



## TARGET ANNUITY STRATEGIES RLP ANNUITY FUND

The RLP Annuity fund has been exclusively designed for the retirement end-point of our Target Annuity Strategies, which include our default investment solution. These are a suite of risk-graded lifestyle strategies for those clients who wish to purchase an annuity.

This guide looks under the bonnet of this new component by exploring the investment mix, why we've changed the end-point of these strategies and why we ultimately believe that this will lead to better outcomes for those clients desiring income certainty.

### INTRODUCING THE RLP ANNUITY FUND

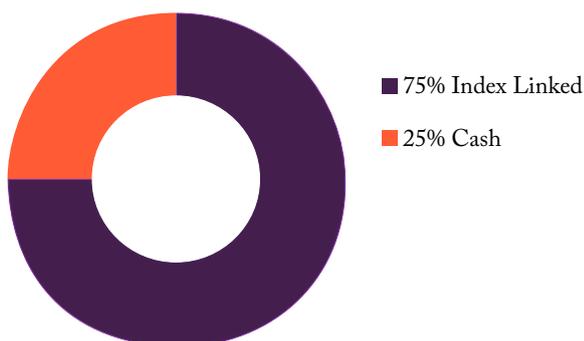
The RLP Annuity fund can be invested in as a stand-alone fund or as part of the Target Annuity strategies. These strategies take investors on a journey through our Governed Portfolios before gradually switching them into the RLP Annuity fund over the final five years before retirement.

The fund replaces the previous investment mix of 75% index linked and 25% cash used in the final phase of these strategies and looks very different under the surface. The strategic asset allocation of the new fund is more flexible and further diversifies by investing in gilts and corporate bonds in addition to index linked and deposit investments.

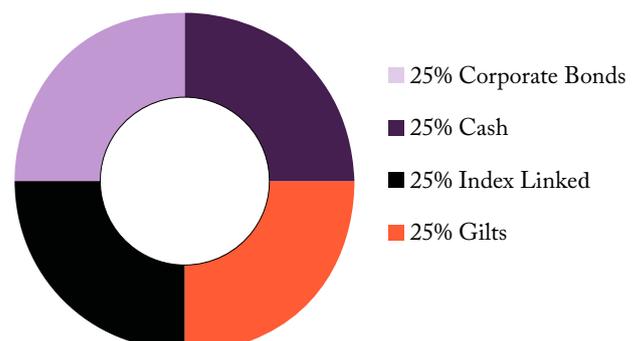
The fund's strategic allocation and benchmark is equally split four ways between the four asset classes stated above and shown below, but targets the same volatility as the previous investment mix.

The previous mix was a fixed programme of 75% index linked, 25% cash with no room for any tactical deviations. The RLP Annuity fund brings more flexibility to the strategies through not only further diversification but by also applying a tactical overlay to the asset allocation. The fund's management team can make amendments to the strategic allocation within set limits around asset class exposure. This allows the fund's managers to increase the weighting to cash during periods of market turmoil whilst also giving them the option to take advantage of certain market conditions and maximise upside potential within a risk-controlled framework.

Previous investment mix



New investment mix (Benchmark for RLP Annuity fund)



## TACTICAL OVERLAY

The fund's current tactical allocation utilises a number of Royal London Asset Management (RLAM) funds spanning different fixed interest and deposit assets. In the current environment of low interest rates and expensive index linked investments, we believe that investing in a mixture of the above assets provides more opportunities for the fund's managers to add value and ultimately provide better value for money for our customers. Not only does this provide scope for better returns, the additional diversification and tactical management can better limit potential downside risks.

This is achieved by having a bias towards investment-grade bonds over sub-investment grade and shorter-dated securities over longer-dated. Investment-grade bonds offer additional security as they are rated less likely to default on their debt relative to sub-investment grade. Shorter-dated securities aren't affected as significantly as longer-dated securities in the event of a base rate rise helping to mitigate the impact of interest rate risk. The fund also currently includes an allocation to the RL Absolute Return Government Bond fund which aims to deliver positive returns regardless of market conditions helping to manage downside risk.

## WHY REDUCE THE EXPOSURE TO INDEX LINKED?

The RLP Annuity fund has a strategic allocation of 25% to index linked. This is much lower than the fixed 75% allocation in the previous arrangement and represents a much more flexible approach to targeting an annuity at retirement.

The Target Annuity Strategies aim to deliver above inflation growth with 75% of the final fund value at retirement used to purchase an annuity. Lifestyle strategies typically invest initially in higher-risk assets before gradually moving investors' money into lower risk assets as they approach retirement. This means that the expected growth above inflation gradually reduces as customers approach retirement.

However, current and expected market conditions are now making it harder to confidently deliver above inflation growth in those final five years before retirement where investors are typically invested in lower-risk assets. An exposure of 75% to index linked is an expensive asset to buy for inflation protection and can potentially lock customers into a negative real loss due to the real yield curve being negative at all durations.

Index linked has recently experienced strong returns due to various economic developments keeping a lid on yields, injecting further short-term volatility into equity markets and prolonging the fixed interest rally. Index linked has since become very expensive as investors have flocked into the asset for safety. However, as the global economic recovery starts to gather momentum against a backdrop of falling global inflation, returns have diminished.

Although expensive, we still believe that index linked should be used as part of a balanced solution to provide downside protection in the event of a market downturn but that the exposure should be much lower than 75%. A more flexible and tactical investment mix can achieve better outcomes for those customers approaching retirement and with a preference for purchasing an annuity and limit the impact of poorer returns locking them into a negative real loss at retirement.

## ENHANCING OUR DEFAULT SOLUTION

Our default is the RLP Balanced Lifestyle Strategy (Annuity). This strategy gradually invests in the RLP Annuity fund over an investor's final five years before retirement.

We also have other lifestyle strategies targeting drawdown and cash but we feel that the annuity option remains the most appropriate for members invested in the default at this particular time. By changing the end-point of the investment default (and the other Annuity strategies) to the RLP Annuity fund, we are enhancing our solutions that target income certainty by making it more flexible and more geared to producing better outcomes.

## EXPERTISE IN FIXED INTEREST

The RLP Annuity fund is co-managed by RLAMs Jonathan Platt (Head of Fixed Interest) and Trevor Greetham (Head of Multi-Asset). Jonathan brings a vast experience of managing fixed income whereas Trevor's brings skill and an extensive experience in tactical asset allocation to run this fund.

RLAM has developed a reputation as one of the UK's leading managers in fixed interest and has delivered strong performance through changing economic conditions and business cycles. RLAM look to use their in-depth market knowledge to exploit investment opportunities and add value by adopting a wide range of strategies and not over-relying on credit rating agencies.

The addition of the RLP Annuity fund allows us to leverage greater fixed interest expertise from RLAM whilst also benefiting from wider diversification. Furthermore, the 25% allocation to deposit investments within the fund also draws on this expertise in fixed interest management by utilising the RL Enhanced Cash Plus fund and the RL Absolute Return Government Bond fund instead of a standard deposit fund which is likely to generate lower returns in a low interest rate environment.

## **SUPPORTING MATERIAL**

This leaflet is part of a range of materials designed for you. Other leaflets include:

- RLP Annuity factsheet
- Balanced Lifestyle Strategy (Annuity) factsheet
- Target Lifestyle Strategies

For more information about this fund, our Lifestyle Strategies and other investment options, please visit [adviser.royallondon.com/pensioninvestments](https://adviser.royallondon.com/pensioninvestments) or view our Pension investment options – a clear and simple guide.



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