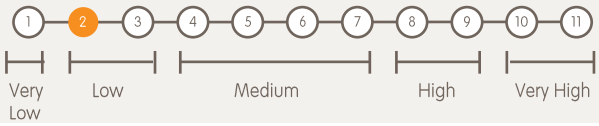
Factsheet date: 31 October 2022

IMX s2

Allocation to growth assets



Objective

IMX spend 2 is made up of a selection of investment funds to enable regular withdrawals. The main types of investment asset class included are bonds, with some equity.

It will usually hold 10%-30% in growth assets although the amount held in these assets may move outside this range depending on changes in economic conditions.

Typical clients

This portfolio is suited to advised clients who require a very low return. You're likely to have an emphasis on predictability of future returns with a tolerance and capacity to accept small investment losses in the short term.

You'll be comfortable about the portfolio holding being diverse, including a proportion of your portfolio in higher risk investments.

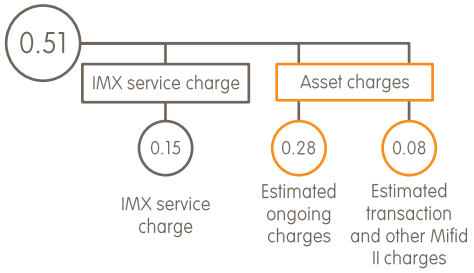
Key facts

Growth assets at factsheet date	28.0%
Estimated long-term* annual volatility	5.8%
Estimated long-term* annual return	6.4%
Rebalancing frequency	Quarterly
Launch date	31/07/2020

*10-years

Portfolio charges

Total annual charge (%)

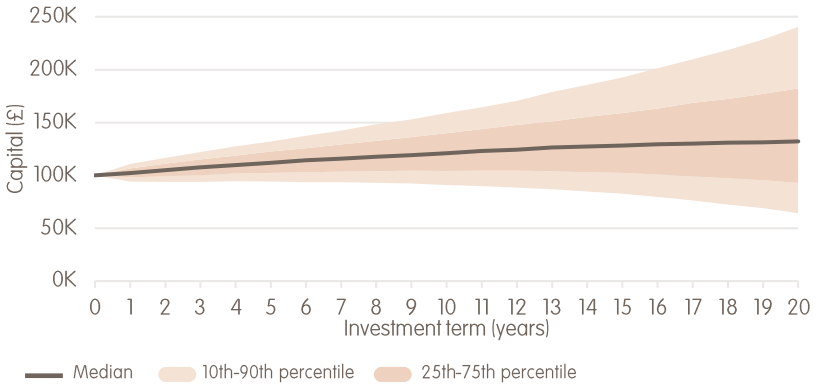


Estimated portfolio outcomes

To help you understand the nature of this portfolio, we provide estimated projections which reflect the aggregate risk and return characteristics of the allocations in the portfolio.

Estimated portfolio size in different future scenarios, withdrawing an inflation-linked 4% of the initial investment each year

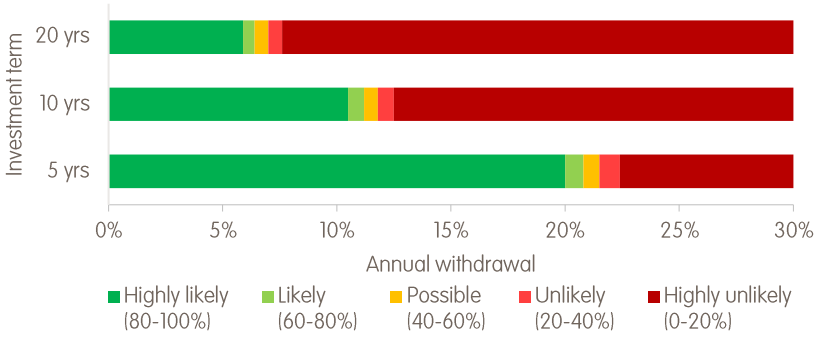
This chart gives an indication of the spread in potential outcomes from an initial investment of £100K whilst withdrawing an inflation-linked 4% of the initial investment per year.



	5yrs	10yrs	15yrs	20yrs
90th percentile	132.1K	158.9K	192.5K	240.4K
75th percentile	122.6K	140.1K	159.1K	182.4K
Median	112.1K	121.0K	128.3K	132.3K
25th percentile	102.5K	104.3K	102.3K	93.0K
10th percentile	94.4K	90.9K	82.8K	64.4K

Likelihood of achieving annual inflation-linked withdrawals

This chart estimates the likelihood of achieving annual inflation-linked withdrawals (how often the annual withdrawal rate is achieved or exceeded in projected scenarios). We show this for three investment terms and five different ranges of likelihood.



	5yrs	10yrs	20yrs
Highly likely (80-100%)	20.0%	10.5%	5.9%
Likely (60-80%)	20.8%	11.2%	6.4%
Possible (40-60%)	21.5%	11.8%	7.0%

For more information on each section please see page four

IMX s2

1 year commentary

Portfolio performance commentary

IMX spend 2 returned -10.1% for the year. All asset classes returned negative with allocation to bonds being the main detractor, reducing performance by -8.1%.

Market commentary

Economic background

With the Russian-Ukrainian conflict showing no sign of abating and energy markets remaining elevated, inflation has risen significantly over the year. In response, several central banks raised interest rates. Further monetary tightening remains on the agenda, despite fears of recession weighing on consumer and business sentiment.

The relatively higher growth outlook for the US economy also drove the US dollar to new recent highs against other major global currencies, particularly sterling. The UK's currency has notably underperformed peers in recent months as markets questioned the credibility of the government's fiscal plans.

Equities

Global equities fell 3.6% in sterling terms over the last 12 months (-15.7% in local terms). Emerging Market equities were the worst performing region, pulled lower by weak performance from China. Above average exposure to energy, metals, and miners saw UK equities lead the regional performance rankings over the year, while the US underperformed.

Real assets

Listed property recorded a 29.8% fall over the year, with much of this underperformance occurring over the last quarter as anticipated interest rate hikes in the UK weighed on the sector. Meanwhile, listed infrastructure has fallen 4.7% since its introduction in IMX portfolios.

Fixed income

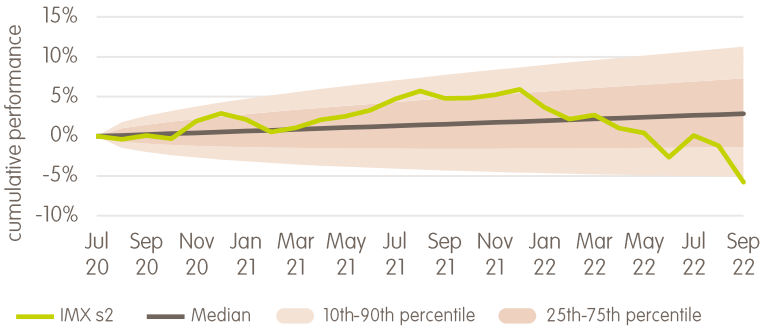
Government bond prices continued to fall in the third quarter as yields rose in anticipation of further rate increases, while global investment-grade spreads widened. Against this backdrop, the UK corporate bond index fell by 21.9% over the last year, with half of this downturn recorded over the last three months.

Alternative Credit

Spreads in speculative grade credit markets have widened materially over the year. Coupled with rising yields, this led to a 17.7% fall in the global high yield bond index. Emerging markets debt was also negative over the year, with local and hard currency debt indices returning -20.6% and -24.3% respectively.

How has the portfolio performed versus expectations since inception?

This chart shows the realised portfolio performance versus the range of potential outcomes projected at the start of the period, based on the risk and return characteristics of the allocation.

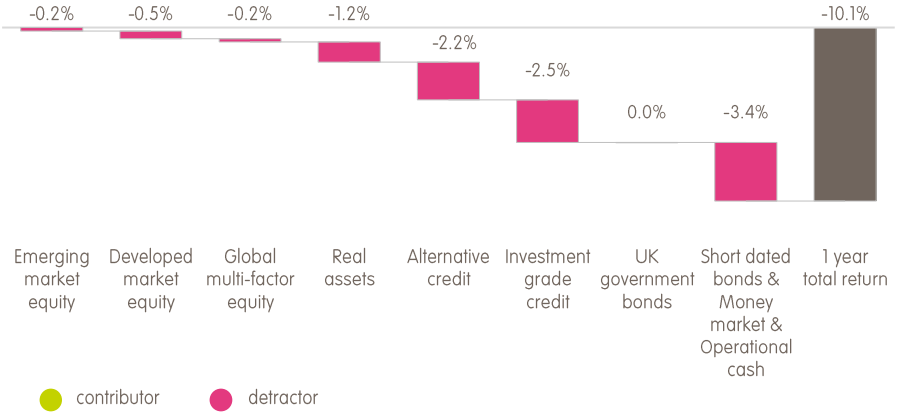


Cumulative performance to 30 September 2022	3 months	6 months	1 year	Since inception
IMX s2	-3.2%	-8.3%	-10.1%	-5.8%

Annualised risk vs return since inception to 30 September 2022	Risk (p.a.)	Return (p.a.)
IMX s2	5.6%	-2.7%

What were the drivers of performance over the year?

This chart shows a breakdown of how the asset classes in the portfolio contributed to 1 year performance to 30 September 2022.



Asset classes in the portfolio

Equity	22.0%
Emerging market equity	4.2%
Developed market equity	11.3%
Global multi-factor equity	6.5%

Bonds	70.0%
Alternative credit	15.0%
Investment grade credit	15.0%
Short dated bonds	40.0%

Real assets	6.0%
Real assets	6.0%

Operational cash	2.0%

Provided by our investment partner, Hymans Robertson LLP

For more information on each section please see page four

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IMX s2

Signatory of: PRI Principles for Responsible Investment

Sustainable investing approach

Sustainable investing is about understanding the environmental, social and governance (ESG) impact of an investment as well as the potential for financial return, and it's core to our overall investment approach for IMX.

There are three areas of ESG consideration for the portfolio:

1. ESG integration

We believe that ESG factors have a material impact on investment outcomes. We therefore consider ESG factors throughout our investment process.

2. Stewardship voting and engagement

We believe that through effective stewardship, fund managers can positively impact the direction of a company.

3. Sustainability

As well as financial measures of the risk and return, we assess sustainability measures to help us understand the sustainability of the portfolio.

ESG integration

Our fund managers evidence their ESG integration by being signatories of industry recognised initiatives.

100%

are signatories of the UN Principles of Responsible Investment (PRI) and UK Stewardship code.

89%

scored A+ in the 2020 UN PRI's independent assessment of strategy & governance.

79%

are signatories to the climate action 100+.

Stewardship in action – Blackrock and SMFG

In this section we provide an example where a fund manager in the IMX portfolio has engaged with a company in their fund(s).

What was the issue?

At their June AGM, the company received two shareholder proposals requesting partial amendments to their Articles of Incorporation (AOI). The proposals asked for the company to set and disclose a business plan detailing GHG emissions reduction targets, and proactive measures that ensure funding proceeds do not cover expansion of fossil fuel supply or associated infrastructure.

What did Blackrock do?

In their multi-year engagement, Blackrock has engaged directly with the company to encourage the enhancement of climate-related disclosures so that investors can better understand how SMFG will navigate the energy transition and pursue emerging opportunities over the long-term.

What was the outcome?

In their assessment, Blackrock found that disclosures were clear and timely and that the company was adequately addressing climate-related risks and opportunities. Additionally, the proposed amendments to the AOI, were overly prescriptive and risk restricting management's ability to make business decisions.

Provided by our investment partner, Hymans Robertson LLP

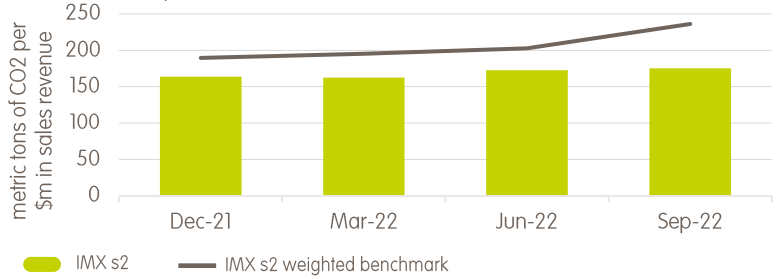
Sustainability

To help understand the portfolio's exposure to climate risk, we measure the carbon footprint of the portfolio. Here we show the taskforce on climate-related financial disclosure (TCFD)-aligned carbon emissions intensity of the portfolio. This shows how efficient the portfolio is in terms of carbon emissions per unit of revenue.

As we only have carbon intensity data for the equity funds, the below data represents the 20% equity portion of this portfolio.

Portfolio carbon emissions intensity compared to a weighted benchmark

(metric tons of CO2 per $million in sales revenue)



For more details please see page four

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Key facts

Estimated long-term annual return and volatility

Estimated return and volatility figures are annual, based on the holdings at the factsheet date – measured by Hymans Robertson's Economic Scenario Service (ESS) as at 30 September 2022 – and will vary with changing market conditions. The return estimate is the median 10-year annualised return and the volatility is the average estimated annual volatility over 10 years. The figures represent estimates net of portfolio charges.

Estimated portfolio outcomes

Assumptions for projections are based on Hymans Robertson's ESS which simulates 5000 different economic outcomes. The projections in the factsheet are based on the portfolio asset allocation at the factsheet date and economic conditions as at 30 September 2022 and represent outcomes net of portfolio charges. Performance projections are not a reliable indicator of future performance and are illustrative only.

Estimated portfolio size in different future scenarios, withdrawing an inflation-linked 4% of the initial investment per year

Withdrawals are linked to CPI.

The scenarios included are:

- 90th percentile – the upper 10% outcome i.e. if very strong returns are experienced
- 75th percentile - the upper 25% outcome i.e. if strong returns are experienced
- Median - the central outcome i.e. if average returns are experienced
- 25th percentile - the lower 25% outcome i.e. if poor returns are experienced
- 10th percentile - the lower 10% outcome i.e. if very poor returns are experienced

Likelihood of achieving annual inflation-linked withdrawals

This chart estimates the likelihood of achieving annual inflation-linked withdrawals (how often the annual withdrawal rate is achieved or exceeded in projected scenarios). We show this for three investment terms and five different ranges of likelihood. The likelihood is shown in ranges of:

- Highly likely: 80-100%
- Likely: 60-80%
- Possible: 40-60%
- Unlikely: 20-40%
- Highly unlikely: 0-20%

ESG initiatives

More information on the ESG initiatives on the following websites:

UN PRI Climate action 100+

Portfolio charges

IMX service charge

The IMX annual charge for the management of the portfolio.

Asset charges

The total ongoing charge of the funds in the portfolio. In addition, we include the total transaction and other Mifid II charges expected to be incurred in the funds in the portfolio.

Allocation to growth assets

Growth assets are higher risk asset classes (such as equity and real assets) which are expected to provide higher returns over the long-term. The portfolio objective details the range of growth assets the portfolio allocates to. The growth assets allocation scale indicates the proportion allocated to growth assets in relation to the other IMX portfolios.

The portfolios are also classified from low to very high, based on the portfolio's growth assets allocation range minimum and maximum figures:

- Very low: minimum and maximum both below 25%
- Low: minimum below 25% and maximum between 25-50%
- Medium: minimum between 25-50% and maximum between 50-75%
- High: minimum between 50-75% and maximum over 75%
- Very high: minimum and maximum both above 75%

Portfolio past performance

The IMX portfolio performance figures are net of ongoing fund charges but gross of all other charges including the IMX service charge. Inclusion of other charges will negatively impact performance. Performance data is drawn from Morningstar Direct. IMX portfolio since inception date is 31 July 2020.

Asset classes in the portfolio

The portfolio asset allocation breakdown is as at factsheet date.

Sustainability metrics

The sustainability metric (carbon intensity) is provided by Sustainalytics through Morningstar Direct. The weighted comparator benchmark is a composite benchmark representing the equity asset allocation of the portfolio (including regional weights) if taking a market capitalisation approach.

Carbon emissions intensity

Carbon emissions intensity is an asset-weighted measure of the portfolio's exposure to carbon-intensive companies. The metric is calculated at individual holding level by dividing the company's emissions (in metric tons of CO2) by their revenue (in Mil USD) and aggregated to fund level based on the weight of the holding.

Important Information

This factsheet is for information purposes only and should not be construed as advice or an investment recommendation and you should not make any investment decisions on the basis of it. It has been provided to help you understand how the IMX Portfolio is invested and performing. Please contact your adviser for further explanation or advice if you want to know if this IMX Portfolio is, or remains, appropriate for you.

Please be aware that the value of investments and any income can go down as well as up and you may not recover the amount of your original investment.

Past performance should not be taken as a guide to future performance and there is no guarantee that the results of advice, recommendations or the objective will be achieved. No representation or warranty (express or otherwise) is given as to the accuracy or completeness of the information contained in this factsheet and Nucleus Financial Services Limited and its partners and employees accept no liability for the consequences of your acting upon the information contained herein.

tellmemore@nucleusfinancial.com @nucleuswrap nucleusfinancial.com/imx

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