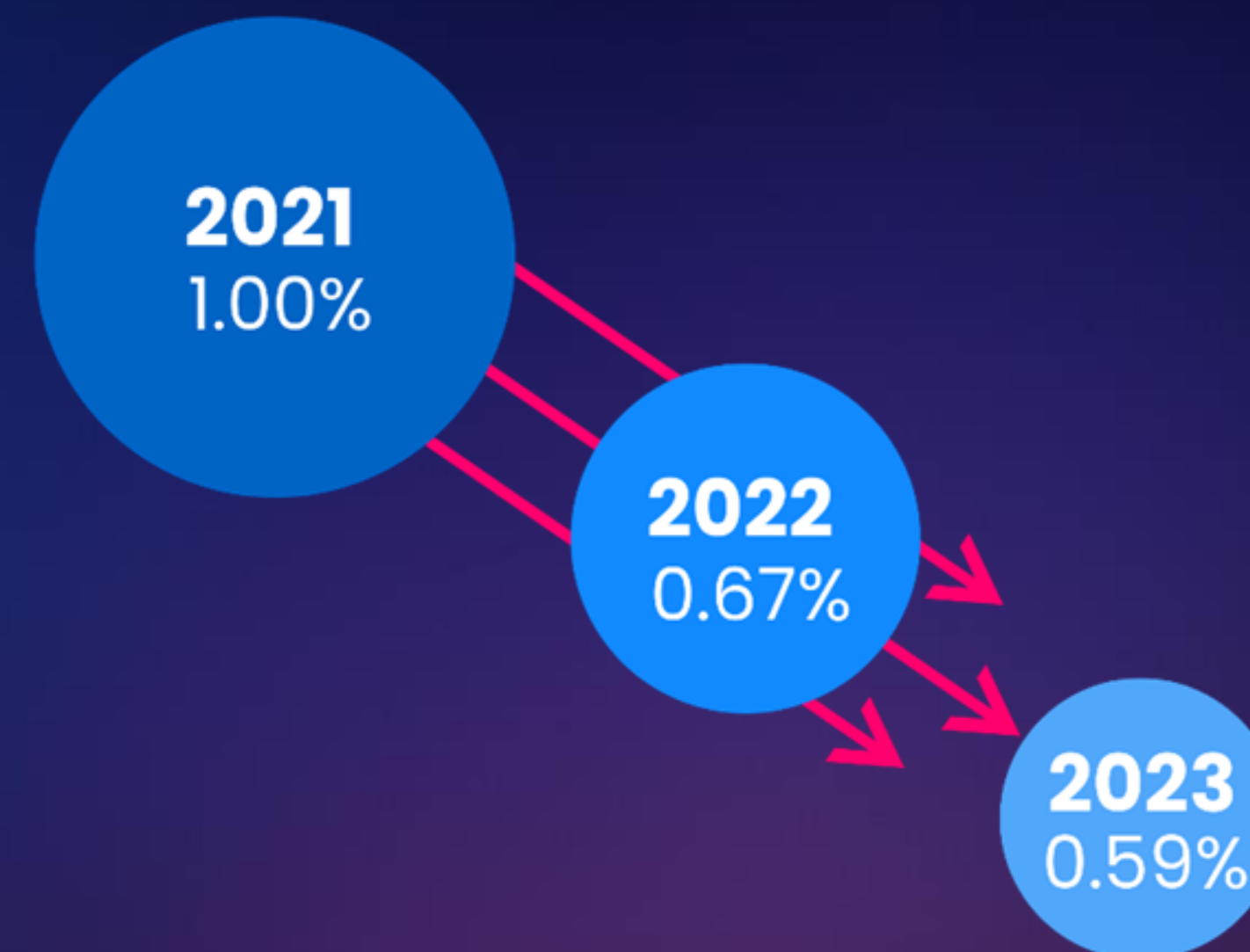
2.3% = £181,923

Source: Investor Chronicle June 2022

The Good News

MPS Fee	OCF
2021 25bps	2021 75bps
2022 21bps	2022 46bps
2023 19bps	2023 40bps

Average total cost (MPS fee + OCF)



Source: NextWealth MPS Proposition Comparison Report 2023

Good client outcomes

Good client outcomes; the consumer – firm relationship

- Products & services
- Price & value
- Consumer understanding
- Consumer support

Passive & EBI

- Capture market performance
- Extremely competitive
- Unambiguous, simple & easy to understand
- Enables the adviser to focus on the 'value add' in the relationship

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The Timeline Difference...





Classic

Globally diversified portfolios with exposure to key alternative beta factors such as the small and value premia.

- **Range from 0% to 100% equity allocation**
- **Average OCF of 0.13-0.22%**



ESG Classic

The ESG Classic portfolio is a globally diversified portfolio that is well-positioned to capture the value and small-cap premium whilst improving on the portfolio's current ESG credentials. All four equity funds in the portfolio are designated sustainable funds with an explicit low-carbon philosophy.

- **OCF of between 0.13 and 0.27%**



Tracker

Positioned to capture market returns, this range tracks the global market cap weighted equity index alongside a well-diversified fixed income portfolio, according to risk/return requirements.

- **A typical OCF of 0.08%.**



ESG Tracker

The ESG Tracker portfolio is a well-diversified portfolio with solid ESG credentials. The portfolio was designed to capture the global market performance with minimum active risk while improving the portfolio's ESG rating.

- **A typical OCF of between 0.10% and 0.15%.**



Bespoke

Ideal for firms operating in-house models that are keen to reduce inefficiencies. Firms can retain their asset allocation policy whilst benefitting from our technology, governance and oversight.

Defaqto MPS Adventurous Comparator



Position	Portfolio Name	3-year Cumulative Return*	Outperformance of Adventurous Comparator Average	Total Costs
1	Timeline 0.09% Tracker - 100 - Platform	29.14%	18.95%	0.20%
2	Timeline 0.15% Tracker - 100 - Platform	28.91%	18.72%	0.26%
3	Sparrows Capital Score Marlet Equity 100 (Funds) - Platform	27.22%	17.03%	0.27%
4	Parmenion Vanguard LifeStrategy Portfolio 10 - Platform	27.12%	16.93%	0.29%
5	Timeline 0.09% Tracker - 90 - Platform	25.45%	15.26%	0.20%
6	Morningstar International GBP Adventurous Growth - Platform	25.32%	15.13%	0.61%
7	Brewin Dolphin MPS Global Equity Passive Plus - Platform	25.25%	15.06%	0.31%
8	Timeline 0.15% Tracker - 90 - Platform	25.22%	15.03%	0.26%
9	Tatton Tracker Global Equity - Platform	24.81%	14.62%	0.25%
10	OFNPM Adventurous (Passive) - Platform	24.61%	14.42%	0.33%
	Defaqto MPS Adventurous Comparator Average	10.19%		0.85%

Source: Defaqto. * Performance figures are calculated from the portfolio values submitted by the respective DFM providers. Whilst every effort is undertaken to ensure the accuracy and timeliness of them, Defaqto accepts no responsibility for any inaccuracies in the reporting provided.

We **empower**
financial advisers

A fully integrated ecosystem.

Serve, protect & grow business.

Planning

Portfolios

Platform



Summary

Passive investing continues to rise...& rise



Diversity & time are key determinants of good performance



Low costs matter



Passive and evidence-based investing is a power for good





Thank you

timeline.co

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financial advisers



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