HOW DO WE SET OUR GROWTH RATES?

The rate for each fund is determined by taking into account the asset allocation of the fund and the assumed return for each asset class.

The asset class categories used are listed below. Investments in each fund are categorised into one or more of these broad groupings:

- Cash
- Gilts
- Corporate Bonds
- Index Linked Bonds
- Property
- UK Equity
- Overseas Equity.

As a simple example, if a particular fund was invested 50% in Index Linked Bonds and 50% in UK equities, and the assumed accumulation rates for these asset classes were 3% per annum and 7% per annum respectively, then an average rate of 5% per annum would be set as the assumed accumulation rate for that fund.

The assumed returns for each asset class are set by Royal London's Illustration Growth Rates Committee. Future returns cannot be predicted with certainty and so the Committee reviews a variety of data in order to determine what a suitable growth rate assumption might be for each of the asset classes listed above. At all times, the Committee considers the requirement to treat customers fairly and not overstate or understate the investment potential for each asset class.

In general, the Committee considers long-term returns, consistent with the length of time over which most of our customers invest. However, in some circumstances, the Committee will examine returns over shorter periods if this is deemed more appropriate for a particular product or asset class.

The principal source of data used by the Committee is the output from a model of future asset returns provided by risk management consultants, Moody's Analytics. The Moody's Analytics model is acknowledged as an industry-leading tool for predicting future investment returns across many different asset classes. It takes into account many decades of historical investment return data as well as future indicators of returns such as Gilt market data. More information on the Moody's Analytics model can be found at their website **www.moodysanalytics.com**

In addition to the Moody's Analytics data, the Committee also takes into account any other relevant factors that they consider might influence future investment returns. This may include views on the future economic outlook in particular countries.

The Committee considers all relevant guidance from regulatory bodies such as the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) and the Association of British Insurers (ABI).

The Committee will also take into account the methodology for determining growth rates used outside Royal London, for example by other insurers or by consultants commissioned by regulatory bodies to review growth rates.

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