

# Blended Benchmarks

## Challenge

When an advisor is selecting a benchmark for an Aperio account, many of the standard benchmarks (from S&P, Russell, and MSCI) do not match well with the regional and/or size segment allocations from the equity portion of the advisor's strategic asset allocation.

### Example

If the equity allocation for US stocks is 75% and for non-US stocks is 25%, no standard benchmark today can match a US weight in the 75–85% range

*For illustrative purposes only.*

## Solution

Aperio offers customized “blended benchmarks” in which multiple indexes can be combined with different percentage mixes to better reflect the client's desired equity allocations.

### Example

If the equity allocation for US stocks is 75% and for non-US stocks is 25%, Aperio can use a blended benchmark of 75% of a US index (e.g., S&P 500®, Russell 3000®) and 25% of a non-US index (e.g., MSCI ACWI® ex-US)

## Benefits

**Using a blended benchmark for a client portfolio may provide several benefits, including:**

- Alignment of the portfolio with the strategic equity allocation
- Ease of changing the blend if the strategic equity allocation changes
- Lower tracking error to the blended benchmark than to a standard benchmark
- Performance reporting showing the portfolio performance versus the blended allocation benchmark

**Use of a single account (as opposed to multiple accounts with standard benchmarks) may bring additional benefits, including:**

- More simplicity and lower operational burden
- A tracking error in the single account that is potentially lower than the weighted average tracking error from the multiple accounts
- Potential help reaching minimum accounts sizes
- Possibly resulting in lower fees due to use of a single account (as opposed to multiple accounts)
- Possible slight increase in tax efficiency from being able to use names across regions as replacement stocks

## Drawbacks

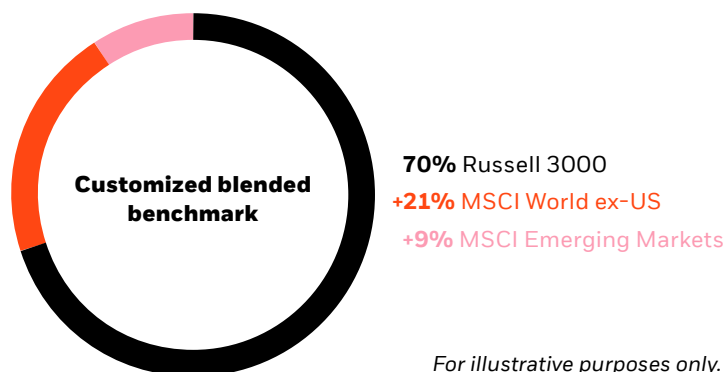
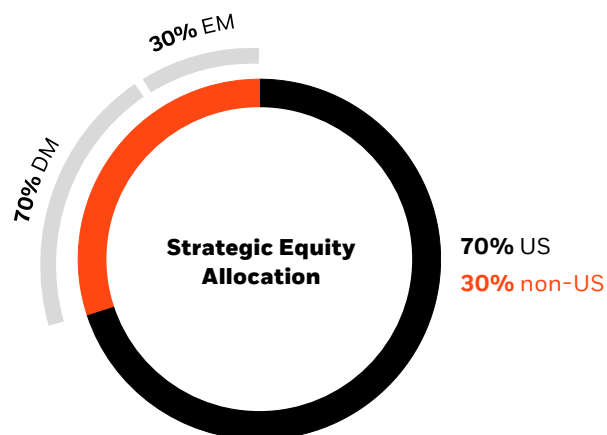
**Using a blended benchmark may have drawbacks for some clients including:**

- Global blended benchmarks may not fit well with advisor reporting systems that work better when US and Non-US assets are in separate accounts

## Case study

Client's strategic asset allocation within equities was 70% US and 30% non-US, and the non-US allocation was 70% developed markets and 30% emerging markets.

Aperio created a blended benchmark of 70% Russell 3000, + 21% MSCI World ex-US + 9% MSCI Emerging Markets.



## Supplemental information

- Aperio optimizes portfolios to approximately 40 single-index benchmarks and to approximately 600 blended benchmarks
- Most of these single-index benchmarks are market-capitalization-weighted indexes; other single-index benchmarks include style indexes (e.g., Value, Growth), as well as benchmarks for niche strategies (e.g., REITs)

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