Changes to our default investment solution

Targeting improved outcomes

We've reviewed our default investment solution – the Balanced Lifestyle Strategy (Drawdown) – and will be increasing the allocation to growth assets for younger pension scheme members. We believe this will improve outcomes, without increasing charges or materially changing the default's objective.

What's changing?

We're increasing the default's target equity allocation for members who are 15 years or more from retirement to around 80%. We're doing this by changing the portfolio used in the growth stage of the glidepath from Governed Portfolio Enhanced to Governed Portfolio Dynamic.

The table below shows the current proportion of growth assets and the proportion following the changes. (Growth assets are defined as equities and property.)

Current proportion of growth assets in default	**82.5%**
New proportion of growth assets in default	**92.5%**

All workplace scheme members who are invested in the default and who are more than 10 years from retirement will benefit from the changes. **There won't be any increase in charges and the changes will take place within the default.**

In other words, the changes are happening 'under the bonnet' - members won't be moved to a new default. And the investments used at 10 and five years remain the same.

Why are you making these changes?

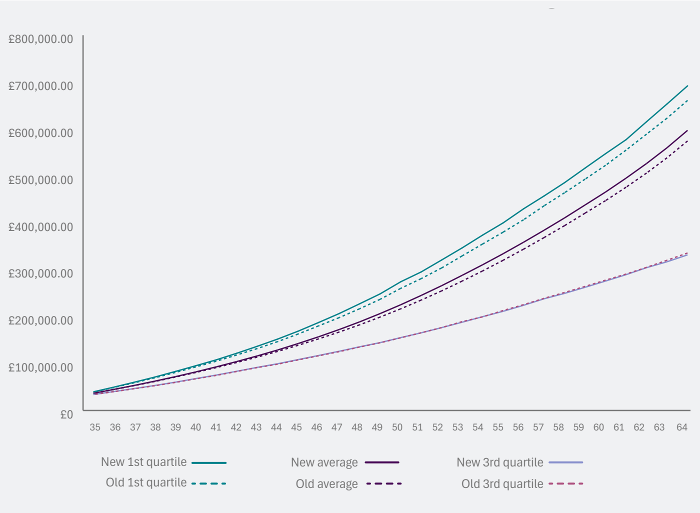
We regularly review our default solution and other lifestyle strategies. Our recent modelling shows how these changes could increase the pot value for members at retirement, without significantly increasing the risk of poorer potential outcomes.

This modelling covers thousands of different potential scenarios, including best-case and worst-case scenarios, all with the intention of understanding the impact that changes to the default's investment strategy might have on members' expected pot values at retirement.

In summary, the modelling for a 35-year-old with a £30,000 starting pot shows:

- on average, a **4%** increase in expected pot value at retirement relative to the current default
- a **1%** increase in the expected pot value at retirement for the third quartile scenario
- a **4%** increase in the expected pot value at retirement for the first quartile scenario.

The chart below shows the average scenario, and the first and third quartile scenarios for the default's old and new growth asset allocations, based on a 35-year-old, with a starting pot of £30,000 and a retirement age of 65. These projections assume a starting salary of £50,000, with regular contributions of 10% increasing with inflation and ending at age 65, and a 1% a year charge.



Investment returns aren't guaranteed. All investments can go down as well as up in value, and members could get back less than they paid in.

What are the new asset allocations in the default?

We're reviewing the strategic asset allocations (SAAs) of all the portfolios used in our default solution and other lifestyle strategies. This involves looking at the asset mix of our seven Governed Portfolios and five Governed Retirement Income Portfolios.

The review will conclude in July and, once all the governance approvals are completed, we'll share the updated asset allocations.

Are you adding private markets?

As part of regular SAA reviews, we look at existing asset classes as well as new opportunities, with the aim of continuing to deliver the best possible outcomes for all our customers, including workplace scheme members.

We've long believed in holding more than just listed equities and bonds, with real assets, such as property, a key part of our default and other lifestyle strategies.

As signatories to the Mansion House Accord, we've already exceeded the 10% target of investing in illiquid assets in the portfolios used in the growth stage of the default. And we're continuing to expand our capabilities to make sure members benefit from the full range of opportunities beyond public markets.

The recent SAA review has explored alternatives to traditional fixed income assets, with the aim of adding further diversification benefits in the current challenging economic environment.

Where and when can I get more information?

We'll share further updates on the changes to the default, as well as the changes to our other lifestyle strategies and the outcome of our wider SAA review, in the coming weeks.

You can also speak to your usual Royal London contact if you have any questions.

18 61

Royal London
royallondon.com

We're happy to provide your documents in a different format, such as braille, large print or audio, just ask us when you get in touch.