

Investments

Matrix Consumer Guide

We understand that a key part of your investment process is selecting appropriate funds to invest your pension savings in. That's why we offer a strong range of top quality funds to choose from whether you are investing in isolation, as part of a portfolio of funds or even as part of a lifestyle programme.

The performance of the investment funds will ultimately drive how much your pension savings will be worth. It's important to remember that investments can go down as well as up and you may not get back what you originally invested.

Guide Summary

This guide will explain the selection, governance and communication processes for our range of Matrix Funds.

The key points from this guide are:

- With the Matrix, you invest in a Matrix Fund, which then invests in an underlying fund.
- Each Matrix Fund has a defined Management Risk Category and Equity Sector.
- The selection process for the replacement Matrix Funds involves input from an independent company, Morningstar Investment Management.
- There is a governance process in place to ensure that the Matrix Funds continue to behave as you first expected. This governance process is run by our Investment Advisory Committee.
- Under some circumstances this governance process may lead to a decision to change an underlying fund.
- We will communicate any changes to you in advance.

Introduction

This brochure will guide you through how we manage the risks associated with some of our equity funds which are available to you as part of the Royal London pension plan.

Equity funds invest in stocks and shares in a variety of stock markets. You might hear about the FTSE, the Dow Jones or the Nikkei on television. All of these are recognised stock exchanges where company shares are traded. Equity funds buy and sell stocks and shares in companies listed on these exchanges.

Equity funds tend to carry more risk than other types of fund such as property and fixed interest funds. Due to the risk associated with investments it is always recommended that you speak to a financial adviser who is qualified to advise which funds are most suited to your objectives and in line with the risk you are prepared to take.

The Matrix introduces a process that demonstrates how we select investment funds, how we regularly monitor their risk and how, if required, we can change the underlying investment fund.

Ongoing Suitability

Once you and your financial adviser have decided which funds are best suited to your needs it is important that the fund continues to behave as you first expected.

This doesn't mean that if your "attitude to risk" changes then the fund moves with your risk preferences. Instead it means that if you pick a fund because it takes certain risks, then it should consistently take the risks that you expect of it.

This is what we mean by ongoing suitability.

It's particularly important if the fund you pick is part of a portfolio or a lifestyling option. A lifestyling option is an automated process that moves your investments through a range of investment portfolios with different risk profiles towards your retirement age.

These are popular particularly in group pension schemes. They tend to allow for more risk in the early years to aim for capital growth and move towards more risk averse portfolios as you approach retirement – concentrating on capital protection.

These lifestyling programmes rely on the underlying funds to consistently observe their risk profiles to remain efficient. If the underlying funds don't do this, then the end result may not be what was expected or intended. So it's important that a system is in place to keep a watchful eye on proceedings.

This is because the fund into which you invested your money (and that is an important point to remember – it is YOUR money) could be taking more risk than you expected or were prepared to take.

This is where the Matrix comes in.

A broad range of funds

We offer a number of different investment funds that you can choose to invest in. We believe that we should offer you a real and sensible choice.

Choice for us is offering you a range of funds that invest in different stock markets, in different styles and with different degrees of risk.

To achieve this process we have created the Matrix and our Matrix Funds.

The Matrix

Sector	Benchmark	Core (←1%)	Core Plus (1-5%)	Specialist (→5%)
UK Equity	FTSE All Share Index			
UK Income	FTSE 350 High Yield Index			
UK Mid Cap	FTSE 250 Index			
UK Small Cap	FTSE Small Cap ex IT Index			
Global Blend	Composite benchmark of FTSE All Share Index, FTSE World ex UK Index and MSCI Emerging Markets ESG Leaders based on split of UK, Global and Emerging Market Equities as advised by the Investment Advisory Committee.			
Global Managed Equity	55% FTSE All Share Index, 45% FTSE A World (ex UK) Index			
Europe	FTSE Europe (ex UK) Index			
US	S&P 500 Index			
Japan	Topix Index			
Asia Pacific	MSCI AC Asia (ex Japan) Index			
Emerging Markets	MSCI Emerging Markets Index			

When we talk about the Matrix, this is what we mean.

The left-hand side of the Matrix defines what we believe are the main equity sectors both within the UK and in various geographical sectors.

The second column defines the benchmark against which we are measuring the performance of the chosen funds.

Along the top of the Matrix we have defined three management risk categories, more details of which are noted below.

This creates the Matrix as you can see.

We will ultimately explain to you how we have gone about “filling the Matrix” – in other words selected funds which fit into the parameters stated.

It is important to say at this point though, that we don’t expect to fill all “boxes”. Some areas, for example the equity sector Japan, risk category Core simply does not have the necessary choice of funds (or demand) for us to feasibly use.

Let’s explain though our categorisations in a little bit more detail.

Management Risk

Our three main categories of management risk are Core, Core Plus and Specialist and we have used a measure called “tracking error” to determine these categories.

“Tracking error” is a figure that tells us how close the performance of the fund is to the underlying benchmark. (The benchmark is what will be used to measure the performance of each equity sector that we defined on the left-hand side of the Matrix.)

In general terms the greater the tracking error the more risk the fund manager is taking, hence the term management risk. Consequently the greater the potential risk and reward for investors in these funds.

For the purposes of the Matrix, the “tracking error” is an annualised measurement over rolling 36-month periods and this is updated every month. If we reported this in January 2021, the period over which we would measure the “annualised tracking error” would be December 2017 to December 2020. The following month, February 2021, the reported “annualised tracking error” would be measured over the period January 2018 to January 2021. This pattern would continue thereafter. It should be noted that our “annualised tracking error” calculations will take account of the effects of any additional annual management charge (see **Populating the Matrix**).

Core Matrix Funds

We expect our Core Matrix Funds to have a very low tracking error and therefore a very close relationship to the underlying benchmark. Core Matrix Funds are in effect passive or tracker funds in that their sole objective is to replicate the movement in the underlying benchmark. Our monitoring will focus on out-performance as well as under-performance. We would be concerned if a Core fund in particular regularly outperformed its benchmark as this would imply some “active” fund management decisions were being taken as opposed to direct replication of the benchmark.

Core Plus Matrix Funds

We expect our Core Plus Matrix Funds to have a higher tracking error and therefore a looser relationship with the underlying benchmark. This is because the fund manager takes additional stock picking risks and hopefully improves returns. Core Plus Matrix Funds are expected to move broadly with the underlying benchmark and from time to time we would expect the “annualised tracking error” to be within a band of 1% to 5% per year of the index on a rolling 36-monthly basis.

Specialist Matrix Funds

Finally we expect our Specialist Matrix Funds to have only a general relationship to the underlying benchmark. Specialist Matrix Funds will be expected to deviate significantly from the underlying benchmark and we would expect their annualised performance to be 5% greater or lower than the movement in the underlying benchmark analysis. This is because the fund manager takes additional stockpicking risk and hopefully improves returns.

Similarly we would not be expecting a Matrix Fund in our Specialist sector to demonstrate too close a relationship with the benchmark index such that it exhibited the properties of a Core Plus Matrix Fund.

Populating the Matrix

Having defined the structure of the Matrix and the risk profile of the funds required, we then identified how many funds we felt it was appropriate to have in each area.

We then set up the necessary number of funds as Royal London funds. We refer to these as “Matrix Funds”.

These Matrix Funds were created with specific objectives however they do not invest directly into stocks and shares as some other equity funds do. Instead, they invest in other equity funds.

We identified other investment funds that we believed would consistently perform in line with the the objectives of the Matrix Funds.

To give us an independent viewpoint and to add rigour to the process, we asked fund research group, Morningstar Investment Management to help us. We continue to work with them each quarter to ensure funds are still suitable and meeting their investment objective.

You can read more about Morningstar Investment Management on our website at royallondon.com/pensioninvestments.

You can see the results of our analysis below. The name of each Matrix Fund corresponds to a particular “box” in the Matrix.

The name in brackets relates to the fund management group and their fund into which the Matrix Fund invests.

For example, RLP/UK Equity Core Plus (JPM UK Equity Growth) means that the “Matrix Fund” is called RLP/UK Equity Core Plus, which in turn invests in the “JPM UK Equity Growth” fund.

Here is the full list of the Matrix Funds. All of our Matrix Funds carry an Annual Management Charge (AMC) of 1%. Some of the Matrix Funds invest in underlying funds which carry an extra charge. The additional charge is shown in brackets.

Charges are regularly reviewed and could change. As you will see from the notes after the table on page 6, which detail all fund related changes.

Core (←1%)	
UK Equity	RLP / BlackRock ACS UK Equity Index
UK Income	
UK Mid Cap	
UK Small Cap	
Global Blend	RLP / BlackRock ACS Global Blend
Global Managed Equity	RLP / BlackRock ACS Global Equity Index (60:40)
Europe	RLP / BlackRock ACS European Equity Index
US	RLP / BlackRock ACS US Equity Index
Japan	
Asia Pacific	
Emerging Markets	

Core Plus (1-5%)	
UK Equity	RLP / UK Equity Core Plus (JPM UK Equity Growth) (0.70%) RLP / UK Equity Core Plus (Close TEAMS UK Equities (1%)) (0.35%) RLP / UK Equity Core Plus (Close TEAMS UK Equities (2%)) (0.60%)
UK Income	RLP / UK Income Core Plus (Artemis Income) (0.70%)
UK Mid Cap	
UK Small Cap	
Global Blend	RLP / Global Blend Core Plus (RLP Global Growth) ¹
Global Managed Equity	
Europe	RLP / Europe Core Plus (Fidelity European Blended) (0.70%)
US	RLP / US Core Plus (Jupiter North American Equity) (0.70%) ²
Japan	RLP / Japan Core Plus (Baillie Gifford Japanese Income Growth) (0.57%) ³
Asia Pacific	RLP / Asia Pacific Core Plus (Invesco Asian) (0.90%) ⁴ RLP/Asia Pacific Core Plus (Stewart Investors Asia Pacific Leaders Sustainability) (0.80%) ⁵
Emerging Markets	RLP / Emerging Markets Core Plus (JPM Emerging Markets) (0.70%)

Specialist (→5%)	
UK Equity	RLP / UK Equity Specialist (Baillie Gifford UK Equity Alpha) (0.50%) ^{6,7} RLP / UK Equity Specialist (Fidelity UK Opportunities) (0.34%)
UK Income	RLP / UK Income Specialist (Fidelity MoneyBuilder Dividend) (0.30%) ⁸
UK Mid Cap	RLP / UK Mid Cap Specialist (FTF Martin Currie UK Mid Cap) (0.70%) ⁹
UK Small Cap	RLP / UK Small Cap Specialist (Ninety One UK Smaller Companies) (0.70%) ¹⁰
Global Blend	
Global Managed Equity	RLP / Global Managed Equity Specialist (Ninety One Global Strategic Equity) (0.70%) ¹¹ RLP / Global Managed Equity Specialist (Invesco Global Equity) (0.77%) ¹²
Europe	RLP / Europe Specialist (Columbia Threadneedle European Select) (0.70%) ¹³
US	
Japan	RLP / Japan Specialist (Baillie Gifford Japanese) (0.57%) ¹⁴
Asia Pacific	
Emerging Markets	RLP/Emerging Markets Specialist (Fidelity Emerging Markets) (0.70%) ¹⁵

¹ Please note the underlying investment of this fund changed on 19.08.2013. At this time the fund management charge applied to the fund changed from 1.65% to 1.45%. The underlying investment of this fund changed again on 29.06.2020. At this time the fund management charge applied to the fund changed from 1.45% to 1.00% with a Total Expense Ratio of 1.87%.

² Please note the underlying investment of this fund changed on 28.11.2011. At this time the fund management charge applied to the fund changed from 1.80% to 1.95%. A further change to the underlying fund occurred on the 06.11.16 and the fund management charge applied to the fund also changed on 06.11.16.

³ Please note the fund management charge applied to the fund changed from 1.80% to 1.70% on 02.04.2014 and from 1.70% to 1.57% on 02.12.2020.

⁴ The fund charge changed from 1.70% to 1.90% as a result of the asset manager moving from a separate AMC and TER to a single all-in charge.

⁵ Fund name changed from RLP/Asia Pacific Core Plus (Stewart Investors Asia Pacific Leaders) to RLP/Asia Pacific Core Plus (Stewart Investors Asia Pacific Leaders Sustainability) on 01.09.21.

⁶ Please note the underlying investment of this fund changed on 23.03.2020. At this time the fund management charge applied to the fund changed from 1.70% to 1.50%.

⁷ Please note the fund management charge applied to the fund changed from 1.80% to 1.70% on 02.04.2014 and from 1.70% to 1.50% on 02.12.2020.

⁸ Please note the underlying investment of this fund changed on 26.05.2014. At this time, the fund management charge applied to the fund changed from 1.70% to 1.30%.

⁹ Please note the underlying investment of this fund changed on 28.11.2011. At this time the fund management charge applied to the fund changed from 1.80% to 1.70%.

¹⁰ Please note the fund management charge applied to the fund changed from 1.80% to 1.70% on 16.04.2014.

¹¹ Please note the fund management charge applied to the fund changed from 1.80% to 1.70% on 16.04.2014. The fund changed its name on 24.06.16.

¹² The fund charge changed from 1.60% to 1.77% as a result of the asset manager moving from a separate AMC and TER to a single all-in charge.

¹³ Please note the underlying investment of this fund changed on 02.05.2011. At this time the fund management charge applied to the fund changed from 1.70% to 1.83%. The fund management charge applied to the fund changed again from 1.83% to 1.70% on 17.03.2014. A further change to the underlying fund occurred on the 06.11.16 and the fund management charge applied to the fund also changed on 06.11.16.

¹⁴ Please note the underlying investment of this fund changed on 19 October 2009 and again on 7 December 2020.

¹⁵ Please note this fund was closed to new investors and incremental investments on 07.09.2013. Please also note that the underlying investment of this fund changed on 2 November 2020 and the fund management charge applied to the fund changed from 1.80% to 1.70%.

How does the monitoring work?

We will be monitoring the performance of the underlying funds into which the Matrix Funds invest. This is to ensure that they continue to perform with the consistency which brought about their original selection.

This is important because the Matrix Fund was probably recommended to be part of your portfolio primarily on the basis of its style and risk. If the management of the underlying fund was to change then it is possible that it no longer works in a way that is consistent with its original selection.

We will prepare reports on the underlying funds with Morningstar Investment Management on a quarterly basis. These will then be presented to our Investment Advisory Committee whose job is to oversee the running of our unit linked funds. The Committee's views on any funds deemed to be investing outside of the parameters of the Matrix Fund will be published on our website, royallondon.com/pensioninvestments under the section marked "Investment Advisory Committee" where you can also read more about the Committee and its workings.

The analysis would be prepared in two ways:

Performance Analysis

If the "tracking error" of the Matrix Fund moves outside its defined risk parameters, for example where a Core fund's annualised return consistently lags behind the benchmark index by more than 1% per year over each 3 year rolling period, then the Investment Advisory Committee will receive a report and consider the reasons for it. Their deliberations and conclusions will be posted on our website.

Of course from time to time this will occur simply due to market conditions. However, if it happens continuously then clearly this will give greater cause for concern. In these circumstances the Investment Advisory Committee will review the link to the underlying investment fund and may either ask for a written report from the fund manager or even ask the fund manager to attend a meeting to discuss the situation.

Following these actions, if the Investment Advisory Committee remain concerned that the underlying fund no longer suits the specified objectives of the Matrix Fund they may move to change it.

It is important to note that it does not mean automatic deselection of an underlying fund when the tracking error moves outside its defined parameters. This is merely a trigger for the Investment Advisory Committee to begin their deliberations and detailed analysis.

Fund Objective Analysis

Although an underlying fund had consistently invested in line with the Matrix Fund objectives, its own objectives may allow it wider scope.

Sometimes the fund manager may decide to use the wider remit that their fund objectives allow. There is absolutely nothing wrong in them doing so. A change in the actual fund manager may result in a review of the manner in which the fund is run.

However, the Investment Advisory Committee need to decide whether a change to the fund manager or the wider use of the underlying fund objectives is still in line with the objectives of the Matrix Fund.

The Committee would ask the investment fund manager for reasons around this move and report accordingly.

How would we change an underlying fund?

Where the Investment Advisory Committee deem it necessary to change a Matrix Fund's underlying investment fund either due to the "Performance Analysis" or "Fund Objective Analysis" criteria set out above we would follow a strict procedure.

Clearly, this is a decision that we would not take lightly and it would only happen to ensure that the Matrix Funds' objectives were being adhered to.

The Investment Advisory Committee would make a formal announcement of any change and letters would be sent out to all clients invested in the affected Matrix Fund.

This letter would give 90 days notice of the Appointed-Date when the change to the underlying investment fund will start to take place. The full name of the Matrix Fund will formally change only on the Appointed-Date.

A change to the underlying fund may result in an alteration to the annual management charge. Where this happens, our letter will contain details of the new charge.

At this stage investors in the Matrix Fund will have the option to do nothing and the process set out below will apply.

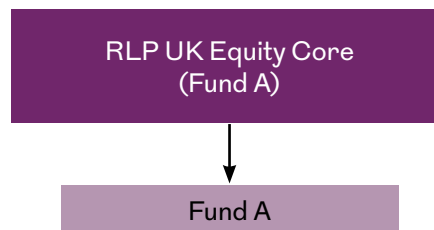
If you decide that you do not like the new investment fund to which your Matrix Fund will be linked you will be able to move your money to a different fund. Under these circumstances you should consult with your financial adviser to discuss the best course of action.

We would emphasise at this stage that your Matrix Fund itself wouldn't close – only the underlying investment fund to which it is linked will change.

Changing the investment fund to which the Matrix Fund is linked

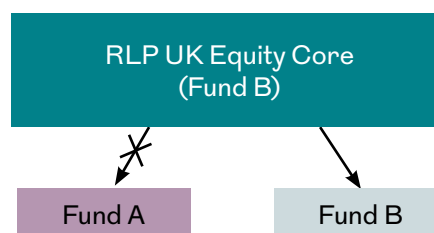
Stage 1

You are invested in the Matrix Fund "RLP/UK Equity Core (Fund A)". The Investment Advisory Committee announce that from an "Appointed-Date" in 90 days time, Fund A will be replaced by Fund B.



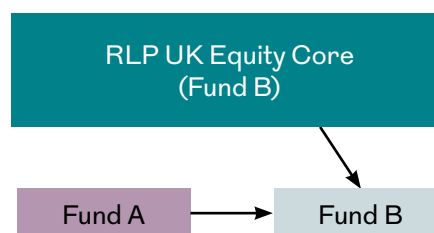
Stage 2

The "Appointed-Date". All future contributions from this date are invested via the Matrix Fund "RLP UK Equity Core" into Fund B.



Stage 3

The assets that were previously invested with Fund A will be moved across to Fund B. The timing of this process depends upon the amount of money held with Fund A and the method which we believe is in the best interests of our policyholders. Generally speaking, the smaller the sums involved, the quicker the process.



How do we select Fund B?

We regularly review and monitor funds that we believe would be suitable replacements for any investment fund link. This process is done in conjunction with Morningstar Investment Management.

This means that we are able to quickly identify investment fund links that we believe fit the needs of our Matrix Fund range.

What does this mean for you?

Saving for your retirement is one of the most important decisions that you can make. If the investments that you have chosen do not deliver the performance that you require to meet your objectives then it can leave you in a very difficult position.

What is important therefore is that you are never exposed to more risk than you are comfortable with. You may have heard of the phrase “the value of our investments can go down as well as up”. This means that we cannot guarantee the performance of any fund. We can, however control and monitor the risk and style of the funds that you invest in.

The Matrix does this for you. Helping you to feel more confident in planning for your retirement.



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**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.**

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