



CONFIDENTIAL

**AKG ASSESSMENT OF ROYAL LONDON'S
GOVERNED PORTFOLIO PROPOSITION**

PREPARED FOR ROYAL LONDON | 31 MAY 2019

Analysis by AKG Financial Analytics Ltd
Accessible • Comparative • Independent

AKG

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I. Introduction

I.1 PROJECT BACKGROUND

Royal London Mutual Insurance Society Ltd (the Client/Royal London) has commissioned AKG Financial Analytics Ltd (AKG) to carry out an independent assessment of the governance structure and processes which underpin the ongoing delivery of Royal London's Governed Portfolio (GP) proposition.

The key tenet of this assessment is to look at how governance works in practice and how it responds to, and deals with, change. The role of Royal London's Investment Advisory Committee (IAC) is appraised, and the involvement of Royal London Asset Management Ltd (RLAM) is also considered.

As the Royal London proposition has been in the market for several years now AKG is also looking here at how the governed proposition has evolved in order to continue to be able to address the requirements of financial advisers and customers.

When working with Centralised Investment Propositions (CIPs) and outsourced investment solutions, including multi-asset funds/portfolios, financial advisers need to understand what they are signing up to, for themselves and their customers. By that AKG means due consideration and recognition of some of the following items:

- What are they responsible for? What is the solution responsible for?
- Do they understand how the investment solution works, what methods it employs, approach to Strategic Asset Allocation (SAA)/Tactical Asset Allocation (TAA)? Asset classes, funds/stocks employed?
- How is the investment proposition managed/governed on an ongoing basis? How do they keep track of key items over time?
- How do they report on investment process, performance etc. to their customers?
- Do they understand the costs associated with the solution?
- How does it evidence ongoing governance?
- How does it respond to change and challenge?

AKG also therefore seeks to address some of these key adviser considerations within this assessment.

I.2 AKG'S ASSIGNMENT

AKG's assignment can be broadly summarised as carrying out an independent assessment of Royal London's Governed Portfolio proposition taking into account and covering the following key themes:

- Governance under the microscope
- Market overview and dynamics
- AKG observations
- Key Governed Portfolio facts and market positioning
- Key Governed Portfolio roles and responsibilities
- Structure, role and processes of Royal London's IAC
- Examples of proposition evolution and managing/delivering changes.

I.3 INFORMATION SOURCES

AKG has been supplied with and has utilised a wide range of material as a resource pool for this project, including the following:

The Royal London Mutual Insurance Society Limited

Investment Committee - Terms of Reference

<https://www.royallondon.com/siteassets/site-docs/about-us/corporate-governance/ic-tor-april-2017.pdf>

Investment Advisory Committee

- Royal London Intermediary Investment Advisory Committee - Terms of Reference
- IAC Quarterly Meeting Minutes – 01/12/2017
- IAC Quarterly Meeting Minutes – 01/03/2018
- IAC Quarterly Meeting Minutes – 05/06/2018
- IAC Quarterly Meeting Minutes – 29/08/2018
- IAC Quarterly Meeting Minutes – 04/12/2018
- IAC Quarterly Meeting Minutes – 27/02/2019
- IAC Quarterly Governance Report ('Boardbook') – 27/02/2019

Candia Kingston appointment to IAC

<https://www.royallondon.com/media/press-releases/2018/december/royal-london-welcomes-candia-kingston-to-investment-advisory-committee/>

JB Beckett appointment to IAC

<https://www.royallondon.com/media/press-releases/2019/february/fund-selector-jb-beckett-joins-royal-londons-investment-advisory-committee/>

Governed Portfolio Factsheets

<https://adviser.royallondon.com/pensions/investment/fund-information/factsheets-and-prices/governed-range-factsheets-and-datasheets/>

Governed Portfolio Datasheets

<https://adviser.royallondon.com/pensions/investment/fund-information/factsheets-and-prices/governed-range-factsheets-and-datasheets/>

Risk mapping reports

<https://adviser.royallondon.com/pensions/investment/risk-mapping-reports/>

Presentation/Webinar

- Royal London Asset Management's (RLAM) Asset Allocation Process – Trevor Greetham, Head of Multi-Asset, 10/08/2015
- The value of independent investment governance - Webinar with Julius Pursaill, 10/02/2017

Access to key personnel

AKG has had access to new members of Royal London's IAC during the compilation of this report and also to the Head of Investment Solutions for Royal London Intermediary.

Additional Royal London material

Additional material from Royal London has been considered in the compilation of this report and some of this material is referenced directly within the body of this report.

Some material was also supplied to AKG on a confidential basis to provide further background and explanation to certain activities and developments.

1.4 RELIANCES AND LIMITATIONS

Much of the information upon which AKG's report and comments are based has been supplied directly by the Client. AKG has made every effort to ensure the accuracy of the content of this report and to ensure that the information contained is as current as possible at the date of issue, but AKG (inclusive of its directors, officers, staff and shareholders and any affiliated third parties) cannot accept any liability to any party in respect of, or resulting from, errors or omissions. AKG personnel are available to expand upon the comments in this report, if required.

Whilst many aspects underlying AKG's comments are likely to change only slowly, the financial services industry is a competitive and dynamic marketplace, with new products/funds and developments being announced regularly. As a result, AKG cannot guarantee that any particular comment will remain appropriate at any future date. Future developments in the market could have significant impact upon the comments.

AKG information, comments and opinion, as expressed in the form of its analysis and ratings, do not establish or seek to establish suitability in any individual regard and AKG does not provide, explicitly or implicitly, through this report and its content, or any other assessment, rating or commentary, any form of investment advice or fiduciary service.

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2. Governance Under the Microscope

2.1 WHAT DOES AKG MEAN BY GOVERNANCE?

There is no 'one-size-fits-all' definition of what constitutes good governance. AKG has therefore prepared the following overarching paragraph to set the scene, having reviewed various sources from a number of different spheres of business and governmental activity.

In general terms, governance can be regarded as the combination of competent processes and structures within an organisation that ensures it meets its objectives in a legal, ethical and honest way. Most importantly, governance must be transparent. An organisation is accountable for its governance and must be able to demonstrate the same.

This overarching definition then needs to be interpreted further in the context of financial services in general, the specific role that the governance function in question is seeking to play and the associated roles of key market participants, including advisers, providers and asset managers. In doing so, there are several key terms which then spring to mind when considering what good governance in financial services might stand for and incorporate, including:

| Key terms relating to the concept of governance | | |
|---|-----------------------|---------------------|
| <i>Accountability</i> | <i>Responsibility</i> | <i>Duty of care</i> |
| <i>Inquisitive</i> | <i>Challenging</i> | <i>Assessment</i> |
| <i>Demonstrable</i> | <i>Effective</i> | <i>Adaptable</i> |
| <i>Structure</i> | <i>Framework</i> | <i>Process</i> |
| <i>Connectivity</i> | <i>Communication</i> | <i>Recordable</i> |
| <i>Responsive</i> | <i>Participatory</i> | <i>Effective</i> |
| <i>Transparent</i> | <i>Auditable</i> | <i>Independent</i> |
| Requirement for customers to be treated fairly and for good customer outcomes to be targeted | | |

2.2 HOW SHOULD GOVERNANCE BE MONITORED AND APPRAISED?

When assessing governance functions and structures the reviewer should therefore have these key terms in mind, specifically the end customer requirements, and seek to monitor and appraise financial services governance functions against these key competencies and objectives.

AKG's review of Royal London's governance approach therefore seeks to test against some of these key competencies and objectives.

2.3 ROYAL LONDON IAC CHAIRMAN'S TAKE ON INDEPENDENT GOVERNANCE

Royal London endeavours to provide financial advisers with a range of resources relating to the operation and management of the Governed Portfolio proposition. As part of this, Royal London made available a recorded webinar with IAC Chairman Julius Pursaill which sought to provide financial advisers with an insight into what good governance looks like and to demonstrate the additional value that an independent element can add.

Webinar – 'The value of independent investment governance'

<https://adviser.royallondon.com/pensions/investment/investment-governance/the-value-of-independent-investment-governance/>

It would be useful for advisers to have the chance to hear more thoughts from independent members of the IAC during 2019/20 relating to their roles and their key areas of focus and challenge when reviewing Governed Portfolio activities.

2.4 MIFID II PRODUCT GOVERNANCE

2.4.1 Reason for better governance

MiFID II has introduced significant product governance requirements and hence, whether directly or indirectly affected, companies across the UK financial services sector now have cause to give deeper consideration to their approach and processes when designing, distributing and recommending products and funds in future.

Providers will need to demonstrate to distributors that they fully understand the products and its features, so that advisers can explain these adequately to the end investor. The over-arching aim for this work, as ever, should be to achieve best practice within these companies and to target positive outcomes for consumers in a transparent manner.

2.4.2 Range of considerations on governance

AKG has listed below various considerations for firms when it comes to MiFID II's governance requirements:

- Better acquisition and demonstration of knowledge and intelligence relating to a company's target customers and their requirements.
- Carry out quantitative and qualitative market research on consumer objectives when designing and testing appetite for new products and funds.
- Ensure solutions are going to the right customers through a detailed management information and reporting capability.
- Investigate and report instances where funds are not being used by the right customer.
- Enhance management information and reporting capability in relation to distributors. Improve the exchange and flow of data between companies, intermediaries and third parties to help each party meet their respective requirements.
- Realise there will be a greater requirement for governance and associated reporting to follow the product cycle. Being prepared to continue to test the rationale relating to product/fund fit for consumers.
- Senior management teams must ensure governance is embedded in internal processes, with relevant and appropriate levels of resource and expertise.

Royal London will also need to keep many of these MiFID II product governance considerations in mind as it continues with the evolution of the Governed Portfolio proposition, acting, where relevant, to establish commensurate processes and systems. Royal London's senior management team can be seen to embed governance in its internal processes in relation to the ongoing delivery of the Governed Portfolio proposition, with relevant and appropriate levels of resource and expertise deployed.

3. Market Overview and Dynamics

3.1 THE MARKET FOR SOLUTIONS

Adviser businesses and planning processes in the UK have continued to evolve in recent years with much of the activity spurred on by the Retail Distribution Review. As well as enhancing professionalism and standards in the industry, financial planning businesses have had cause to review their service proposition to the end customer, i.e. clarify what they do/don't offer and present a clear charging structure in respect of each service(s) offered.

One of the core areas which has been subject to review is the investment proposition(s) adopted by the financial planning business. If the business has strong investment beliefs, views itself as an investment specialist and wants to offer an in-house investment proposition, there has been a requirement to better illustrate how the investment proposition and process is delivered and monitored over time.

If the financial planning business does not want to operate an investment proposition itself there has been the option to outsource investment decisions and processes to third party specialists. There has been an associated growth in the availability of solutions to meet this outsourcing demand, including multi-manager and multi-asset funds from asset management groups and managed portfolio services from Discretionary Fund Managers (DFMs).

There are also places in between, where planning businesses want to retain some elements of the investment process while seeking third party input for other parts of the process. Again, there is a plethora of propositions in the market offering support with areas such as asset allocation, fund rating and fund selection.

Whichever direction financial planning businesses have taken with the investment proposition it makes available to customers, the industry has defined them broadly as CIPs.

3.2 AREAS OF REGULATORY SCRUTINY AND INDUSTRY FOCUS

There are a range of areas pertinent to the investment process employed by financial planning businesses which have been, and continue to come, under regulatory scrutiny. Examples include:

3.2.1 Attitude to risk and capacity for loss

- Is the customer's attitude to risk and capacity for loss being considered and appraised properly?
- Is this being done at outset and on an ongoing basis, i.e. annually, to see if their risk profile changes over time?
- Is a suitable product, fund or portfolio being recommended to the customer based on exploration of their attitude to risk, capacity for loss, planning goals and investment timeline?

3.2.2 Centralised Investment Proposition

Advisers considering their CIP approach should still heed the original guidance issued by the regulator on this theme: *Finalised guidance, Assessing suitability: Replacement business and centralised investment propositions, July 2012* - <https://www.fca.org.uk/publication/finalised-guidance/fg12-16.pdf>.

Section 4 of the guidance paper covers CIPs and within this there is a clear focus on ensuring that where CIP solutions are recommended for customers, that suitability has been tried and tested. There is a clear concern that having adopted a CIP there might be a temptation for adviser businesses to 'shoehorn' all customers into the solution regardless of suitability.

Advisers therefore need to be able to illustrate how and why the solution is suitable for each individual customer.

The regulator sets out its expectations in this regard:

“Where a firm offers a CIP we expect it to consider the requirements of its target clients. For example:

- Their knowledge and experience;*
- Their financial situation;*
- Their investment objectives; and*
- The type, level and cost of the service the clients require.”*

Also of relevance to this assessment, with Royal London labelling their Governed Portfolio proposition as a form of CIP, is the regulator’s guidance on designing or adopting a CIP. The regulator’s expectations for adviser businesses adopting a CIP solution provided by a third party are detailed below:

“When adopting a CIP solution provided by a third party, a firm should conduct adequate due diligence to ensure the CIP provided meets the needs and objectives of its target clients. Without completing this necessary step, firms cannot assure themselves that the CIP is likely to be suitable for their clients and therefore should not adopt the CIP. For example, when adopting a CIP, firms may wish to consider the:

Terms and conditions of using the CIP:

- CIP’s charges;*
- CIP provider’s reputation and financial standing;*
- Range of tax wrappers that can invest in the CIP;*
- Type of underlying assets in which the CIP invests;*
- CIP’s flexibility and whether it can be adapted to meet individual client’s needs and objectives; and*
- CIP provider’s approach to undertaking due diligence on the underlying investments.”*

With this in mind, these are also some of the areas which are explored for advisers within this assessment of Royal London’s Governed Portfolios.

3.2.3 Transparency of charges/terms and customer outcomes

Linked in some way to each of the themes identified above, and with a continued element of ensuring that customers are treated fairly, there is now a concerted focus within the industry on ensuring that customers receive suitable recommendations and achieve good outcomes.

As part of this, it is evident that clarity and transparency of terms and conditions for investment and pension propositions will continue to be key watchwords moving forward.

- Is the company marketing the product, fund or portfolio solution doing enough to make the investment charges, methodology terms and conditions clear and transparent?
- For example, is the total cost of investment made clear rather than just headline charges being displayed?
- What asset/fund types are being utilised within portfolios?

The FCA’s ongoing asset management market study work and continued MiFID II integration work also shine a light on the charging breakdown, competitiveness and transparency of pension/investment solutions. Royal London has recognised that there is a requirement to bring more transparency to the charging structure/mechanisms for the Governed Portfolios, something requested by advisers as well, and has sought to represent this more openly in its outward facing material. The introduction of the explanatory ‘Transaction Costs’ document and the availability of charging breakdown in the new Data Sheets are both positive steps forward.

4. AKG Observations

- Ultimate responsibility for the success or failure of the Governed Portfolio proposition resides with the Board of Royal London Group with operational duties discharged via Royal London Intermediary.
- There are a range of entities involved in the delivery, management and governance of Royal London's Governed Portfolios. It is important for financial planners to understand the roles played by these entities, the responsibilities taken by each and the interaction between them.
- Royal London needs to continue to ensure that these entities collaborate effectively for the benefit of the Governed Portfolio proposition and its customers.
- Royal London's IAC continues to play an important role in the delivery and management of the Governed Portfolios.
- The importance of the IAC's role and duties in the operation of the Governed Portfolio proposition is recognised with board level representation from Royal London, Royal London Intermediary and RLAM in current membership.
- Advisers should understand that the IAC operates in an advisory capacity to the Royal London Intermediary Board.
- Royal London ensures that there is an independent voice on the IAC with two independent members typically in position on the committee. It is important that the IAC is seen to challenge Royal London and RLAM on matters relating to the delivery and performance of the Governed Portfolios.
- IAC membership is going through a period of transition with changes to both independent and non-independent members taking place during 2018 and 2019. It is good practice to refresh membership of such committees from time to time but equally important that effectiveness is maintained during a period of change.
- It would be useful for advisers to have the chance to hear more thoughts from independent members of the IAC during 2019/20 relating to their roles and their key areas of focus and challenge when reviewing Governed Portfolio activities.
- The Independent Governance Committee (IGC) has now committed to a member attending IAC once a year. Given the specialist pensions nature of the Governed Portfolio proposition it is natural and logical that there will be interaction between the IAC and IGC. The IGC reviews and reports on Governed Portfolio investment performance and value for money in relation to Royal London's workplace pensions customers.
- Royal London Intermediary continues to publish the minutes of each IAC quarterly meeting so that advisers can keep abreast of key agenda items, including special projects in progress or under consideration and ongoing updates on SAA and TAA positioning and reflection of investment performance versus benchmark.
- Royal London strives to be as transparent as possible in terms of how the Governed Portfolios are run and in how the operation and management of the portfolios are communicated to advisers.
- Royal London makes an effort to ensure that financial advisers can monitor the work of the IAC through the publication of IAC meeting minutes and meeting summaries.
- By recording and publishing IAC meeting minutes, Royal London ensures that a governance-related audit trail is created and stored to support the ongoing management and delivery of the Governed Portfolios.
- Each set of minutes published on the Royal London website typically follows a consistent approach in terms of contents and format so that advisers can get a feel for what is discussed at each meeting and then see how things progress on a quarterly basis.
- The IAC is seen to assess, and where necessary query, the performance of the Governed Portfolios at each IAC meeting, across a range of reporting periods.
- Royal London has introduced a Governed Range performance update field to the Investment Insights section of its intermediary website, ensuring that regular performance material is accessible for advisers.
- The FCA's ongoing asset management market study work and continued MiFID II integration work also shine a light on the charging breakdown, competitiveness and transparency of pension/investment solutions.
 - Royal London has recognised that there is a requirement to bring more transparency to the charging structure/mechanisms for the Governed Portfolios, something requested by advisers as well, and has sought to represent this more openly in its outward facing material.
 - The introduction of the explanatory 'Transaction Costs' document and the availability of charging breakdown in the new Data Sheets are both positive steps forward.

- Royal London will also need to keep many of these MiFID II product governance considerations in mind as it continues with the evolution of the Governed Portfolio proposition, acting, where relevant, to establish commensurate processes and systems.
- Royal London has an understandable focus on intermediary communications given that this is their core distribution channel and the range and quality of its Governed Portfolio material is good. It is also important for Royal London to continue to develop explanatory material for end customers in relation to the operation and performance of the Governed Portfolios.
- The financial services industry as a whole, and the pensions/investment markets more specifically, continue to experience a period of great change and challenge. Through its ongoing review and development of the Governed Portfolio proposition, the contributory role of the IAC, and the material produced to support the communication of change and consideration of change, Royal London continues to provide a strong example of good governance in practice.

5. Key Governed Portfolio Facts and Market Positioning

5.1 ROYAL LONDON GOVERNED PORTFOLIO TIMELINE

Royal London's Governed Portfolios – nine multi-asset investment portfolios - were originally launched on 12 January 2009 and hence celebrated their ten-year anniversary in January 2019.

The table below illustrates the growth in assets held within the Governed Portfolios since launch.

| Governed Portfolio assets under management | |
|--|---------|
| 30/06/2012 | £2.5bn |
| 31/12/2012 | £3.7bn |
| 31/12/2013 | £5bn |
| 31/12/2014 | £7bn |
| 31/12/2015 | £9.5bn |
| 31/12/2016 | £14bn |
| 31/03/2017 | £15.9bn |
| 31/03/2018 | £21.0bn |
| 31/03/2019 | £27.1bn |

Source: Royal London

5.2 KEY ENTITIES INVOLVED IN THE MANAGEMENT AND DELIVERY OF ROYAL LONDON'S GOVERNED PORTFOLIOS

There are a range of entities involved in the delivery, management and governance of Royal London's Governed Portfolios, listed as:

- Royal London Intermediary (RLI) – Royal London's pensions business with responsibility for the delivery of the Governed Portfolios. RLI's CEO, Isobel Langton, reports directly into Royal London Group's chief executive (currently Phil Loney)
- Royal London IAC – advisory committee which oversees governance processes
- RLAM – responsible for TAA and management of Governed Portfolios and component in-house funds
- Moody's Analytics – supports economic scenario modelling within SAA framework
- Morningstar – provides qualitative input and analysis to the IAC in relation to the performance of externally managed funds (analysis of component in-house fund performance is conducted by RLI).

It is important for financial planners to understand the roles played by these entities, the responsibilities taken by each and the interaction between them.

Royal London needs to continue to ensure that these entities collaborate effectively for the benefit of the Governed Portfolio proposition and its customers.

5.3 ACCESS TO AND CHARGING FOR ROYAL LONDON'S GOVERNED PORTFOLIOS

- Specifically designed for pensions - Governed Portfolios are available exclusively through Royal London's pension products:
 - Personal pension – Royal London's Pension Portfolio product, combining personal pension and drawdown components
 - Workplace pension
- The basic management charge for accessing Governed Portfolios through an individual pension from Royal London is 1% a year. This cost includes administration and investment management. The GPs are a collection of insured unit linked funds which then invest in other funds, such as OEICs, managed by RLAM rather than directly into stocks and shares. RLAM reimburses the RLP fund with the OCF which includes the additional expenses incurred.
- The 1% charge is allowed for in the unit price of each unit-linked fund.
- Royal London's management charge is tiered. As the value of the customer's Core Investments grow, the overall management charge reduces. This is applied through a monthly management charge discount which can range from 0.10% to 0.65%.
- Royal London now references AMC, investment expenses, TER and transaction costs within each GP data sheet for additional clarity on charges.
- Royal London has confirmed that investment expenses and TER are included within the headline 1% figure.
- Transaction costs are shown separately and cover tax/stamp duty, commission payments, stock lending fees and slippage costs in line with FCA recommendation. Royal London has published a 'Transaction Costs' document on their website which provides a breakdown of these costs within GPs along with a more detailed explanation of each cost involved.

<https://adviser.royallondon.com/globalassets/docs/adviser/investments/sa5pd0004-transaction-cost-sales-aid.pdf>

5.4 CHARACTERISTICS OF ROYAL LONDON'S GOVERNED PORTFOLIOS

It is important for financial planners to understand the investment solution which is being utilised. Here are some high-level details about Royal London's Governed Portfolio proposition:

- A form of end-to-end outsourced investment solution for financial planners
- Governed Portfolios are a risk-managed CIP with a strong emphasis on investment governance
- As an overarching investment objective, the portfolios aim to deliver above inflation growth in the value of the fund at retirement, whilst taking a level of risk consistent with a defined risk attitude and time period
- Defined by Royal London as "risk targeted and term related portfolios"
- Royal London categorises each of the Governed Portfolios with a suggested risk category and time period in order to support selection of the appropriate portfolio for the customer. See Section 9 for further details
- There is also a high-level definition of the type of customer the portfolio has been designed for
- All nine of the Governed Portfolios are forward-looking and target an annual level of risk, defined as volatility. See Section 9 for target volatility ranges
- Portfolios are mostly populated with Royal London funds
 - However, advisers can select an alternative equity fund from the RLI range to populate the equity asset class
- Portfolios are rebalanced on a monthly basis
- The model portfolios can invest in any Royal London Pension (RLP) fund and a typical example of the funds that are used for each asset class is provided in Section 9
- The portfolio manager can invest in other RLP funds to take advantage of short-term market conditions and this is controlled through the tactical change process
- RLAM's individual fund managers have responsibility for managing the underlying funds included in the Governed Portfolio proposition. An example spread of portfolio investments for Governed Portfolio 5 can be seen in the Section 9
- Due to the mix of asset types employed within each Governed Portfolio, the performance benchmark for each portfolio is a composite of market indices based on the SAA weighting. See Section 9 for further details
- The SAA is reviewed on a regular basis and any change would mean a corresponding change in relevant performance benchmark.

6. Key Governed Portfolio Roles and Responsibilities

6.1 OVERALL RESPONSIBILITY FOR GOVERNED PORTFOLIOS

The board of Royal London Group has ultimate responsibility for the running of the pension assets, including Governed Portfolios, for customers but delegates operational delivery to Royal London Intermediary.

Governance in practice – 'Accountability'

Financial advisers can see who is responsible at an overarching level for the Governed Portfolios and then who is subsequently responsible for each component part of the investment process.

6.2 INVESTMENT PROCESS AND MANAGEMENT RESPONSIBILITIES – ROYAL LONDON

Royal London is responsible for the following activities and so ultimately the governance process and structure seeks to ensure that these duties are being fulfilled in the best interests of customers:

- Setting the SAA framework
- Setting the risk and volatility framework
- Selecting relevant benchmarks against which portfolio performance can be assessed
- Ensuring that risk categories and investor profiles are adequately described
- Ensuring that risk categories and investor profiles stay relevant to described parameters
- Managing TAA positions within the SAA and risk/volatility framework
- Selecting funds to fill the asset class slots within each Governed Portfolio
- Monitoring SAA and TAA assumptions and positioning on an ongoing basis
- Assessing portfolio and fund performance against relative benchmarks and mandates on an ongoing basis
- Taking corrective action where ongoing assessment indicates that change is required
- Communicating progress and change to advisers.

6.3 RESPONSIBILITIES – ADVISER

When engaging with Royal London's Governed Portfolios, it is important for advisers to acknowledge that they are still responsible for carrying out the following activities/duties:

- Discussing the customer's pension requirements
- Establishing the customer's pension/investment timeframe
- Gauging the customer's attitude to risk and capacity for loss
 - And reviewing this on an ongoing basis
- Research and due diligence on Governed Portfolios – initially and ongoing
- Matching the customer to the relevant Governed Portfolio
- Ensuring that customer fit to this portfolio/profile remains relevant on an ongoing basis
- Keeping the customer abreast of pertinent changes and of portfolio performance versus agreed/defined personal objectives and goals.

Governed Range reviews

Advisers can access pre-prepared review documents for each portfolio within the Governed Range. These templates have been designed by Royal London to help advisers evidence their own annual reviews for customers. The review documents provide rolling annual reviews of all Governed Portfolios. The information is provided by Royal London on a sample basis only and advisers should therefore ensure that their final customer version satisfies the compliance requirements of the adviser business.

<https://adviser.royallondon.com/pensions/investment/fund-information/governed-range-reviews/>

6.4 SAA RESPONSIBILITY

Royal London Intermediary and the IAC are responsible for setting and monitoring SAA within the Governed Portfolio proposition. The SAA framework for the Governed Portfolios was established by Royal London Group in collaboration with Moody's Analytics.

Analysis of the strategic positions held within the Governed Portfolios is carried out on a regular basis, using the latest data from Moody's Analytics, and reviewed by members of the IAC at each quarterly meeting. All analysis of strategic positions is performed on a forward-looking basis using an economic model and assumptions provided by Moody's Analytics.

Advisers should be aware that Moody's Analytics has made some changes to its model, effective from the end of March 2018, and these were discussed and recorded at the IAC's June 2018 meeting.

Moody's Analytics Model Change

The IAC were provided with an overview of important changes introduced into the Moody's Analytics model. These changes have been incorporated into the RLI proposition from mid-May.

Moody's Analytics has made some significant changes to their model which took effect from the end March 2018. The most significant change is how Moody's Analytics sets interest rate and inflation paths over the medium to long term (10-30 years). This results in projections with lower inflation, lower nominal asset returns and higher real asset returns. The changes are a result of Moody's Analytics making greater use of economic data and insights from across their business.

The IAC noted the changes. They are supportive of the group wide discussions on model usage and the ongoing work on SAA framework.

Source: IAC Meeting Minutes, June 2018

Strategic analysis updates play a key role in IAC meetings. Each set of IAC meeting minutes provides an update on SAA and states whether any SAA changes have been recommended for the Governed Portfolios.

6.5 RISK FRAMEWORK AND RISK MANAGEMENT RESPONSIBILITY

The responsibility for the risk framework sits with Royal London. Any tactical changes therefore need to be approved first by Royal London's Investment Actuaries to ensure they are within their risk budget.

Risk-targeted funds are forward-looking and typically seek to maximise returns to investors while remaining within a given risk profile and maintaining certain levels of volatility. So, if a risk-targeted fund is labelled as 'balanced', its manager will try to keep its volatility at defined levels which are deemed suitable for 'balanced' investors.

Royal London has produced a document which seeks to explain to advisers how risk is managed in the Governed Portfolios.

<http://adviser.royallondon.com/globalassets/docs/adviser/sales-aids/5tn0190-managing-risk-in-the-governed-portfolios.pdf>

Moody's Analytics uses its stochastic modelling expertise to estimate the annual volatility of each of the Governed Portfolios in current market conditions and then feeds the results of this modelling exercise into the IAC's quarterly review work. If a portfolio's volatility is out-with its target range, the IAC would review the SAA to bring it back within the target volatility range.

6.6 TAA RESPONSIBILITY

The TAA of each of the Governed Portfolios is delegated to RLAM by the IAC. Trevor Greetham and his team therefore have responsibility for the TAA approach and tactical decisions within the Governed Portfolio proposition. RLAM's approach and philosophy is underpinned by their *Investment Clock* principles.

In order to help advisers understand this approach and philosophy a separate resource was created, the *Investment Clock* website (<http://www.investmentclock.co.uk>), which contains a range of views and ideas including blogs, reports and webinars. Advisers can also find out more about the team behind RLAM's asset allocation team at <http://www.investmentclock.co.uk/Multi-Asset-Team/>.

Tactical analysis updates play a key role in IAC meetings. Each set of IAC meeting minutes provides an update on whether any tactical changes have been made to the Governed Portfolios and confirm current tactical positioning of the portfolios.

The short term-tactical views, including positioning, market background, TAA performance and market outlook, of the Chief Investment Officer are discussed at each IAC meeting and outlined in the meeting minutes.

Tactical changes are communicated to advisers via updates on the intermediary website. For example, the background to April 2019 tactical changes is given here by Trevor Greetham.

<https://adviser.royallondon.com/pensions/viewpoint/investment/2019/april/tactical-change--4-april-2019/>

Governance in practice – 'Transparency'

Royal London publishes details of the TAA for the Governed Range, including comment from RLAM and confirmation of the latest tactical positions, i.e. overweight, neutral or underweight, for each of the eight core asset classes. The latest available version of this document is 4 April 2019.

<http://adviser.royallondon.com/globalassets/docs/shared/performance/sa5p10002-tactical-allocations.pdf>

6.7 TACTICAL CHANGE PROCESS AND TRACKING ERRORS

Royal London states that there are no specific minimum and maximum limits on asset allocation as this is controlled through the tactical change process and a tracking error calculation. RLAM can make tactical changes at any time.

Changes are defined in terms of tracking error, which measures how variable the relative performance of each portfolio is likely to be over one year taking both the tactical asset allocation risk and the fund stock selection risk into account. This is an automated process and the process will flag if a portfolio is breaching the tracking error limit. This is controlled through a tracking error database which is owned by the RLI Investment team.

If any portfolio breaches its risk budget, RLAM is informed and requested to reconsider the tactical positions. Positions which breach the risk budgets can only go ahead with explicit approval of the IAC. Tracking errors are reported quarterly in the IAC resources pack and are shown below for information.

| GP1 | GP2 | GP3 | GP4 | GP5 | GP6 | GP7 | GP8 | GP9 |
|-------|-------|------|-----|-------|------|-----|-----|-------|
| 3.75% | 3.75% | 2.5% | 5% | 3.75% | 2.5% | 5% | 5% | 3.75% |

Source: Royal London

6.8 INDIVIDUAL FUND RESPONSIBILITY

RLAM's individual fund managers have responsibility for managing the underlying funds included in the Governed Portfolio proposition.

Individual factsheets for the underlying funds held within the Governed Portfolios are available at:

<http://adviser.royallondon.com/pensions/investment/fund-information/factsheets-and-prices/>

6.9 INVESTMENT OPERATIONS RESPONSIBILITY

Investment operations are overseen by Royal London's Investment Operations Committee (IOC) which manages and assesses the operational risk, performance and effectiveness of fund managers and investment administration providers.

6.10 INVESTMENT PERFORMANCE RESPONSIBILITY

Governed Portfolio investment performance is overseen by the IAC. Each Governed Portfolio typically comprises a portfolio made up of approximately eight to ten Royal London funds. Each GP has a stated benchmark and this benchmark is a target against which portfolio performance should be measured.

Assessment of the performance of the Governed Portfolios, and wider RLP fund range, is discussed at each IAC meeting and recorded in the associated meeting minutes.

Ultimately the performance of each Governed Portfolio should be assessed against their respective objectives and timelines. Generally, these are longer term in their nature but inevitably, with the pace of change and challenge in the markets, short term behaviours should also be monitored.

Governance in practice – 'Challenge' and 'Customer Outcome'

The IAC is seen to assess, and where necessary query, the performance of the Governed Portfolios at each IAC meeting, across a range of reporting periods.

Royal London has introduced a Governed Range performance update field to the Investment Insights section of its intermediary website, ensuring that regular performance material is accessible for advisers.

<https://adviser.royallondon.com/pensions/investment/investment-insights/performance-update/>

Governance in practice – 'Transparency' and 'Communication'

IAC meeting minutes provide a candid summary of the performance of Governed Portfolios and their underlying funds, reporting on both positive performance aspects and areas of short-term concern or underperformance.

Royal London also publishes a performance statistics summary for the Governed Portfolios. This looks at performance of each GP against its composite benchmark over 3 year, 5 years and since launch. The latest available version of this document is April 2019.

<https://www.royallondon.com/globalassets/docs/shared/investment/ibgp-governed-portfolios.pdf>

7. Structure, Role and Processes of Royal London's IAC

7.1 PURPOSE

The IAC provides a forum within the RLI proposition under which the RLI investment options are overseen and potential problems are anticipated and communicated to the business.

The IAC works on an advisory basis, i.e. 'having or consisting in the power to make recommendations but not to take action enforcing them.' The Committee is an advisory committee to the RLI proposition business unit and operates under the delegated authority of the Chief Executive of RLI.

The Committee will provide advice and guidance to RLI on the investment option elements only and for the avoidance of doubt will not have responsibility to provide independent challenge to the wider RLI propositions.

The IAC operates independently of RLAM, who have been mandated responsibility for the day-to-day running of Royal London's internal funds and Governed Portfolios.

7.2 AUTHORITY AND ACCOUNTABILITY

The IAC is formed under the authority of the Chief Executive Officer of Royal London Intermediary and hence the Committee will report on its activities to the CEO of RLI.

7.3 TERMS OF REFERENCE AND REVIEW OF IAC EFFECTIVENESS

The IAC Terms of Reference (ToR) are published on the Royal London intermediary website. Royal London states that these terms will be reviewed at least annually to ensure they remain fit for purpose. The terms were reviewed recently and the revised ToR was added to the intermediary website on 1 March 2019.

Under the ToR, the IAC will also undertake to review its effectiveness on an annual basis and assess whether it is fulfilling its obligations. According to IAC meeting minutes such a review is taking place during 2019.

7.4 DUTIES OF IAC

The IAC plays a central role in the delivery and monitoring of the Royal London governance proposition. The IAC meets on a regular, usually quarterly, basis to review Royal London's risk-graded Governed Portfolios and fund range. The IAC's principal responsibilities are to provide advice, guidance and support as follows:

- For RLI's Governed Range, and any other funds that are designed to meet a specific objective and risk profile:
 - Where appropriate, review the SAAs to ensure they continue to remain suitable for their objectives and that these objectives are suitable
 - Where appropriate, monitor the efficiency and risk of the SAAs and recommend changes
 - Where appropriate, review the Strategic Asset Allocations in light of any new investment capability
 - Monitor tactical positions to ensure they are within acceptable risk levels; and review and challenge the performance
 - As appropriate, recommend replacement of the underlying manager if the IAC believes that the manager is liable to breach the risk targets, or is liable to underperform in the future relative to benchmark and peer group
- For all other RLI matrix unit linked funds:
 - To monitor and challenge the performance and risk relative to benchmark
 - As appropriate, recommend replacement of the underlying manager if the IAC believes that the manager is liable to breach the risk targets, or is liable to underperform in the future relative to benchmark and peer group.

- To review any matters referred to it by any other Royal London Group Committee. For example, the Board Investment Committee and the Independent Governance Committee (IGC). The Committee is under no obligation to accept referrals and shall only do so provided that the Chairman reasonably believes this to be consistent with the purpose of the IAC.

In addition to IAC members there are typically other attendees present at IAC meetings including members of Royal London's Investment Strategy Team and RLAM representatives. A full list of meeting attendees is included within each set of IAC meeting minutes.

Liaison with Royal London's IGC

The chairman of Royal London's IGC, Peter Dorward, was a guest at the December 2018 IAC meeting to share his perspective of Royal London's IGC work with that of the IAC and to gain a more in depth understanding of the IAC work. The IGC has now committed to a member attending IAC once a year. Given the specialist pensions nature of the Governed Portfolio proposition it is natural and logical that there will be interaction between the IAC and IGC. The IGC reviews and reports on Governed Portfolio investment performance and value for money in relation to Royal London's workplace pensions customers, adding a further level challenge and scrutiny.

7.5 COMPOSITION OF IAC

The terms of reference state that an independent party should be chairperson of the IAC and that membership of the IAC should be reviewed annually.

Royal London confirmed that a comprehensive review of the IAC took place during Q4 2017 and a range of changes to membership were subsequently outlined in the IAC's Quarterly Meeting Minutes of 1 December 2017.

IAC Effectiveness review

An update was provided on IAC membership and Terms of Reference. Following Rachel Elwell's departure, Neil Chapman, Interim Head of Investment Office will join IAC from January 2018 and after ten years on IAC Andrew Carter, CEO, RLAM will step down and be replaced by Piers Hillier, CIO, RLAM. Isobel Langton, CEO, RLI will also step down but has a standing invite to IAC. IAC thanked all three for their service to the Committee.

Finally, in line with governance best practice and to allow a period of crossover RLI agreed to identify replacements for both Julius Pursaill and Colin Taylor during 2018. This will allow both independents to step down at the end of 2019 after eight years of service.

In addition, the Committee Terms of Reference have been updated to reflect focus on Governed Range and Matrix funds.

The IAC is typically comprised of six members representing expertise in the fields of pensions and investments, and at least two of whom are not directors or employees of Royal London:

- Julius Pursaill, Independent chairman
- Colin Taylor, Independent representative
- Candia Kingston, Independent representative
- JB Beckett, Independent representative
- Ewan Smith, Proposition and Strategy Director, Royal London Intermediary
- Piers Hillier, Chief Investment Officer, Royal London Asset Management
- Dr James McCourt, Interim Chief Risk Officer, Royal London Group.

Julius Pursaill and Colin Taylor were appointed as independent members of the IAC in November 2011, with Julius subsequently being appointed as Chairman of the IAC in January 2013. Royal London has announced that Colin Taylor will step down from the IAC in June 2019 and subsequently that Julius Pursaill will step down as Chairman by the end of 2019.

Candia Kingston's appointment to the IAC as an independent member was announced in December 2018. Candia was in attendance for familiarisation purposes at the June 2018 IAC meeting and then attended her first meeting as an IAC member at the December 2018 meeting.

JB Beckett's appointment to the IAC as an independent member was announced in February 2019. JB attended his first IAC meeting on 27 February 2019.

Candia and JB are both keen to get to grips with their IAC roles and to add value and challenge through their relative specialisms, pensions trusteeship and fund/investment strategy analysis respectively.

2019 therefore represents a period of transition for Royal London IAC in terms of both independent and non-independent membership. It is important for Royal London to manage this transition for both types of member but crucial that independent members have time to settle into the role and bring themselves up to speed with the proposition. Royal London has sought to proceed on this basis with the phased transition of Julius Pursaill and Colin Taylor and phased integration of Candia Kingston and JB.

AKG understands that Candia Kingston will replace Julius Pursaill as the chair of the IAC at the end of 2019.

Governance in practice – ‘Independence’

Royal London ensures that there is an independent voice on the IAC with two independent members typically in position on the committee. It is important that the IAC is seen to challenge Royal London and RLAM on matters relating to the delivery and performance of the Governed Portfolios, and also to ensure that optimal customer outcomes are being targeted and achieved at all times.

Royal London Intermediary issued a document in February 2019 which provides advisers with an overview of IAC duties and composition of membership.

<https://adviser.royallondon.com/globalassets/docs/shared/investment/5122302-the-investment-advisory-committee.pdf>

7.6 WHAT IS COVERED IN A QUARTERLY MEETING

Typically, IAC reviews cover the following types of questions:

- What is the best blend of assets to meet Governed Portfolio customers' objectives?
- The outlook for the economy is concerning; how should Royal London alter their asset mix?
- The long-term fundamentals for one asset class have changed; should the blend of assets change?
- There has been a change of fund manager; would it be best to switch funds?
- Should the amount invested in UK and overseas equities be changed?

7.7 IAC PROCESS FLOW STRUCTURE

By way of example, this diagram illustrates how input and components from Moody's Analytics, RLAM and Morningstar feeds into the IAC.



Source: Royal London

7.8 IAC MEETING MINUTES

A member of the RLI Investment Marketing team minutes the proceedings of all IAC meetings. Draft minutes of the IAC meeting are subsequently circulated, as soon as practicable, to all members of the IAC and (with any revisions requested by IAC members) to the Royal London Investment Committee.

Minutes of each meeting are approved by the IAC's Chair, detailing the relevant action points and indicating responsibility for each of those action points. All minutes are retained by the Company Secretary together with a copy of all reports made to the IAC. All original minutes are to be retained indefinitely and reports are to be kept for a minimum of 6 years.

Governance in practice – 'Audit trail'

By recording and publishing IAC meeting minutes, Royal London ensures that a governance-related audit trail is created and stored to support the ongoing management and delivery of the Governed Portfolios.

Royal London publishes summaries for each of the IAC meetings held. These are held at the address below. Summaries for meetings from February 2009 to February 2019 inclusive are made available to advisers.

<https://adviser.royallondon.com/pensions/investment/investment-governance/meeting-summaries/>

Fuller, more detailed IAC meeting minutes can also be made available to advisers on request.

Governance in practice – 'Transparency'

The IAC plays a vital role in the ongoing governance of the Governed Portfolios and Royal London makes an effort to ensure that financial advisers can monitor the work of the IAC through the publication of IAC meeting minutes and meeting summaries.

IAC Meeting Minutes' contents/format

Each set of minutes published on the Royal London website typically follows a consistent approach in terms of contents and format so that adviser readers can get a feel for what is discussed at each meeting and then see how things progress on a quarterly basis.

The sections relating to Governed portfolios are broadly divided and presented as follows:

Projects – An update or request for input on special projects being undertaken by Royal London, Royal London Intermediary or RLAM (or any other relevant third party).

Customer Investments: Strategic Analysis – An update on whether any changes to the strategic asset allocation benchmarks for the Governed Portfolios are recommended for the quarter.

Customer Investments: Tactical Analysis – An update on whether the Governed Portfolios remain within their prescribed tactical risk budgets and an update on any tactical changes that have been made since the previous meeting.

Performance analysis – An update on and consideration of a wide range of investment performance metrics for Governed Portfolios, and component RLP funds, against benchmarks over different time periods.

8. Evolution of the Proposition

Royal London's Governed Portfolio proposition will need to continue to evolve in order to meet customer requirements and respond to the various changes and challenges of a dynamic market.

This section of the review reflects on areas of activity and focus over the past 12 to 18 months and provides some examples of where Royal London has sought to, or been required to, consider and/or make alterations to the Governed Portfolio proposition.

- Managing and delivering changes – RLP Global Managed
- Responding to market challenge – Brexit response and planning
- Responding to regulatory scrutiny – Costs, charges and transparency
- Development of new collateral – Governed Portfolio Data Sheets

8.1 RLP GLOBAL MANAGED

8.1.1 Background

RLP Global Managed is the default equity fund within the Governed Portfolio range and, as at June 2018, Royal London reported that RLP Global Managed had £14bn assets under management. The fund is run to a 50/50 UK/Overseas split and is mostly passive (c80%) with some active management in UK, Europe and global equities.

8.1.2 Proposal to IAC

A paper was prepared by RLI and submitted to IAC at the June 2018 meeting. The purpose of the paper was to seek views from the IAC on RLI's proposal to increase the weighting of RLAM's Global Equity Diversified strategy within RLP Global Managed.

RLI reported that Global Managed had taken a small position in the fund in October 2017 in advance of a Group wide review of equity mandates which had been expected to conclude that there was a clear mandate for some active management. This was approved by the Investment Committee and reviewed by the IOC. The original amount was small, £50m, approximately 0.3% of the fund and at that time, and it was noted that any significant increase in the holding would need to go through a wider, more robust governance process.

RLI proposed an increase in the allocation to approximately 10% of the fund which would have resulted in an increase from £50m to approximately £1.4bn.

RLI stated that this proposed change was designed to increase diversification and the level of active management, with the objective of potentially improving returns for customers. RLI also stated that the Global Equity Diversified takes environmental, social and governance (ESG) factors into account during the investment decision making process and feels that this move would hence support good stewardship and responsible investment.

An information pack was presented to the IAC for consideration including details about the impact of the implementation of these proposed changes and the implementation plan itself should the proposed changes be made.

AKG understands that this change was given support by the IAC at the June 2018 meeting and subsequently progressed through Royal London's internal governance.

8.1.3 Implementation

RLI stated that the increased exposure would be obtained by using cash flows to progressively build up the holding in Global Equity Diversified rather than selling existing holdings. This has been the case and exposure has been added gradually since Q4 2018 using cash flows. Royal London states that the holdings are now shown in the GP data sheets.

8.1.4 How were global managed investment changes processed and communicated?

RLI states that further information about this Global Managed change didn't appear in the external IAC minutes due to commercial sensitivity and so in this instance an internal version of the minutes was recorded.

RLI did seek to communicate the change and its implementation to advisers via a Global Managed update in a brief video, which confirmed/explained the following high-level details:

- Global Managed is the default equity fund for the governed range
- Split 50/50 between UK and overseas equity
- Contains active and passive managed solutions
- Increasing use of derivatives (to enhance risk management capabilities, react more rapidly to economic changes, access markets that might previously have been unable to access, minimise buying/selling transaction costs)
- Allocating 10% to Global Equity Diversified Strategy (potential to improve returns for customers)
- Increasing level of active management (from approx. 30% to 40% in Global Managed)
- No additional charges occurred within GPs as a result of these changes

http://adviser.royallondon.com/pensions/investment/investment-insights/?utm_source=1902-E5EM0047-investment-viewpoint

This subject continues to form a key part of IAC meeting agendas and was discussed again at the February 2019 meeting where Trevor Greetham provided an update on the global managed outlook, performance and impact of changes with IAC members. IAC should continue to monitor whether these changes have had the desired effect, achieved their intended objectives and improved customer outcomes.

Global Managed Deep Dive

Trevor Greetham talked through rolling 3-year relative performance of Global Managed and reviewed the changes to the fund structure and portfolio management since the implementation of tactical futures, active FX overlay and Global Equity allocation.

The IAC discussed some of the key drivers of recent performance including the BREXIT vote in 2016; cash flows and how the fund has managed the resulting cash drag; lack of exposure to Canada which has been rectified through the introduction of futures.

The IAC were pleased with the level of detail provided in terms of performance attribution and analysis, and asked for this to continue in future meetings. The committee would also like to continue to see look-through cash reporting.

Furthermore the IAC agreed that RLI should review the strategic structure of the Global Managed fund with particular focus on the core satellite nature of the UK and European exposure. The committee will look to review this work later in the year.

Source: IAC Meeting Minutes, February 2019

8.2 RESPONDING TO MARKET CHALLENGE – BREXIT RESPONSE AND PLANNING

The Brexit Referendum result was confirmed on Friday 24 June 2016. A Royal London project team was subsequently established to assess the impact of Brexit across the business and reflect on Royal London's pre-vote thinking and post-vote positioning.

As Brexit discussions and negotiations have rumbled on, Royal London has continued to consider the impact of various deal outcomes on the business including investment operations and positioning.

It has therefore remained a regular point of discussion within quarterly IAC meetings, as can be seen from these excerpts taken from IAC meeting minutes.

Brexit

Trevor Greetham gave an update on Brexit outlook, noting that positioning is about hedging risk, rather than predicting an outcome at this stage.

There was thorough debate amongst the IAC about positioning, and they agreed that, given the uncertainty, there is no appetite to position for a particular outcome. There was a consensus that it is sensible to remove unconscious risks and minimize conscious risks during this period.

The IAC noted the work underway to prepare operationally for Brexit. They expressed a sense of urgency and requested to see a documented plan of action, given the timing of Brexit discussions and deadlines.

Source: IAC Meeting Minutes, December 2018

Brexit / Liquidity Update

Kirsty Ross provided a summary of the progress made on our operational readiness to manage liquidity within the main unit linked property fund (RLP Pooled Property Fund). The IAC was comfortable with the actions being taken and pleased with the progress that has been made. They were reassured by the level of scrutiny this matter is receiving.

Source: IAC Meeting Minutes, February 2019

Given the fact that Brexit discussions currently still remain 'on the table', Trevor Greetham's market outlook and tactical positioning updates will continue to provide advisers with RLAM's thoughts on this theme as things develop further during the remainder of 2019.

8.3 COSTS, CHARGES AND TRANSPARENCY

The FCA's ongoing asset management market study work and continued MiFID II integration work add to the scrutiny of charging breakdown, competitiveness, reporting and transparency across the industry.

RLI and RLAM have therefore been required to give due consideration to these factors in relation to the operation of RLP funds, Matrix funds and Governed Portfolios.

The excerpts below, taken from quarterly IAC meeting minutes, show that RLI and RLAM have been working on a project to consider implications of MiFID II requirements and their impact on the Royal London investment proposition.

Transaction Costs and Charges Update

This paper updated the IAC on the progress of the Group's Costs and Charges Disclosure Programme and discussed the transaction costs incurred by customers in the Governed Portfolios.

The methodology surrounding slippage/implicit costs was discussed. RLAM use the 'arrival price' methodology to calculate the implicit costs – which is advised by FCA PSI 7/20 – meaning that the total cost being reported is equal to the difference between the execution price and the market mid-price at the time the order was picked up by the broker. PH sought confirmation that this was correct which has been confirmed post meeting by the RLAM project lead.

The IAC appreciated that the immediate focus has been on meeting regulatory requirements and asked for more detail around what the governance framework will look like.

Furthermore the IAC asked RLI to provide a list of external fund managers who have not disclosed the methodology used to calculate implicit costs.

Source: IAC Meeting Minutes, June 2018

Transaction Costs & Best Execution

Cathy Gibson (RLAM) attended the meeting to discuss RLAMs provision of Best Execution in compliance with the requirements of the EU Markets in Financial Instruments Directive (MiFID II).

The IAC requested confirmation from RLAM that insured funds with direct investments are treated in the same way as mutual funds. GAP analysis against their controls showed it is not possible for RLAM to favour one fund over another when placing deals.

The IAC expressed interest in the delivery of a more granular quantitative analysis alongside the qualitative governance processes highlighted within the paper and asked that this be brought back to IAC in 6 months with greater detail and quantitative analysis that supports the proposition.

Source: IAC Meeting Minutes, February 2019

Royal London Intermediary has also now included transaction costs for each GP within the new Data Sheets. Advisers can therefore see headline AMC, TER and transaction costs within this resource.

It is important that efforts to enhance clarity and transparency of charging breakdown and reporting continued during 2019/20.

It is also important that RLI and RLAM seek to minimise additional investment costs that might be incurred by customers when changes are made to the Governed Portfolio proposition.

8.4 DEVELOPMENT OF NEW COLLATERAL – GP DATA SHEETS

Royal London launched new data sheets for each GP in April 2018. Royal London states that the development of this new GP resource was driven by adviser demand for more 'look-through' on the GPs.

The addition of the new data sheets for each of the Governed Portfolios is another good step forward in the development of Royal London's information collateral for advisers.

These data sheets (which can be accessed at <https://adviser.royallondon.com/pensions/investment/fund-information/factsheets-and-prices/governed-range-factsheets-and-datasheets/>) provide and bring together a range of facts about each GP including:

- Overarching investment objective including likely investment term
- Assets under Management for each GP
- Royal London Risk Rating
- Headline charges including AMC, TER and transaction costs
- Latest positioning of portfolio – SAA framework and current tactical positioning confirmed
- Range of portfolio performance illustrations (versus prescribed benchmark for each GP) over a variety of investment terms/periods
- Confirmation of the number of IAC reviews, SAA changes and TAA changes for each GP including written description of last 3 tactical changes
- Comprehensive holdings data for each GP split between asset class and individual
- Identification of risk factors associated with each GP.

9. Additional Governed Portfolio Details Sourced from Royal London

9.1 STRATEGIC ASSET ALLOCATION BENCHMARK EXAMPLE – GOVERNED PORTFOLIO 5

Royal London's SAA framework for Governed Portfolio 5 as at 28 February 2019 is shown below.

| Asset Class | Benchmark |
|---|-----------|
| Equity | 55.0% |
| Gilts | 5.0% |
| Corporate Bonds | 5.0% |
| Index Linked | 5.0% |
| Property | 15.0% |
| Absolute Return Strategies (including cash) | 7.5% |
| High Yield | 2.5% |
| Commodities | 5.0% |

9.2 PERMITTED INVESTMENTS WITHIN GOVERNED PORTFOLIOS

| Asset Class | RLP Fund |
|--------------------------|--|
| Equities | Global Managed Fund |
| Property | Property Fund |
| Commodities | Commodity |
| High Yield Bonds | Sterling Extra Yield Bond |
| | Global High Yield Bond |
| Gilts | Duration gilt funds aligned to term of GP |
| Index Linked Gilts | Duration index linked gilt funds aligned to term of GP |
| Corporate Bonds | Duration corporate bond funds aligned to term of GP |
| Absolute return and cash | Absolute Return Government Bond Fund |
| | Enhanced Cash Plus |
| | Cash Plus |
| | Deposit |

9.3 EXAMPLE SPREAD OF INVESTMENTS – GOVERNED PORTFOLIO 5

The Royal London fund mix of GP5 as at 7 March 2019 is shown below.

| Governed Portfolio 5 | |
|--------------------------------------|--------|
| RLP Cash Plus | 1.87% |
| RLP Property | 15.00% |
| RLP Deposit | 1.89% |
| RLP Medium (10yr) Gilt | 4.77% |
| RLP Medium (10yr) Corporate Bond | 5.85% |
| RLP Medium (10yr) Index Linked | 5.00% |
| RLP Global High Yield Bond | 2.02% |
| RLP Short Duration Global High Yield | 1.85% |
| RLP Commodity | 3.75% |
| RLP Absolute Return Government Bond | 1.00% |
| RLP Global Managed | 57.00% |

9.4 GOVERNED PORTFOLIOS PERFORMANCE BENCHMARKS

Due to the mix of asset types employed within each GP, the performance benchmark for each portfolio is a composite of the following market indices based on the Strategic Asset Allocation weighting:

| Asset Class | Benchmark Index |
|-----------------------------|--|
| Equity | 50% FTSE All Share Index; 50% FTSE All World ex UK Index |
| Corporate Bonds | Blended index consisting of iBoxx Sterling Non-Gilts Indices to give a xx year duration |
| Index Linked | Blended index consisting of FTSE A (Index Linked) Government Bond indices to give a xx year duration |
| Property | ABI UK – UK Direct Property Pensions Index |
| Gilts | Blended index consisting of FTSE A British Govt Bond indices to give a xx year duration |
| High Yield Bonds | BofA Merrill Lynch Global High Yield Constrained GBP Hedged Index |
| Commodities | Bloomberg Commodity Index |
| Absolute Return (inc. Cash) | LIBID GBP 7-Day Index |

9.5 GOVERNED PORTFOLIO RISK DEFINITIONS AND CLASSIFICATIONS

Royal London categorises each of the Governed Portfolios with a suggested risk category and time period in order to support selection of the appropriate portfolio for the customer.

| Name | Risk category | Time period |
|----------------------|--|-------------|
| Governed Portfolio 1 | Cautious | Long |
| Governed Portfolio 2 | Cautious | Medium |
| Governed Portfolio 3 | Cautious/Moderately Cautious | Short |
| Governed Portfolio 4 | Moderately Cautious / Balanced | Long |
| Governed Portfolio 5 | Moderately Cautious/Balanced /Moderately Adventurous | Medium |
| Governed Portfolio 6 | Balanced/Moderately Adventurous | Short |
| Governed Portfolio 7 | Moderately Adventurous/Adventurous | Long |
| Governed Portfolio 8 | Adventurous | Medium |
| Governed Portfolio 9 | Adventurous | Short |

9.6 GOVERNED PORTFOLIO TARGET VOLATILITY RANGES

| Investment choice | Target volatility range | |
|----------------------|-------------------------|-------|
| | Min | Max |
| Governed Portfolio 1 | 9.5% | 11.6% |
| Governed Portfolio 2 | 7.7% | 9.4% |
| Governed Portfolio 3 | 4.1% | 5.0% |
| Governed Portfolio 4 | 11.3% | 13.8% |
| Governed Portfolio 5 | 9.5% | 11.6% |
| Governed Portfolio 6 | 5.9% | 7.2% |
| Governed Portfolio 7 | 13.1% | 16.0% |
| Governed Portfolio 8 | 11.3% | 13.8% |
| Governed Portfolio 9 | 7.7% | 9.4% |

Information About AKG

AKG is an independent consultancy specialising in the provision of ratings, information and market assistance to the financial services industry.

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