For Professional Advisers Only

VitalityInvest Adviser Insights

June 2018

Introduction

With an ageing population putting greater pressure on NHS resources and retirement income, it would be nice to be rewarded for living a healthy lifestyle and for starting to save earlier. This would hopefully allow individuals the opportunity to take full advantage of their later years by being in good health and having the income to meet their lifestyle aspirations. Empirical evidence has suggested that in general individuals with healthier lifestyles are more likely to live longer and less likely to claim on health insurance policies. Lower claims for insurers means greater profits. UK insurer, Vitality, has an innovative business model allowing those trying to live a healthier lifestyle the opportunity to benefit from lower insurance costs and other rewards. Their approach to life and health insurance has been in place since 2004.

Vitality's insurance businesses are underpinned by a shared value model, which has already resonated with over a million health and life insurance clients. The shared value concept is a framework which seeks to create economic value, while at the same time addressing a societal need. Vitality's business model is an application of this in the insurance world where Vitality rewards its clients for taking care of their health. This results in lower claims for Vitality, and they channel some of those savings back to their clients in the form of additional rewards and lower premiums. This approach is designed to create a virtuous and self-reinforcing cycle that results in more loyal clients, as well as hopefully a healthier, more productive society.

Off the back of the success of the shared value approach of Vitality's life and health insurance businesses, and considering the nature of the challenges that face this market, they have identified long-term savings as the next opportunity for innovation built around improving customer outcomes. This comes in the form of VitalityInvest, a pre- and post-retirement investment solution that enables clients to benefit from the shared value model over their lifetime, which launched in June 2018. Vitality's experience in this space and the significant data they have built up of the correlation between incentives and behaviour change means they believe they have designed a range of products that encourage and reward positive health and savings behaviours.

This report predominantly provides an investment overview of the Vitality fund range however we have also provided some details on the benefits of using the VitalityInvest plans as they can offer significant discounts to the product charge along with enhancing the overall plan value over time.

The report outlines some of the potential benefits offered within the new plans and how investors can qualify for these. Part of the qualifying criteria involves investing into Vitality's specifically designed investment proposition which consists of a range of 15 new funds. Therefore, the bulk of the report provides an independent review of these new funds, specifically highlighting the funds' outcomes, performance objectives, the investment process used to manage the funds and Square Mile's opinion of the strategies.

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Who are Vitality?

Vitality are a UK insurance company that offers health insurance, life insurance and now savings and investment products to the UK market.

Vitality is part of the Discovery Group who are a South African-based global financial services group listed on the Johannesburg Stock Exchange. The group have been established for over 25 years and offer products within the health and life insurance, long-term savings, investments, general insurance and credit card markets. Discovery distributes its products into two primary markets, South Africa and the UK, but has a presence in another 14 countries through strategic partnerships.

Vitality launched in the UK in 2004 with VitalityHealth, a health insurance plan which offers active rewards for plan holders, for example a discount on gym fees for plan holders, as well as lower premiums for individuals with healthy lifestyles. This business was originally launched by Vitality's parent company, Discovery and Prudential as a 50/50 joint venture between the two businesses.

In 2007 PruProtect was launched as an addition to the joint venture with Prudential, offering a range of life insurance products. In August 2010 Discovery took ownership of 75% of the joint venture, as well as completing its acquisition of Standard Life Healthcare. In 2014 they acquired the remaining 25%, rebranding the businesses as VitalityHealth and VitalityLife.

Now, in 2018, they have followed up with a number of long-term savings and investment plans which collectively make up the VitalityInvest proposition. In much the same way that their existing products are differentiated from the market these new plans follow a similar shared value approach.

Who are VitalityInvest?

VitalityInvest is a trading name of Vitality Life Limited, a UK insurance company, offering a differentiated investment and long-term savings proposition. The proposition consists of a retirement plan (a personal pension), a Stocks and Shares ISA and a Junior ISA. The products provide access to a new Vitality fund range in addition to a broader range of funds from a selected number of third party providers.

The VitalityInvest proposition is differentiated from many other insurers offering similar plans in that it follows the company's shared value model and attempts to create a behavioural change within plan holders who can benefit from various rewards and incentives. For example, plan holders are able to benefit from monthly reductions to the product charge depending on their Vitality status (which is linked to their healthy living programme) as well as loyalty rewards in the form of boosts to their investments every 5 years. Additionally, within the pension plan, boosts to a customer's investment in retirement can be earned if they delay or take a lower level of income from their plan and engage in the healthy living program.

This is an innovative combination of features and is unique in the UK to VitalityInvest plans. Collectively they can offer substantial benefits for customers if full use is made of the rewards available. It is worth pointing out that some of the benefits only apply if investment is made into Vitality funds and plan holders also hold a qualifying VitalityLife and/or VitalityHealth policy.

Distinguishing Plan Features

Investment Booster

This feature is very simple, in that it rewards those policyholders who invest earlier and for longer. The longer a policyholder is invested in a Vitality fund or funds the bigger the boost applied to the plan value. These boosts start on the 5th anniversary of the investment and will continue to be added every subsequent 5 years after that as long as all or part of the plan stays invested in Vitality funds. For regular contributions the boosts apply separately to each tranche of investment. The current boost rates are detailed below.

Figure 1 - Investment boost term and rate

Investment Term	*Boost Rate*
5 years	2.0%
10 years	2.5%
15 years	3.0%
20 years	3.5%
25 years plus	4.0%

Source: VitalityInvest. As at date: June 2018.

In order to work out the amount of boost payment to be applied an assessment of the total value of Vitality funds (i.e. amount invested plus any growth or minus any loss over the period) on each 5, 10, 15, 20 or 25 year anniversary period is calculated.

Example

A customer starts their plan on 1 June 2018 with a transfer payment of £100,000 and chooses one of the Vitality funds. They make no further payments in to the plan. The investment year will therefore run from 1 June 2018 to 31 May 2019. On the 1 June 2023 the plan reaches its fifth anniversary and has remained invested in the same Vitality fund throughout. The value has now grown to £125,000 and the investment boost is now due. It is calculated as follows:

£125,000 x 2% = £2,500

This boost is added to the plan on 1 June 2023 and gives the plan holder a total plan value of £127,500.

Healthy Living Discount

To reward policyholders for living a healthy lifestyle, Vitality reduce the product charge that is paid on the proportion of the plan invested into Vitality funds. To be eligible for the discount, investors must hold a qualifying VitalityLife or VitalityHealth insurance plan. This feature is one that differentiates Vitality across its entire product range from others in the UK market.

Investors with a VitalityLife or VitalityHealth insurance plan are assessed on how healthy their lifestyle is through their Vitality status. The Vitality healthy living programme is an established feature of qualifying VitalityLife and VitalityHealth products. Clients with policies in one (or both) of these ranges are incentivised to get fitter, eat better, quit smoking and spend more time on wellness-related leisure activities. As they do they are rewarded with short-term benefits to encourage persistence and discounts with partner organisations to create aspirational goals. Through engagement with the programme, clients are able to improve their status from bronze (the base status) through silver and gold and ultimately attain platinum status. The higher the status the greater the benefits.

An assessment of an individuals Vitality status starts by completion of an online health review. Further health checks and active participation in regular physical activity helps to accumulate points and move individuals to a higher Vitality status.

The table below highlights the currently quoted standard product charge and potential discounts available based on a plan holder's Vitality status and the proportion invested in Vitality funds.

Figure 2 - Product charge for a plan holder with and without a qualifying health or life policy and invested in Vitality funds:

	Product Charge Per Annum				
Investment amount	*Standard*	*Bronze*	*Silver*	*Gold*	*Platinum*
Up to £30k	0.5%	0.5%	0.4%	0.25%	0%
Amount between £30k and £75k	0.4%	0.4%	0.3%	0.2%	0%
Amount between £75k and £250k	0.3%	0.3%	0.25%	0.15%	0%
Amount between £250k and £500k	0.2%	0.2%	0.15%	0.1%	0%
Amount in excess of £500k	0.15%	0.15%	0.10%	0.05%	0%

Source: VitalityInvest. As at date: June 2018.

Retirement Booster

This feature only applies to plan holders who hold part or all of their pension pot in flexi-access drawdown, have a qualifying VitalityHealth or VitalityLife policy or who add standalone Vitality Plus (which gives the planholder the option to join the healthy living programme) to their plan, and who are invested in Vitality funds. To encourage those eligible plan holders in flexible-access drawdown to keep their money invested i.e. for not taking an income or taking a lower level of income, a retirement boost is added to their plan every year. The lower the level of income taken from the pension pot and the higher the Vitality status of the plan holder, the greater the retirement booster rate. The table below sets out the currently quoted applicable retirement booster rate added to the plan each year.

Figure 3 - Retirement booster rate based on Vitality status:

	Retirement Booster Rate (RBR) %				
	% Withdrawn in previous year	*Bronze*	*Silver*	*Gold*	*Platinum*
Withdrawal Bands	0% to ≤ 1%	10%	20%	40%	50%
	1% to ≤ 2%	7.5%	15%	25%	35%
	2% to ≤ 3%	6%	12.5%	15%	20%
	3% to ≤ 4%	4%	7.5%	12.5%	15%
	4% to ≤ 5%	0%	5%	10%	12.5%
	5% to ≤ 6%	0%	2.5%	5%	7.5%
	6% to ≤ 7%	0%	0%	2.5%	5%
	7% to ≤ 8%	0%	0%	0%	2.5%
	> 8%	0%	0%	0%	0%

Source: VitalityInvest. As at date: June 2018.

Example:

A plan holder with £100,000 at the start of the year in flex-access drawdown withdraws an income of £2,500 during the year (i.e. 2.5% of their account). At the end of the year the customer is on gold status. The client has 80% of their pension pot invested in Vitality funds.

The boost for the following year would therefore be: £2,500 x 15% x 80% = £300.

Vitality Fund Range - Overview

The Vitality fund range consists of 15 carefully designed funds which span a wide range of risk and return profiles, as can be seen in figure 4. Vitality have specifically designed the funds to meet core customer needs and to be aligned with how advisers build portfolios.

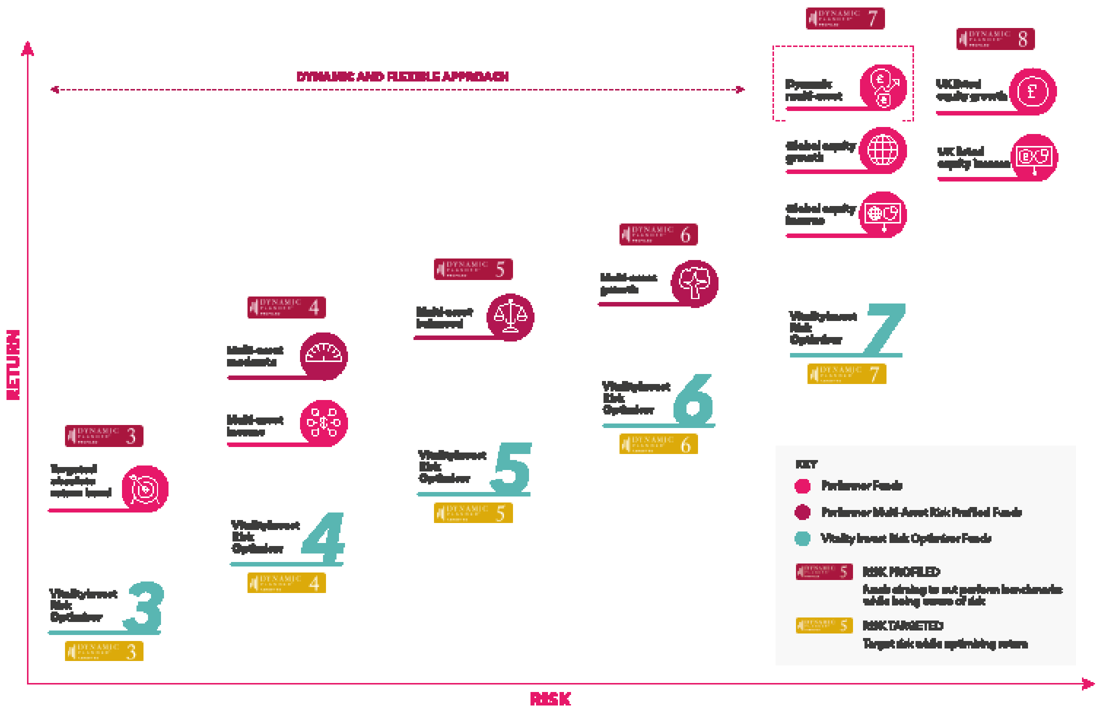
The range consists of 10 high conviction actively managed funds called Performer Funds and 5 risk targeted multi-asset strategies called VitalityInvest Risk Optimiser Funds. The 10 active funds are managed by Investec Asset Management (IAM). These funds consist of a mixture of well-established Investec strategies along with a number that have been explicitly designed for Vitality but which use long-standing investment approaches.

IAM were specifically chosen by Vitality as they have an established presence and business in the UK retail and institutional market. They also value the fact they are independently managed within the Investec Group and have a strong owner culture. They are a global business with operations in London, Luxembourg, Cape Town, Hong Kong, New York and Singapore. The strong relationship which has been built between Investec and Discovery, Vitality's parent company, over the last 10 years was also a factor in their selection as a strategic partner.

The 5 risk targeted multi-asset funds are managed directly by Vitality. They are a range of lower cost strategies which are mapped to Dynamic Planner risk profiles 3 to 7. The funds use a range of index tracker funds from Vanguard to populate the asset allocation.

Vitality is the unit linked fund manager for all 15 funds in the range and is responsible for fund governance and performance oversight. A dedicated internal team perform this function. Vitality therefore have the flexibility to change the managers on the funds should they believe they are no longer meeting their expectations.

Figure 4 - Vitality Fund Range and their expected risk and return profile:



Source: VitalityInvest. As at date: June 2018.

In addition to the Vitality funds, plan holders can also access around 250 third-party funds from over 20 managers. It is expected that this list will grow over time based on demand. As outlined previously, plan holders invested in third-party funds do not benefit from Vitality investment and retirement boosts or the healthy living discount applied to the product charge.

Vitality Fund Range - Summary Details

Figure 5 - Summary Details:

Fund Type	*Fund Name*	*Investment Approach*	*Investment Manager*	*Fund AMC*	*Fund OCF**
Growth	Dynamic Multi-Asset	Active	IAM	0.75%	0.99%
	Global Equity Growth	Active	IAM	0.75%	0.98%
	UK Listed Equity Growth	Active	IAM	0.75%	0.97%
Income	Multi-Asset Income	Active	IAM	0.75%	0.99%
	Global Equity Income	Active	IAM	0.75%	1.00%
	UK Listed Equity Income	Active	IAM	0.75%	0.98%
Specialist	Targeted Absolute Return Bond	Active	IAM	0.65%	0.88%
Multi-Asset Risk Profiled	Multi-Asset Moderate	Active	IAM	0.75%	0.99%
	Multi-Asset Balanced	Active	IAM	0.75%	1.03%
	Multi-Asset Growth	Active	IAM	0.75%	1.03%
Multi-Asset Risk Targeted	VitalityInvest Risk Optimiser 3	Risk Targeted	Vitality	0.40%	0.40%
	VitalityInvest Risk Optimiser 4	Risk Targeted	Vitality	0.40%	0.40%
	VitalityInvest Risk Optimiser 5	Risk Targeted	Vitality	0.40%	0.40%
	VitalityInvest Risk Optimiser 6	Risk Targeted	Vitality	0.40%	0.40%
	VitalityInvest Risk Optimiser 7	Risk Targeted	Vitality	0.40%	0.40%

Source: VitalityInvest. As at date: June 2018.

*This is the OCF at outset however the expectation is that this will reduce with the increase in fund assets.

The performance objectives quoted within the document are quoted on a net of fees basis as this is a more relevant target for plan holders. We have rounded the OCFs in most cases based on the OCF at outset however these may be subject to change.

Growth Funds

Vitality Dynamic Multi-Asset

Fund Outcome

The fund aims to provide capital accumulation over the longer term whilst controlling the overall level of portfolio risk. The managers will vary the level of risk that the portfolio takes to achieve the performance target, and he has a lot of flexibility in this regard, however the maximum level of forecasted volatility is 15%. This equates to a risk level which is broadly similar to UK equities.

Performance Objective

The managers aim to deliver a return in excess of 6% per annum (net of fees) over rolling 5 year periods along with a variable level of volatility up to 15% p.a.

Opinion

We think the multi-asset team at Investec Asset Management (IAM) is well-resourced and has many highly-experienced investors. The fund benefits from the long-standing "compelling forces" investment framework which provides a common language for the team when researching and analysing potential investment opportunities. The large size of the team means the managers can draw from a wide range of investment opportunities across and within asset classes.

This strategy has a long track record under Philip Saunders however the mandate was changed in July 2017, along with the strategy name, to allow the managers a greater level of flexibility and to ensure it remains reflective of client needs. This fund follows the same strategy as the Investec Global Multi Asset Total Return (GMATR) fund (previously called Managed Growth). We do not expect the changes over the last year to have a significant impact on the overall positioning of the fund. However, the managers' ability to use direct securities instead of funds will mean a shift in how they implement their investment views. Whilst this represents a new approach for this particular strategy the team has been investing in this way within other strategies for many years so we do not view this as a major cause for concern.

We are conscious that lead manager, Iain Cunningham, only joined the group in 2016. Since his arrival at IAM, he has integrated well within the team, however he does not have a demonstrable track record with his new team. IAM veteran, Philip Saunders, will provide continuity and experience to the management of the fund having been portfolio manager on the strategy since 2004. Historically, the team's investment style has led to the strategy outperforming during periods of rising markets and underperforming during periods of falling markets. Investors should be aware of this particularly given the strong period of stock market returns experienced since the global financial crisis.

Strategy Overview

The fund is managed by Iain Cunningham and Philip Saunders, although Mr Cunningham has a more active role on its day to day management. He joined the IAM multi-asset team in 2016, having previously worked as a portfolio manager in the Schroder multi-asset team. Mr Saunders is co-head of multi-asset growth at IAM and has over 35 years of investment experience. The pair are supported by the specialist research groups of the multi-asset team, as well as the wider resources of IAM's other Investment teams.

The multi-asset team assess investment opportunities based on their "compelling forces" framework. This involves evaluating assets based on three factors; fundamentals, valuations and market behaviour. The team's approach can also be characterised by the way they categorise assets. Rather than thinking about their investible universe as equities and bonds they define assets based on their expected future behaviour; these include factors such as growth, defensive or uncorrelated. They believe this helps build more robust portfolios.

The multi-asset team are structured into seven specialist research groups and investment ideas from each inform the team's views. The team analyse bottom-up security level information and combine this with top-down macroeconomic research. This combination allows the team to more precisely implement their views into areas which offer the best opportunities, as well as providing an understanding of the overall risk of the portfolio.

The managers have a flexible remit and will dynamically adjust the asset allocation to enhance returns as well as manage risk. The fund can invest between 0-100% in growth assets which may include equities, high yield bonds, emerging market debt, FX carry, property and private equity. Risk is managed in a number of ways including investing in a diversified range of assets and by adjusting the overall risk characteristic of the fund. Key to the fund meeting its performance objective is the managers' ability to select the right asset classes at the right time and to identify investment themes which will provide superior returns compared to broader markets. The fund will hold a mix of assets including equity, bonds, commodities, foreign exchange contracts and alternative investments. Whilst the risk associated with the fund will vary over time the fund's performance objective means that it is likely to carry a higher level of risk within the Vitality fund range.

The managers will use a variety of investments to best implement the asset allocation strategy including IAM funds, passive funds, specially created baskets of stocks, direct securities and derivatives. This approach allows them to more specifically target areas of the market which they believe offer good value.

Growth Funds

Vitality Global Equity Growth

Fund Outcome

Capital accumulation through a portfolio of global companies. Whilst equities can lose money over short to medium time periods, over longer time periods, and particularly over multiple investment cycles, equities, in aggregate, have proved an extremely successful way of accumulating capital.

Performance Objective

The fund aims to outperform the MSCI AC World Index in the region of 2-4% per annum (net of fees) over a full market cycle.

Opinion

This is a high conviction and reasonably concentrated strategy, investing across both developed and emerging market regions. The fund is essentially invested in high quality, attractively valued and well managed companies, which are operating with above average returns on capital and have a clear competitive advantage. As such, the portfolio's composition is likely to differ substantially from the benchmark.

This approach can lead to variable performance over shorter time periods, however, over longer periods, it has managed to successfully outperform the MSCI AC World Index. Overall, we would expect this fund to lag when global equity markets are led by lower quality, cyclical, or even smaller sized companies but help protect capital in falling markets.

We believe that the investment philosophy and process here are well thought out and thoroughly constructed. Furthermore, we hold the firm's Quality team in high regard as demonstrated by our rating of the UK Alpha fund which is managed by team co-head, Simon Brazier. Although the wider team is based in various global locations, we still view this collegiate approach favourably and appreciate the fact that each team member is not restricted to solely providing investment ideas or analytical resources but are also encouraged to challenge and help drive debate.

Strategy Overview

This fund is managed by co-head of the Quality team, Clyde Rossouw, who is based in Investec Asset Management's (IAM) Cape Town office. Having joined IAM in 1999 as an asset and sector allocation strategist, he has experience spanning multiple asset classes. In addition to managing this fund, he also has portfolio management duties for the firm's flagship Opportunities fund and Global Quality Equity Income fund. Mr Rossouw is supported by the rest of the Quality team, which is based across Investec's Cape Town, London and New York offices.

The quality team operate with a long-term view and believe that the inefficiencies in markets present opportunities to own companies with competitive advantages and high or improving cash flows at attractive valuations. In practice, it is the combination of quality, growth and yield factors which the team believe are most likely to compound returns for investors.

To reduce the global universe, the team use a screening process, thus excluding lower quality and capital intensive companies which typically reside in energy, materials, telecoms and utility sectors, as well as smaller companies which are below USD $3bn market cap in size. The output from the screen, however, is not the only source of ideas as the team also make use of their own experience, other investment teams from across the firm as well as external sources, such as third-party research.

From here a company is then scrutinised in depth with an analysis of its business and financial model, as well as an assessment of management's capital allocation history, to obtain a valuation for a company. A critical element to the investment process is the team's debate and discussion, upon which all investment decisions ultimately hinge.

The resulting 25-40 stock portfolio is constructed by Mr Rossouw, where positions are typically at least 1% of the fund at purchase and weighted by their own risk and reward opportunity. Risk is viewed as the permanent loss of capital and as such the fund is unconstrained from its benchmark, however a maximum stock size is typically limited to 10% and the fund will be invested across several industries to ensure sufficient diversification.

Growth Funds

Vitality UK Listed Equity Growth

Fund Outcome

The focus of the fund is on growing the capital value of investments over time through a portfolio of UK equities. Whilst equities can lose money over short to medium time periods, over longer time periods, and particularly over multiple investment cycles, equities, in aggregate, have proved an extremely successful way of accumulating capital.

Performance Objective

The manager seeks to outperform the FTSE All Share Index by 2% to 4% per annum (net of fees) over rolling 3 years.

Opinion

This strategy is essentially designed to benefit from the inefficiency and short-term nature of stock markets. To do so, the team undertake rigorous analysis of a company's financial position, industry profile and management team, incorporating all of this into an evaluation of what they believe to be its true value. This fund is run by a manager who has adhered to the same investment philosophy since the start of his career, and has consistently applied a well-constructed investment process for many years. He is supported by a like-minded team whose integral part of the process is not restricted to solely providing investment ideas and analytical resources but to also challenge and help drive debate.

This is not a fund that necessarily aims to shoot the lights out on a performance level, but instead looks to outperform regardless of the market backdrop. This means that, unlike more aggressive strategies that invest in the UK market and whose more stringent investment styles may cyclically fall in or out of favour, the manager is aiming instead to produce regular and attractive levels of outperformance. Given the clarity of the investment philosophy and process, commitment and drive of the fund manager and his supporting team, we believe this is an attractive proposition for investors seeking an opportunistic strategy which should offer a reliable return profile.

Strategy Overview

This fund is managed by the co-head of the Quality team, Simon Brazier, who joined Investec in late 2014. Mr Brazier was previously at (Columbia) Threadneedle Investments, where he was Head of UK Equities and responsible for managing one of the firm's flagship UK equity strategies, amongst other mandates. Mr Brazier opened his investment career with Schroders in 1998 before moving over to Threadneedle in 2010. Mr Brazier is supported by colleagues with whom he previously worked at Threadneedle, as well as the rest of the Quality team, which is based across Investec's London and Cape Town offices.

Mr Brazier's investment philosophy has remained consistent throughout his career. He, and the team, essentially believe that the inefficiency of markets, not least because of their tendency to focus on the short-term, presents opportunities for investors who are willing to take a longer-term view. Essentially, through an in-depth understanding of the mechanics and driving forces behind a company, the team feel they can find investments that the market may have irrationally, though temporarily, mispriced.

Mr Brazier has a natural preference for attractively valued higher quality companies, however, if the valuation is right, he will also consider turnaround situations, contrarian plays and firms facing short-term cyclical headwinds. In essence, the team seek profitable and growing companies, with healthy free cash flow generation and a management team with a proven record of wisely allocating capital, especially in investing for further growth.

Investment ideas are generated primarily from the team's own experience, interaction with companies, other Investec teams and from selected external sources. In establishing the longer-term valuation of a company the team assess a number of aspects. This includes a review of a firm's financial position, such as balance sheet strength and ability to generate free cash flow, as well as more qualitative characteristics concerning its competitiveness, industry position, management team and profit growth potential. They use all of this information, as well as appropriate financial models and metrics, to uncover what they consider to be a true valuation of a company. A critical element to the investment process is the team's debate and discussion.

Risk plays a large role in Mr Brazier's decision making and he looks to minimise the potential for losses by having a bias to quality companies, investing at a low price and focusing on business risk (e.g. financial, operational or liquidity risk). Alongside this is a desire to remain diversified by theme, e.g. defensives or cyclicals, not be overly exposed to a particular investment style nor dominated by market cap biases. The fund will be typically invested in 50-90 stocks and have at least 50% in the FTSE 100.

Income Funds

Vitality Multi-Asset Income

Fund Outcome

The aim of the fund is to provide a sustainable income plus capital stability throughout the cycle, with a low level of volatility. In practice the manager looks to deliver an income of 3-5% with at the very least a return of capital, with bond-like or less than half of equity volatility. All three outcomes are seen as equally important and so if income cannot be generated within the risk parameters or if it is likely to jeopardise capital stability then the income target will be reduced. The managers see an income yield of 3% net of fees as being the minimum they would expect.

Performance Objective

The fund aims to achieve an attractive, sustainable yield, targeting 3-5% p.a. (net of fees) whilst keeping volatility below half of UK equity volatility.

Opinion

This fund aims to meet a number of objectives. We like that the objectives are explicit and tangible allowing investors to build a clear picture of the level and return profile for the fund. Whilst the investment industry has started moving towards building products with clearer investor outcomes it still remains the exception rather than the rule and this fund stands out in this regard.

We think the multi-asset team at Investec Asset Management (IAM) is well-resourced and has many highly-experienced investors. The fund benefits from the long-standing "compelling forces" investment framework which provides a common language for the team when researching and analysing potential investment opportunities. The large size of the team means the managers can draw from a wide range of investment opportunities across and within asset classes.

We believe lead manager of the fund, John Stopford, is a steady pair of hands on what is designed to be a low risk strategy. He is a thoughtful investor and has managed fixed income funds for a number of years, and more latterly multi-asset portfolios. He brings a high level of experience to the management of the fund. Since the strategy was launched in July 2012 the manager has successfully delivered to his objectives.

Strategy Overview

The fund is managed by the experienced John Stopford. He is head of multi-asset income at IAM and responsible for all multi-strategy income funds. He also participates in the wider management of the businesses multi-asset products. He joined Guinness Flight in 1993, which was later acquired by Investec Asset Management, and took responsibility for investments in emerging bond and currency markets. During his time at the firm he has also been co-head of fixed income & currency, as well as responsible for the management of South African fixed income assets. Jason Borbora is assistant fund manager on the strategy and a member of the multi-asset team.

The multi-asset team assess investment opportunities based on their "compelling forces" framework. This involves evaluating assets and asset classes based on three factors; fundamentals, valuations and market behaviour. The team's approach can also be characterised by the way they categorise assets. Rather than thinking about their investible universe as equities and bonds they define assets based on their expected future behaviour, these include factors such as growth, defensive or uncorrelated. They believe this helps build more robust portfolios.

The multi-asset team are structured into seven specialist research groups and investment ideas from each inform the team's views. The team analyse bottom-up security level information and combine this with top-down macroeconomic research. This combination allows the team to more precisely implement their views into areas which offer the best investment opportunities, as well as providing an understanding of the overall risk of the portfolio. The team are active asset allocators and will tilt the portfolio depending on which assets they believe are likely to react most positively to the prevailing market conditions.

The managers attempt to build resilient portfolios from the bottom up. The fund will consist of broadly 250-300 individual names from across the full breadth of the market. Securities are selected based on 3 criteria - yield, income sustainability and capital gains. These support the delivery of the three objectives.

The portfolio will invest directly in equities and bonds as the manager thinks this approach provides a greater level of control over the potential risk and returns of the fund. The only exception to this is their uncorrelated assets where they may invest via other investment vehicles, for example closed ended funds.

Income Funds

Vitality Global Equity Income

Fund Outcome

The managers are looking to generate a dividend stream that is expected to grow over time alongside capital growth. Distributions will be dependent upon market conditions and therefore the level of income can fluctuate. Equity income funds are a suitable capital accumulation strategy when income is reinvested.

Performance Objective

The fund aims to outperform the MSCI AC World Index by 1-3% per annum (net of fees) over rolling 5-7 year periods.

Opinion

This is a high conviction and reasonably concentrated strategy, investing in high quality income generating businesses across both developed and emerging market regions, although it has historically favoured those in developed countries. The fund is essentially invested in attractively valued and well managed companies, which are operating with above average returns on capital and have a clear competitive advantage. As such, the portfolio's composition is likely to differ substantially from the benchmark.

With an inherit bias towards income producing companies, we would expect this fund to lag when global equity markets are led by lower quality, cyclical, or even smaller sized companies, but exhibit characteristics of lower volatility and reduced drawdowns versus the benchmark over the long term. The managers will not sacrifice on quality in the pursuit for yield and as such, the fund's yield may, at times, be lower than that of other global equity income strategies.

We believe that the investment philosophy and process here are well thought out and thoroughly constructed. Furthermore, we hold the firm's Quality team in high regard as demonstrated by our rating of the UK Alpha fund which is managed by team co-head, Simon Brazier. Although the wider team is based in various global locations, we still view this collegiate approach favourably and appreciate the fact that each team member is not restricted to solely providing investment ideas or analytical resources but are also encouraged to challenge and help drive debate.

Strategy Overview

This fund is co-managed by Clyde Rossouw, Abrie Pretorius and Blake Hutchins, who are all members of Investec Asset Management's Quality team. Based in Cape Town, New York and London respectively, the managers have varying levels of experience. The most senior, co-head of the team, Mr Rossouw, also has portfolio management duties for the firm's flagship Opportunities fund and the Global Franchise fund and has a background in asset and sector allocation strategy spanning multiple asset classes. Mr Pretorius' sole focus is on the management of this fund and analysis within the Quality team. He initially joined the industry in 2006 where he was a member of the performance and risk team and then went on to join the investment team in 2007. Mr Hutchins has analyst responsibilities in addition to co-managing this fund. He also manages the UK Equity Income fund and serves as a backup on the UK Alpha fund. Prior to joining the firm, he held roles at Columbia Threadneedle Investments and Aviva Investors.

The quality team operate with a long-term view and believe that the inefficiencies in markets present opportunities to own companies with competitive advantages and high or improving cash flows at attractive valuations. In practice, the team believe that income generated by quality companies tends to be durable with attractive growth prospects.

To reduce the global universe, the team use a screening process, thus excluding lower quality and capital intensive companies which typically reside in energy, materials, telecoms and utility sectors as well as smaller, less liquid companies. The output from the screen, however, is not the only source of ideas as the team also make use of their own experience, other investment teams from across the firm, and external sources, such as third party research. The team will then scrutinise the business and financial model as well as assess the management's capital allocation history to obtain a valuation for a company. A critical element to the investment process is the team's debate and discussion, upon which all investment decisions ultimately hinge. A primary focus for this fund is on those companies that have the ability to provide a growing dividend.

The resulting 30-50 stock portfolio is constructed by Mr Rossouw, where positions are typically at least 1% of the fund at purchase and weighted by their own risk and reward opportunity. Although this fund invests in income generating stocks, there is no yield threshold at the individual stock level. Risk is viewed as the permeant loss of capital and as such the fund is unconstrained from its benchmark, however, a maximum stock size is typically limited to 10% and the fund will be invested across several industries to ensure sufficient diversification.

Income Funds

Vitality UK Listed Equity Income

Fund Outcome

The manager looks to provide income and capital accumulation primarily through investment in equities issued by UK companies. Whilst equities can lose money over short to medium time periods, over longer time periods, and particularly over multiple investment cycles, equities, in aggregate, have proved an extremely successful way of accumulating capital, particularly when income is reinvested.

Performance Objective

The manager seeks to outperform the FTSE All Share Index by 2-4% per annum (net of fees) on a total return basis, over rolling 5 years. Whilst not a formal objective he focuses on sustainable dividend growth rather than dividend yield, seeking to steadily increase annual income distributions with a yield greater than the yield on the FTSE All Share Index (yield target is based on a 3 year average, as at the fund’s year end).

Opinion

Although Blake Hutchins is a reasonably inexperienced lead portfolio manager, he has worked alongside co-head of the firm's quality team, Simon Brazier, for much of his investment career. Mr Hutchins is well supported by the rest of the quality team, who invest with a similar philosophy and provide input into the team's other strategies. Mr Brazier has been somewhat of a mentor to Mr Hutchins, and this fund represents an increase in responsibility and we see it as the natural progression for a young fund manager who has a number of the attributes required to have a successful career in asset management.

This fund is managed with a greater emphasis on dividend growth as opposed to merely investing in the market's highest yielding companies. This is important to note as although the headline yield is likely to be around that of the FTSE All Share Index, the nature of the companies held, i.e. those that are perceived to be of higher quality, should allow the fund to meet its income objective of delivering long-term dividend growth in excess of inflation. Indeed, the characteristics sought within the portfolio's holdings should provide some protection during periods of market stress. However, we would note that the portfolio has not really been tested in this regard under Mr Hutchins' tenure.

Overall, we see this as an interesting opportunity to gain access to a promising fund manager in the early stages of his career. The proposition is strengthened through the support of a team and investment process we hold in high regard.

Strategy Overview

This fund falls under the remit of the IAM Quality Team that is co-headed by Cape Town-based Clyde Rossouw and Simon Brazier, who is based in London; Blake Hutchins is responsible for its day to day management. Mr Hutchins joined IAM in late 2014, around the same time as Mr Brazier and two further colleagues, all of whom had previously worked on (Columbia) Threadneedle Investments' UK equities desk.

The Quality Team operates under a common philosophy - essentially believing in the inefficiency of markets, not least because of their tendency to focus on the short-term, which presents opportunities for investors who are prepared to take a longer-term view. Through an in-depth understanding of the mechanics and driving forces behind a company, the team feel they can find investments that the market may have irrationally, though temporarily, mispriced.

The investment process includes three distinct stages: idea generation, fundamental analysis, and portfolio construction. Ideas are drawn from a variety of sources, namely company meetings, internal teams and third-party research. Ideally, the manager seeks to find investment ideas from across the UK market, however his favoured hunting ground for opportunities tends to be in the bottom 70 stocks in the FTSE 100 and upper half of the FTSE 250. Small caps and overseas listed companies may also be held when deemed appropriate. Mr Hutchins will use the international exposure (up to 20%) available to this fund. His rationale for this is to enable increased sector exposure to those sectors less represented in the UK market and to diversify the income stream.

In essence, the team seek profitable and growing companies, with healthy free cash flow generation and a management team with a proven record of sensibly allocating capital. In establishing the valuation of a company, the team assess a number of aspects. This includes a review of a firm's financial position, such as balance sheet strength, as well as more qualitative characteristics concerning its competitiveness, industry position, management team and profit growth potential. They use all of this information, as well as appropriate financial models and metrics, to uncover what they consider to be a true valuation of a company. Given this fund's income mandate, the manager also focuses on a company's ability to grow its cash flow over time. He believes that cash generative companies with sustainable high or improving returns on capital, and low capital intensity, are most likely to grow their dividends and deliver attractive real returns.

Typically investing across 40-60 stocks, this is a relatively concentrated portfolio. The bulk of the assets are likely to be invested in higher quality companies, which are held for their stable dividend paying characteristics. The remainder is held in selective undervalued opportunities, with the aim of providing potential capital upside. Risk is viewed in terms of permanent loss of investor capital as opposed to against any formal limits against the benchmark.

Specialist Fund

Vitality Targeted Absolute Return Bond

Fund Outcome

In essence, this is an absolute return bond fund, with the managers aiming to achieve a return of 1.75% above overnight sterling LIBOR, net of fees, over rolling 3 year periods.

Whilst the intention is to deliver absolute returns over time, the diversification strategies used by the manager might not work as expected and this could result in capital losses, particularly in the short term.

Performance Objective

To generate a return of 1.75% per annum (net of fees) above that of the overnight sterling LIBOR rate over rolling 3 year periods. Whilst not a formal performance objective the manager also aims to provide positive returns over rolling 12 month periods.

Opinion

Theoretically this is an appealing investment proposition. The fund attempts to attain positive returns in the fixed income markets over a 12 month period regardless of prevailing market conditions. The manager can take both long (positive) and outright short (negative) exposures to express the team's market views.

It is our view, that in principle, the building blocks are in place in this fund to generate positive returns. The fund is a genuine global best ideas fund and we believe the process gives Mr Silberston optimum access to the investment ideas across Investec's fixed interest team, whilst distilling these ideas into investable formats, sharpened by rigorous research and internal challenge.

We also like the emphasis on portfolio construction within the fund. Historically the strategy has exhibited little correlation to either equity or bond markets. We believe that the balancing of both the fund's exposures to asset classes (credit, rates, currency) as well as investment themes (growth, defensive, market neutral) has led to such impressively low correlation and bodes well for uncorrelated returns in the future.

In practice, however, in the low volatility world that we have experienced over the last few years, the strategy has failed to meet its performance objective, and not preserved capital over rolling 12 month periods. Whilst understandable, this has been a disappointing outcome for investors.

Strategy Overview

The fund is managed by Russell Silberston, Head of Multi-Asset Absolute Return at Investec Asset Management (IAM), as well as the FX and rates research groups. Mr Silberston has over 35 years of industry experience. During this time he has held a number of fixed income and money market portfolio manager responsibilities, as well as running proprietary trading desks. Mr Silberston re-joined IAM in 2005 after 4 years at Cazenove. He has been involved with the fund since its October 2005 inception, however he formally became co-manager on this fund on 1st January 2016. He is now sole manager on the fund, following a handover period from John Stopford, the fund's previous portfolio manager. Mr Stopford continues to head the macro team at IAM.

Within the fixed interest universe, the opportunity set for the fund is extremely broad, spanning developed and emerging market government bonds and currencies as well as investment grade and sub-investment grade credit. Positions can be long (for positive views), outright short (for negative views) or market neutral. Mr Silberston draws upon bottom up trade ideas from each of the individual fixed income teams at IAM (macro, FX and rates and credit). Analysts consider valuations and the strength of fundamental factors, as well as the technical dynamics of individual positions. Where an analyst views a potential position as having a suitably attractive risk-return payoff they will present the idea to their immediate team who will then debate it. Portfolio ideas that are agreed at an individual team level are then proposed and challenged at the weekly multi-asset team meeting. Mr Silberston will draw what he views as the most attractive ideas from those that have been approved at this meeting.

The manager aims to provide investors with an absolute return over rolling 12 month periods regardless of prevailing market conditions. To this end Mr Silberston seeks to limit the fund's correlation to the broad equity and, wherever possible, bond markets. He primarily does this by adjusting the asset allocation of the fund's holdings, ensuring that no one part of the fixed income market dominates returns. Each trade idea is also segmented into investment themes of either growth, defensive or uncorrelated trades. The whole portfolio can then be monitored to ensure the fund does not rely upon any specific scenario for global markets. The final portfolio construction is determined by Mr Silberston alongside the team's head of portfolio construction, Mark Abrahams.

Duration has been positive over time, and the fund has a formal duration range of -5 to +5 years. Individual positons are sized with reference to their risk and higher conviction views will be allocated a greater risk budget.

The fund has a risk budget of 3% ex-ante volatility. Historically the strategy has been well below the maximum level of risk but under Mr Silbertson's tenure the level of risk taken has increased.

Multi-Asset Risk Profiled Funds

Vitality Multi-Asset Moderate

Fund Outcome

The manager aims to provide capital accumulation over the long term whilst seeking to maintain a level of risk consistent with Dynamic Planner (DP) risk profile 4. This equates to a risk level which is broadly around 50% to 70% of equities.

Performance Objective

The fund aims to outperform a composite benchmark of 50% MSCI AC World Index (GBP hedged) and 50% Citi World Government Bond Index (GBP hedged) over rolling 3 year periods. Although not part of the fund's formal objective, we understand the manager aims to outperform the composite benchmark by 1-2% per annum (net of fees) over this time frame.

Opinion

We think the multi-asset team at Investec Asset Management (IAM) is well-resourced and has many highly-experienced investors. The fund benefits from the long-standing "compelling forces" investment framework which provides a common language for the team when researching and analysing potential investment opportunities. The large size of the team means the managers can draw from a wide range of investment opportunities across and within asset classes.

This strategy represents a new mandate for the group, however the team has a long history and track record running the Global Strategic Managed (GSM) fund which is managed along similar lines and uses the same investment process. Over the medium to long-term performance of the GSM fund has been similar to the stated benchmark, but has underperformed its performance objective. We are conscious that the fund's manager, Iain Cunningham, only joined the group in 2016. Since his arrival at IAM, he has integrated well within the team, however he does not have a demonstrable track record with his new team. IAM veteran, Philip Saunders, will provide support and brings significant experience, having been portfolio manager on GSM since 2004. Historically the team's investment style has led to the GSM strategy outperforming during periods of rising markets and underperforming during periods of falling markets.

Strategy Overview

The fund is managed by Iain Cunningham. He joined the IAM multi-asset team in 2016, having previously worked as a portfolio manager in the Schroder multi-asset team. He is supported on the fund by Philip Saunders who is co-head of multi-asset growth at IAM. Mr Saunders is also a portfolio manager on a number of multi-asset strategies. He has over 35 years of investment experience. The pair are supported by the specialist research groups of the multi-asset team, as well as the wider resources of IAM's other Investment teams.

The multi-asset team assess investment opportunities based on their "compelling forces" framework. This involves evaluating assets and asset classes based on three factors; fundamentals, valuations and market behaviour. The team's approach can also be characterised by the way they categorise assets. Rather than thinking about their investible universe as equities and bonds they define assets based on their expected future behaviour, these include factors such as growth, defensive or uncorrelated. They believe this helps build more robust portfolios.

The multi-asset team are structured into seven specialist research groups and investment ideas from each inform the team's views. The team analyse bottom-up security level information and combine this with top-down macroeconomic research. This combination allows the team to more precisely implement their views into areas which offer the best investment opportunities, as well as providing an understanding of the overall risk of the portfolio. The team are active asset allocators and will tilt the portfolio depending on which assets they believe are likely to react most positively to the prevailing market conditions.

Unlike most risk profiled funds whose broad structure is driven by capital market assumptions and an optimisation process, this fund has a much simpler approach to asset allocation. The fund's neutral asset allocation is 50% global equities and 50% global bonds with the flexibility to have between 30%-60% in equities. The risk parameters which govern the fund's ability to vary the asset allocation are designed to keep the fund aligned with DP Risk Profile 4. This also involves active currency and duration management.

The manager will use a variety of investments to best implement the asset allocation strategy including IAM funds, passive funds, specially created baskets of stocks, direct securities and derivatives. This approach allows him to more specifically target areas of the market which he believes offer good value.

Multi-Asset Risk Profiled Funds

Vitality Multi-Asset Balanced

Fund Outcome

The manager aims to provide capital accumulation over the long term whilst seeking to maintain a level of risk consistent with Dynamic Planner (DP) risk profile 5. This equates to a risk level which is broadly around 65% to 85% of equities.

Performance Objective

The fund aims to outperform a composite benchmark of 65% MSCI AC World Index (GBP hedged) and 35% Citi World Government Bond Index (GBP hedged) over rolling 3 year periods. Although not part of the fund's formal objective, we understand the manager aims to outperform the composite benchmark by 1-2% per annum (net of fees) over this time frame.

Opinion

We think the multi-asset team at Investec Asset Management (IAM) is well-resourced and has many highly-experienced investors. The fund benefits from the long-standing "compelling forces" investment framework which provides a common language for the team when researching and analysing potential investment opportunities. The large size of the team means the managers can draw from a wide range of investment opportunities across and within asset classes.

This strategy represents a new mandate for the group, however the team has a long history and track record running the Global Strategic Managed (GSM) fund which is managed along similar lines and uses the same investment process. Over the medium to long-term performance of the GSM fund has been similar to the stated benchmark, but has underperformed its performance objective. We are conscious that the fund's manager, Iain Cunningham, only joined the group in 2016. Since his arrival at IAM, he has integrated well within the team, however he does not have a demonstrable track record with his new team. IAM veteran, Philip Saunders, will provide support and brings significant experience having been portfolio manager on GSM since 2004. Historically the team's investment style has led to the GSM strategy outperforming during periods of rising markets and underperforming during periods of falling markets.

Strategy Overview

The fund is managed by Iain Cunningham. He joined the IAM multi-asset team in 2016, having previously worked as a portfolio manager in the Schroder multi-asset team. He is supported on the fund by Philip Saunders who is co-head of multi-asset growth at IAM. Mr Saunders is also a portfolio manager on a number of multi-asset strategies. He has over 35 years of investment experience. The pair are supported by the specialist research groups of the multi-asset team, as well as the wider resources of IAM's other Investment teams.

The multi-asset team assess investment opportunities based on their "compelling forces" framework. This involves evaluating assets and asset classes based on three factors; fundamentals, valuations and market behaviour. The team's approach can also be characterised by the way they categorise assets. Rather than thinking about their investible universe as equities and bonds they define assets based on their expected future behaviour, these include factors such as growth, defensive or uncorrelated. They believe this helps build more robust portfolios.

The multi-asset team are structured into seven specialist research groups and investment ideas from each inform the team's views. The team analyse bottom-up security level information and combine this with top-down macroeconomic research. This combination allows the team to more precisely implement their views into areas which offer the best investment opportunities, as well as providing an understanding of the overall risk of the portfolio. The team are active asset allocators and will tilt the portfolio depending on which assets they believe are likely to react most positively to the prevailing market conditions.

Unlike most risk profiled funds whose broad structure is driven by capital market assumptions and an optimisation process, this fund has a much simpler approach to asset allocation. The fund's neutral asset allocation is 65% global equities and 35% global bonds with the flexibility to have between 45%-75% in equities. The risk parameters which govern the fund's ability to vary the asset allocation are designed to keep the fund aligned with DP risk profile 5. This also involves active currency and duration management.

The manager will use a variety of investments to best implement the asset allocation strategy including IAM funds, passive funds, specially created baskets of stocks, direct securities and derivatives. This approach allows him to more specifically target areas of the market which he believes offer good value.

Multi-Asset Risk Profiled Funds

Vitality Multi-Asset Growth

Fund Outcome

The manager aims to provide capital accumulation over the long term whilst seeking to maintain a level of risk consistent with Dynamic Planner (DP) risk profile 6. This equates to a risk level which is broadly around 80% to 100% of equities.

Performance Objective

The fund aims to outperform a composite benchmark of 80% MSCI AC World Index (GBP hedged) and 20% Citi World Government Bond Index (GBP hedged) over rolling 3 year periods. Although not part of the fund's formal objective, we understand the manager aims to outperform the composite benchmark by 1-2% per annum (net of fees) over this time frame.

Opinion

We think the multi-asset team at Investec Asset Management (IAM) is well-resourced and has many highly-experienced investors. The fund benefits from the long-standing "compelling forces" investment framework which provides a common language for the team when researching and analysing potential investment opportunities. The large size of the team means the managers can draw from a wide range of investment opportunities across and within asset classes.

This strategy represents a new mandate for the group, however the team has a long history and track record of running the Global Strategic Managed (GSM) fund which is managed along similar lines and uses the same investment process. Over the medium to long-term performance of the GSM fund has been similar to the stated benchmark, but has underperformed its performance objective. We are conscious that the fund's manager, Iain Cunningham, only joined the group in 2016. Since his arrival at IAM, he has integrated well within the team, however he does not have a demonstrable track record with his new team. IAM veteran, Philip Saunders, will provide support and brings significant experience having been portfolio manager on GSM since 2004. Historically the team's investment style has led to the GSM strategy outperforming during periods of rising markets and underperforming during periods of falling markets.

Strategy Overview

The fund is managed by Iain Cunningham. He joined the IAM multi-asset team in 2016, having previously worked as a portfolio manager in the Schroder multi-asset team. He is supported on the fund by Philip Saunders who is co-head of multi-asset growth at IAM. Mr Saunders is also a portfolio manager on a number of multi-asset strategies. He has over 35 years of investment experience. The pair are supported by the specialist research groups of the multi-asset team, as well as the wider resources of IAM's other Investment teams.

The multi-asset team assess investment opportunities based on their "compelling forces" framework. This involves evaluating assets and asset classes based on three factors; fundamentals, valuations and market behaviour. The team's approach can also be characterised by the way they categorise assets. Rather than thinking about their investible universe as equities and bonds they define assets based on their expected future behaviour, these include factors such as growth, defensive or uncorrelated. They believe this helps build more robust portfolios.

The multi-asset team are structured into seven specialist research groups and investment ideas from each inform the team's views. The team analyse bottom-up security level information and combine this with top-down macroeconomic research. This combination allows the team to more precisely implement their views into areas which offer the best investment opportunities, as well as providing an understanding of the overall risk of the portfolio. The team are active asset allocators and will tilt the portfolio depending on which assets they believe are likely to react most positively to the prevailing market conditions.

Unlike most risk profiled funds whose broad structure is driven by capital market assumptions and an optimisation process, this fund has a much simpler approach to asset allocation. The fund's neutral asset allocation is 80% global equities and 20% global bonds with the flexibility to have between 60%-90% in equities. The risk parameters which govern the fund's ability to vary the asset allocation are designed to keep the fund aligned with DP Risk Profile 6. This also involves active currency and duration management.

The manager will use a variety of investments to best implement the asset allocation strategy including IAM funds, passive funds, specially created baskets of stocks, direct securities and derivatives. This approach allows him to more specifically target areas of the market which he believes offer good value.

Multi-Asset Risk Targeted Funds

VitalityInvest Risk Optimiser (VIRO) Range

Fund Outcome

VIRO 3
The fund aims to provide capital accumulation from a combination of income and growth over the longer term whilst seeking to maintain a level of risk consistent with Distribution Technology Dynamic Planner risk profile 3. This equates to a risk level broadly similar to 35% to 55% of UK equity market risk.

VIRO 4
The fund aims to provide capital accumulation from a combination of income and growth over the longer term whilst seeking to maintain a level of risk consistent with Distribution Technology Dynamic Planner risk profile 4. This equates to a risk level which is broadly around 50% to 70% of UK equity market risk.

VIRO 5
The fund aims to provide capital accumulation from a combination of income and growth over the longer term whilst seeking to maintain a level of risk consistent with Distribution Technology Dynamic Planner risk profile 5. This equates to a risk level which is broadly around 65% to 85% of UK equity market risk.

VIRO 6
The fund aims to provide capital accumulation from a combination of income and growth over the longer term whilst seeking to maintain a level of risk consistent with Distribution Technology Dynamic Planner risk profile 6. This equates to a risk level which is broadly around 80% to 100% of UK equity market risk.

VIRO 7
The fund aims to provide capital accumulation from a combination of income and growth over the longer term whilst seeking to maintain a level of risk consistent with Distribution Technology Dynamic Planner risk profile 7. This equates to a risk level which is broadly similar to UK equity market risk.

Performance Objective

VIRO 3
To provide a total return, from a combination of income and capital appreciation, over the long term, whilst staying within its forecasted annualised volatility range of 4.2% to 6.3%.

VIRO 4
To provide a total return, from a combination of income and capital appreciation, over the longer term, whilst staying within its forecasted annualised volatility range of 6.3% to 8.4%.

VIRO 5
To provide a total return, from a combination of income and capital appreciation, over the longer term, whilst staying within its forecasted annualised volatility range of 8.4% to 10.5%.

VIRO 6
To provide a total return, from a combination of income and capital appreciation, over the longer term, whilst staying within its forecasted annualised volatility range of 10.5% to 12.6%.

VIRO 7
To provide a total return, from a combination of income and capital appreciation, over the longer term, whilst staying within its forecasted annualised volatility range of 12.6% to 14.7%.

Opinion

The VitalityInvest Risk Optimiser range represents a simple, transparent and efficient way to access financial markets and one we think will appeal to investors. The funds also supports the need of ensuring ongoing client suitability is met as each has been specifically designed to remain aligned with a specified risk profile, as defined by Distribution Technology's (DT) Dynamic Planner software.

The process which drives the asset allocation of each fund has been around for a number of years and has proven to be robust over this time. In an attempt to offer a lower cost solution as well as maintain a high level of liquidity, Vitality has restricted the asset classes within which the funds will invest. This excludes investment in commercial property and high yield bonds. However, Vitality's approach and constraints for controlling the fund's broad structure appear sensible and we do not believe having a more limited investible universe will provide a significant headwind to the funds meeting their longer-term objectives.

The funds invest predominantly in a range of Vanguard index tracker funds. We believe that Vanguard are one of the best providers of index funds in the market. They have significant scale and over the years they have demonstrated a strong commitment towards managing passive strategies, carefully chosing the indices they have tracked and establishing a good historic performance record for tracking these indices. There is no active management involved in managing the VIRO fund range, with the major changes only occurring around changes to the strategic asset allocation. Whilst this means that operationally there should be very little management on a day to day basis, Vitality have ensured they have good infrastructure in place to keep the funds appropriately positioned and manage cash flows efficiently.

Compared to other risk targeted strategies which implement using predominantly passive investments, the funds are not the lowest cost, but do sit towards the lower cost end of the broader market.

Strategy Overview

The Risk Optimiser range is a collection of five lower cost multi-asset funds that have been designed so that the level of risk each fund targets is specifically aligned with one of DT's Dynamic Planner risk profiles 3, 4, 5, 6 and 7.

The asset allocation of the funds has been designed in conjunction with DT and is followed rigidly by the team. It is based on DT's analysis of long-term historic returns and volatility for each asset class as well as future expectations for returns and volatility.

DT's approach to asset allocation is dynamic and involves a quarterly review of the assumptions which drive it. However changes are generally only made on an annual basis. The investment process involves a blend of quantitative inputs with a qualitative overlay overseen by its investment committee. Asset allocation is therefore long-term in nature with no tactical positioning.

The mix of assets within each fund is the same as that for the asset allocation advice service provided by Dynamic Planner, with a couple of exceptions. The funds will not invest into commercial property or high yield bonds due to the higher costs and lower liquidity associated with these two asset classes. The funds' investible universe therefore consists of global equities, (developed and developing), global government bonds (UK and overseas, nominal and index-linked), UK investment grade credit and cash. The list of asset classes used in the funds is, we believe, sufficiently broad so as to provide a good level of diversification. The mix of assets followed by the funds has been designed to offer an optimal level of risk and return when taking into account cost and liquidity.

The funds' asset allocation will be populated using a range of Vanguard index tracker funds. Vanguard is a market leader in passive fund management and has historically been able to demonstrate a high level of tracking error relative to the indices it is seeking to replicate.

The funds are managed in-house by Vitality's unit-linked management team. The team uses proven systems which are also used by the well-established Discovery Invest business in South Africa. The team-based approach means there is little key person risk involved in the process, although there are clear lines of responsibility. The team manage the funds within clear and formal guidelines which are fairly stringent, and so there is very little room for manager discretion. These guidelines ensure that the funds remain closely aligned to the model allocation whilst aiming to avoid any unnecessary trading costs which could act as a drag on performance. The portfolios are reviewed on a daily basis to determine whether any rebalancing is required as a result of market movements and cash flows. The process is largely automated and the team will generally only intervene where there is a problem with the automation process, which is expected to be rare.

Who are Square Mile?

Square Mile is an independent investment research and consulting business that aims to help financial advisers, life companies, platforms and asset managers meet the needs of their investing clients.

Focusing first and foremost on in-depth, qualitative fund research, we help our clients to understand what is available, is of good quality and is suitable to meet their specific requirements.

Square Mile is an independent investment research & consulting business

Our core beliefs

Our research is designed to provide a solid foundation for investment recommendations and everything that we do is motivated by the desire to help the end client to achieve their specific objectives.

- We place the end client's needs at the core of our research process.
- We are independently owned and our interests are fully aligned with those of our clients and our clients' clients.
- We believe that in-depth qualitative research is key to unlocking the best funds for our clients.
- We aim to help our clients build better businesses and stronger brands.

Investing for outcomes

Our qualitative research focuses on the expected outcome of a fund from a client's perspective and how likely the fund management team is to meet that specific need.

Outcome	Suitability
Capital accumulation	For investors who are building up their savings.
Capital preservation	For investors seeking to preserve their capital.
Income protection	For investors who are predominantly seeking investmet income.
Inflation protection	For investors who are seeking to maintain the real value of their capital and income.

For more information on this report or any of the services from Square Mile please email us at **info@squaremileresearch.com** or call **020 3700 7397**.

Important Information