

Our investment styles explained

A guide to help you choose the right style for you



Which investment style should I choose?

Our investment styles are like five different flavours of Nutmeg. Although they have one big thing in common, which is to invest your money in the hope of long-term investment growth, their way of reaching that goal is different. The way they are built and managed is different too. This guide is designed to help you pick the right style for you.

How the Fully Managed style works

You may have heard Nutmeg described as a robo-adviser, a term that suggests that machines and algorithms decide how to invest your money. However, it's more accurate to say your money is managed by a mix of technology and human decision-making.

The "robo" bit refers to the technology we built to trade and manage the investments in your portfolios, which are made up of exchange-traded funds ([learn more about ETFs here](#)). The human part is our investment team, composed of highly-qualified and experienced specialists.

The Fully Managed style is a good illustration of the human-machine mix. The team decide what ETFs go into your portfolios and in what proportions. They then manage those investments for you on a daily basis, using cutting-edge technology. That means making

decisions about whether to change the mix of investments based on news, data and analysis.

A bit of history

When Nutmeg was launched in 2012, we only had one investment style: Fully Managed. More than half of the money managed by Nutmeg is invested in this style, which has the longest track record of the four. You could say it's our flagship product.



What about Fixed Allocation?

In 2017, we launched our second investment style. Fixed Allocation portfolios are made up of ETFs and built by our investment team. In that respect they are the same as the Fully Managed ones. But there is one big difference: they're designed to perform without intervention. That means the investment team do not make changes to these portfolios on a day-to-day basis (though the portfolios are rebalanced automatically using our technology).

Because the Fixed Allocation portfolios take up less time and attention from our investment team, we're able to offer them at a lower cost. You could say these portfolios give you more robot and less human. See below to work out whether these are right for you.

Socially Responsible Investing

Our third investment style, Socially Responsible, was launched in 2018. These portfolios are designed for investors who want their money to do good. Using a strategy described in our [white paper](#), our Socially Responsible portfolios seek to encourage better and more responsible corporate behaviour through their choice of investments.

Like the Fully Managed style, Socially Responsible portfolios are managed on a daily basis by our investment team. That means they are closer in style to the Fully Managed portfolios than the Fixed Allocation ones.

Smart Alpha portfolios, powered by J.P. Morgan Asset Management

In 2020, Nutmeg partnered with J.P. Morgan Asset Management to launch a new investment style: [Smart Alpha portfolios](#).

Like our [Fully managed](#) and [Socially responsible](#) portfolios, Smart Alpha follows an active investment philosophy. They are managed and monitored daily and adhere to Nutmeg's core investment principles. However, what makes Smart Alpha portfolios unique is their use of J.P. Morgan Asset Management's market insights and analysis

to set long-term allocation and make tactical adjustments over time.

Why are they smart? The portfolios receive a high level of oversight from our team, but in addition within their allocations there are tactical adjustments informed by J.P. Morgan Asset Management's extensive research. The portfolios seek to outperform a market benchmark by going slightly overweight in positions they think will do well or underweight in positions they think will do poorly.

Thematic investing

In 2023, we launched our latest style: Thematic investing.

Thematic investing is a long-term strategy that invests in the growing trends shaping our future, such as artificial intelligence (AI) adoption, energy generation, and the ageing population. This approach invests in the companies that are likely to benefit from the development of these trends.

We launched with three themes: Technological innovation, Resource transformation, and Evolving consumer. Each portfolio features a Thematic equity allocation that is 'tilted' towards its theme.

OK, which style should I choose?

Let's reiterate one thing. All these investment styles have one common aim, which is to provide you with long-term investment returns so that the value of your Nutmeg investments will hopefully grow over time. Our aim is to beat the returns of our competitors, at comparable risk levels, as measured by the [private client indices compiled by Asset Risk Consultants \(ARC\)](#).

Whether you've chosen a [Fixed Allocation](#), [Fully Managed](#), [Socially Responsible](#), [Smart Alpha](#) or [Thematic](#) portfolio and whether you've opted for low or high risk, we want you to be better off with Nutmeg than with the competition.

Now we've got that out of the way, let's get a bit more technical and look at how the investment styles compare in a few respects.

Design

Our in-house investment team are responsible for managing each of our investment styles, but there are differences.

- The **Fully Managed** portfolios are constantly reviewed and repositioned in response to news and market data. We have self-imposed limits about how much the mix of investments may vary but, basically, our investment team are in control.
- The mix of investments in the **Fixed Allocation** portfolios is set at the beginning, rebalanced automatically and reviewed once a year. To set up these

portfolios, the investment team used time frames for historical backchecking, suitability overlays, such as currency hedging, and computer optimisation to minimise historical losses during testing.

- The **Socially Responsible** portfolios are tilted towards companies and bond issuers that have high standards on measures of environmental, social and governance criteria, according to financial data provider MSCI. These portfolios are constantly reviewed and repositioned just like the Fully Managed ones.

- The **Smart Alpha** portfolios are managed day-to-day by our investment team, but within their allocations there are tactical adjustments informed by J.P. Morgan Asset Management's research. These portfolios also utilise active ETFs that have the ability to move marginally overweight (make a bigger investment) or marginally underweight (make a smaller investment) where J.P. Morgan Asset Management's Markets Insights team have identified genuine opportunity to beat the market (known as alpha).
- The majority of each of our **Thematic** portfolios is actively managed by our expert investment team, which uses its knowledge and expertise to make regular adjustments based on news, data, analysis and research. The Thematic portion of each portfolio requires less intervention, although it will be regularly rebalanced, and reviewed at least annually.

Risk

Each investment style offers a range of risk levels. Each style also has different inherent risks due to the way it is built.

- For the **Fully Managed** portfolios, our investment team monitor and attribute the performance of every decision taken. They engage in debate and reflection, testing team views against internal and external opinion. Risk monitoring and management form key elements of this service.
- Because of the way they are built, the **Fixed Allocation** portfolios can be seen as backward-looking, since the mix of investments in the portfolio reflects past market conditions. Offsetting this risk is the fact that the Nutmeg team update the Fixed Allocations once a year based on the last year's data. The annual review is an opportunity to add new asset classes that may emerge or to replace an ETF with a better performing substitute. In addition to this annual process, these portfolios still regularly rebalance to remain within risk constraints.
- The **Socially Responsible** portfolios are managed in the same way as the Fully Managed ones, which includes risk monitoring and management. In addition, they are exposed to what is called "concentration risk". ETFs that are socially responsible usually invest in fewer securities than ETFs that track broad indices, and there are fewer socially responsible ETFs on the market compared with regular ones (although responsible investment is a rapidly

expanding sector). Concentration, in this sense, basically means your risk is not spread as widely as it could be. The ETF experts in our investment team work hard to offset this risk by selecting the best funds to use in portfolios.

- **Smart Alpha** portfolios have been designed in collaboration with J.P. Morgan Asset Management to offer a similar degree of risk to Fully managed portfolios. However, the active ETFs used differ from those in our other investment styles and outperformance is by no means guaranteed.
- **Thematic** investing carries different risks compared to our other investment styles.

For example, it provides exposure to smaller companies that could be more likely to fail than larger, established ones, as well as the risk that the underlying trend doesn't evolve as expected. For this reason, thematic investments are typically left for longer to allow them to benefit from the trend's potential growth. The size of the thematic portion depends on your risk level, and the higher your risk level, the greater your Thematic exposure. To allow for sufficient exposure to thematic funds, Thematic investing is only available for risk level five and above.

Fees and costs

Nutmeg aims to keep costs low to help our investors maximise the value of their investments by keeping more of their returns. Because of the way they are built, the investment styles are priced differently. [View our fees here.](#)

- **Fully Managed** portfolios cost more than Fixed Allocation ones because they are an investment service, overseen and managed by Nutmeg's experienced investment team.
- **Fixed Allocation** portfolios are cheaper because they are an off-the-shelf investment product that do not require daily management by our investment team
- The **Socially Responsible** style has the same Nutmeg fee as the Fully Managed style because they are managed in the same way, but the investment fund costs are higher on average. This is because the underlying socially responsible ETFs in these portfolios are based on complex data. These ETFs usually cost more for fund providers to run than conventional ETFs.
- **Smart Alpha** portfolios have the same Nutmeg fee as the Fully managed style, though total investment costs may be higher.
- **Thematic** portfolios also have the same Nutmeg fee as the Fully Managed style.

Correlation and diversification

Financial assets are correlated when their values change in sync with one another. A portfolio is diversified when its contents are spread over a wide mix of assets.

- If patterns of correlation change, Fully Managed portfolios can be modified in response. Examples of events that can cause asset correlations to deviate from long-term norms include: geopolitical crises, such as Russia's invasion of Ukraine; liquidity crises, such as the European sovereign debt crisis; political events such as Brexit; or central bank policies, such as quantitative easing.
- Fixed Allocation portfolios are based on correlation patterns observed in the past. Equity, bond, commodity and currency prices may change if patterns of correlation change, but the Fixed Allocation portfolios stick to the same asset allocation.
- Socially Responsible portfolios are more subject to concentration risk than the other portfolios, which may affect how diversified they are.
- As is the case with our Fully Managed investment style, Smart Alpha portfolios will be modified in response to economic developments. However, movements within the portfolio's assets will also happen when seeking alpha by going over or underweight within the funds.
- Thematic portfolios have slightly higher exposure to concentration risk (the potential for loss arising from higher exposure to a sector or asset class) because the thematic portion focuses on a particular area, such as technology or resources. The majority of the portfolio is globally-diversified and actively managed, which helps offset some of this risk.

Universe of assets

The set of assets that an investor is permitted to invest in is referred to as a universe.

Since Nutmeg portfolios invest in ETFs, our universes are made up of ETFs.

- The Fully Managed service has the largest universe of ETFs to select from. This is the investment style where the team has the most freedom to implement their views.
- The Fixed Allocation style has a fixed universe, which may change at the yearly review.
- The Socially Responsible style has a smaller universe than that of Fully Managed because it can only invest in ETFs that are themselves socially responsible.

These ETFs are growing in number, but they still account for only a minority of the overall ETF market.

- Smart Alpha also accesses a smaller range of funds, but alongside passive ETFs, Smart Alpha portfolios include innovative active ETFs that benefit from J.P. Morgan Asset Management's Market Insights team with global analysts who seek returns in excess of the respective market benchmark.
- Thematic portfolios draw upon the same ETF universe as the Fully Managed style. Our investment team has hand-picked ETFs from this universe that best align the portfolios to the relevant theme based on their research, analysis, and experience.

Performance

As mentioned, the aim of all Nutmeg investment styles is to match or beat the Asset Risk Consultants (ARC) private client indices of the private wealth management industry. Performance may vary between the investment styles, however.

- Each investment style invests in a different mix of assets, even at comparable risk levels. The Fixed Allocation portfolios are obviously

fixed, while the Fully Managed, Smart Alpha portfolios, Socially Responsible portfolios and Thematic portfolios can vary according to the investment team's views.

- The universe of available socially responsible ETFs is not yet as large as the universe of regular ETFs. Socially responsible ETFs also have different

underlying exposures. The investment team aim to make the asset allocation of the Socially Responsible portfolios match the Fully Managed fund allocation as closely as possible but there are inevitably some differences.

- The method of portfolio rebalancing is another source of difference. The Fixed Allocation portfolios are automatically rebalanced when a specific trigger point is reached, while the Fully Managed, Smart Alpha portfolios, Socially Responsible portfolios and Thematic portfolios are rebalanced at the investment team's discretion.
- So, different risk levels, asset allocation, ETF selections, and patterns of rebalancing are all sources of difference in performance across Nutmeg's five investment styles. But there is one further potential reason for differing performance: the design perspective of each type of portfolio.
- The [Fixed Allocation portfolios](#) have a backward-looking perspective. They are constructed with the implicit assumption that past long-term market behaviour will be repeated in the future over the long term.
- The [Fully Managed portfolios](#) have a forward-looking perspective, with the investment team making decisions about market value, market momentum, prevailing

cyclical and structural forces expected to impact in the near to medium term. The investment team learns from past behaviour but is not tied to it.

- [Socially Responsible portfolios](#) also use this forward-looking approach though it is limited to a smaller, though expanding, universe of in-house ESG verified ETFs.
- [Smart Alpha portfolios](#) also operate with a forward perspective but the decisions on asset movements within the portfolio's ETFs will come from J.P. Morgan Asset Management's Market Insights team and will then be executed by the Nutmeg investment team.
- [Thematic portfolios](#) employ a forward-looking approach that is longer-term than our other portfolios. This reflects the nature of the trends underlying each theme, which could grow and reach peak adoption over the course of the next 10 to 20 years.
- This difference in investment perspective and portfolio flexibility help to explain asset allocation differences between our portfolio styles and the resulting short and medium-term portfolio returns.
- Past performance / forecasts are not reliable indicators of future performance.

Still unsure?

If you're still unsure which investment style to pick, perhaps the answer is to test your instincts. Would you prefer to lower your costs as much as possible? If so, Fixed Allocation might be for you. On the other hand, would you prefer for someone to watch over your investments with the ability to make changes on a regular basis? In that case, you might consider Fully Managed, Socially Responsible or Smart Alpha portfolios. Or, if you want to invest in the trends shaping our future while remaining globally-diversified, you may wish to consider our Thematic portfolios.

The last four options present distinct investment style differences. You might want to know your portfolio's performance is being regularly evaluated and managed as markets move. Likewise, you might appreciate the innovative approach we have built with J.P. Morgan Asset Management to give clients the benefit of the market intelligence behind a leading global investment house. Or you

may want a good ethical outcome with your investments and are happy to accept a more limited investment universe with slightly higher fund costs. Or perhaps you want to concentrate on a specific area – like technological innovation, or demographic change – and are comfortable investing for the long-term as these trends develop.

We know this is a lot of information to digest. Though picking an investment style is a key part of investing with Nutmeg, what's likely to make a bigger difference to your long-term goals is how much you invest, how long you invest for, your attitude to [market volatility](#) and how much risk you decide to take.

We hope this guide has been useful. If you have any further questions, our experienced team of wealth managers would be happy to help. You can [book a free call](#) with an expert anytime.

Risk warning

As with all investing, your capital is at risk. The value of your portfolio with Nutmeg can go down as well as up and you may get back less than you invest. Past or future performance indicators are not a reliable indicator of future performance.

Nutmeg.

a J.P.Morgan company

Nutmeg is an online investment management service, providing diversified investments, ISAs and pensions in the UK.

To learn more, and see a free preview of the portfolio we could build for you, go to nutmeg.com

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Tax treatment depends on your individual circumstances and may be subject to change in the future.

