defaqto

LV= Smoothed Managed Funds Q&A

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Sponsor

For UK Financial Advisers only

Contents

Acronyms

The main acronyms used in this document are:

APS	Additional permitted subscriptions
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
ISA	Individual Savings Account
LV=	Liverpool Victoria Financial Services
SAA	Strategic asset allocation
SIPP	Self-Invested Personal Pension
SSAS	Small Self-Administered Scheme
TIP	Trustee Investment Plan

Introduction

LV= commissioned Defaqto to carry out a due diligence review of their Smoothed Managed Fund range to offer advisers an independent evaluation of their smoothed fund proposition.

The Smoothed Managed Fund range is aimed at relatively cautious investors, particularly those who are in their pre-retirement accumulation phase and are uncomfortable with volatile investments; or those in their post-retirement drawdown phase seeking lower volatility to reduce the impact of sequencing risk while making regular withdrawals.

The Smoothed Managed Fund range can be used as part of a Centralised Investment Proposition (CIP) or Centralised Retirement Proposition (CRP), as the Smoothed Managed Funds have been assessed for risk suitability in both accumulation and post-retirement income drawdown.

The Smoothed Managed Fund range is available as a pension investment (LV= Smoothed Pension) via LV='s Flexible Transitions Account, an onshore life bond (LV= Smoothed Bond), as a stocks and shares ISA (LV= ISA), and as an investment of a non-LV= pension scheme that is a SIPP or SSAS via LV='s Trustee Investment Plan (TIP). This report considers the pension, bond and ISA versions.

Defaqto completed this due diligence review in a question and answer (Q&A) format which poses 10 key questions that advisers should consider when assessing suitability.

While some of the questions are specific to the structure of the Smoothed Managed Fund proposition, advisers can easily apply these questions to other solutions they may be researching for their clients.

This report represents Defaqto's understanding of the investment process, the terms and conditions of the Smoothed Managed Fund proposition, and other comments on its key features and attributes. It does not represent a recommendation by Defaqto for the Smoothed Managed Fund range, and Defaqto encourages advisers to complete their own research and due diligence to assess suitability for their clients before advising on any investment solution.

The questions addressed are:

1	What is the aim of the Smoothed Managed Funds?
2	What type of investments are the Smoothed Managed Funds?
3	Who is the team behind the Smoothed Managed Funds?
4	What is the investment process behind the Smoothed Managed Funds?
5	How do the Smoothed Managed Funds consider ESG risks?
6	How do the Smoothed Managed Funds work?
7	How can the Smoothed Managed Funds be approached and compared?
8	How have the Smoothed Managed Funds performed?
9	How can the Smoothed Managed Funds be accessed?
10	What are the Smoothed Managed Funds' costs and charges?

Background

Having experienced the first global pandemic in modern times and its resulting investment market volatility, investors have been reminded of tail risks.

Since the aftermath of the 2008 credit crunch, investors have enjoyed a period of increasing asset valuations and low volatility. As valuations rose higher, this coincided with the introduction of pension freedoms and a large investor demographic beginning their retirement.

There was some foreshadowing of the trouble ahead for these post-retirement investors, notably led by several property funds implementing redemption restrictions and the folding of the Woodford funds. Despite liquidity risks being mentioned as part of these investments, many investors had believed these were low risk, stable assets for their pension funds. Suddenly liquidity had to be considered, with many investors seemingly lulled into a false sense of security by rising markets over many years.

Similar issues were seen in 2020 as the COVID-19 pandemic began to spread. With global equity markets falling by about a third, for some over-exposed investors, suddenly their retirement funds looked less secure, capital had been impaired and there was a temptation to sell. The effect of sequencing risk was becoming a reality for post-retirement investors.

The need for good financial planning, appropriate risk assessment and suitability, and a good adviser–client relationship, is now more apparent than ever.

Retirement landscape

In December 2021, the FCA published their latest figures on the number of annuities and drawdown payments taken (see Table 1). This data gives us a guide as to the continued popularity of the pension freedoms.

The ongoing uncertainty caused by COVID-19 could have been expected to have had an impact on the number of clients taking benefits flexibly from their pension savings. Indeed, you can see a drop in both annuity purchases and drawdown during the final period when the virus went from a mild concern to widespread lockdown in March 2020.

Table 1: Number of annuity and drawdown payments taken, April 2018 to March 2021

	April 2018 – September 2018	October 2018 – March 2019	April 2019 – September 2019	October 2019 – March 2020	April 2020 – September 2020	October 2020 – March 2021
Annuities purchased	37,990	35,987	38,381	31,138	28,694	31,689
Plans fully withdrawn	187,819	169,303	201,115	174,415	173,069	168,335
Drawdown without full withdrawal	95,830	98,328	101,625	95,493	74,788	91,200

Source – FCA Retirement Income Data – December 2021

The uncertainty continued over the summer of 2020 as the number of annuity purchases, full withdrawals and partial withdrawals fell. However, as we moved into winter 2020 the numbers picked up again for annuities and partial withdrawals. It is difficult to assess why this may be. We know that further restrictions were needed to control COVID-19 during the late autumn and winter, but we also had the start of the vaccination programme, which may have helped spread optimism, as well as the recovery of the markets.

It is interesting that annuities are now more popular than they were pre-pandemic, but while partial withdrawal via drawdown is not as popular as it was even in 2018, it bounced back spectacularly in the final quarter of reporting and is still some way ahead of annuity purchase. In both cases, there seems a clear trajectory back upwards.

Full withdrawal of pension monies has continued to fall since 2019. While the pandemic may have had an impact on this, it seems this was already starting to happen before then. This is perhaps a sign that the initial excitement of pension freedoms has led to a more cautious, sustainable approach for accessing benefits as clients seek advice and advisers themselves develop new ways of planning for a client's retirement. It could also show that attempts by the regulator to make non-advised consumers think twice before making a decision that could lead to a poor outcome, is bearing some fruit.

One key regulatory change that reflected this drive was the launch by the FCA of Investment Pathways from 1 February 2021 (originally 1 August 2020 but delayed due to the pandemic), which require providers to signpost all their clients based on when they are looking to access their benefits under drawdown without an adviser.

There are four Investment Pathways, which are essentially default objectives, with mandated wording used across all providers and products. Consumers pick the pathway that best suits their retirement strategy. Providers offer a default solution for each pathway they offer:

Investment Pathway 1	I have no plans to touch my money in the next five years.
Investment Pathway 2	I plan to use my money to set up a guaranteed income (annuity) within the next five years
Investment Pathway 3	I plan to start taking my money as a long-term income in the next five years
Investment Pathway 4	I plan to take out all of my money within the next five years

Where the provider has 500 or more clients going into drawdown without an adviser, then each year they must offer an investment solution to at least two of these pathways.

The FCA is concerned about clients receiving poor outcomes when they look to access their pension benefits, and the introduction of the pathways is an attempt to at least urge consumers to think more about the action they are taking, particularly if benefits are taken which are not needed immediately and might sit in assets such as cash, with poor rates of return.

While advisers may think this is of little relevance to them, they are now expected by the FCA in COBS 9.3 to consider the pathway options available to their clients when giving advice on taking drawdown benefits. This includes those solutions from their existing provider and also the open market, so advisers will need to be aware of what is available and what the pathway solutions are made up of.

ISAs

The ISA allowance for 2022/23 remains at £20,000 allowing investors to contribute up to that amount with no tax levied on the growth.

ISAs were often seen as the jewel in the crown of any portfolio due to the beneficial tax treatment of savings and the ability to access those savings without restriction, unlike pensions.

However, pension freedoms changed that slightly as the previously restrictive nature of accessing pension savings was opened up. The beneficiary benefits that pension freedoms brought with them, allowing tax-free access before age 75 to a deceased's benefits, only increased the standing of pensions in the investment portfolio.

ISAs also went through some changes around the same time. Additional permitted subscriptions (APS) were created to allow a client to inherit the value of their deceased spouse or civil partner's ISA on top of their own ISA allowance. This is typically set up via an ISA from the provider of the spouse or civil partner, but some providers will accept transfers in of the value of the APS where the surviving spouse or civil partner holds an ISA with them.

Flexible ISAs also now allow an investor to replace any savings that have been withdrawn as long as this is done within the same tax year.

Bonds

With all the focus being on pensions and ISA changes over the last few years, bonds have taken a backseat. There has been little by way of new development either from providers or driven by new regulation.

One of the prime continuing benefits of bonds is the ability to take up to 5% of the amount invested each year and deferring the income tax charge until the encashment of the bond, when the client may then be in a lower tax band.

Where a client has a wide portfolio that includes pensions, ISAs and bonds, a financial planner will be able to use their expertise to determine how to deal with their client's changing needs, utilising the different benefits that each wrapper type allows.

Q1. What is the aim of the Smoothed Managed Funds?

The LV= Smoothed Managed Funds are a range of multi-asset funds that are available as a stocks and shares ISA (LV= ISA), a life investment bond (LV= Smoothed Bond), a pension fund (LV= Smoothed Pension) and as an investment of a non-LV= pension scheme that is a SIPP or SSAS (LV= TIP).

The Smoothed Managed Funds aim to fulfil the needs of investors who are:

- in the later years of saving for retirement
- in the post-retirement drawdown phase and willing to invest over the medium to long term
- looking for above inflation returns
- seeking predominantly lower risk investments.

In order to achieve this aim, the Smoothed Managed Fund proposition offers three key characteristics:

1. multi-asset allocations to generate long-term, diversified, above-inflation returns
2. price smoothing mechanism to reduce the impact of short-term market volatility and sequencing risk
3. an optional guarantee to ensure capital protection*

*Only available with Cautious fund option

LV= has designed the Smoothed Managed Fund range to provide volatility management through short-term market shocks, providing an element of emotional security for investors. The optional 10-year guarantee available to Cautious fund option investors may also be used to tailor the level of risk. The Smoothed Managed Funds may therefore be suitable for investors with risk-averse psychometric profiles.

Defaqto has risk rated the five LV= Smoothed Managed Funds for both accumulation and post-retirement, income drawdown investors.

For accumulation investors we have rated these funds at levels 2, 3, 4, 5 and 6, corresponding to our investor risk profiles of 'Very Cautious', 'Cautious', 'Cautious-balanced', 'Balanced' and 'Balanced Growth'. For income drawdown investors, we have rated the funds as Low and Medium levels of sequence risk (see Table 2).

Table 2: Smoothed Managed Funds risk ratings

Defaqto Risk Ratings	Accumulation	Income drawdown
LV= Extra Cautious	2	Low
LV= Cautious	3	Low
LV= Balanced	4	Low
LV= Growth	5	Medium
LV= Impact Growth	6	Medium

Source: LV=, June 2022

More detail is available at www.defaqto.com/fund-managers/risk-ratings/risk-profiles/ and within the Defaqto Engage Toolkit.

LV='s smoothing mechanism reduces sequencing risk, which is of use to more cautious investors and post-retirement drawdown investors who need to make regular withdrawals to fund their retirement. The ability to make withdrawals and/or close the funds without penalty may also appeal to investors in the post-retirement phase.

As the fund options contain equities and other risky investments, it is important investors keep a long-term horizon in mind. LV= recommends a minimum holding period of five years, and ideally 10 years or more. However, advisers and their clients should make this decision according to the client's individual circumstances.

Q2. What type of investments are the Smoothed Managed Funds?

The Smoothed Managed Funds are a family of multi-asset funds that are available through a stocks and shares ISA, a life investment bond, a pension fund and a TIP from LV=.

The funds are well diversified – the strategic asset allocation (SAA) sees the funds invest in 16 separate asset classes. LV= invests in a mix of OEICs and segregated investment pools managed by Columbia Threadneedle Investments, all of which are priced daily.

For the ISA, life and pension versions of the funds, there are several common key features:

- They use a built-in smoothing mechanism that helps protect client investments against the impact of short-term market shocks.
  - **For the life and pension Smoothed Managed Fund wrappers**: For the initial 26-week period of a client's investment a gradual averaging period is used. This creates a smoothed price which is calculated using daily prices from the initial investment date up to the current day, until the 26-week period is completed. Hence investors in these wrappers will benefit from gradual smoothing from day 2 of their initial investment.
  - **For the ISA Smoothed Managed Fund wrapper**: For the initial 26-week period of a client's investment, no smoothing is employed. However, once this initial period is over smoothing is activated using a smoothed price calculated over the entire initial 26-week period.
- Clients can tailor the level of investment risk through their choice of fund option: Extra Cautious, Cautious, Balanced, Growth and Impact Growth. Plus, Cautious fund option investors can apply for a 10-year guarantee for an additional charge if they want guaranteed downside protection at the end of a fixed period. This is a 10-year guarantee and available at outset, or at the end of the guarantee term if available at the time.
- The Smoothed Managed Funds can be used by clients in the accumulation and post-retirement decumulation phases of investing. The smoothing mechanism lowers the volatility of returns and hence can reduce sequencing risk for investors wishing to use the funds for post-retirement drawdown income.
- In keeping with LV='s mutual status, the life version of the Smoothed Managed Funds is managed as part of LV='s With-Profits Fund. This means LV= manages the life and ISA investments together in a single pool with their other insurance and pension assets. LV= also offers the potential of a mutual bonus for these investors after the first year of investment. Note the pension and TIP versions are managed separately to the LV= With-Profits Fund and are not eligible for a mutual bonus.

Additional benefits

- Investors in the Smoothed Managed Funds are able to access LV= Doctor Services, an online consultation service that gives access to medical services, and a 24-hour Care Line, which offers free counselling, medical advice and legal advice. (These services are provided by third-party companies which aren't regulated by the Financial Conduct Authority or the Prudential Regulation Authority.)
- Additionally, LV= offers its life and pension customers discounts on general insurance products offered by LV= General Insurance Group, a subsidiary of Allianz Holdings plc. Please note, these benefits are non-contractual and can be changed or removed at any time. The full range of benefits can be found at LV.com/members.

Q3. Who is the team behind the Smoothed Managed Funds?

The LV= Smoothed Managed Funds are run under a governance structure within LV=, comprising the Investment Committee, With-Profits Committee, Customer Committee, Risk Committee and Asset-Liability Committee (see Table 3).

The LV= Investment Committee sets the mandates and benchmarks for the funds and additional oversight and support is provided by the other LV= committees and LV= Investment Team. Columbia Threadneedle Investments is responsible for tactical asset allocation decisions and security selection, while the LV= Investment Committee retains overall responsibility for the funds meeting their respective mandates.

LV= designs the product structure (smoothing mechanism, guarantees and insurance benefits of the proposition) and the investment strategy (including benchmarks). Excess investment returns are expected to be generated by Columbia Threadneedle Investments in accordance with the mandate set by LV=. The LV= Investment Team is a dedicated team of LV= investment professionals and manages the day-to-day relationship with Columbia Threadneedle. As part of the governance and oversight of the Smoothed Managed Funds, the LV= Investment Team regularly challenges and assesses the Columbia Threadneedle fund managers and their investment strategies and styles.

The Investment Committee, With-Profits Committee and the Risk Committee meet quarterly, while the Asset-Liability Committee and Customer Committee meet monthly. However, ad hoc meetings are called to discuss more urgent matters when needed.

Table 3: LV= governance

Committee	Summary of responsibilities relevant to Smoothed Managed Funds
Investment Committee (Non-Exec Chair)	Provides main oversight and governance of LV= investments. Develops, recommends and oversees the investment strategy, aligned to business and risk strategy. This includes the SAA, benchmarks and target returns. Monitors the operation of the asset manager, covering their investment performance, the service levels, and contract terms and conditions. Sets and approves changes to the investment strategy (at least annually), including permitted asset types, benchmarks and target returns. Sets and approves material changes (>5% change in the range) to the permitted asset ranges.
With-Profits Committee (Independent Chair)	Considers the rights, interests and reasonable expectations of all With-Profits policyholders, in their capacity as policyholders. Reviews how smoothing is calculated and applied. While the LV= Pension or TIP do not fall under the direct remit of this committee, there is indirect influence via the smoothing process and other shared investment features.
Customer Committee (Non-Exec Chair)	Ensures that good customer outcomes are core to the effective management and culture of LV= and that the business operates in a way which drives good customer outcomes with quality service, pricing, product, transparency and trust considered in all recommendations and decisions involving the client.
Risk Committee (Non-Exec Chair)	Assists the LV= Board in its risk oversight responsibilities. Determines the risk profile of all exposures.
Asset-Liability Committee	Responsible for reviewing ongoing investment performance

Source: LV=, June 2022

Columbia Threadneedle Investments

Following LV='s decision to close its asset management division in 2011, Columbia Threadneedle Investments was mandated the responsibility of managing LV='s Smoothed Managed Funds.

Columbia Threadneedle Investments is a global asset management group that provides a broad range of actively managed investment strategies and solutions for individual and institutional clients. With over 650 investment professionals based in North America, Europe and Asia, Columbia Threadneedle Investments manages £531 billion of assets (March 2022) across developed and emerging market equities, fixed income, asset allocation solutions and alternatives.

The fund manager is Alex Lyle who, in conjunction with other key members at Columbia Threadneedle Investments, manages the assets using an in-house fund-of-funds strategy. Details of the lead fund managers are shown in Table 4.

Table 4: Columbia Threadneedle Investment Team

Alex Lyle
Main fund manager for the Smoothed Managed Funds

Head of Managed Funds, Europe, Middle East and Africa (EMEA)

Alex Lyle is Head of Managed Funds, EMEA. In this role he takes responsibility for a large number of the company's managed funds, is a member of the Asset Allocation Committee and is a key investment contact between the company and a number of its major clients.

He joined the company in 1994 and was appointed Joint Head of UK/European Equity teams in 1999 and became Head of Managed Funds in 2003.

Alex started his career at Hambros Bank's Unit Trust Division, which was acquired by Allied Dunbar in 1981 and subsequently became part of Threadneedle Asset Management Limited in 1994. He has managed UK equity portfolios for more than 20 years. He has a degree in Geography from Oxford University.

Matthew Rees, CFA
Portfolio Manager

Matthew Rees joined the company in 2008 and is currently a portfolio manager within the Global Asset Allocation team with responsibility for the range of Managed Funds.

Prior to this, Matthew worked in the Fixed Income team as portfolio manager for a range of Government bond portfolios, with a particular focus on UK gilt funds. He was previously a quantitative analyst in the Fixed Income Risk team.

Matthew gained a First Class Masters of Mathematics degree from Corpus Christi College, University of Oxford in 2007 and also holds the Chartered Financial Analyst designation.

Source: LV=, June 2022

Q4. What is the investment process behind the Smoothed Managed Funds?

It is important that advisers understand the investment process behind any fund they may recommend to a client to gauge potential risks and to assess investment suitability.

LV= sets the investment strategy for the Smoothed Managed Funds, which includes the underlying benchmarks and long-term SAA of the funds. The funds use a diverse asset allocation strategy which primarily includes equities, fixed income assets and property to manage risk. The investment strategy is reviewed on a frequent basis, at least annually.

Alex Lyle's team actively manages the investments, aiming to add value through shorter-term tactical asset allocation and stock picking alpha, gained by investing within the internal Columbia Threadneedle Investments funds. The investment style of the funds is best described as 'growth at a reasonable price'.

The team usually implements views of time horizons over the medium term (three to five years) and reserves the freedom to invest outside of Columbia Threadneedle Investments should they believe the in-house funds cannot add value. In addition to this, the team at LV= can use managers outside of Columbia Threadneedle Investments if they feel expertise on a particular asset class is available elsewhere, for example within structured credit.

ESG integration

In 2021 LV= updated the Smoothed Managed Funds' investment strategy to include a dedicated exposure to sustainable investment funds as a development of the environmental, social and governance (ESG) integration already in place with their investments at Columbia Threadneedle Investments.

Since March 2021 LV= has invested in two of Columbia Threadneedle Investments' dedicated ESG funds, namely the UK Sustainable Fund and Global Equity Sustainable Fund. In addition, it has agreed a set of ESG investing principles and practices that form part of LV='s investment ongoing mandate with Columbia Threadneedle Investments (see 'Q5. How do the Smoothed Managed Funds consider ESG risks?' for more details.)

Beyond LV='s agreed ESG investing principles with Columbia Threadneedle Investments, the mandate from LV= limits tracking error vs the fund option benchmark, varying by the Smoothed Managed Fund option on a rolling three-year basis. These are shown in Table 5.

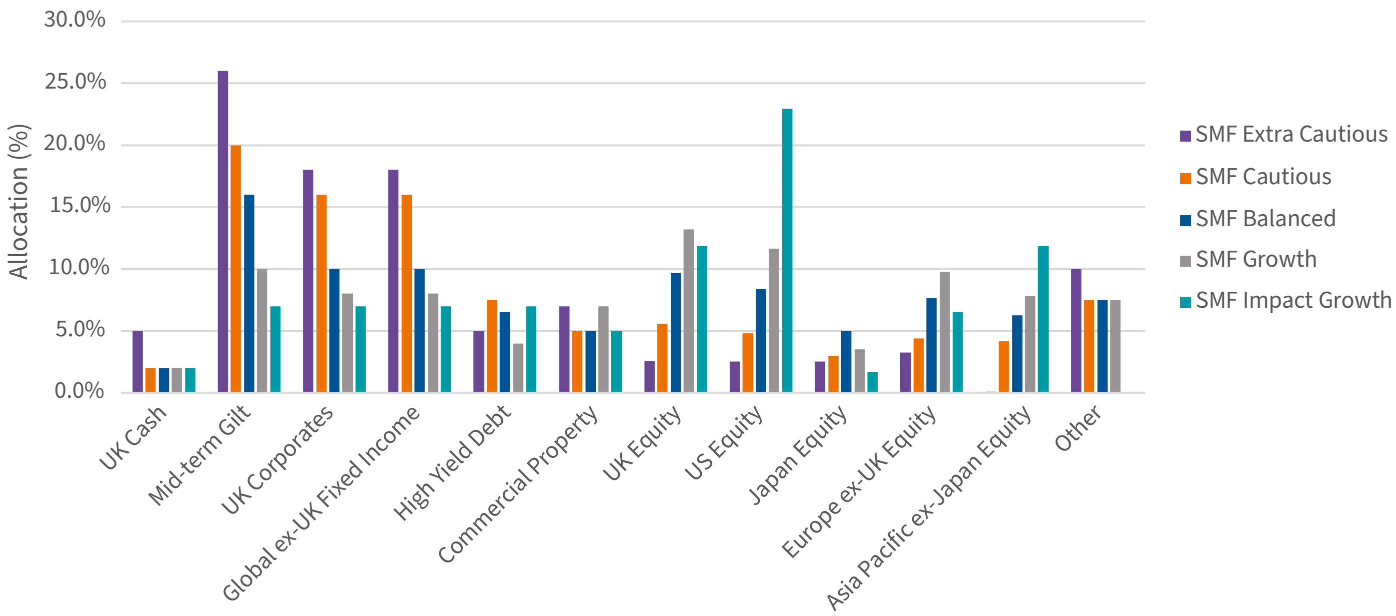
Table 5: Smoothed Managed Fund option benchmarks and tracking error

Fund option	Tracking error
Cautious	0.25% – 1.50%
Balanced	0.25% – 2.50%
Growth	0.25% – 3.50%

Source: LV=, June 2022. Tracking error for Extra Cautious and Impact Growth not available at time of publication.

This level of tracking error is in accordance with a lower tracking error, enhanced index mandate around the SAA. The SAA of the funds is shown in Chart 1, and the broad equity, fixed income and property tolerances are shown in Table 6.

Chart 1: LV= Smoothed Managed Fund SAAs



Source: LV=, June 2022, Defaqto asset class definitions

Table 6: Smoothed Managed Fund broad asset allocation tolerances

Fund option	Equity		Fixed income		Property	
	Min.	Max.	Min.	Max.	Min.	Max.
Extra Cautious	13.0	30.5	60.0	77.0	4.5	9.5
Cautious	24.8	42.3	52.5	69.5	2.5	7.5
Balanced	41.8	59.3	35.5	52.5	2.5	7.5
Growth	54.3	71.8	23.0	40.0	4.5	9.5
Impact Growth	60.0	77.5	21.0	38.0	2.5	7.5

Source: LV=, June 2022

Q5. How do the Smoothed Managed Funds consider ESG risks?

LV= monitors the ESG performance of their Smoothed Managed Funds using four criteria (see Table 7).

Table 7: ESG performance criteria for Smoothed Managed Funds

MSCI ESG materiality	MSCI assesses material risks and opportunities for each industry through a quantitative model that looks at ranges and average values for each industry for externalised impacts such as carbon intensity, water intensity and injury rates. Once identified, these 'key issues' are assigned to each industry and company.
Carbon footprint	A composite based on carbon intensity and carbon emissions. These are defined as: • **Carbon intensity** – the tonnes CO2 emitted per \$1m of sales. This is a company's carbon emissions relative to the size of the business adjusted for the weighting in a portfolio or benchmark. Carbon intensity assessments provide an indication of carbon efficiency. This measure is agnostic to ownership share and facilitates comparison relative to other portfolios including non-equity asset classes • **Carbon emissions** – the tonnes CO2 emitted per \$1m invested. This is a normalised measure of a portfolio's contribution to climate change that enables comparisons with a benchmark, between multiple portfolios, and over time, regardless of portfolio size.
Exposure to controversial names	This measure sets out the exposure to controversial names. The portfolio's exposure to potential controversies is an assessment undertaken by reference to three international best practice frameworks that set out expected standards of operating practice: the United Nations (UN) Global Compact; the International Labour Organisation (ILO) Core Labour Standards; and the UN Guiding Principles on Business and Human Rights.
MSCI ESG score	The MSCI ESG score is a weighted average where 10 is the highest ESG quality and 0 is the lowest quality.

Source: LV=, June 2022

To end 2021 Q2, the LV= Smoothed Managed Funds were assessed on these measures, as shown in Table 8.

Table 8: Assessment of Smoothed Managed Funds

	MSCI ESG score
Cautious	6.64
Benchmark	*6.46*
Balanced	6.76
Benchmark	*6.53*
Growth	6.85
Benchmark	*6.55*

Source: LV=, July 2022. The fund benchmarks are defined by the underlying asset class benchmarks and weighted by the SAA. ESG data was not available for the Extra Cautious and Impact Growth funds at the time of publication. The MSCI ESG score represents over 90% of the portfolio.

Columbia Threadneedle Sustainable Funds

As noted earlier, since March 2021 LV= has invested in two of Columbia Threadneedle Investments' dedicated ESG funds, namely the UK Sustainable Equity Fund and Global Equity Sustainable Fund. In addition, it has agreed a set of ESG investing principles and practices that form part of LV='s investment ongoing mandate with Columbia Threadneedle Investments.

Columbia Threadneedle Investments strictly excludes investments in weapons companies, and for other sectors will make a qualitative judgement based on the level of engagement and positive change that could be achieved with the invested company. Generally, Columbia Threadneedle Investments prefers engagement to achieve positive change rather than strict investment exclusions. This policy will still limit exposure to sectors carrying high ESG risk. For example, in 2020, LV='s main With-Profits Fund and Smoothed Managed Funds contained only a 0.1% exposure to companies involved with coal use, production or extraction (defined as companies with more than a quarter of their revenue from these sources).

Columbia Threadneedle Investments is a signatory to the UNPRI (United Nations Principles of Responsible Investment) and has been since 2006. The firm has a dedicated Responsible Investment team and maintains its own internal ESG ratings on companies within the investible universe.

In their latest annual Impact Report, the UK Sustainable Equity Fund managers stated their exposures to the UN Sustainable Development Goals (UN SDGs), which are shown in Chart 2.

Chart 2: UK Sustainable Equity Fund exposure to UN SDGs

Source: Columbia Threadneedle Investments UK Sustainable Equity Fund latest annual Impact Report

Q6. How do the Smoothed Managed Funds work?

The LV= Smoothed Managed Funds are offered through four different wrappers – a stocks and shares ISA, a pension fund, a life investment bond and as a TIP (not covered in this Q&A).

Clients investing in the life investment bond or ISA will invest in LV='s With-Profits Fund and will therefore be eligible for LV='s mutual bonus. Their investment will be combined with other investors' money and managed collectively to maximise their returns while balancing investment risk.

Meanwhile, the pension and TIP versions offer many of the same features as the life funds, but are invested in LV='s Non-Profit Fund. They are therefore not eligible for a mutual bonus as they are run outside of LV='s With-Profits Fund. The pension and TIP wrappers will be converted to a with-profits basis by the end of 2022 (including those policyholders who originally took policies out on a non-profit basis, which will subsequently convert to with-profits).

The main characteristics and possible uses of the Smoothed Managed Funds should be understood by clients before they invest and are discussed below:

- the price smoothing mechanism
- how the funds can be invested and accessed before and after retirement
- optional guarantees that can tailor the level of risk
- the availability of death and terminal illness benefits
- annual mutual bonus.

The price smoothing mechanism

The Smoothed Managed Funds are unitised so investors will receive 'units' for their investment, with the price of each unit dictating the current level of return. Due to the different tax treatments of the products, the bond uses a set of prices which reflect the tax paid on the investments, whereas the ISA and pension funds use tax-exempt pricing. Charges are taken by cancelling units to pay for fees and fund expenses (see Q10 'What are the Smoothed Managed Funds' costs and charges' for more details).

LV= applies a price smoothing mechanism to each fund:

- By reducing the peaks and troughs of the investment, the Smoothed Managed Funds may be more suitable for investors with lower attitudes to risk, who find investing in risky assets distressing or emotionally costly.
- For investors in post-retirement, the price smoothing mechanism will reduce the sequencing risk of their withdrawals and help maintain the capital value of their investment.

How LV='s price smoothing mechanism works

An underlying unit price reflects the daily market value of the assets that make up the fund.

LV= has updated its price smoothing for the life and pension wrappers so that it now applies earlier for the investor, from day 2 of investment. For the first 26 weeks of an investment, the gradual averaged price is calculated as an average of the fund's underlying daily unit prices from the day of the investor's initial investment date to the current day. After 26 weeks of this gradual smoothed price, the smoothing price then moves fully to average the previous 26 weeks' daily underlying unit prices.

For the ISA wrapper the smoothing is applied using the existing mechanism. That is, for the initial 26-week period of a client's investment, no smoothing is employed. However, once this initial period is over, smoothing is activated using a smoothed price calculated over the entire initial 26-week period. (LV= intends to update the ISA smoothing to the new mechanism in the future but no date has been confirmed currently.)

The smoothed price is then usually used for valuation, withdrawal and encashment purposes, except where smoothing has been suspended.

If an investor switches between the fund options, then subject to the usual 10-day delay in switching, the gradual averaged price is used for the first 26 weeks of the new investment period, after which time the smoothed price of the new fund choice applies again, except where smoothing has been suspended.

Impact of the price smoothing mechanism

In effect the smoothing mechanism passes some of the risk of investment from the investor onto LV=, who is liable for the difference between the underlying and smoothed prices.

By design, the smoothing mechanism mitigates against volatility on a daily basis and this has a material effect on volatility, reducing sequence of returns risk. Clients in decumulation will experience less frequent volatility spikes, which can quickly shrink the value of their portfolio.

Circumstances causing the suspension of smoothed pricing

At LV='s discretion, a suspension of smoothed pricing could be triggered if either:

- the difference between the underlying unit price and the smoothed unit price being greater than 20%, or
- in exceptional conditions if LV= views it as prudent to switch off the smoothed pricing mechanism in order to protect existing policyholders.

If smoothing was suspended, the fund will typically revert to the underlying unsmoothed unit price or, at LV='s discretion, move to a gradual averaged price with a smoothing duration of less than 26 weeks, and will remain on that pricing basis until (not applicable to the ISA – see 'How LV='s price smoothing mechanism works' above):

- after the underlying price matches the smoothed price, at which time the fund reverts to the smoothed unit price, or
- if the smoothed pricing process has been suspended at LV='s discretion, LV= also has discretion on when to turn the price smoothing mechanism back on.

The only exception to the above would be encashment on death or terminal illness of the life insured where the price used will be the relevant price before any smoothing suspension is allowed for. This means that for death and terminal illness cases, during the first 26 weeks of investment (or the first 26 weeks following a fund option switch) this will be the relevant gradual averaged price, and after the first 26 weeks of investment (or the first 26 weeks after a fund option switch) the death or terminal illness claim will be calculated using the smoothed price, even if smoothing has been suspended.

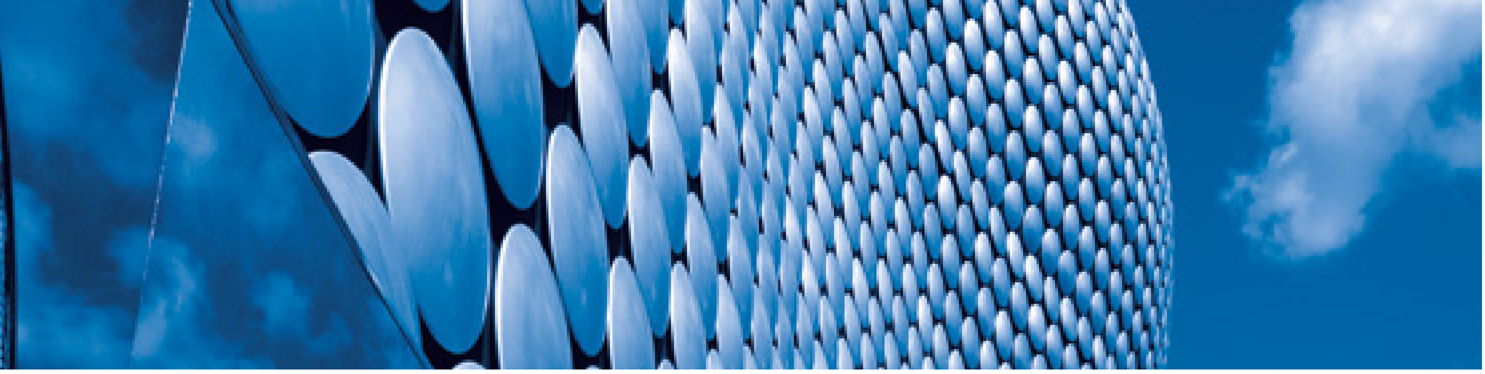
How the funds can be invested and accessed before and after retirement

As already indicated, the LV= Smoothed Managed Funds are available as an ISA, life investment bond, as part of a retirement solution via the LV= Flexible Transitions Account, or as an investment of a non-LV= pension scheme that is a SIPP or SSAS, via a TIP.

Any version of the Smoothed Managed Funds can be used as part of an accumulation or post-retirement investment solution.

Accumulation contributions can be made ad hoc, subject to minimum contribution amounts.

Withdrawals can be made without any extra charges or fees, at any time, on a regular or ad hoc basis for the life and pension version of the funds, and on an ad hoc basis for the ISA. (Note: ad hoc withdrawals may in some circumstances be subject to a delay of 10 working days.) Withdrawals are subject to minimum investment amounts.



ISA

Contributions can only be made on an ad hoc basis and are subject to a minimum of £10,000 at inception or £2,000 as an additional investment, net of adviser charges. Due to the tax-exemption rules around ISA investments, an investor can make withdrawals completely free of UK capital gains and income tax.

Life investment bond

LV='s life investment bonds invest exclusively in the LV= Smoothed Managed Fund options and sit outside the LV= Flexible Transitions Account, although the bonds can be used in financial plans to supplement any needs which might not be specific to retirement.

Contributions can be made only on an ad hoc basis, subject to a minimum of £5,000, net of adviser charges.

Access to the bonds allows the client to make use of the smoothing mechanism offered, as well as the optional guarantee to avoid loss of capital and protect against downside risk.

The bond can be placed in trust, which aids inheritance tax planning for dependants. In addition, with no capital gains tax on withdrawals and deferred income tax on a maximum 5% per annum withdrawal on bonds, it can also assist with tax planning as part of a wider income solution.

Pensions

The LV= Flexible Transitions Account makes it possible to combine some or all of LV='s retirement solutions. It can be structured to provide a personal pension offering the Smoothed Managed Fund options (as well as any of the other insured funds offered by LV=) or a range of wider SIPPs.

While an investor is in accumulation, they have complete choice on how long to invest (although the minimum recommended term is 5 to 10 years) before choosing to use their account to generate an income in retirement. Contributions can be made only on an ad hoc basis, subject to a minimum of £5,000, net of adviser charges.

The LV= Flexible Transitions Account aims to simplify the application and administration process for adviser and client, as only a single online application is required. Combined illustrations are produced with support provided by a team of LV= retirement specialists.

At the point that a client chooses to take an income, they can structure the LV= Flexible Transitions Account to tailor a retirement income solution that meets their individual needs. This could include flexible income drawdown and/or using a combination of LV= products to provide a guaranteed income drawdown arrangement over a specified term.

If required, the Smoothed Managed Funds can be used to provide income as part of a flexible drawdown strategy. The income from the Smoothed Managed Funds is paid into the pension scheme bank account, from which members' flexible drawdown payments are then made. The smoothed returns and optional capital guarantee can potentially help to mitigate the impact of sequencing risk. If the Smoothed Managed Funds are not used to provide income, the optional capital guarantee can still be purchased to help protect the value of the retirement portfolio against market falls.

One of the LV= products that can be combined within the LV= Flexible Transitions Account is LV='s fixed-term annuity called the LV= Protected Retirement Plan. This can be used to facilitate a secure/guaranteed level of income during a set period of up to 25 years (minimum term applies), or to receive a guaranteed lump sum at the end of the term.

The annual mutual bonus

Investors of the Smoothed Managed Fund life investment bond and LV= ISA become with-profits members of LV= and participate in a discretionary mutual bonus.

When the LV= trading business is doing well and the capital position remains strong, LV= has discretion to award an annual mutual bonus by increasing the asset share of LV= With-Profits policies by a percentage, typically around 0.2% (depending on the type of policy). The mutual bonus isn't guaranteed to be paid every year and the level can vary. In the event of exceptional circumstances LV= reserves the right to take back any bonuses that have been previously awarded, though this has not previously happened.

Since LV= introduced the mutual bonus in 2011, LV= has awarded a total of £265 million to eligible members. Currently LV= has 1.16 million members (as at June 2022).

Please note, the pension and TIP funds are invested in LV='s Non-Profit Fund and are therefore not eligible to participate in a discretionary mutual bonus as the Non-Profit Fund runs outside of LV='s With-Profits Fund. These funds will be converted to a with-profits basis by the end of 2022 (including those policyholders who originally took out policies on a non-profit basis, which will subsequently convert to with-profits).

Optional guarantees that can tailor the level of risk

The Smoothed Managed Cautious Fund incorporates a 10-year guarantee option available to investors, available at outset or upon expiry of a previous guarantee term, if available. This feature may appeal to risk-averse investors who wish to tailor the level of risk in their investment, or to further protect against sequencing risk when taking income.

The availability of death and terminal illness benefits

Within the Smoothed Managed Fund range, the pension and life investment bond options offer an amount of insurance cover on death or diagnosis of a terminal illness, on a single life basis within the LV= Flexible Transitions Account, or on a single or joint basis within the life investment bond. LV= will pay out 100.1% of the valuation of the fund, using the gradual averaged price in the first 26 weeks or, after 26 weeks, the smoothed price, even if the fund pricing has moved onto the underlying unit price.

When used within the LV= Flexible Transitions Account, these death benefits will be paid into the pension scheme. Any payments are then made in accordance with pension legislation and are subject to the discretion of the scheme trustees in terms of the beneficiaries and forms of benefits that can be paid.

Similarly, investors in the LV= ISA are eligible for death benefits of 100.1% of the plan value on a single life basis.

Other benefits

LV= Doctor Services

Investors in the Smoothed Managed Funds are able to access LV= Doctor Services, an online consultation service that gives access to medical services, and a 24-hour Care Line, which offers free counselling, health advice and legal advice. (These services are provided by third-party companies which aren't regulated by the FCA or the Prudential Regulation Authority.)

Insurance discounts

Additionally, LV= offers discounts on general insurance products offered by LV= General Insurance Group, a subsidiary of Allianz Holdings plc. Please note, benefits are non-contractual and can be changed or removed at any time.

Q7. How can the Smoothed Managed Funds be approached and compared?

The LV= Smoothed Managed Funds are a group of multi-asset funds that are available as a stocks and shares ISA, a life investment bond, pension fund and as a TIP.

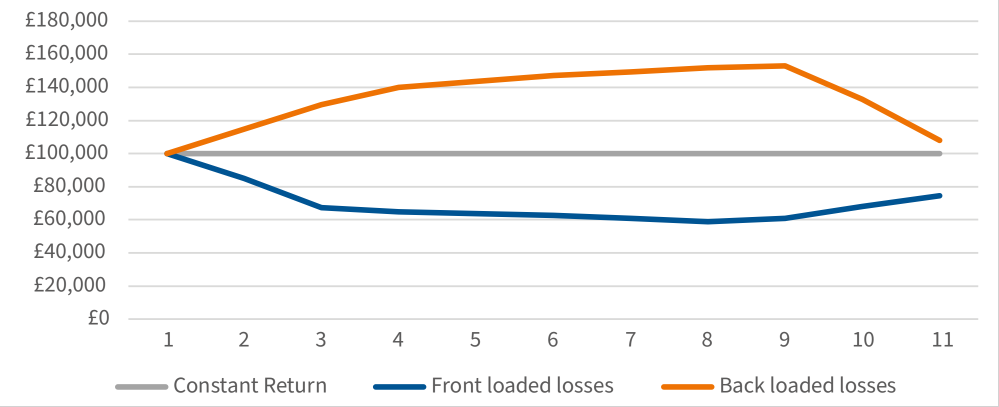
Their main characteristics are the smoothed price mechanism and guarantees which, combined with the risk level chosen (ie fund option and type of wrapper), may be suitable for clients either towards the end of their accumulation phase, or those in post-retirement decumulation.

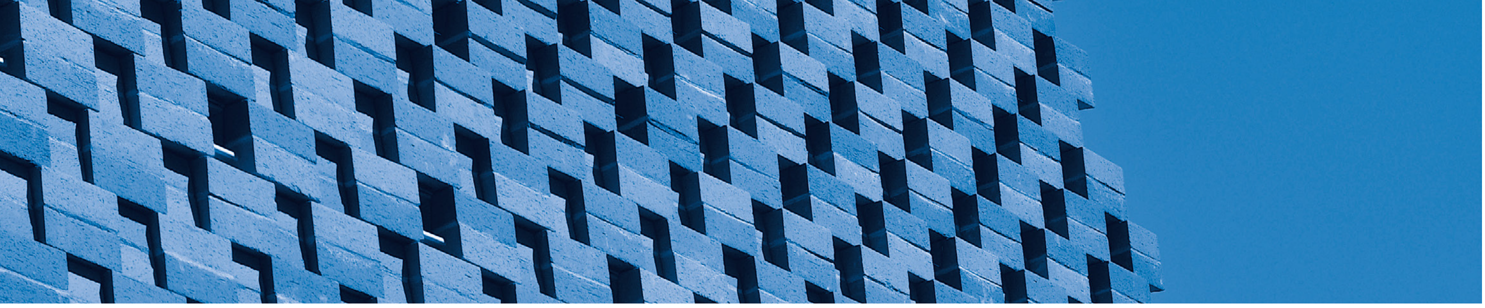
These funds have different asset allocations and fund aims, depending on the chosen fund option (see Table 9).

Table 9: Smoothed Managed Fund assessment

Client needs	Smoothed Managed Funds features and detail
Retirement needs	The funds are designed to suit investors with lower attitude-to-risk scores with a medium- to long-term investment horizon. LV= states that the smoothing mechanism will remove two-thirds of the volatility compared to an unsmoothed fund. The funds can be used in both accumulation and decumulation strategies. For clients who wish to tailor the level of risk depending on changing life stages, they can protect against capital loss (if a guarantee is purchased) or protect against inflation. The Smoothed Managed Funds' price smoothing mechanism will reduce sequencing risk for post-retirement investors who wish to make regular withdrawals. The impact of sequencing risk can be significant for post-retirement investors and we illustrate this with a simplified example below. Consider three simple ten-year return scenarios, each with an average return of 5% over the ten years: **1. Constant returns of 5% with zero volatility** **2. Returns where there are significant losses in the first couple of years** **3. Returns where the losses occur towards the end of the ten-year period**

Year	Constant returns	Front loaded losses	Back loaded losses
1	5%	−10%	20%
2	5%	−15%	17%
3	5%	4%	12%
4	5%	6%	6%
5	5%	6%	6%
6	5%	5%	5%
7	5%	5%	5%
8	5%	12%	4%
9	5%	20%	−10%
10	5%	17%	−15%

Client needs	Smoothed Managed Funds features and detail (cont)
Retirement needs	For an investor with £100,000 and an annual withdrawal of £5,000 this leads to the portfolio fund values shown in Chart 3. **Chart 3: Sequence risk**  In each example, despite an average annual return equal across each scenario at 5%, front-loaded losses early on in retirement would permanently lower the investor's final capital. In our example the final capital value is roughly 25% lower for the investor with front-loaded losses.
Assessing and matching client attitude to risk, capacity for loss and required return	The FCA urges advisers to improve their client risk profiling exercises by evaluating capacity for loss in addition to overall attitude to risk. LV='s smoothed funds range are available in distinct fund options to offer different levels of risk versus returns for the client. We at Defaqto have rated these funds as matching accumulation client risk profiles of 'Very Cautious', 'Cautious', 'Cautious-balanced', 'Balanced' and 'Balanced Growth', which correspond to risk levels 2, 3, 4, 5 and 6 on our 1 to 10 scale. The Extra Cautious, Cautious and Balanced fund options are rated as Low Sequence Risk, and Growth and Impact Growth as Medium Sequence Risk, using our Defaqto post-retirement Income Drawdown risk ratings. For Cautious fund option investors, further tailoring can be made by adding a 10-year guarantee at the inception of investment, or when an existing guarantee expires, if available at the time. These features should enable advisers to make suitable recommendations for varying client risk profiles and capacity for loss. The LV= Flexible Transitions Account provides the ability to combine/blend the Smoothed Managed Funds with other LV= product options to offer clients a guaranteed income stream to meet essential outgoings, together with access to additional income and the prospect of secure capital growth where required. For funds at the same risk level, an adviser can recommend a blend of third-party risk-rated funds with the LV= Smoothed Managed Funds, which will be suitable for a client's risk level and expected return, including with other smoothed funds.
Mitigating market volatility	The funds' price smoothing mechanism provides a way to reduce the apparent volatility of the investment returns. Clients with risk-averse psychometric profiles may find this feature useful, for example if they are concerned about the short-term volatility of their investments. This should also aid clients who are in drawdown who may find the impact of sequencing risk in a down market reduced. LV='s price smoothing mechanism can be compared against a couple of other market offerings from mainstream insurers which instead use an 'expected return rate'. Unlike the LV= Smoothed Managed Funds, these competitor offerings have seen corrections where the smoothed price has required adjustment to bring it back in line with the unsmoothed, underlying price.
Managing risk and equity exposure in the approach to retirement	Clients are allowed to switch fund options (subject to a delay of 10 working days), which may help them adjust to a change in risk tolerance. Three free fund switches are permitted each year, with any additional switches incurring a £25 charge. As a client approaches and enters retirement, advisers are required to re-evaluate their needs and risk tolerance. This often requires derisking a client's investments away from risky equities into a greater weight of fixed income assets, depending upon their needs and tolerance to income and/or capital volatility. The Smoothed Managed Funds offered by LV=, supported by the optional 10-year guarantee for the Cautious fund option, may be suitable for clients who are looking for lower risk investments.

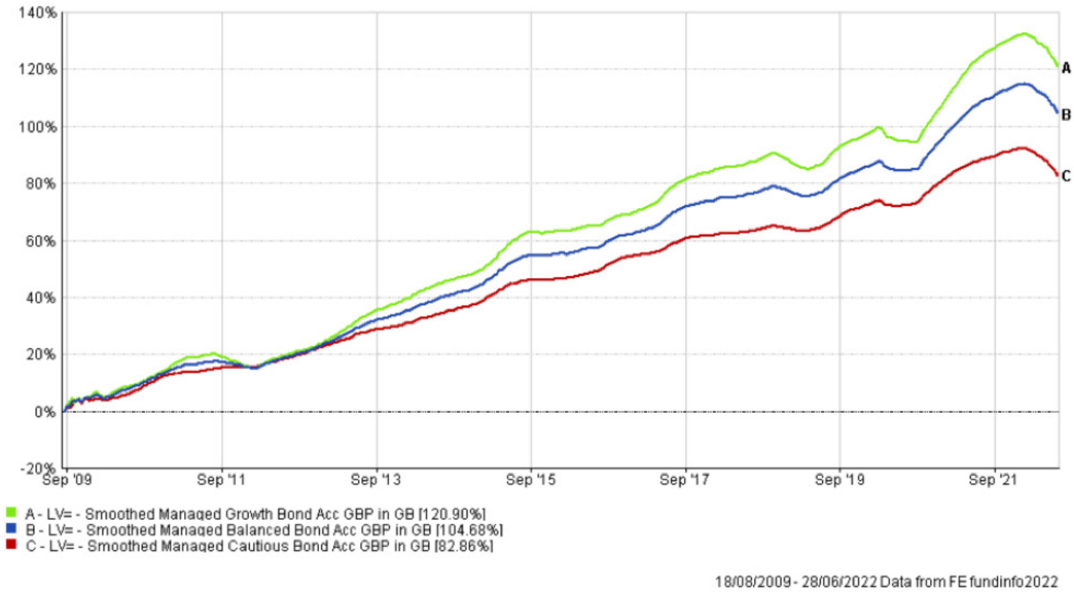


Q8. How have the Smoothed Managed Funds performed?

While fund performance is no guarantee of future returns, it can be helpful to gain an understanding of historic returns to see how the funds are managed and evaluate behaviour against objectives, benchmarks and peer groups.

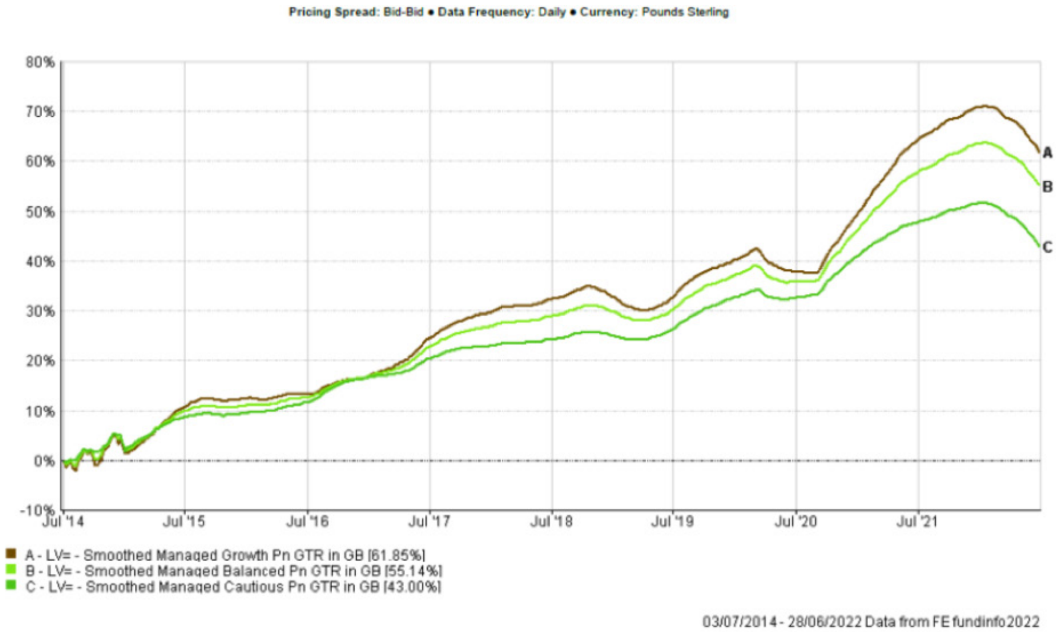
Charges for LV='s Smoothed Managed Fund range vary according to which wrapper is chosen, the amount invested and whether a guarantee is purchased. As such, performance illustrated in Charts 4 to 6 and Table 10 is gross performance and doesn't take account of any applicable charges. For more information about charges, please see Q9. 'What are the Smoothed Funds' costs and charges?'.

Chart 4: Gross performance of Smoothed Managed Fund, life investment bond wrapper, since launch



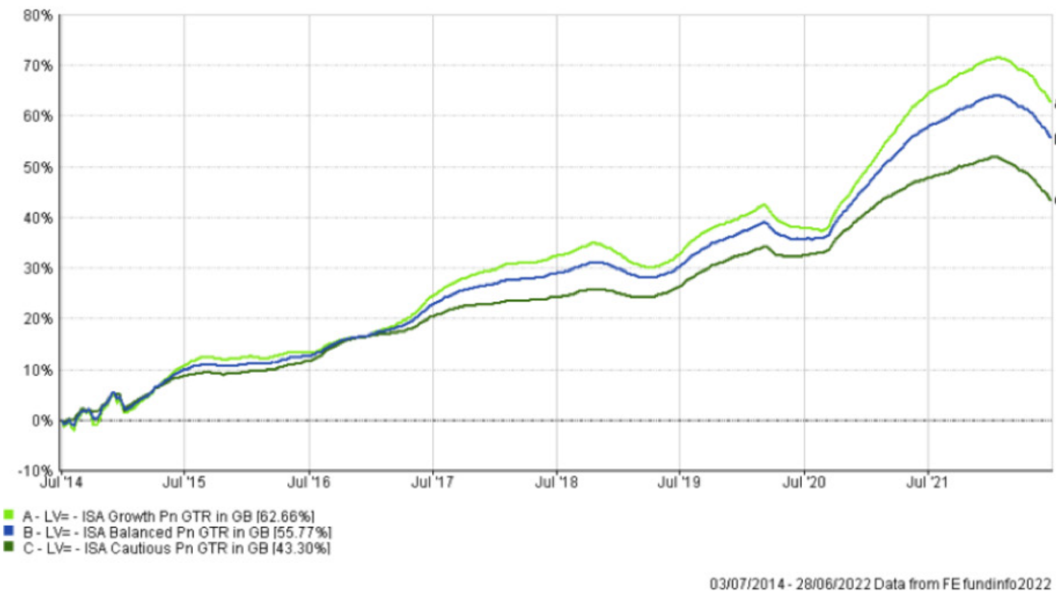
Source: FE fund info. gross-of-fees, bid-to-bid performance to 28/06/2022. Performance between 18/08/2009 and 20/02/2022 relates to the Flexible Guarantee Bond, an earlier version of the LV= Smoothed Bond. The funds have the same mix of investments. Performance from 21/02/2022 onwards relates to the Smoothed Bond funds. The Extra Cautious and Impact Growth fund options are not shown as they only launched in May 2022. Please remember that past performance is not a reliable indicator of future performance. The figures are intended only to demonstrate performance history of the fund and do not include any fund charges. They take no account of product or advice charges. The application of charges will impact the overall net performance. The value of an investment is not guaranteed and can go down as well as up. Investors could get back less than they have paid in.

Chart 5: Gross performance of Smoothed Managed Fund, pension wrapper, since launch



Source: FE fund info. gross-of-fees, bid-to-bid performance to 28/06/2022. Performance between 03/07/2014 and 02/11/2021 relates to the Flexible Guarantee Funds, earlier versions of the Smoothed Pension funds. The funds have the same mix of investments. Performance from 03/11/2021 onwards relates to the Smoothed Pension funds. The Extra Cautious and Impact Growth fund options are not shown as they only launched in May 2022. Please remember that past performance is not a reliable indicator of future performance. The figures are intended only to demonstrate performance history of the fund and do not include any fund charges. They take no account of product or advice charges. The application of charges will impact the overall net performance. The value of an investment is not guaranteed and can go down as well as up. Investors could get back less than they have paid in.

Chart 6: Gross performance of Smoothed Managed Fund, ISA wrapper, since launch



Source: FE fund info. gross-of-fees, bid-to-bid performance to 28/06/2022. Performance between 03/07/2014 and 19/12/2019 relates to the Flexible Guarantee Funds, earlier versions of the ISA funds. The funds have the same mix of investments. Performance from 20/12/2019 onwards relates to the ISA funds. The Extra Cautious and Impact Growth fund options are not shown as they only launched in May 2022. Please remember that past performance is not a reliable indicator of future performance. The figures are intended only to demonstrate performance history of the fund and do not include any fund charges. They take no account of product or advice charges. The application of charges will impact the overall net performance. The value of an investment is not guaranteed and can go down as well as up. Investors could get back less than they have paid in.

Table 10: Smoothed Managed Funds historic gross performance

	1m	3m	6m	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr
LV= ISA Balanced	-1.79	-3.91	-5.17	-1.62	4.89		
LV= ISA Cautious	-1.87	-4.26	-5.82	-3.25	3.22		
LV= ISA Growth	-1.75	-4.08	-5.24	-1.26	5.52		
LV= Smoothed Managed Balanced Bond	-1.46	-3.47	-4.19	-1.44	4.88	3.94	5.63
LV= Smoothed Managed Cautious Bond	-1.54	-3.52	-4.95	-2.60	3.42	2.90	4.46
LV= Smoothed Managed Growth Bond	-1.65	-3.74	-4.31	-1.25	5.60	4.40	6.37
LV= Smoothed Managed Balanced Pn	-1.71	-4.04	-5.43	-1.96	5.88	4.74	
LV= Smoothed Managed Cautious Pn	-1.73	-4.27	-5.95	-3.38	4.12	3.45	
LV= Smoothed Managed Growth Pn	-1.72	-4.15	-5.54	-1.76	6.71	5.32	

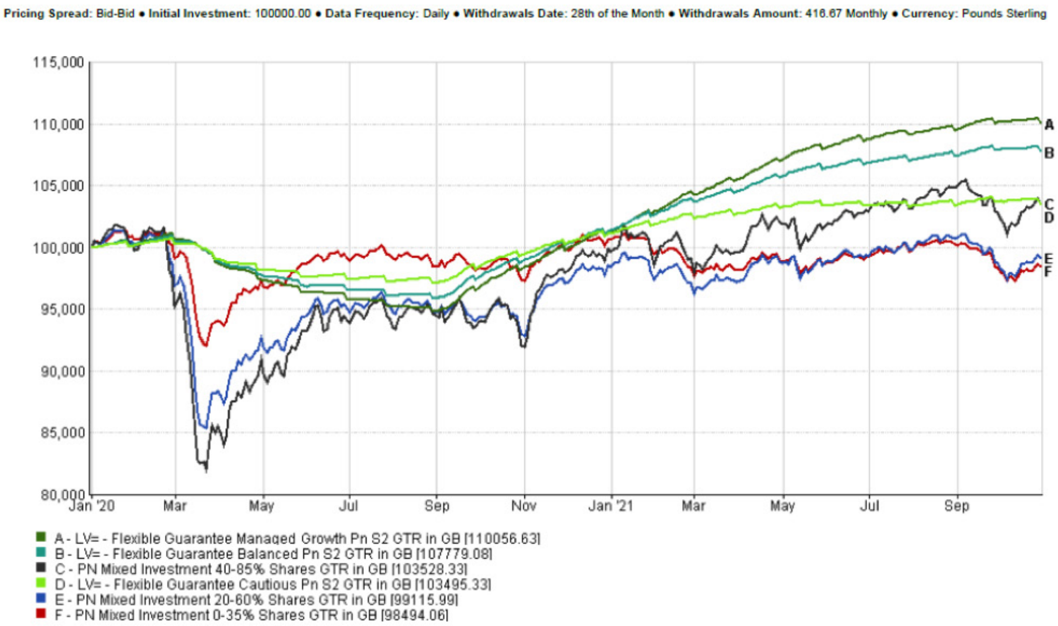
Source: FE fund info 29/06/2022. Data is gross of charges **Pricing spread:** Bid-Bid • **Period:** Latest date (29/06/2022) • **Performance growth option:** Annualised • **Currency:** Pounds sterling. The Extra Cautious and Impact Growth fund options are not shown as they only launched in May 2022. Performance before 19/12/2019 (ISA), 02/11/2021 (LV= Smoothed Pension) and 20/02/2022 (LV= Smoothed Bond) relates to previous versions of the funds with the same asset mix. Please remember that past performance is not a reliable indicator of future performance. The figures are intended only to demonstrate the performance history of the fund and do not include any fund charges. They take no account of product or advice charges. The application of charges will impact the overall net performance. The value of an investment is not guaranteed and can go down as well as up. Investors could get back less than they have paid in.

Post-retirement investors

Due to sequence risk, it can be helpful to observe how the funds performed during the COVID-19 sell-off in 2020. The LV= Smoothed Managed Funds avoided the worst of the market lows that were experienced in March 2020, which is attributed to the funds' price smoothing mechanism.

Performance shown in Charts 7 to 9 assumes a £100,000 initial investment and monthly withdrawal of £416.67 (equivalent to £5,000 over the year) taken at the end of each month. This is compared against representative ABI sectors, although note that the ABI sector performance is net of fees. The ABI sectors are included for performance comparison purposes. They are not the funds' benchmarks; however, they are a proxy for non-smoothed mixed asset funds.

Chart 7: Gross performance of Smoothed Managed Fund, pension wrapper, 2/1/2020 to 31/10/2021



Source: FE fund info. LV= gross-of-fees, bid-to-bid performance 2/1/2020 – 29/10/2021, net of fees performance for ABI sectors. The Cautious and Impact Growth fund options are not shown as they only launched in May 2022. Please remember that past performance is not a reliable indicator of future performance. The figures are intended only to demonstrate performance history of the fund and do not include any fund charges. They take no account of product or advice charges. The application of charges will impact the overall net performance. The value of an investment is not guaranteed and can go down as well as up. Investors could get back less than they have paid in.

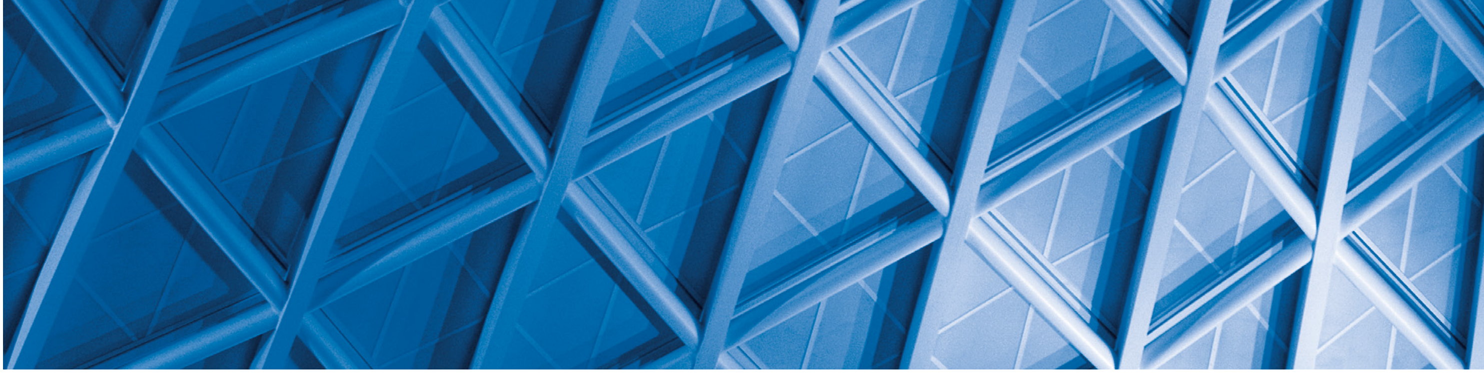
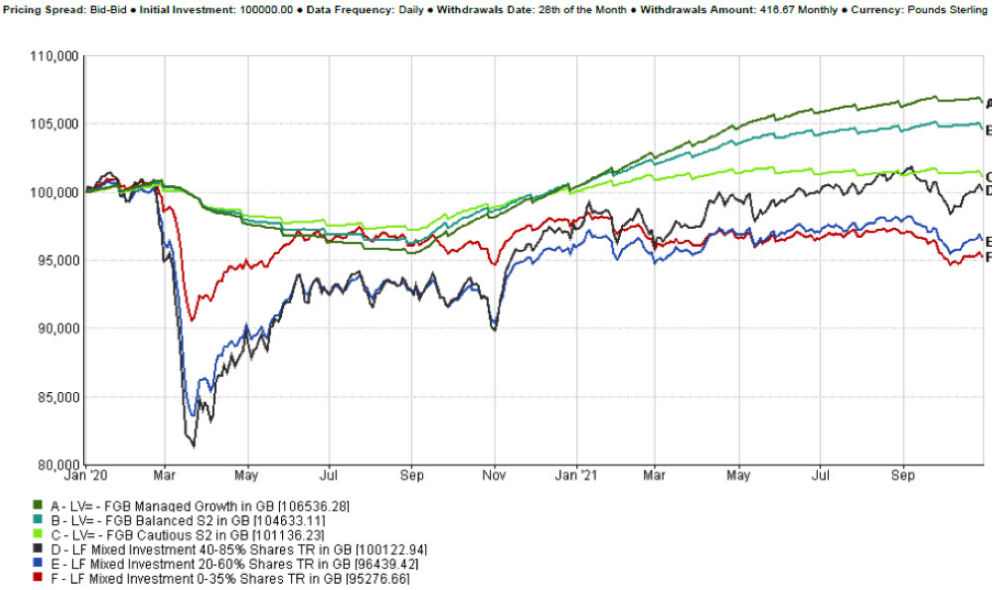
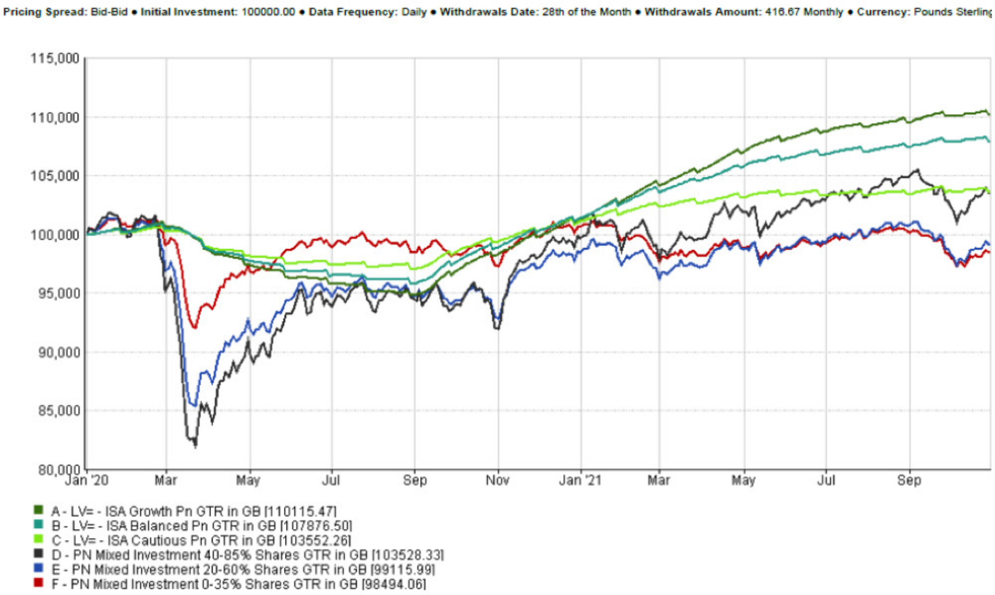


Chart 8: Gross performance of Smoothed Managed Fund, life investment bond wrapper, 2/1/2020 to 31/10/2021



Source: FE fund info. LV= gross-of-fees, bid-to-bid performance 2/1/2020 – 29/10/2021, net of fees performance for ABI sectors. The Cautious and Impact Growth fund options are not shown as they only launched in May 2022. Please remember that past performance is not a reliable indicator of future performance. The figures are intended only to demonstrate performance history of the fund and do not include any fund charges. They take no account of product or advice charges. The application of charges will impact the overall net performance. The value of an investment is not guaranteed and can go down as well as up. Investors could get back less than they have paid in.

Chart 9: Gross performance of Smoothed Managed Fund, ISA wrapper, 2/1/2020 to 31/10/2021



Source: FE fund info. LV= gross-of-fees, bid-to-bid performance 2/1/2020 – 29/10/2021, net of fees performance for ABI sectors. The Cautious and Impact Growth fund options are not shown as they only launched in May 2022. Please remember that past performance is not a reliable indicator of future performance. The figures are intended only to demonstrate performance history of the fund and do not include any fund charges. They take no account of product or advice charges. The application of charges will impact the overall net performance. The value of an investment is not guaranteed and can go down as well as up. Investors could get back less than they have paid in.

Q9. How can the Smoothed Managed Funds be accessed?

The Smoothed Managed Funds are available to policyholders investing through an onshore life investment bond (the LV= Smoothed Bond), an ISA (the LV= ISA), or in a pension (LV= Smoothed Pension).

The funds can also be accessed via LV='s TIP, allowing them to be used by clients with third-party SIPP and SSAS providers

LV= has a TIP which can be used to access the funds via an investment in a non-LV= SIPP, or SSAS provider, via a single contribution at outset, being a minimum of £20,000 and a maximum £1,000,000.

The scheme trustees 'take out' the plan and the benefit is designated to a specific scheme member. Final discretion on acceptance of the funds will lie with the non-LV= pension scheme provider, who will need to accept the TIP under their permitted investments list.

The product will pay out 100% of the fund value back to the SIPP or SSAS bank account upon death of the scheme member.

The ISA, bond and pension will pay death benefits of 100.1%.

Table 11 shows how the Smoothed Managed Funds can be accessed through LV='s products and where they are located on Defaqto Engage.

Table 11: Accessing Smoothed Managed Funds through LV= products and their location on Defaqto Engage

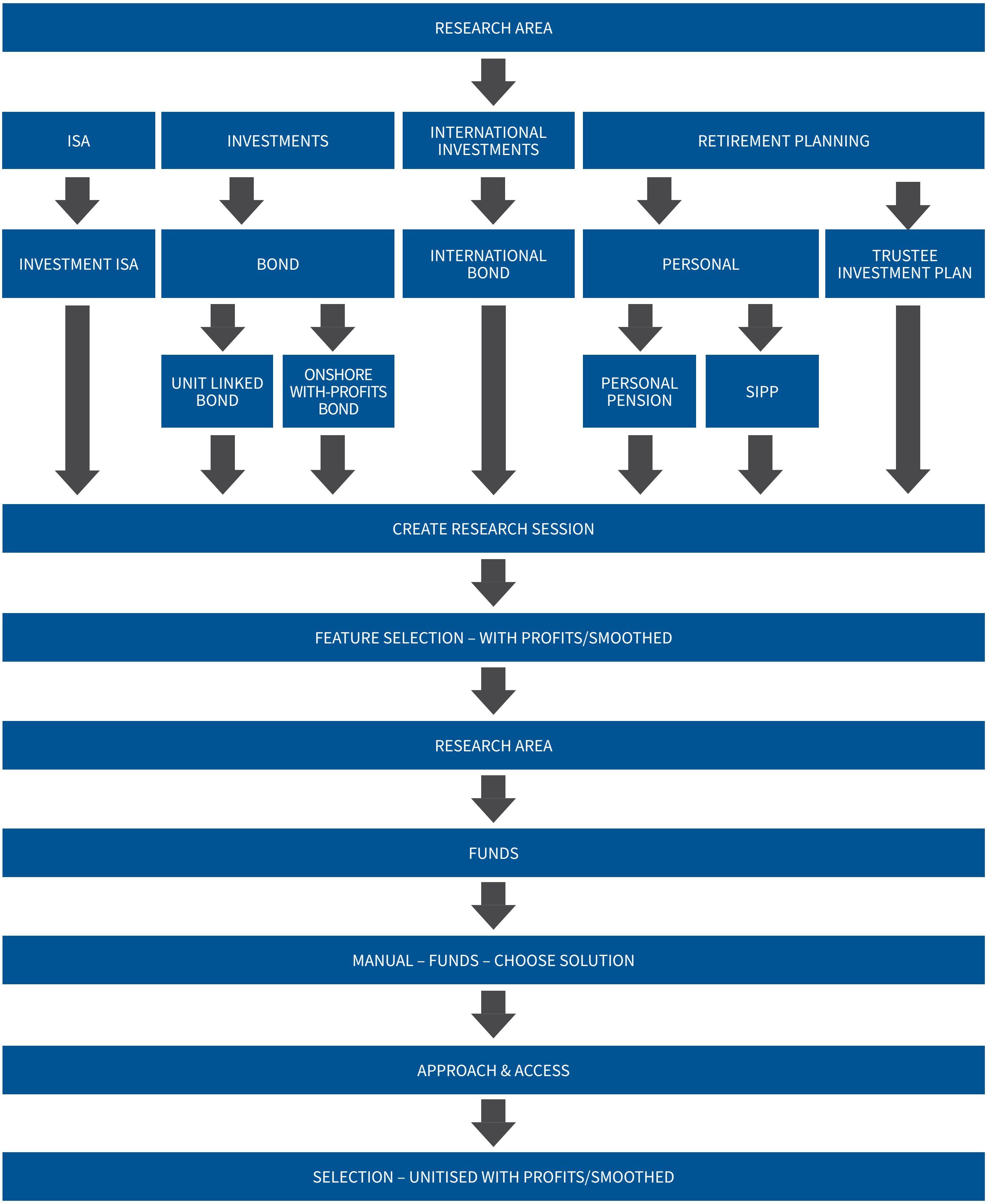
Product	Location on Defaqto Engage
LV= Smoothed Bond	Unit linked bond and With-Profits
LV= Smoothed Managed Funds Trustee Investment Plan	TIP
LV= Flexible Transitions Account (includes LV='s Smoothed Managed Funds Pension funds)	PPP, SIPP and Income Drawdown
LV= Stocks and Shares ISA	Investment ISA

Finding the LV= Smoothed Managed funds in Defaqto Engage

Defaqto Engage enables the adviser to filter on certain features within both the product and fund elements of the software.

To allow advisers to find products offering smooth managed funds, Defaqto has created filters to refine searches as required. There are two filters, one if conducting product first research, and the second when conducting fund first research.

Product first research



PROD

As part of the FCA's Product Intervention and Product Governance Sourcebook (PROD) introduced in 2018, manufacturers (LV=) and distributors (the adviser) are expected to demonstrate that products being recommended deliver good consumer outcomes, or offer 'good product governance'. Advisers are therefore expected to understand more about the target market of the products they are recommending and their appropriateness to their clients.

Advisers have been required for some time now to segment their client base. This makes it easier to align those clients for whom a smoothed managed fund may be appropriate and meet suitability standards both for accumulation and decumulation clients. As a result of this, providers are now considering some of the key elements of these rules and ensuring that advisers have easy access to them. Table 12 shows some of these criteria for each of the LV= products.

Table 12: PROD

Product	Target client type	Knowledge/ experience	Ability to bear loss	Capital preservation
LV= Flexible Transitions Account (includes LV='s Smoothed Managed Funds Pension funds)	retail	basic, informed, advanced	Core funds – zero, limited loss Selected partners – limited loss Extended options – retail	yes
LV= Smoothed Managed Funds TIP	retail	basic, informed, advanced	zero, limited loss	yes
LV= Smoothed Managed Funds Bond	retail	basic, informed, advanced	zero, limited loss	yes
LV= ISA	retail	basic, informed, advanced	zero, limited loss	yes

Product	Capital growth	Income	Client's time horizon	Retail distribution channels
LV= Smoothed Managed Funds Pension	yes	yes	5+ years	advised
LV= Smoothed Managed Funds TIP	yes	yes	5+ years	advised
LV= Smoothed Managed Funds Bond	yes	yes	5+ years	non-advised, advised
LV= ISA	yes	yes	5+ years	advised

Q10. What are the Smoothed Managed Funds' costs and charges?

Advisers and clients should understand the potential charges they will face for any investment, both implicit and explicit, as these will directly affect any future investment returns. All other things being equal, lower charges will have a less detrimental impact on future returns.

Please visit www.lv.com/smoothed for the most recent Smoothed Managed Fund charges. A summary of charges is shown in Table 13 as a guide, but LV= recommends always visiting their website for up-to-date information about charges.

Discounts applied depend on the size of the fund and will have the effect of reducing the charge for investment in the funds

Table 13: Summary of Smoothed Managed Fund charges (correct as of June 2022)

<table>
<tr><th>Fees description</th><th>Fee details and charge levels</th></tr>
<tr><td>Annual fund management charge</td><td>For the LV= Smoothed Pension (available through the LV= Flexible Transitions Account) there is a charge of 0.90% of the fund's value across all fund options, which applies to all funds:
LV= Smoothed Managed Extra Cautious Fund
LV= Smoothed Managed Cautious Fund
LV= Smoothed Managed Balanced Fund
LV= Smoothed Managed Growth Fund
LV= Smoothed Managed Impact Growth Fund

For the Smoothed Managed Funds TIP there is a charge of 1.00% of the fund's value across all fund options:
LV= Smoothed Managed TIP Extra Cautious Fund
LV= Smoothed Managed TIP Cautious Fund
LV= Smoothed Managed TIP Balanced Fund
LV= Smoothed Managed TIP Growth Fund
LV= Smoothed Managed TIP Impact Growth Fund

For the LV= Smoothed Bond there is an introductory charge of 0.85% of the fund's value across all fund options, which applies to all funds. This will remain in place until 30 November 2022. Thereafter the charge will be 0.90%:
LV= Smoothed Managed Extra Cautious Fund
LV= Smoothed Managed Cautious Fund
LV= Smoothed Managed Balanced Fund
LV= Smoothed Managed Growth Fund
LV= Smoothed Managed Impact Growth Fund

The LV= ISA management charge depends on the fund option selected:
<table>
<tr><th>Fund name</th><th>Management charge</th></tr>
<tr><td>ISA Extra Cautious Fund</td><td>1.0%</td></tr>
<tr><td>ISA Cautious Fund</td><td>1.0%</td></tr>
<tr><td>ISA Balanced Fund</td><td>1.1%</td></tr>
<tr><td>ISA Growth Fund</td><td>1.2%</td></tr>
<tr><td>ISA Impact Growth Fund</td><td>1.2%</td></tr>
</table>
The annual fund management charges are taken monthly as 1/12 of the annual charge by cancelling units.</td></tr>
</table>

<table>
<tr><th>Fees description</th><th>Fee details and charge levels</th></tr>
<tr><td>Pension wrapper charge</td><td>If investing via the LV= Flexible Transitions Account, the following wrapper fees apply and are dependent on which other investments are taken:
<table><tr><th>Investment</th><th>Amount invested</th><th>Charge (% pa)</th></tr><tr><td rowspan="2">Core Funds</td><td>Up to £700,000</td><td>0.20</td></tr><tr><td>Over £700,000</td><td>0.00</td></tr><tr><td rowspan="2">Selected Partners</td><td>Up to £700,000</td><td>0.25</td></tr><tr><td>Over £700,000</td><td>0.00</td></tr><tr><td rowspan="2">Extended Options</td><td>Up to £700,000</td><td>0.30</td></tr><tr><td>Over £700,000</td><td>0.00</td></tr></table>This wrapper charge is deducted quarterly by cancelling units, with a minimum charge of £195 per annum.</td></tr>
<tr><td>Fund size discount</td><td>There is a fund size discount applied as follows:
<table><tr><th>Fund size</th><th>Fund size discount</th></tr><tr><td>Up to £99,999.99</td><td>0.00%</td></tr><tr><td>£100k to £249,999.99</td><td>0.05%</td></tr><tr><td>£250k to £499,999.99</td><td>0.10%</td></tr><tr><td>£500k+</td><td>0.15%</td></tr></table>Where multiple types of product are held for a single member, the large fund discount applies to the individual types of that LV= product on an aggregated basis. This applies to a group of multiple LV= Smoothed Pensions, a group of multiple LV= TIPs or a group of multiple Smoothed Bonds held by a single member. The large fund discount applies to all LV= products on an aggregated basis.

Note for the Smoothed Bonds, the bond owner basis must be the same across multiple bonds.

The fund size discount does not apply to the LV= ISA.</td></tr>
<tr><td>Guarantee charge</td><td>This charge applies for any guarantee the investor may have chosen to apply to their fund. The guarantee charge is taken monthly as 1/12 of the annual charge by cancelling units.
These charges apply to the outstanding guaranteed capital amount. The outstanding capital amount is the value of the guaranteed units prior to the guarantee date. Guarantee prices may change over time.
LV= Smoothed Pension/Smoothed Managed Funds TIP/Smoothed Bond/ISA charges are:
<table><tr><th>Fund</th><th>Term</th><th>Charge</th></tr><tr><td>Cautious</td><td>10 years</td><td>1.00%</td></tr></table></td></tr>
<tr><td>Administration charge</td><td>A plan charge of £25 is applicable if an investor changes their fund option more than three times per year.</td></tr>
<tr><td>Adviser charges</td><td>These are charges that the investor will have agreed with their financial adviser, which can either be paid directly by LV= facilitating the payment from the relevant product wrapper, or the investor can reimburse their adviser separately, if desired.</td></tr>
</table>

Source: LV=, June 2022

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:

https://www.snapsurveys.com/wh/s.asp?k=144610976149

About Defaqto

Defaqto is a leading financial information, ratings and fintech 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.

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Star Ratings assess the quality and comprehensiveness of the features and benefits for products in general insurance, banking, protection and wealth sectors. They can be viewed in any Star rated product area and added to any research.

defaqto EXPERT RATED ★★★★★

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defaqto ESG REVIEWED

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defaqto FUND REVIEWED

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Expert financial planning with no loose ends

defaqto engage

Defaqto Engage

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

Our software contains a wealth of product and proposition information to help advisers select a product that is suitable for their clients' needs and evidence their due diligence for compliance purposes.

The satisfaction results, by category, are available within Engage. Advisers can use 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.

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