A review of the Aviva Smooth Managed Fund

August 2019
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Background</td>
<td>4</td>
</tr>
<tr>
<td>Q1. What type of fund is it?</td>
<td>9</td>
</tr>
<tr>
<td>Q2. Who is behind the Smooth Managed Fund?</td>
<td>10</td>
</tr>
<tr>
<td>Q3. What is the investment process behind the Smooth Managed Fund?</td>
<td>11</td>
</tr>
<tr>
<td>Q4. How does the Smooth Managed Fund work?</td>
<td>14</td>
</tr>
<tr>
<td>Q5. How can the fund mitigate risk?</td>
<td>15</td>
</tr>
<tr>
<td>Q6. How can the fund be accessed?</td>
<td>17</td>
</tr>
<tr>
<td>Q7. What are the charges?</td>
<td>19</td>
</tr>
<tr>
<td>Q8. How has the fund performed?</td>
<td>21</td>
</tr>
</tbody>
</table>
Introduction

The introduction of pension freedoms, whereby retirees are no longer required to purchase an annuity, has led to a number of providers developing new post-retirement solutions. The Aviva Smooth Managed Fund is one such vehicle.

Aviva has commissioned Defaqto to carry out an independent fact-based review of their Smooth Managed Fund. The objective of this review is to provide advisers with the information they should consider when assessing the suitability of the Aviva Smooth Managed Fund.

This report represents Defaqto’s understanding of the investment process of the Smooth Managed Fund, along with our comments on some of its key features and attributes. It does not represent a recommendation to invest in the Smooth Managed Fund, and Defaqto encourages advisers to conduct their own suitability and due diligence processes before selecting this fund solution, or any other, for their client.

This document poses eight questions that advisers and investors are likely to ask about the fund:

1. What type of fund is it?
2. Who is behind the Smooth Managed Fund?
3. What is the investment process behind the Smooth Managed Fund?
4. How does the Smooth Managed Fund work?
5. How can the fund mitigate risk?
6. How can the fund be accessed?
7. What are the charges?
8. How has the fund performed?
Background

The ‘at retirement’ market in a post-pension freedoms world

The FCA’s interim report on their Retirement Outcome Review, published in July 2017, showed that despite the evident lack of innovation in retirement income solutions, consumers are taking advantage of this new found flexibility. The report contained statistics that evidenced the scale of clients gaining early access to their pension pots.

Chart 1: Figures for early access to pension points

Annuities remain the only way to guarantee a specific level of income, and Chart 1 shows a slight steadying of the fall in sales in more recent times, perhaps as the initial excitement of accessing one’s pension fund has died down and clients have become more aware of the need to plan for (hopefully) a long retirement.

Equally, it could be due to the fact that advisers have now begun to search for different retirement solutions for their clients, allowing them to mix the guarantee of an annuity alongside a more flexible level of income, using more sophisticated techniques to help clients understand the risks they could be exposed to. Guaranteed income will then be able to pay off any essential expenditure such as utility bills, while the flexible income is used for the more ‘nice to have’ or irregular expenditures such as holidays.

The FCA highlighted in their MS16/1.3 Retirement Outcomes Review Final Report, published in June 2018, that there has been a wholesale lack of innovation from providers in this new market.

Advisers may feel that they are able to build solutions using separate products that already exist; however, the launch of new products or funds from established providers, with the ability to support a client’s retirement needs, could give an adviser the solution they need to overlay this onto their existing Centralised Investment Propositions or Centralised Retirement Propositions. This, in turn, can help save valuable time that could be spent dealing directly with their clients.
Accumulation versus decumulation investing

The primary objective of accumulation investing is to grow the value of an investor’s savings as much as possible before retirement. Decumulation investing, however, is more of a balancing act between generating a regular and stable income, minimising volatility, preserving capital and retaining some flexibility.

The following sections identify two of the key risks to consider when assessing options for decumulation.

Sequencing risk

Pound cost averaging, or put another way, the positive impact of regular savings into a unit-linked savings vehicle with variable price movements, is fairly well understood in the mainstream financial advice and planning arena. What is possibly not as well understood, or indeed fully appreciated, is the devastating effect that so-called ‘reverse pound cost averaging’ (also known as ‘pound cost ravaging’) can have on a fund from which withdrawals are being taken in falling and volatile markets.

The conventional approach, used in the accumulation stage, of predicting what a fund may be worth in future years by applying an average growth rate, ceases to apply in the decumulation phase. As the fund becomes exposed to the impact of any adverse sequencing of investment returns, this can lead to a significantly lower value at the end of the period, as we illustrate below.

The following example and graphs show the impact on an initial investment of £100,000 over a ten-year term, with two example sequences of returns where the overall return is the same but the opposite sequence of annual returns is experienced in each case:

### Table 1: Sequencing risk example 1

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>High returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>early in period</td>
<td>15.0%</td>
<td>12.5%</td>
<td>10.0%</td>
<td>7.5%</td>
<td>5.0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>High returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>late in period</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>5.0%</td>
<td>7.5%</td>
<td>10.0%</td>
<td>12.5%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Compound return</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>60.6%</td>
<td>60.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Defaqto

### Chart 2: Accumulation (no withdrawals)

As can be seen in Chart 2, starting with an investment of £100,000 in year zero, the investment reaches the same final value, regardless of the order of returns. If, however, the investor requires an income each year, £4,500 in this example, then the final values will differ.
When the high returns occur early in the ten-year period, the final value of the investment is almost £112,000; but when the high returns occur later in the period, then the value after ten years is nearly £96,000, a difference of more than £16,000.

This gap becomes more pronounced when there is greater volatility in the returns, as the next example shows.

**Table 2: Sequencing risk example 2**

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>High returns early in period</td>
<td>30.1%</td>
<td>9.8%</td>
<td>8.2%</td>
<td>2.4%</td>
<td>6.5%</td>
<td>−0.2%</td>
<td>1.9%</td>
<td>1.1%</td>
<td>−2.0%</td>
<td>−5.4%</td>
</tr>
<tr>
<td>High returns late in period</td>
<td>−5.4%</td>
<td>−2.0%</td>
<td>1.1%</td>
<td>1.9%</td>
<td>−0.2%</td>
<td>6.5%</td>
<td>2.4%</td>
<td>8.2%</td>
<td>9.8%</td>
<td>30.1%</td>
</tr>
</tbody>
</table>

The annual growth rates in Table 2 also have the opposite sequences of returns to each other and give the same overall return as previously, but are more volatile.

**Chart 4: Accumulation, higher volatility of returns**
With high returns early and higher volatility, the value of the investment after ten years is around £115,000; whereas with high returns later in the period and higher volatility, the investment is worth almost £91,500 at the end, a difference now of over £23,500.

Therefore both the order of returns and their volatility are important in the decumulation phase, ie when regular income is being taken from the fund.

Poor returns early in the decumulation phase, along with higher volatility, are more likely to lead to an investor exhausting their capital and therefore income earlier in their retirement.

**Inflation risk**

To maintain the buying power of money, those taking income from their savings will need both the investment and the income it produces to increase by at least the rate of inflation each year.

The actual rate of inflation experienced very much depends on what each person spends their money on (in other words, their personal shopping basket). Chart 6 looks at overall inflation over the last 30 or so years, as well as some of the common costs that people incur, especially pensioners. The broadest measure of prices has almost trebled over this time, while council taxes/rates and fuel/light have increased even more.
As a result, some form of protection against inflation in a person’s investments will be critically important to avoid a decrease in the standard of living in retirement.

**Mitigation of these risks**

Funds that have very low volatility yet still contain a significant proportion of asset classes with higher expected returns will therefore be most effective in terms of reducing both sequencing and inflation risk. Q5 covers how Aviva’s Smooth Managed Fund is placed in this respect.
Q1. What type of fund is it?

The Smooth Managed Fund (SMF) is a unitised managed fund and is fully insured. The fund’s unitised managed structure enables Aviva to have no holding or quarantine period – they invest and redeem monies without an imposed delay. The fact that the SMF is unit linked rather than with profits gives it the following additional benefits for advisers and consumers:

- Transparency – people will always know exactly what is in the fund
- A formulaic smoothing process applied automatically, with no intervention from Aviva and no discretion applied on their behalf (see Q4)

The SMF is currently available through the Aviva Pension Portfolio and Aviva Select Investment Bond, with availability through an ISA expected to follow.

Aviva has designed the pension product to be accessible via their adviser platform and feels that unit-linked and collective investment funds fit much better with a platform proposition than a with-profits fund would have done.

Aviva runs the SMF like any normal multi-asset fund, but with smoothing, where the fund price and therefore performance follow predefined and transparent rules in terms of daily price changes, plus an adjustment if the fund reaches upper or lower limits.

The ultimate responsibility for the SMF resides with Aviva Life and Pensions, but investment management duties for the fund are mandated to and carried out by Aviva Investors.

The SMF is domiciled in the United Kingdom.

Who is the fund suitable for?

- Investors who are prepared to take a medium degree of risk with their investment in return for the chance of better longer-term performance
- Investors who prefer to spread risk by investing in a wide range of asset classes but with typically more in equities and/or property than fixed income
- Investors who accept that the above broad spread of asset classes may limit potential returns but should help to minimise fluctuations
- Investors who are prepared to stay invested in the fund for a medium- to long-term horizon of at least five years
Q2. Who is behind the Smooth Managed Fund?

Aviva Investors manages this fund. They have £331bn in assets under management (as at 31 December 2018) across a range of asset classes and they employ more than 1,500 people in 19 locations around the world.

A global multi-asset team of around 55 portfolio managers, portfolio implementers, asset allocation specialists, manager researchers and economists manages approximately £104bn. A sub-team within Aviva’s Multi-asset Team manages the Smooth Managed Fund. This team concentrates on long-only funds and mandates. Sunil Krishnan (18 years’ experience, 2 at Aviva Investors) heads the team, which includes the following fund managers:

- Paul Parascandalo – 15 years’ experience, 9 at Aviva Investors
- Thomas Wells – 12 years’ experience, 7 at Aviva Investors
- Guillaume Paillat – 17 years’ experience, 1 at Aviva Investors
- Kevin O’Nolan – 11 years’ experience, 1 at Aviva Investors

They have the support of surrounding teams, in particular:

- The Multi-asset Implementation Team, comprising eight people. They implement any tactical tilts, through derivatives, plus any currency hedging.
- The Manager Research Team of six, which covers both Aviva and external fund managers.

The financial strength in terms of AKG ratings of the Aviva products covered in Q6 is shown in Table 3 below.

<table>
<thead>
<tr>
<th>Provider</th>
<th>Product</th>
<th>AKG Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviva Life and Pensions</td>
<td>Select Investment Bond</td>
<td>A</td>
</tr>
<tr>
<td>Aviva Pension Trustees UK Limited</td>
<td>Pension Portfolio</td>
<td>B+</td>
</tr>
</tbody>
</table>
Q3. What is the investment process behind the Smooth Managed Fund?

Strategic asset allocation
The process starts with the strategic asset allocation (SAA) for the fund, which Aviva believes drives the majority of its returns. Aviva Life and Pensions sets this to achieve two-thirds of the volatility of global equity markets and uses capital market assumptions looking 10–15 years ahead. The SAA is reviewed annually but hasn’t changed since the fund’s launch in December 2017.

Tactical asset allocation
Tactical asset allocation (TAA) takes place around the SAA to try to achieve additional returns. These tactical decisions have a horizon of roughly one year and Aviva arrives at them as follows:

- Aviva’s Strategy Team generates a ‘House View’ on the main economies, markets and asset classes, which includes a central case and key risks (they meet with the various fund managers across Aviva Investors once a quarter as part of reaching this view).

- An Asset Allocation Committee of portfolio managers and strategists then considers these views along with other factors – economic, valuation and sentiment-related – in order to come up with scores for the different asset classes and sub-asset classes, with +5 being most positive and −5 being most negative.

- The long-only Multi-asset Team then refines these views in the context of their particular portfolios.

There are various limits for any TAA around the SAA (eg ±7% for equities) to ensure that the fund remains appropriate from a risk perspective. In addition, the fund’s volatility is not allowed to move outside of the risk range associated with Distribution Technology (DT) risk level 5, currently 8.4–10.5%.

Aviva thinks of asset classes as being of three different types:

- **Growth** – these will generate the majority of returns and are mainly equities and risky bonds, ie Emerging Market debt and high yield
- **Defensive** – these are expected to protect the portfolio in any market sell-off and include government and investment grade corporate bonds
- **Uncorrelated** – absolute return and UK commercial property

The current asset allocation is shown on the fund summary page later in this document. In general, the fund’s asset allocation will not have a home-country bias, or any other dominant region.
Implementation

These asset allocations may be filled by either active funds, passive funds or a blend of the two. Passive funds are used for asset classes where Aviva believes it is very difficult to add any return above the benchmark (‘alpha’) after charges, eg US equities and sovereign bonds; while active funds are used where they believe alpha after charges is easier to achieve, eg Emerging Market small cap equities and high yield bonds.

As can be seen from Table 4 below, Aviva Investors will be the manager for the vast majority of funds used. This is due to the ability to achieve lower costs, better manager access and greater portfolio visibility. Only one external manager is used (Lazards, for Japanese equities).

Table 4: Smooth Managed Fund – underlying components

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Fund</th>
<th>Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Equities</td>
<td>Aviva UK Equity P</td>
<td>Unit Linked</td>
</tr>
<tr>
<td>North American Equities</td>
<td>Aviva US Equity P</td>
<td>Unit Linked</td>
</tr>
<tr>
<td>Japanese Equities</td>
<td>Aviva Japan Equity P (Lazards)</td>
<td>Unit Linked</td>
</tr>
<tr>
<td>European Equities</td>
<td>Aviva European Equity P</td>
<td>Unit Linked</td>
</tr>
<tr>
<td>Pacific ex-Japan Equities</td>
<td>Aviva Pacific Equity P</td>
<td>Unit Linked</td>
</tr>
<tr>
<td>Emerging Market Equities</td>
<td>Aviva UK Life and Pensions Emerging Markets</td>
<td>Unit Linked</td>
</tr>
<tr>
<td>Global High Yield Bonds</td>
<td>Aviva Investors Global High Yield Bond Z Hedge GBP</td>
<td>SICAV</td>
</tr>
<tr>
<td>Emerging Market Debt</td>
<td>Aviva Life And Pensions Unit Linked Life Emerging Markets Bonds</td>
<td>Unit Linked</td>
</tr>
<tr>
<td>Global Govt Bonds</td>
<td>Bond Futures</td>
<td></td>
</tr>
<tr>
<td>Global Corp Bonds</td>
<td>Aviva Investors Global Investment Grade Corporate Bond Fund</td>
<td>SICAV</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK Property</td>
<td>Aviva Property P</td>
<td>Unit Linked</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>Aviva Investors Multi Strategy Target Return Income Fund</td>
<td>UK OEIC</td>
</tr>
</tbody>
</table>

Source: Aviva, May 2019

Direct investment in securities is possible for this fund, although this has not been done so far.

Risk

An independent risk team analyses risk at both a security and total fund level and provides risk analysis to the fund managers. They calculate risk statistics on a daily basis, including standard deviation, value at risk, concentrations and exposures. They also carry out stress testing and sensitivity/scenario analysis. The team uses BlackRock’s Aladdin software to model any potential trades before they execute them. The Implementation Team, mentioned in Q2, then enacts any new positions, once they have been correctly sized.
Governance

In terms of governance there is:

- The Manager Research team monitoring all the underlying fund managers
- Oversight and challenge from the independent risk team, through regular formal meetings as well as daily engagement, to ensure that the portfolio’s risk profile is consistent with the fund’s stated objectives and process, as well as the House View

In addition, Aviva Life and Pensions has oversight of the performance of internal funds managed by Aviva Investors, including the Smooth Managed Fund, through the Aviva Customer Investments Forum, which is chaired by Aviva’s Chief Investment Officer. This group meets on a quarterly basis to carry out the following duties/disciplines:

- Review investment policy and strategy, taking into account changes in markets
- Monitor and review investment benchmarks
- Approve changes to fund objectives and risk controls
- Review and evaluate investment performance
- Look at any changes to the investment process which aim to meet performance objectives
- Ensure compliance with the FCA’s Handbook
- Ensure compliance with Aviva Group investment policy
- Question and challenge the fund managers
Q4. How does the Smooth Managed Fund work?

Aviva Life and Pensions, rather than Aviva Investors, applies a smoothing process to the fund. This process is designed to reduce the impact of short-term market movements, both up and down, using predefined rules to smooth investment returns.

Aviva sets a Smooth Growth Rate for the fund, which is used to grow its price. This growth rate equals the Bank of England base rate plus 5% (base rate plus 4% for the Life Fund).

The Smooth Managed Fund price will usually increase daily in line with the Smooth Growth Rate – this is the smoothed price.

Two prices are used, on a daily basis, to determine whether a Fund Price Adjustment needs to be applied:

- The **smoothed price** of the fund (which is the price at which investors buy and sell units in the Smooth Managed Fund)
- The **unsmoothed price** of the fund, which equals the value of assets divided by the number of units in the fund

If the difference between the two prices is 6.5% or more, Aviva will automatically adjust the smoothed price so that the difference is 1.5%.

For the Pension Fund, the Smooth Growth Rate will never be less than 5% or more than 10% (for the Life Fund it will never be less than 4% or more than 9%).

In extreme circumstances, Aviva may have to reset the smoothing process to protect investors in the fund, most likely when there is a large volume of money entering or leaving it. If this happens, Aviva will immediately adjust the smoothed price of the fund so that it equals the unsmoothed price. After this, the smoothed price will continue to grow in line with the Smooth Growth Rate.

In addition, switches in and out of the fund are limited to one per calendar quarter, to avoid manipulation (of the fund).
Q5. How can the fund mitigate risk?

As mentioned earlier, investors in the decumulation stage are more at risk from higher volatility of returns compared to during accumulation, plus there is the risk of inflation eroding the value of their fund(s) and the income produced.

The Smooth Managed Fund:

- Employs the price smoothing mechanism described in Q4
- Is always managed to DT risk level 5 (8.4–10.5%)
- Is diversified across a range of asset classes

These, especially the smoothing, will lessen its volatility.

Over 60% of the fund is invested in Growth assets (see Q3) and the vast majority of these are equities, which have been shown to be the highest returning mainstream asset class over long historical periods. This will help to mitigate the risk of inflation.

Defaqto researches funds and portfolios in detail to assign them a Defaqto Risk Rating, with each rating corresponding to a Defaqto Risk Profile. Risk Ratings allow advisers to assess multi-asset funds in terms of their risk and hence suitability for each client.

Defaqto reaches these ratings by:

- Looking at the fund’s past volatility (standard deviation) of returns over 1, 3, 5 and 10 years, where that data exists
- Looking at the fund’s projected volatility using its asset allocation and assumptions for the future returns, volatilities and co-movements of the asset classes it holds
- Discussing these numbers with the manager of the fund
The perceived risk of each fund, normally the highest of the past and projected volatilities, is mapped onto a scale of volatility bands, where 10 is the most risky and 1 is the least risky, to give the fund its Defaqto Risk Rating.

The Smooth Managed Fund receives a Risk Rating of 6 from Defaqto. In the case of this fund, because it uses a price smoothing mechanism, Defaqto has not considered its past volatility when determining the Risk Rating. The illustration below shows where the projected volatility for the Smooth Managed Fund lies on Defaqto’s risk scale.

**Defaqto Risk Ruler**
Q6. How can the fund be accessed?

The Smooth Managed Fund is currently available through the Aviva Pension Portfolio and Aviva Select Investment Bond, with availability through an ISA expected to follow.

Aviva Pension Portfolio

Advisers can only access this pension product via Aviva’s adviser platform. It uses the platform’s fund access but the product is split into two options, Core and Choice. The Smooth Managed Fund is offered as a pension fund through both of these options.

<table>
<thead>
<tr>
<th></th>
<th>Core</th>
<th>Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Availability</strong></td>
<td>Only offers pension funds</td>
<td>Offers pension funds, collective investment funds, equities, exchange traded funds, investment trusts, fixed income securities, structured products and commercial property</td>
</tr>
<tr>
<td><strong>Defaqto Engage</strong></td>
<td>Personal Pension and Income Drawdown tables</td>
<td>Personal Pension and Income Drawdown tables as well as the SIPP table that represents the wider investment options available</td>
</tr>
</tbody>
</table>

As Pension Portfolio is offered out of the platform, this means that the financial strength rating applied is not the usual Aviva Life & Pensions rating of A. As the product is administered by Aviva Pension Trustees UK Limited, AKG apply a rating of B+.

Additional investment options are available on the platform through the Choice option. This means that any adviser looking to build their own Model Portfolio Solution (MPS) can do so using the other investments available on the platform alongside the Smooth Managed Fund. Advisers can use this to support their centralised investment proposition by overlaying the options available through the product onto it, or in building tailored solutions for clients.

The Pension Portfolio also facilitates flexi-access drawdown, allowing clients to choose how to take their benefits at retirement, such as taking all their pension commencement lump sum (PCLS) in one go or receiving it in phased payments over time (though it must be within two years as per pensions legislation). The client can then choose to take their taxable income on a regular basis or remain invested until it is required.

It also offers an uncrystallised funds pension lump sum (UFPLS) like payment, allowing clients to take payments made up of 25% tax-free income and 75% taxable at their marginable rate.

Investors can choose to take their regular income payments monthly, quarterly, half yearly or annually.
Aviva Select Investment Bond

The Aviva Select Investment Bond offers both income and growth options.

The bond is not available via Aviva’s adviser platform; it can only be accessed stand alone.

The bond offers the Smooth Managed Fund as a life fund.

Aviva Select Investment Bond offers more than 150 additional life funds for investment alongside the Smooth Managed Fund. This includes a distribution fund that can pay out natural income.

On Defaqto Engage, the product appears on the Unit Linked Bond, Distribution Bond and Onshore With Profits Bond tables.
Q7. What are the charges?

Aviva Pension Portfolio

The Aviva Pension Portfolio uses a tiered charge that applies to all funds invested. If an investor chooses the Smooth Managed Fund, therefore only pension funds, the charges are as follows:

<table>
<thead>
<tr>
<th>Portfolio value</th>
<th>Core</th>
<th>Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £30,000</td>
<td>0.35%</td>
<td>0.40%</td>
</tr>
<tr>
<td>£30,000.01 to £250,000</td>
<td>0.30%</td>
<td>0.35%</td>
</tr>
<tr>
<td>£250,000.01 to £400,000</td>
<td>0.20%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Above £400,000</td>
<td>0.10%</td>
<td>0.15%</td>
</tr>
</tbody>
</table>

If an investor chooses an alternative fund to the pension funds (Choice), the annual charge increases by 0.05% for each investment level.

The tiered charge is cumulative, meaning that each tier charge is applied to the proportion of the fund value within the range, the total of which makes the overall total annual charge. The impact of the tiered charging structure is to reduce the average/overall percentage applied as an annual charge, as the portfolio value increases.

Table 5: Example charging structure for £500,000 Core investment

<table>
<thead>
<tr>
<th>Portfolio value</th>
<th>Investment</th>
<th>Core</th>
<th>Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £30,000</td>
<td>£30,000</td>
<td>£105</td>
<td>£120</td>
</tr>
<tr>
<td>£30,000.01 to £250,000</td>
<td>£220,000</td>
<td>£660</td>
<td>£770</td>
</tr>
<tr>
<td>£250,000.01 to £400,000</td>
<td>£150,000</td>
<td>£300</td>
<td>£375</td>
</tr>
<tr>
<td>Above £400,000</td>
<td>£100,000</td>
<td>£100</td>
<td>£150</td>
</tr>
<tr>
<td>Total accumulated charge</td>
<td>£500,000</td>
<td>£1,165</td>
<td>£1,415</td>
</tr>
</tbody>
</table>

As the Pension Portfolio is offered via the Aviva platform, if a client invests in other products also on the platform, the charging structure will take into account the full investment value. This differs from the above example, where it assumes the client only invests in the Pension Portfolio.

The other Aviva products available on the platform are the ISA Portfolio, along with a General Investment Account, the Investment Portfolio.

For example, if a client has the following investment, the charge is based on the wider platform investment of £1,000,000.

<table>
<thead>
<tr>
<th>Investment</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Portfolio</td>
<td>£500,000</td>
</tr>
<tr>
<td>Portfolio ISA</td>
<td>£50,000</td>
</tr>
<tr>
<td>Investment Portfolio</td>
<td>£450,000</td>
</tr>
<tr>
<td>Total investment</td>
<td>£1,000,000</td>
</tr>
</tbody>
</table>
Table 6: Example charging structure for £1,000,000 Choices investment

<table>
<thead>
<tr>
<th>Portfolio value</th>
<th>Proportion of investment</th>
<th>Choice charge</th>
<th>Actual £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £30,000</td>
<td>£30,000</td>
<td>0.40%</td>
<td>£120</td>
</tr>
<tr>
<td>£30,000.01 to £250,000</td>
<td>£220,000</td>
<td>0.35%</td>
<td>£770</td>
</tr>
<tr>
<td>£250,000.01 to £400,000</td>
<td>£150,000</td>
<td>0.25%</td>
<td>£375</td>
</tr>
<tr>
<td>Above £400,000</td>
<td>£600,000</td>
<td>0.15%</td>
<td>£900</td>
</tr>
<tr>
<td>Total accumulated charge</td>
<td>£1,000,000</td>
<td>0.2165%</td>
<td>£2,165</td>
</tr>
</tbody>
</table>

The figure of £2,165 is then translated into a percentage of the total investment on platform of £1,000,000. In this case, 0.2165%.

The fund value in the Pension Portfolio of £500,000 is then charged at the rate of 0.2165%, making the actual charge £1,082.50 (£500,000 x 0.2165%). This same rate is then used to calculate the charges for the other products on platform.

Trading costs are levied via the Choice option where trading in wider investments is available.

The product facilitates flexi-access drawdown, for which there is no additional charge.

Aviva Select Investment Bond

The annual charge for the bond is based on the amount of the single contribution when setting it up. It decreases as the contribution increases.

<table>
<thead>
<tr>
<th>Single contribution</th>
<th>Annual charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>£10,000 to £24,999</td>
<td>1.10%</td>
</tr>
<tr>
<td>£25,000 to £49,999</td>
<td>0.75%</td>
</tr>
<tr>
<td>£50,000 to £99,999</td>
<td>0.60%</td>
</tr>
<tr>
<td>£100,000 to £249,999</td>
<td>0.50%</td>
</tr>
<tr>
<td>£250,000 to £499,999</td>
<td>0.45%</td>
</tr>
<tr>
<td>Above £500,000</td>
<td>0.40%</td>
</tr>
</tbody>
</table>

There are no-set up or early exit charges and no charge for switching funds.

Fund charges

The Smooth Managed Fund is charged differently depending on whether it is as a pension fund, via Pension Portfolio, or a life fund, via Select Investment Bond:

<table>
<thead>
<tr>
<th>Pension fund</th>
<th>Life fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.65%</td>
<td>0.46%</td>
</tr>
</tbody>
</table>
Q8. How has the fund performed?

Chart 7: Performance of the Smooth Managed (Pension) Fund since inception

The Pension Fund grew at a constant rate of 5.5% from inception (December 2017) until August 2018. This rate rose to 5.75% when the Bank of England base rate increased from 0.5% to 0.75%. There have been two price adjustments (at the time of writing), in December 2018 and July 2019. The performance of the most comparable Association of British Insurers ABI Multi-asset sector over the same time period is also shown. The Bond fund was launched more recently, in February 2019, so would show a straight line with a growth rate of 4.75%.

Aviva has also provided simulated performance over a longer time period, using the growth formula and price adjustment process described plus the performance of the underlying component funds (see Table 4), which have been running throughout this time.

Chart 8: Simulated performance of the Smooth Managed (Pension) Fund over the last 5 years

More recent performance can be found on the Aviva for Advisers website and latest fund factsheets.
Fund summary page

ISIN code: GB00BF8KSW48

Fund objective

The Smooth Managed Fund is designed to deliver growth over the medium to long term, employing a 'smoothing' process to shelter clients from some of the impact of adverse market movements. The fund invests in a broad range of global assets which can change over time as the managers aim to keep the investment risk in line with a moderately cautious risk profile.

Chart 9: Asset allocation

UK Equities 4.4%
North American Equities 21.7%
Japanese Equities 5.9%
European Equities 11.8%
Pacific ex-Japan Equities 3.4%
Emerging Market Equities 8.3%
Global High Yield Bonds 3.4%
Emerging Market Debt 3.1%
Global Fixed Income 20.5%
Cash 5.0%
UK Property 7.5%
Absolute Return 5.0%

Typical investor

Investors at Risk Profile 6 tend to target a return using a portfolio with a higher equity content and a wider geographical spread. Their investments will be predominantly in UK and overseas equities, with an exposure to fixed interest and property in order to provide growth-orientated diversification. They typically accept some volatility in return for the possibility of higher long-term returns.
Send us your feedback

Your feedback is extremely important to us and we would be grateful if, after completing this publication, you would take a few minutes to complete a short survey. Your answers will be treated in the strictest confidence and the results of this will help the development of future publications.

The survey can be accessed at:

snapsurveys.com/wh/s.asp?k=144610976149
About Defaqto

Defaqto is an independent financial information business, helping financial institutions and consumers make better informed decisions.

Our experts research, collect and continuously assess over 43,000 financial products. Our process is extremely robust and is driven by over 60 specialist analysts who have unparalleled knowledge of financial products, services and funds in the market. Our independent fund and product information helps banks, insurers and fund managers with designing and promoting their propositions.

Defaqto Ratings

Defaqto Star Ratings are the most trusted expert assessment of products in the market. Products can receive a Rating of 1 to 5, depending on the quality and comprehensiveness of the features it offers; a 1 Star Rating indicates a basic product, while a 5 Star Rating indicates one of the highest quality products in the market. Star Ratings provide consumers, advisers and brokers with an accurate benchmark so that they can see at a glance how products and policies in the market compare.

A Diamond Rating reflects the performance of a managed fund or fund family. Funds or fund families can receive a Rating of 1 to 5 based on a detailed and well-structured scoring process, allowing advisers and other intermediaries – and their clients – to see instantly where they sit in the market in terms of fund performance and competitiveness in areas such as fees, scale, access and manager longevity. A 5 Diamond Rating indicates it is one of the best quality funds available in the market.

Service Ratings provide advisers with a simple and unbiased assessment of provider service. Based on advisers’ perceptions of the service they receive, providers are rated Gold, Silver, Bronze.

Risk Ratings use the projected volatility of a fund using asset allocation and historic volatility, based on observed standard deviations to map a fund to a Defaqto Risk Profile. Risk Profile 10 indicates highest risk and Risk Profile 1 represents lowest risk.

Income Risk Ratings are unique to the market, comparing fund objectives, asset allocations, income and capital volatilities, and maximum drawdown. The Ratings are mapped to four Income Risk Profiles based on the income required and the level of risk. They are: capital preservation, low income volatility, medium income volatility, high income volatility.
Defaqto Engage and Engage Core

Defaqto Engage is our end-to-end financial planning software solution enabling advisers to manage their financial planning process all in one place.

Engage Core, the latest version of Defaqto Engage, combines risk profiling, three-way fund, platform and product research and suitability letters templates into one easy-to-use tool. Visit defaqto.com/advisers/engage to learn more.

The Service Ratings and satisfaction results by category are available within Engage. Advisers can use the Service Rating and the individual category satisfaction scores (for example, new business servicing, existing business administration, online servicing) during the research process as one of a number of selection criteria. They can also be added to comparison tables.

Advisers should note that not all providers are rated; to qualify for a Service Rating, providers must receive a minimum number of responses from advisers. So, using any service results in the filtering process may exclude providers offering potentially suitable client solutions from the research output.

We really couldn’t create the Service Ratings without advisers – they are different from our Star and Diamond Ratings, which are created by our experts and based on facts, not opinions.
Uncertain times call for a certain kind of fund

The Aviva Smooth Managed Fund

Market conditions change constantly. To help provide your clients with a degree of certainty we would like to introduce you to our Smooth Managed Fund.

It’s designed to deliver growth over the medium to long-term, by investing in a broad range of global assets with an investment risk in line with a moderately cautious risk profile. However, unlike conventional solutions, it also employs a ‘smoothing’ process to shelter clients from some of the adverse effects of market movements.

The value of the investment in the Smooth Managed Fund can go down as well as up and investors may get back less than has been paid in.

Visit aviva.co.uk/advisers to find out more.