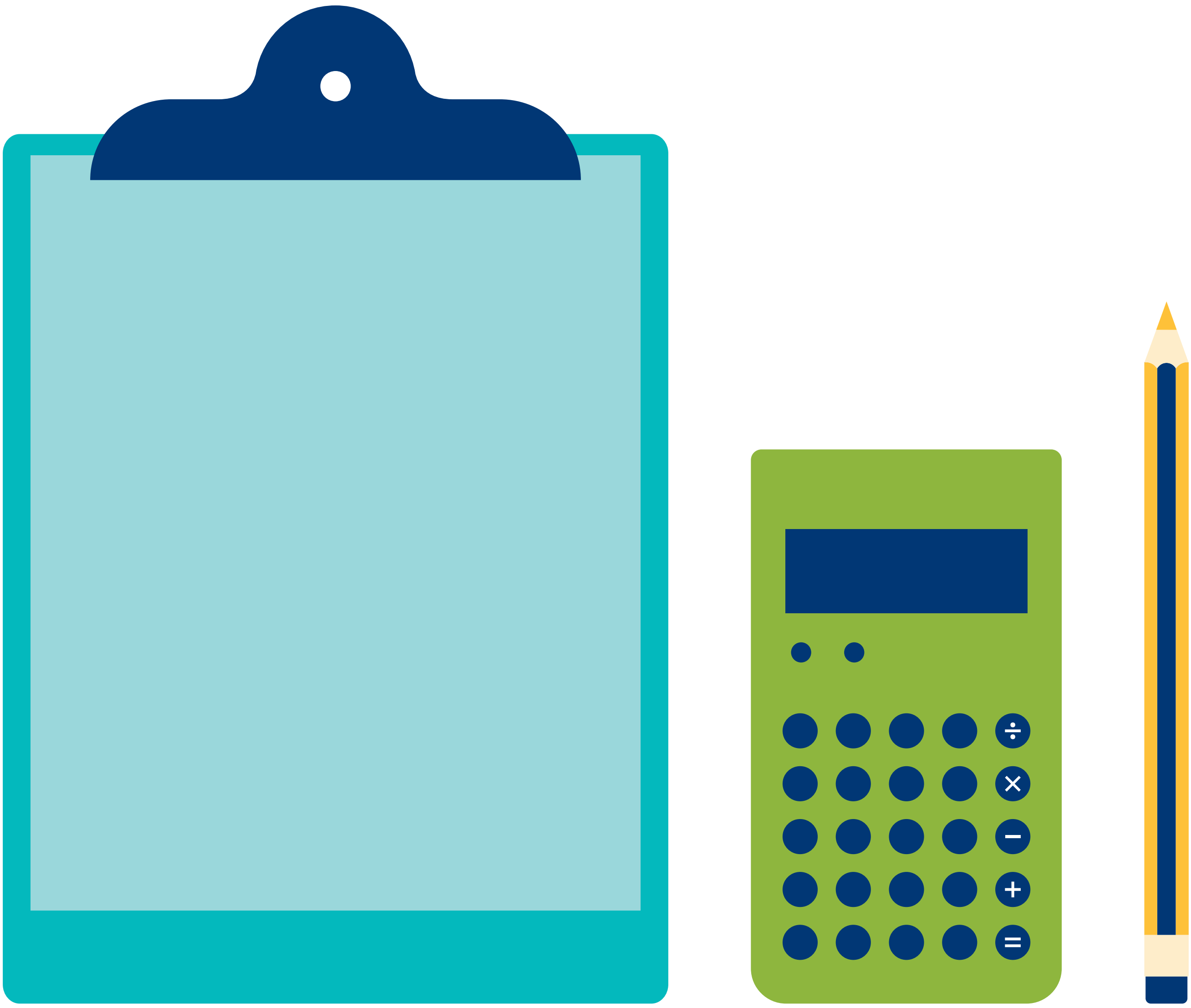
Assessment of Value

RBS Investment Funds ICVC

(for the period ended 28 February 2020)

RBS Stakeholder Investment Fund ICVC

(for the year ended 31 March 2020)



Assessment of Value

Executive Summary

The board of RBS Collective Investment Funds Limited ("RBSCIFL" or "We") as Authorised Corporate Director ("ACD") for RBS Investment Funds ICVC and its sub-funds, and for RBS Stakeholder Investment Fund ICVC, is pleased to present its Assessment of Value.

In performing this Assessment of Value, the board has carefully considered a variety of information available to it in order to determine whether value is delivered to customers. We will also use these findings to reflect on how we can improve the value that we deliver for our customers in the future.

Overall, the board considers that the funds deliver good value to customers:

- The funds' costs include all customer servicing costs, whereas many comparable funds require these to be paid separately – e.g. to an investment platform provider.
- The level of service delivered by the administrative providers is high, reflected in the low levels of complaints and errors.
- The funds give customers access to the expertise of a range of third-party managers, rather than being tied to the abilities of any one investment team.
- Many of the funds have the flexibility to use simple, passive investment styles when this is appropriate, and the cost reduction associated with this is passed on to customers.
- The performance of the funds is within acceptable bounds, noting that the recent change in investment managers means that there is not yet a long-term track record to assess.

The Assessment of Value applies to the following funds:

The RBS Investment Funds ICVC's sub-funds (the "Investment Funds"):

- Global Bond Fund;
- Managed Defensive Fund;
- Managed Equity Growth Fund;
- Managed Growth Fund;
- Managed Income Fund;
- UK Equity Fund.

The RBS Stakeholder Investment Fund ICVC (the "Stakeholder Fund").

The content of this Assessment of Value generally applies equally to all the funds but where there are any differences, we have set these out separately.

Customer Feedback

We hope you find the assessment of value useful and we would be delighted to hear any feedback you may have. Please don't hesitate to contact us to let us know what you think. Our contact details are:

Email: CIFLFund.Governance@rbs.co.uk

Letter: RBSCIFL Governance, 3rd Floor, 440 Strand, London WC2R 0QS

Impact of Coronavirus (Covid-19)

The last few months have seen exceptional stock market and business conditions as a result of the impact of the coronavirus pandemic that we would draw to customers' attention here, although much of the market impact happened after the date of the Assessment of Value.

After strong market performance in 2019, the first few months of 2020 have reminded investors that market volatility is never far away. The worst of the market falls came at the end of February and into March, as the outbreak spread to the US, UK and Europe. This was exacerbated by tensions between Saudi Arabia and Russia over oil production. Market concerns have focused on the impact that the Covid-19 outbreak could have on global supply chains and consumer spending.

In response, the UK Government and the Bank of England have launched packages aimed at making sure businesses are ready to get back to work quickly when the pandemic diminishes. This mirrors the responses from governments and central banks all over the world. The various enormous stimulus packages have certainly boosted markets with, for example, equities having recovered more than half of their losses. It is early days and we expect further ups and downs between now and the end of the current crisis, but this shows that investors are still seeing the long-term potential in investing in securities.

Alongside the stock market impacts, all businesses in the UK have had to adapt to deal with the lockdowns and other implications of the pandemic and we reviewed our business continuity arrangements in February to take account of this. We needed to be fully satisfied that all necessary arrangements were in place to ensure the continuity of business activities given the change in the operational environment. All third-party service providers were contacted to confirm their Business Continuity Plans in light of the evolving situation in relation to Covid-19 and we gained full assurance that business can be maintained. The majority of service providers are now utilising a combination of home working and split locations, where key staff need to work from an office location, and a similar approach applies for our own staff. Service standards have been fully maintained over the subsequent period after some initial disruption while staff transitioned to home working.

Assessment of Value

In assessing the value delivered to our customers, the board considered the following areas:

1. Quality of Service;
2. Costs;
3. Performance;
4. Risk Management;
5. Economies of scale;
6. Comparable market rates;
7. Comparable services;
8. Classes of units.

1. Quality of Service

The role of the ACD is to manage all aspects of the funds in line with their prospectuses and instruments of incorporation, including:

- Ensuring that the funds are managed in line with the agreed investment objectives and policy and risk parameters;
- Arranging the daily pricing of shares in the funds;
- Administration of the funds, including arranging subscriptions and redemptions, calculating and distributing income;
- Keeping customers' money and assets safe and segregated from the ACD's own assets; and
- Maintaining fund records and preparing reports and accounts.

The ACD receives an annual management charge ("AMC") from the funds for performing this role. The services provided by the ACD principally impact customers through the financial performance of their investment, but also through the service they receive while they hold an investment.

The ACD performs some of these activities itself, but it also pays for some of these services to be performed by specialist third parties (although it remains responsible for the services). The ACD is directly responsible for:

- Maintaining and updating all fund documents, and making these available to customers;
- Complying with regulatory obligations (including keeping customers' money safe);
- Maintaining an effective risk and governance framework; and
- Selecting service providers and monitoring their performance.

As set out in section 2 below, one of the key costs which impacts financial performance and return is the AMC paid to the ACD. This covers both the activities carried out by the ACD itself and those carried out by its service providers. The ACD's role is critical to ensure that the correct checks, balances and controls are in place so that the funds are managed properly.

Costs for certain other services are charged directly to the funds. These include the Depositary (who oversees the ACD on behalf of the FCA), custodian (who holds the assets of the funds), and the auditor. However, the ACD oversees the provision of these services to ensure that quality and value are provided.

The FCA's Senior Managers and Certification Regime ("SMCR") was based on the recommendations of the Parliamentary Commission on Banking Standards to consider the professional standards and culture of the UK banking sector after the financial crisis of 2007-2008. In 2016 it introduced a new regulatory framework for Banks to:

- focus accountability on a narrower number of the most senior individuals;
- encourage individuals to take greater responsibility for their actions; and
- make it easier for firms and regulators to hold individuals to account.

In December 2019, the SMCR was extended to Fund Management Companies, including the ACD, to foster a culture of greater individual accountability. In advance of this, we made some changes to our governance framework and appointed Senior Managers with particular responsibilities as required. We also added independent non-executive Directors to the board, to ensure effective scrutiny of decision making and to bring a wider perspective to discussions.

Governance Framework

We maintain a robust governance framework, including independent scrutiny and challenge, which is managed through meetings of the ACD board, various additional governance forums and risk policies.

This allows us to ensure that the funds are managed in accordance with their investment objectives and policy, that risks are monitored and managed appropriately, that good customer outcomes are at the core of our decision making, as well as ensuring all regulatory requirements are met.

Third-Party Service Providers

The ACD delegates the following more specialist services to third-party service providers, which have appropriate expertise and systems:

- Investment management;
- Customer account administration;
- Fund accounting and administration; and
- Fund risk management.

The delegation of a service involves a detailed selection process to find the most appropriate provider, and an ongoing oversight process to ensure the services meet the required standards.

The ACD regularly oversees and assesses the performance of each service provider and provides challenge as needed, considering any necessary enhancements to the services. This oversight includes:

- Monthly Service Review meetings where performance against key performance indicators of service is reviewed and any changes to process are agreed if required;
- Additional quarterly meetings with senior representatives to discuss critical services, strategic developments and the overall relationship; and
- Periodic onsite oversight visits and testing of the delegates' processes.

Such oversight may result in a decision to change the service provider. Over the last year, following a comprehensive review, we decided to make some changes to all the service providers (as was explained to investors in the Voting Document sent in January 2019).

The service providers were carefully selected after a rigorous tender process and are all market leading providers with a proven track record. We rationalised the number of different providers to increase efficiency, benefit from economies of scale (see section 5 below) and reduce costs and, partly as a result, the annual management charges for the funds were reduced. See section 2 below for more on costs.

Investment Management Approach

The way in which the Investment Manager makes its decisions and invests the assets is critical to meeting each fund's objectives and delivering good customer outcomes. Coutts has been the Investment Manager of the funds since 17 May 2019.

Coutts' investment management approach is to actively manage the types and the mix of assets within the funds in order to meet their objectives. Coutts carefully selects direct investments as well as investments into funds managed by third-party investment managers, which can be either active or passive.

This means that the funds have access to a wide range of specialist managers, rather than being restricted to the abilities of a single investment firm. The approach delivers value both in terms of cost savings (as Coutts can negotiate preferential terms, and passive funds are cheaper) as well as the quality of the investment service provided.

Responsible Investing

Coutts' first priority is to deliver investment returns consistent with each fund's objectives. But they are also conscious of their impact on the world we live in. Responsible investing has therefore been high on their agenda since 2016. It is an investment approach used by Coutts for all the shares and funds they select. It focuses on investing in companies and industries who positively affect our world in three key areas:

Environmental

How these companies impact the environment through areas such as low carbon emissions, efficient water usage and encouraging proactive attitudes towards climate change, sustainability and renewable energy.

Social

How these companies help to move society forward – by looking after their staff and data properly, by considering all health impacts and avoiding unethical labour practices and controversial supply chains.

Governance

Finally, Coutts looks at these companies' attitudes towards equality and diversity, executive pay, tax and leadership. It also considers bribery controls, health and safety procedures, and shareholder rights – all to help ensure a fair and stable market environment.

Conclusion

The board believes that the funds deliver quality of service and value to customers because:

- Our oversight process for service providers is a robust review of the services, allowing regular scrutiny and challenge of the quality of service provided, and the ability to implement necessary service enhancements.
- In 2019, we conducted a full review of services and appointed new service providers where appropriate, with the aim of continuing to provide good outcomes for customers at a lower cost.
- Our complaint, error and breach data all show low levels and generally improving trends from previous years.

2. Costs

The total annual cost deducted from each fund is known as the Ongoing Charges Figure ("OCF"). The OCF consists of the Annual Management Charge ("AMC") which is payable to the ACD, together with the Depositary's fees, safe custody fees, audit and tax fees and any costs of printing and distributing the financial accounts to customers.

Within the OCF, the Fund Manager costs represent the costs where Coutts invests in external funds to utilise the third-party managers' expertise to manage some of the assets. In addition to the OCF, the costs of dealing (e.g. dealing taxes as well as dealing spreads on certain investments) are incurred by the funds. All these costs have already been deducted from the performance figures shown in section 3 below, which represent the returns to customers after all costs.

These costs are shown in the table overleaf for each fund as an annual percentage charge. Where 0.00% is shown the cost was nil, or was rounded to 0.00%.

	Global Bond	Managed Defensive	Managed Equity Growth	Managed Growth	Managed Income	UK Equity	Stakeholder Fund*
AMC	0.73%	1.10%	1.10%	1.10%	1.10%	0.91%	1.02%
Fund Manager costs	0.25%	0.35%	0.50%	0.45%	0.60%	0.10%	0.04%
Direct charges**	0.03%	0.02%	0.02%	0.01%	0.05%	0.02%	0.01%
Calculated OCF	**1.01%**	**1.47%**	**1.62%**	**1.56%**	**1.75%*** **	**1.03%**	**1.07%**
Dealing commissions	0.00%	0.01%	0.01%	0.01%	0.01%	0.05%	0.00%
Dealing taxes	0.00%	0.00%	0.00%	0.00%	0.01%	0.07%	0.00%
Spread costs	0.21%	0.12%	0.12%	0.11%	0.19%	0.00%	0.03%
Incidental costs	0.08%	0.01%	0.02%	0.01%	0.01%	0.00%	0.00%
Total Fund Charge	**1.30%**	**1.61%**	**1.77%**	**1.69%**	**1.97%**	**1.15%**	**1.10%**

*The AMC was reduced from 1.50% to 1.02% from 1 July 2019
**Direct charges include Depositary, safe custody and audit fees as well as reporting and printing costs
***The OCF for this sub-fund is capped at 1.75% pa with the ACD meeting the balance of any costs by a rebate from the AMC.

We carry out periodic reviews of the OCF against comparable third-party funds, as well as looking at economies of scale (see section 5 below), to ensure that the charges incurred by customers remain reasonable and fair.

Our reviews include the ACD's costs in providing the services to the funds, including the costs payable to service providers, against the AMC, to ensure that they remain fair and reasonable. In particular, the recent major review of our service providers enabled us to negotiate lower costs in several cases, and we now provide lower Total Fund Charges for these funds than applied in many of the comparable funds which merged into them, while retaining or introducing access to a broad range of investment managers.

Our comparison against the OCF applying for external funds within the relevant IA Sector, suggests the funds are slightly more expensive than average. However, the OCF includes all customer servicing costs, whereas many comparable funds require these to be paid separately – e.g. to an investment platform provider. When allowance is made for this, the OCF of each Fund is lower than the average of the relevant IA sector, with the exception of the Managed Income Fund. As noted in the later section on Economies of Scale, the small size of this fund makes it difficult to maintain charges at a comparable level to other funds. We will further review this and consider making changes to reduce the OCF for certain funds in future where necessary.

We monitor the level of portfolio turnover (the amount of assets bought and sold) and transaction costs paid by the funds using publicly available cost information where available. Based on the available information, we believe that our level of portfolio transactions and the resulting costs are broadly in line with those of comparable funds. It should be noted that these costs are incurred in the management of the underlying portfolios by the Investment Manager and will be reflected in the daily price of a fund and in any performance quoted.

Conclusion

We reduced costs substantially for many customers as part of the fund mergers. For other customers, the change in costs was less significant, but the mergers brought access to a wider range of investment managers.

We will continue to focus on reducing costs within the funds and, having undertaken appropriate reviews, believe that value has been delivered in terms of fund costs.

3. Performance

Investment Funds

Each fund is managed relative to the benchmark specified in its investment objective in the prospectus. The benchmarks have been selected to restrict the funds to a determined level of market risk, and are made up of indices covering asset classes (e.g. UK equities) reflective of the assets expected to be held within the funds. The Investment Manager actively manages the funds, making all decisions concerning the assets held.

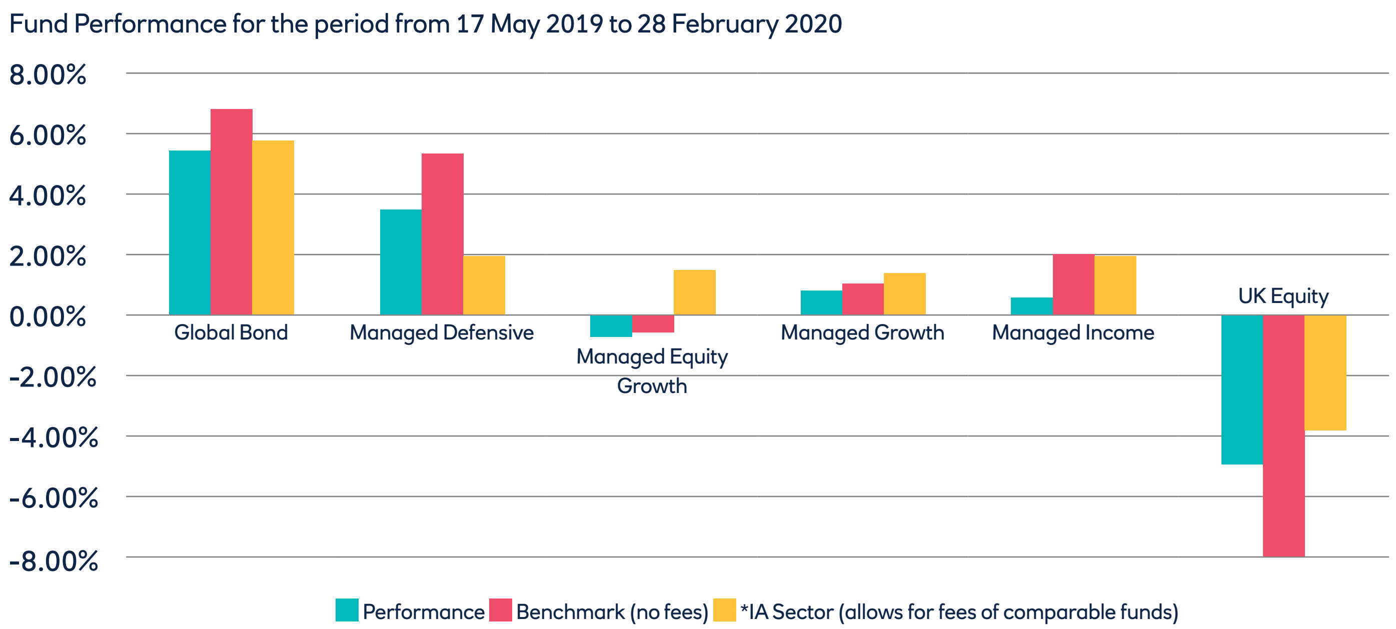
Although we show actual performance against that of the benchmark, the benchmark is included to represent the risk of each fund and is not a performance target. The benchmark performance also does not allow for fees that would be incurred in a fund that tracked this benchmark.

The funds were launched on 17 May 2019, so past performance is not available over a sufficiently long period to make a definitive judgement. The minimum investment horizon for customers to invest is 5 years. However, based on performance to date we consider that the funds are on track to meet their investment objectives and policies.

For the period from launch to 28 February 2020 performance for the Investment Funds is as follows:

	Global Bond	Managed Defensive	Managed Equity Growth	Managed Growth	Managed Income	UK Equity
Fund Performance	5.45%	3.50%	-0.73%	0.80%	0.57%	-4.96%
Benchmark (no fees)	6.84%	5.33%	-0.57%	1.06%	2.02%	-8.19%
*IA Sector (allows for fees of comparable funds)	5.77%	1.96%	1.49%	1.41%	1.96%	-3.81%

*The Investment Association (IA) has created 'sectors' which group together funds that have similar asset allocations, geographical focus and investment focus (e.g. Growth or Income). The Sectors represent 'peer groups' that are intended to help customers find and compare funds, and to enable, for example, a review of performance and fund charges.



It should be noted that past performance is not a reliable guide to future performance.

- Relative to the IA sector, the Global Bond and Managed Growth Funds have performance that is close to the sector average. The Managed Equity Growth and Managed Income Funds are lagging, whereas the Managed Defensive Fund has outperformed.

- Relative to benchmark, which makes no allowance for the costs of investing, the Managed Defensive and Managed Income Funds have underperformed, reflecting an underweight allocation to Government Bonds. The Global Bond Fund has also underperformed, reflecting adverse stock selection within the investment grade bond portfolio.
- The UK Equity Fund has slightly underperformed the IA sector for UK Equity Funds, despite significantly outperforming its benchmark. This reflects the bias many other UK equity funds have towards small and medium-sized companies, which particularly benefitted from the UK election result in December. The fund, and its sector and benchmark, have suffered subsequently along with all world equity markets.

The Investment Manager regularly provides reporting to the ACD who ensures the funds are managed in line with agreed risk parameters and the funds' investment objectives and policies. The period of performance is short, and accordingly the mixed results do not represent a cause for concern.

Stakeholder Fund

For the Stakeholder Fund, performance for longer periods to 31 March 2020 is shown below. Customers should note that Coutts was appointed as Investment Manager from 17 May 2019.

	1 Year	3 Years (average annual return)	5 Years (average annual return)	10 Years (average annual return)
Fund Performance	-7.01%	-1.42%	1.07%	3.73%
Benchmark (no fees)	-6.39%	0.11%	2.73%	5.26%
*IA Sector (allows for fees of comparable funds)	-7.18%	-1.26%	1.29%	3.64%
Fund Performance less Benchmark Performance	-0.62%	-1.53%	-1.66%	-1.59%

*The IA Sector represents the average performance of other funds with similar objectives, and is overseen by the Investment Association.

The Stakeholder Fund aims to track its benchmark before costs. Differences in performance between the fund and its benchmark may be caused by:

- dealing costs, charges and other expenses for which no allowance is made in the benchmark;
- deviations from the FTSE All-Share Index for the fund's UK Equity portfolio where the investment manager has chosen not to replicate fully the index;
- any regulatory restrictions preventing the fund's investments from matching the constituents of the index; and
- the timing of income from investments, and of sales and purchases of investments to meet the cash flows of the fund.

The AMC for the fund was reduced from 1.50% to 1.02% with effect from 1 July 2019. As a result the OCF over the year to 31 March 2020 has averaged 1.18% compared with 1.50% for previous years. Over longer periods the fund's performance has differed from its benchmark by 1.53% to 1.66% per annum on average, with costs accounting for almost all of the difference. Over the most recent year to 31 March 2020 performance was within 0.62% of the benchmark reflecting the additional volatility of equity markets in recent months. Going forward, we would expect its performance before costs normally to be within 0.5% of the benchmark in any given year, so that after costs the Fund performance should be between 0.6% to 1.6% behind the benchmark.

Income Distributions

The Managed Income and Global Bond Funds have an objective to provide regular income to investors as well as an overall return. These funds make quarterly distributions to customers and the total distribution per share over the period and annualised yield as a percentage of the value on 28 February are shown below:

Fund	Distribution per share*	Annualised Yield*
Managed Income	2.30p	3.06%
Global Bond	1.85p	2.30%

*for the period from 17 May 2019 to 28 February 2020

These income yields are in line with the yields provided previously in the funds which merged into them. Reductions in interest rates continue to put pressure on bond yields and it will not be possible to increase the yield on the Global Bond Fund without increasing the risk of defaults on underlying bonds held. The Managed Income Fund has a more diversified portfolio of assets to generate income but future income will be under pressure due to reductions or cancellations of dividends on equity shares worldwide due to the economic fallout from the Covid-19 pandemic.

Conclusion

From the information available to date there is evidence of value being delivered in performance by the Investment Funds, with most funds performing within acceptable ranges of their benchmarks and IA sector. The performance of some of the funds is disappointing, but we note the unprecedented market conditions in early 2020, and the short period for which data is available, and expect to see improvements in future periods. Income levels are acceptable for funds with an objective to generate income.

The Stakeholder Fund has performed within the expected range relative to its benchmark. Longer term performance is also within the expected range but this is less relevant to the current assessment given the change in Investment Manager in 2019.

Through our ongoing oversight of the Investment Manager, we are also comfortable that the investment management service provides value in its framework for the robust control of investment risk.

4. Risk Management

Risk management is a very important aspect of the management of the funds, and is key to safeguarding customer outcomes and adding to the value provided.

In addition to the risk management activities carried out by the ACD, the ACD has appointed an independent Risk Management services provider. This service provider monitors the following aspects of the funds, independently of the Investment Manager, on a daily basis:

- Compliance with investment restrictions detailed in the prospectus;
- Investment risk relative to the benchmark;
- Volatility;
- Derivative exposure and leverage; and
- Liquidity, including performing stress tests.

The information is available to the ACD daily, and the service provider highlights any warnings or potential breaches of restrictions to the Investment Manager and ACD as they arise. The ACD meets with the Risk Management Services provider each month to discuss any trends or issues arising.

Conclusion

We believe this expert service provides added value in the oversight of the management of the funds by the ACD that could enable potential problems to be foreseen before they become an issue impacting customers. It forms a valuable, and independent, second opinion to the risk framework maintained by the Investment Manager.

5. Economies of Scale

Economies of Scale arise where we are able to reduce costs as a result of growth in the size of the funds. As noted above, we carried out a major review of our service providers recently and consolidated some services with the same provider. This enabled us to negotiate lower costs in several cases, and to offer lower AMCs for each of these funds.

When the funds were merged in 2019, changes were made to the funds' investments to align them with the views of the new Investment Manager. The costs of these transitions were paid for by the ACD, so that there was no cost to our customers.

Although the mergers generally created larger funds, the mergers were intended to ensure that the funds remain sustainable for the medium term (as they are closed to new investments other than top-ups from existing customers) rather than creating further economies of scale.

All of the funds except one (the Managed Income Fund), now have a Net Asset Value over £150m, partly enabling the lower AMCs and resulting in lower Depositary and Custody fees. We will continue to review the funds in the future to ensure that costs remain fair if the fund sizes change and the board is reflecting on ways of growing the size of the funds. We are reviewing options in respect of the Managed Income Fund as at its current size, it is not sustainable for the medium term and fixed costs have a disproportionate impact, but we have capped the cost to investors to ensure that it provides reasonable value in the near term.

Conclusion

We have already delivered on reduction of costs as a result of the increases of economies of scale due to the fund mergers and changes in our service providers. However, we believe we can do more to further reduce costs to our customers and this is an area of focus for the board.

6. Comparable Market Rates

Comparable market rates, where available, have been considered in terms of the fund performance in section 3 and the fund costs in section 2. In addition, as part of the fund costs, we considered the underlying fees that the ACD pays the service providers for providing their services. Although market rates are not available for the latter, we have recently had access to competitive quotes from other potential suppliers as a result of the review and consolidation of service providers referred to previously. This enabled us to ensure we were obtaining value for customers in outsourcing the provision of these services, whilst taking account of their expertise and costs.

Conclusion

The market comparisons that we have conducted formed part of the analysis in sections 2, 3 and 5 above, which informed our conclusion that value was provided in these areas.

7. Comparable Services

We have compared similar services for funds provided by other NatWest Group plc companies and are satisfied that a consistent approach is taken for service quality. From a service cost perspective, some differences are apparent even where comparable funds have similar objectives and policies, although these can be accounted for through the holding of different assets, for example the increased use of direct holdings for the UK Equity Fund when compared to a similar fund.

Conclusion

We believe that value is delivered consistently by the ACD across the funds it manages, although the ACD will aim to deliver further alignment with comparable funds on cost.

8. Classes of Units

With the exception of Income share classes, the funds do not currently offer multiple share classes with differentiated service levels. The share classes are intended to be held by customers directly with the ACD, and accordingly the charges include the cost of customer service as well as the costs of managing the funds.

We note that a small proportion of the holdings of the Funds have been transferred by customers to be held on investment platforms, and that these customers will effectively be paying twice for customer service. With the aim of treating all customers fairly, we intend to review the potential to introduce a platform share class with a lower fee to cater for these customers.

Conclusion

We believe share classes are fairly treated as there is no reason to differentiate in charging between them within a fund. Any variation in AMC across the funds reflects differences in their nature.

However, as noted above we intend to introduce new share classes for platform investors who do not benefit from the individual customer administration for their underlying customers.