ASSESSMENT OF VALUE

METHODOLOGY

Contents

1. Background

We are required to perform an annual assessment of the value for money for each shareclass of each sub-fund. This document sets out our methodology for doing this.

What is assessment of value

Broadly speaking, assessment of value requires consideration of a combination of factors, including the return achieved, the price paid, the risk taken and the quality and range of services provided by the asset manager. This also needs to be considered in the context of the investment objectives and policy for the fund, the target investor and the recommended holding period. Regard also must be had to market comparisons and to the ability to take advantage of economies of scale.

Our approach

The considerations relevant to assessment of value are considerations which are also an integral part of our overall product governance.

Nevertheless, we additionally perform an annual formal assessment of value process.

This consists of:

1. A top-down centralised review, performed by [Product Management], considering in depth of all relevant factors, having regard to all the funds and shareclasses that we manage; and

2. A bottom-up share-class by shareclass / fund by fund assessment of value, also performed by Product Management, and having regard to all the matters specific to the individual funds and shareclasses.

3. A review process is performed by the iNEDs of both the above top-down and bottom-up review and of any exceptions or issues identified as part of this process.

These assessments are performed having regard to a wide range of factors as, described in Parts 3 and 4 of this document respectively.

Based on our assessment of the value at both these stages, we have taken appropriate action where required. These are recorded in our Product Development Log.

<u>Reporting to Investors</u>

Following conclusion of the Assessment of Value exercise, we have also made a report to investors on our assessment of value.

This report is included within the Report and Accounts. See Appendix 2 for draft wording. This report also includes links to the following, which goes beyond the regulatory requirements:

- An Assessment of Value methodology document
- Details of how to obtain a summary of the assessment of value report for each fund

As at date

The formal assessment of value exercise is performed annually. In the most recent performance, the assessment has been made based on data as at xxxx.

Data used in the Assessment

The Assessment of Value exercise has been performed having regard to wide variety of data, including:

- Fund and shareclass data
- Data in respect of the target investor
- Data in respect of the fund's distribution
- The fund's portfolio holdings data
- Data in respect of cost, performance and risk

A range of this data comes from internal sources.

The data has been supplemented by whole-of-market data provided via Financial Express.

All this data has been reviewed for anomalies and has been subject to validation – see Appendix 5.

Fund benchmarks

To support this exercise, all funds were assigned a benchmark. These benchmarks are disclosed in the prospectus and in the KIID documents.

PART 2. Centralised review

The centralised review, performed by Product Management, considered a broad range of matters, including:

- Our capabilities and skills as a firm;
- Adherence to mandate;
- The number of comparable funds;
- The shareclasses being offered;
- The target investor;
- The distribution strategy;
- Costs;
- Performance;
- Risk; and
- Our service quality.

Further details are set out below on of each these.

In doing so, we have made comparison with:

(i) the other shareclasses of the relevant sub-fund,
(ii) the shareclasses and sub-funds within our fund ranges; and
(iii) comparable shareclasses and sub-funds in the rest of the market.

(i) Our capabilities and skills

As an initial step, we reflected on our core capabilities and skills as an organisation and reviewed our fund range to identify whether they were all consistent with our core capabilities and skills.

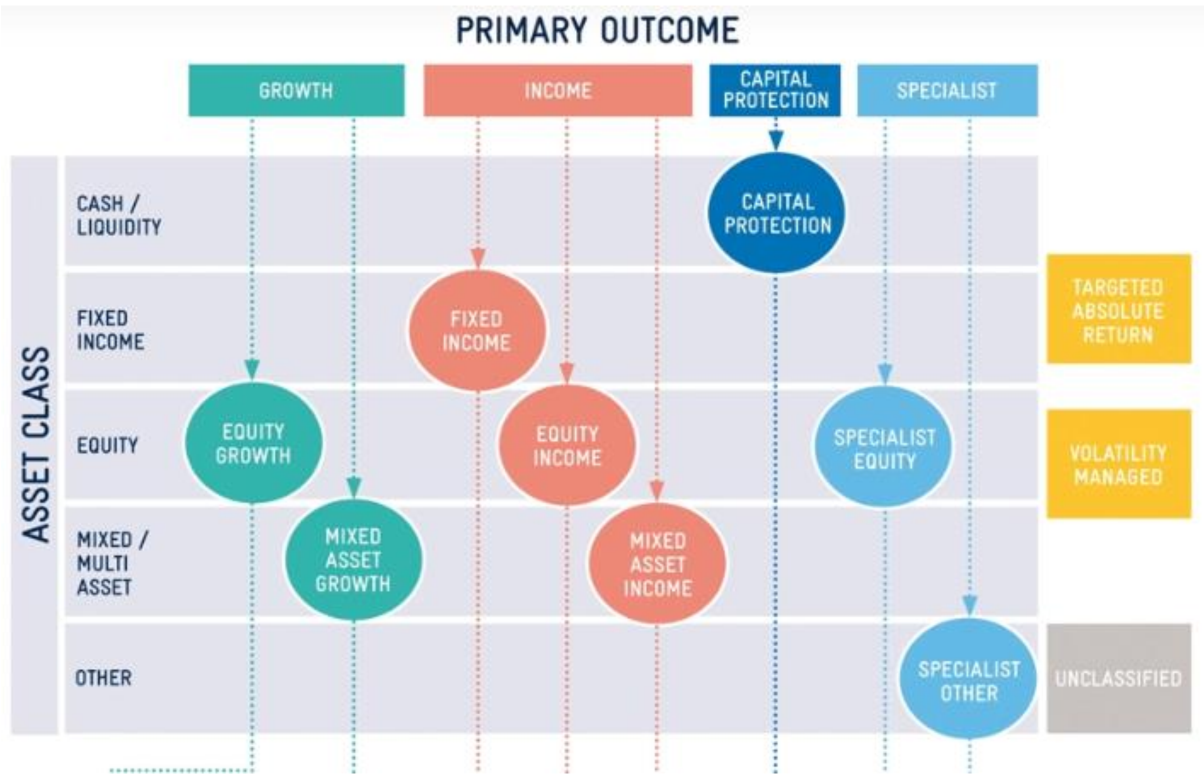
Where it was identified that any funds were not consistent with our core capabilities and skills, then further analysis was performed and subject to board review.

In performing this assessment, we had regard to a number of factors, including the following:

- Active management vs. passive tracker
- Fund domicile and regulatory types
- The sector, the investment outcome and asset class of the funds in our fund range
- Distribution locations
- Performance fee approach
- Fund size
- Geographic focus
- Asset type, including use of derivatives and leverage
- The fund's complexity.

In assessing, the sector, the investment outcome and asset class of the funds in our fund range, this assessment was based on the fund's Investment Association's sectors and the schematic set out below.

https://www.theia.org/industry-data/fund-sectors/classification-schematic



(ii) The target investor

(a) Retail vs. Institutional Investors

At a Manager level, we reviewed the split of assets between retail and institutional shareclasses, in order to understand the target investor type for each Manager; for example, to identify a clear focus on institutional only investors.

(b) Investor needs

We considered whether the target investor has any specific needs, including in respect of:

- Ethical investment
- Green investment
- Hedged currency exposure
- Income needs
- Other

(iii) Distribution

As part of the product development process, we consider the appropriate distribution channels for the fund.

As part of the assessment of value process we have considered whether the actual distribution of the fund in practice consistent with the intended distribution of the fund.

(iv) Adherence to Mandate

We also considered the extent to which funds have complied with their mandate.

This included:

- A review of investment breaches
- A review of their compliance with IA sector rules
- For funds with an income objective, a review of their yield
- Funds with a growth objective, a review of their growth
- Funds with a target return, a review of whether they achieved the stated return.

(v) The range of available funds

We reviewed the entirety of our fund range. This included:

- Review of the number of funds in each IA sector
- Reviewing for funds that were very small in size and that should be closed or merged with other funds; and
- Reviewing for funds that were very similar in feature to other funds of the manager and that should be closed or merged with the other funds.

This review has been conducted separately for each of our underlying investment managers.

(vi) Available shareclasses

We reviewed the entirety of our shareclasses available.

This included:

- Reviewing for legacy RDR shareclasses;

- Reviewing for shareclasses that were very small in size and that should be closed or merged with other shareclasses; and

- Reviewing for shareclasses that were very similar in feature to other shareclasses of the fund and that should be closed or merged with other shareclasses.

Legacy RDR Shareclasses

Legacy RDR shareclasses are shareclasses pay rebates and trail commission to financial advisers

These were commonplace before 2013 and pre- the 2013 Retail Distribution Review (RDR). Since then they have been prohibited.

Whilst the payment of rebates and trail is no longer permitted, there was an issue that investors could not be moved without their consent to a different (cheaper) shareclass.

It is now permissible to move an investor to a cheaper shareclass even without their consent, following a change in the prospectus.

(vii) Costs

In considering cost, regard needs to be had to the total cost of investing, including any adviser charges, platform charges, adviser fees and the on-going annual management charge.

Regard also needs to be had to the degree of active management. An investor would not be receiving value, if they were being charged fees for active portfolio management, where in fact, the fund's composition of performance is staying very close to a benchmark. This is considered further below under Closet Trackers.

When considered costs, consideration also needs to be given to the context of the size of the portfolio and the ability of larger funds to benefits from economies of scale.

(i) <u>Inconsistent fee levels</u>

We reviewed for any examples of where the target outperformance was inconsistent with the fees being charges.

For example, where the target outperformance vs. benchmark is 1%, but where the costs are 1.5% greater than the equivalent costs of a passive tracker.

(ii) <u>Internal comparison of costs</u>

Across the entirety of our fund range, we compared all our different shareclasses and their respective costs.

We performed this review separately for:

- Initial entry costs
- On-going costs
- Exit costs
- Performance fees

In making the assessment, we had regard to a number of factors including:

- The minimum deal size
- The size of the fund
- Whether the fund was active, partly active or passive.

We also reviewed a range of other costs for anomalies on a fund by fund or shareclass by shareclass basis. This included custody, transfer agency and fund accounting costs.

(iii) <u>Costs – Market Review</u>

We performed a review of costs in the whole of the market. This was performed to confirm that our own pricing was competitive compared to the market.

For this purpose, we analysed x shareclasses of y funds across the market to understand the spread of charges.

In doing this, we bucketed the funds as follows, making appropriate assumptions:

	Fund size	Minimum deal size	Lower band	Upper band
Active fund	less than £100m			
	100m to 500m			
	500m to 1bn			
	1bn to 5bn			
	Greater than 5bn			
Partly active	less than £100m			
	100m to 500m			
	500m to 1bn			
	1bn to 5bn			
	Greater than 5bn			
Passive	less than £100m			
	100m to 500m			
	500m to 1bn			
	1bn to 5bn			
	Greater than 5bn			

For this purpose, we have classified funds with a Rsquared of 70% as being party passive and classified funds with a Rsquared above 95% as being passive.

(viii) Performance - General

As regards performance, it is important that:

- Performance is considered over an appropriate timescale given the fund's objectives; and

- Performance should be measured net of all fees.

Performance also needs to be considered from a number of different perspectives, including absolute performance, performance relative to benchmark and performance compared to any specified targets set out in the prospectus etc.

In considering performance, we reviewed:

- Performance over time – vs benchmark, being the 1 year, 2-year 5-year cumulative performance vs. benchmark
- Performance vs any specific performance objectives of the fund.

We also considered the opportunities available for the fund to achieve performance / outperformance in the future.

Performance – Closet Trackers

Closet Tackers describes the scenario where the investor is being charged fees for active portfolio management, where in fact, the fund's composition of performance is staying very close to a benchmark.

We performed a review for evidence of closet trackers. The relevant indicators are set out in the Appendix. Where there was any evidence of closet trackers, this was further reviewed.

(x) Risk

When considering assessment of value, regard should also be had to the risk of the portfolio, again compared to benchmark.

Where there is a greater level of actual or potential risk compared to benchmark, then an investor would expect this to be reflected in an increased level of actual or potential return.

There are different ways of measuring risk, including:

- VAR
- Volatility
- How the portfolio performs in stressed market conditions
- Risk of not achieving specified objectives.

For each portfolio, we identified the appropriate risk measures for each portfolio.

We then also made a comparison of portfolio risk to the risk profile of the benchmark.

(x) Service Quality

As part of the Assessment of Value exercise, we have reviewed our service quality proposition.

We have done this from a number of perspectives:

1) What is our service quality target compared to low cost alternatives, such as would justify any higher fees compared to fee levels charged by low cost alternatives;

2) What is our actual service quality delivered and how it differs across different funds and shareclasses, such as should be reflected in different charging levels or could lead to a conclusion that the shareclass does not give value for money.

In assessing service quality, we have considered a range of quantitative MI and KPIs, including: Level and types of complaints, breaches, errors, issues etc by distributor, shareclass, fund etc. as appropriate.

Appendix 1. The Bottom-up Assessment process

A bottom-up share-class by shareclass / fund by fund assessment of value, also performed by Product Management, and having regard to all the matters specific to the individual funds and shareclasses.

The following checklist was used in performing this review:

[final checklist to be inserted]

Appendix 2: The Assessment of Value statement for Report and Accounts

Assessment of Value

We are required to perform an annual assessment of the value for money for each shareclass of each sub-fund within the ICVC. This has been performed based on the information available as at [date].

We have performed this review having regard to a wide range of factors. In doing so, we have made comparison with the other shareclasses of the relevant sub-fund, with the shareclasses and sub-funds within our fund ranges and also with comparable shareclasses and sub-funds in the rest of the market.

Broadly speaking, assessment of value requires consideration of a combination of factors, including the return achieved, the price paid, the risk taken, and the quality and range of services provided by the asset manager. This also needs to be considered in the context of the investment objectives and policy for the fund, the target investor and the recommended holding period.

In considering cost, regard needs to be had to the total cost of investing, including any adviser charges, platform charges, adviser fees and the on-going annual management charge.

Regard also needs to be had to the degree of active management; as an investor, you would not be receiving value, if you were being charged fees for active portfolio management, where in fact, the fund's composition of performance is staying very close to a benchmark. These factors also need to be considered in the context of the size of the portfolio and the ability of larger funds to benefits from economies of scale.

As regards performance, it is important that performance is considered over an appropriate timescale given the fund's objectives and should be measured net of fees.

Based on our assessment of the value of each shareclass, we have taken appropriate action where required. Following conclusion of this exercise, we are satisfied / we are not satisfied that the shareclass provides value for money for the investor.

APPENDIX 3: RESULTS OF CENTALISED REVIEW

APPENDIX 4: CLOSET TRACKERS METHODLOGY

We performed a review for evidence of closet trackers. The relevant indicators for trackers or partly-trackers are set out below.

Where there was any evidence of closet trackers, this was further reviewed.

Indicators

The key indicators used to prompt further review were:
- A 1-year R-squared of greater than 0.7; or
- A 1-year tracking error is less than 5; or
- A 1-year active share of less than 50%; or
- A 1 year of beta of between 0.9 and 1.1.

These concepts are explained in Appendix 6: Glossary.

Where there is any indication of a fund being a closet tracker, further, more detailed, analysis has been performed having regard to the following criteria:

- Tracking error on a 1 year, 3 year and 5-year basis;
- R-Squared on a 1 year, 3 year and 5-year basis;
- Active Share on a 1 year, 3 year and 5-year basis; and
- Beta on a 1 year, 3 year and 5-year basis;

To the extent that they are closet trackers or partly trackers, it has been reviewed the extent to which this is reflected in charges.

As a matter if internal policy, the following have been adopted as conclusive evidence of trackers, where seen over a 5-year period. The standards used by the Central Bank of Ireland and ESMA in their reviews of closet trackers are also shown below.

For more on regulatory analysis of closet trackers, click here.

Metric	Internal Policy	Central Bank Thresholds	ESMA Thresholds
R-squared	>0.95	> 0.9.5	> 0.95
Beta	0.9 – 1.1	0.9 – 1.1	-
Active Share	<50%	Not Utilised	50% / 60%
TEV	Not utilised	< 3.5%	< 3.00% / 4.00%

Appendix 5. Data quality and monitoring for anomalies

As part of the assessment of value process, given the extensive use of whole of market data, a strong focus was given to ensuring the data quality.

A number of the data quality checks are summarised below:

#	Action
1	AOV2. Number of funds and shareclasses – complete and accurate
2	Data consistency across share classes The consideration of risk and performance is performed to a large extent at fund level. In taking this approach, we are proceeding on the assumption that the risk and performance (before costs) of all shareclasses are broadly consistent with one another. This may not always be the case, including whether there are hedge and unhedged shareclasses. Accordingly, analysis has been performed to confirm that all shareclasses of the fund are broadly consistent in terms of the risk and performance (before costs)
3	Financial express data – screening out of anomalies - E.g. Family funds with high initial dealing costs were screened out, so as not to improperly inflate the comparative costs.
4	Validation of the data for our funds per financial express to our own internal data sources.
5	Whole of market AOV sector data is reviewed for anomalies
6	Monitoring for double counting of funds and shareclasses in calculation
7	Validation of the sector summaries data to data available from the Investment Association and other sources
8	Validation of the charges levels per FinancialExpress to market available data – e.g. to xxxx
9	

APPENDIX 6: GLOSSARY

Beta

Beta describes the activity of a security's returns responding to swings in the market

If a stock has a beta of 1.0, it indicates that its price activity is strongly correlated with the market. A stock with a beta of 1.0 has systematic risk, but the beta calculation can't detect any unsystematic risk. A beta value of less than 1.0 means that the security is theoretically less volatile than the market, meaning the portfolio is less risky with the stock included than without it. A beta that is greater than 1.0 indicates that the security's price is theoretically more volatile than the market.

R-Squared

R-squared is generally interpreted as the percentage of a fund or security's movements that can be explained by movements in a benchmark index. R-squared values range from 0 to 1 and are commonly stated as percentages from 0% to 100%. An R-squared of 100% means that all movements of a security (or other dependent variable) are completely explained by movements in the index (or the independent variable(s) you are interested in).

A high R-squared, between 85% and 100%, indicates the stock or fund's performance moves relatively in line with the index. A fund with a low R-squared, at 70% or less, indicates the security does not generally follow the movements of the index

Tracking Error

Tracking error is the standard deviation of the difference between the returns of an investment and its benchmark.

Since portfolio risk is often measured against a benchmark, tracking error is a commonly used metric to gauge how well an investment is performing. Tracking error shows an investment's consistency versus a benchmark over a given period of time. Even portfolios that are perfectly indexed against a benchmark behave differently than the benchmark, even though this difference on a day-to-day, quarter-to-quarter or year-to-year basis may be ever so slight. Tracking error is used to quantify this difference.

Active Share Ratio

The active share ratio measures the extent to which a fund tries to beat a benchmark by deviating from it. It will range between zero, which is a complete tracker, and 100, which is a portfolio devoid of any index stocks whatsoever.

Active share measures the percentage of an active portfolio that is different from its respective benchmark.

Tracking error vs. Active Share

Both tracking error and active share are measures of how different an active manager is from an appropriate passive benchmark. Active share is the measure of how active or passive the portfolio is regardless of risk. While tracking error is a measure of how distinctive our risk is regardless of return.

Therefore, a high tracking error is not necessarily conclusive of a fund being a tracker. For example, you could have a portfolio that aims to be as unique as possible from a return standpoint, but as similar as possible from a risk standpoint.

Ex-ante tracking error volatility (TEV).

END