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APPENDIX 5
Royal London's *Governed Range* Funds and Strategy

Royal London manages its investments through a tiered hierarchy of funds. The bottom tier is a range of "building block" funds with clear and transparent investment objectives, guidelines and restrictions. They normally just invest in a single type of asset such as UK Equity or Property. Although you can invest in them directly, for *Workplace Pensions* they're mainly used to create the second tier of funds. These building block funds are held in different proportions across the *Governed Range*. The *Governed Range* forms the second tier of funds. Each investment Portfolio in the *Governed Range* has a different strategy and hence a different mix of assets.

Performance across the *Governed Range* is reviewed regularly. You'll find a summary of these reviews posted on Royal London's *Governed Range* section 8. Finally, there are three groups of "lifestyle" strategies. These make up the third tier of Royal London's investment range. These aim to provide the optimum strategy depending on whether the proceeds of the pension policy are intended to be taken as cash, *Annuity* or *Drawdown*. For each of the three options, there are five different strategies, each with varying levels of risk. For each of these levels of risk an active or passive Investment strategy can be selected. As a result of these options there are 30 different "lifestyle" strategies available. A customer investing in one of these strategies will have a varying mix of the investment portfolios in the *Governed Range* at any one time depending on how close to retirement they are. Where the adviser or employer doesn't wish to make a decision around the *Default Investment Strategy*, Royal London will automatically make the Balanced Lifestyle Strategy (*Drawdown*) available as the *Default Fund*.

Royal London's investment strategy is designed and managed at both the *Governed Range* and the Lifestyle level.

The *Governed Range* is managed using forward-looking risk measures. This is done by modelling thousands of different potential future investment outcomes. The models are updated every quarter so that future expectations are based on a combination of current market conditions, past performance and expected future performance. A specialist external consultancy, *Moody's Analytics*, is used to provide these models and the simulations.

Each portfolio in the *Governed Range* is then reviewed against its stated risk targets. These are monitored each quarter and reviewed by Royal London's *Investment Advisory Committee* and the outcome of each review is shared with us. If the results are outside their target range this is discussed at the *Investment Advisory Committee*, potentially prompting changes to the *Strategic Asset Allocation*.

Workplace Pension customers typically invest in Lifestyle Strategies. The Lifestyle Strategies are then built up from the *Governed Range* in a similar manner. Lifestyles work around the idea that when you are younger, with a longer period until retirement, it's sensible to have more of your money invested in assets with a higher potential for growth than when you are older and closer to retirement. When you have a longer period to retirement there is more time to ride out any dips in the market and as you get closer to retirement the Lifestyle Strategy gradually moves your investments towards assets that are less exposed to the peaks and troughs of the market.

Investment Pathways customers invest directly in an investment solution which has been selected to match the expectations of how they are going to access their money. Customers not looking to access their money in the next 5 years are invested in a portfolio that retains more risk than those who are planning to take income. Customers planning to buy an *Annuity* invest in a Fund which aims to track the costs of this liability.

The table on page 23 shows which fund / portfolio is used for each *Investment Pathway* and how the mix of assets within the Balanced Lifestyle Strategy (*Drawdown*) changes as you near retirement (this is the *Default Fund* used for c.85% of *Workplace Pension* customers).