RBS Collective Investment Funds Ltd Derivatives Risk Management Policy

Part 1: Authorised Corporate Director (“ACD”) Overarching Arrangements

Royal Bank of Scotland

Contents

1. Policy Statement

The purpose of the derivatives policy is to ensure that the use of derivatives by the legal entity of RBS Collective Investment Funds Limited ("RBSCIFL") and the Authorised Funds of RBSCIFL adhere to this framework for derivative use, which includes the requirements of the FCA Investment Funds Sourcebook ("FUND")

This Policy will make reference to the Financial Conduct Authority's Collective Investment Schemes Sourcebook ("COLL"). This Sourcebook will be replaced by the Investment Funds Sourcebook ("FUND") for the Expert Managed Solutions Funds and the Your Portfolio Funds. At the time of publishing this policy the Financial Conduct Authority ("FCA") had not published all parts of this Sourcebook. You can find both Sourcebooks on the Financial Conduct Authority's website.

The funds authorised under RBSCIFL are detailed below:

RBS Investments Funds ICVC*:	Growth Fund International Growth Fund Equity Income Fund Extra Income Fund High Yield Fund Balanced Fund
RBS Stakeholder Investment Fund ICVC:	Stakeholder Investment Fund
RBS Investment Options ICVC:	Income Fund Cautious Growth Fund Balanced Growth Fund Adventurous Growth Fund Your Portfolio Fund II Your Portfolio Fund III Your Portfolio Fund IV Your Portfolio Fund V Your Portfolio Fund VI

* Investment Company with Variable Capital.

This policy is subject to formal review annually, or more regularly as necessitated by changes to regulatory requirements or business strategy. Each update to this policy will be presented to and approved by the RBSCIFL Investment Management Committee ("InvCo").

2. Derivatives Defined

A "Derivative" is defined as a contract whose value depends on the value of an underlying asset, reference rate or index. For the purposes of this document, the applicable regulatory definition of derivative can be found within the Financial Conduct Authority Handbook Glossary as "a contract for difference, a future or an option".

3. Credit Risk

This represents the loss that would be incurred if a counterparty who writes the derivatives fails to perform its contractual obligations.

Over The Counter ("OTC") derivatives provide greater flexibility than exchange traded ones, but may involve greater credit risk, as they are not backed by the clearing organisation of the exchanges where they are traded.

The credit risk associated with OTC derivatives is managed by an appropriate Credit Support Annex ("CSA") under the International Swaps and Derivatives Association Master Agreement ("ISDA"). This requires the derivatives provider to post collateral in respect of such derivatives it enters into with the ICVC, so as to reduce the ICVC's overall credit exposure. The relevant ISDA and CSA have more details.

This is monitored by the Investment Managers. It is controlled through the reports presented by them to InvCo, where they are discussed and are subject to scrutiny.

4. Regulatory

Specific restrictions on the use of derivatives within Collective Investment Schemes are set out in the Financial Conduct Authority's Collective Investment Schemes Sourcebook Part 5. ("Derivative Exposure" COLL 5.3).

5. Derivative Usage

RBSCIFL's use of derivatives is characterised by derivative positions held within the ICVC sub funds.

The use of derivatives is noted within the ICVC Prospectuses. The Authorised Funds of RBSCIFL may use the scheme property to enter into certain derivative transactions (permitted transactions) insofar as their use is consistent with the stated objectives and policies of the scheme. Derivatives used for Efficient Portfolio Management ("EPM") purposes are processed in compliance with Box 9 of the ESMA Guidelines 10-788. RBSCIFL's use of derivatives is regulated by the FCA's COLL sourcebook. It is controlled through the reports presented by the Investment Managers to InvCo, where they are discussed and are subject to scrutiny. Derivatives are used within the ICVCs for hedging or EPM only.

The control framework surrounding RBSCIFL's use of derivatives is outlined below.

6. Control Framework

See Overall Risk Management & Governance Policy.

7. RBSCIFL Governance Structure

This is shown in Section 2 of the RBSCIFL Overall Risk Management Policy and Governance document.

InvCo is comprised of senior individuals from the fields of Commercial, Contract Management , Compliance Advisory, Legal, Financial Control and Finance. The committee acts independently from the Investment Managers and has an appropriate understanding of derivative instruments. The Committee may, from time to time, retain persons having special competence as necessary to assist in fulfilling its responsibilities.

Specifically with regard to derivatives usage, the Investment Management Committee's ("InvCo's") primary duties and responsibilities are to:

- Serve as an independent and objective party from individual Investment Managers to set and monitor RBSCIFL's policies as they relate to the use of derivatives for investment and risk management purposes.
- Review the processes and practices that are applied in complying with the derivatives policy.

To fulfil its responsibilities and duties, InvCo will:

1) Establish and maintain the overall policy of the Company with regards to using derivatives for investment or risk management purposes.
2) Issue authorisations for particular funds to deal in derivatives, each to specify clearly:
   - The limits in terms of derivatives exposure
   - The Investment Manager who is authorised to place deals on behalf of the fund
   - The specific types of derivative to be included in the authorisation
3) Ensure that procedures are adequately documented and that appropriate contingency plans are in place.
4) Monitor and review on a regular basis derivatives usage to ensure activities comply with the FCA COLL and COBS Sourcebooks and are consistent with the derivatives policy.
5) Report regularly to the Oversight Committee on derivative positions and exposures and escalate issues as required.
6) Ensure that any new instruments, products or strategies are appropriately assessed and reviewed prior to formal approval.
7) Provide ownership of the Derivative Risk Management Policies, including authorisation for updates and review of the documentation on an annual basis.

Local Controls

The ACD governance structure is supplemented by local controls documented within parts 2 to 5 of this policy for each Investment Manager, as follows:

Part 2	Aviva Investors Global Services Ltd
Part 3*	RBS plc*
Part 4**	BlackRock**
Part 5	Standard Life Investments Ltd

* Part 3 is now obsolete following the maturity of the Capital Protected Funds that were covered by this policy.
**Part 4 is now obsolete following the closure of the FTSE 100 Tracker Funds that were covered by this policy.

7.1 Aviva Investors Global Services Limited

Aviva Investors Global Services Limited (AIGSL), as the fund management arm of Aviva Plc, monitors the control framework for the use of derivatives in the ICVC funds for which they are fund manager:

RBS Investments Funds ICVC:	Growth Fund International Growth Fund Equity Income Fund Extra Income Fund High Yield Fund Balanced Fund
RBS Stakeholder Investment Fund ICVC:	Stakeholder Fund
RBS Investment Options ICVC:	Income Fund Cautious Growth Fund Balanced Growth Fund Adventurous Growth Fund

Monitoring processes are established through AIGSL's Portfolio Risk team, who are independent from the portfolio managers and dealers and have a direct reporting line to the Investment Manager's Chief Financial Officer ("CFO"). The portfolio risk team is responsible for ensuring that derivatives usage is appropriate to the investment objectives of the fund.

The work of the Portfolio Risk team is supported by AIGSL's 'Middle Office', who are responsible for daily derivative positions monitoring and for ensuring that positions are appropriately covered. Routine compliance monitoring visits are also conducted by AIGSL Compliance.

A Derivative Risk Management Policy, specific to the above named funds, is in place which details in full the use of derivatives and describes the control framework and monitoring processes. See RBSCIFL Derivatives Risk Management Policy Part 2.

7.2 Standard Life Investments Ltd

Standard Life Investments Ltd monitor the control framework for the use of derivatives in the ICVC funds for which they are fund manager:

RBS Investment Options ICVC:	Your Portfolio Fund II Your Portfolio Fund III Your Portfolio Fund IV Your Portfolio Fund V Your Portfolio Fund VI

A Risk Management Policy, specific to the above named funds, is in place which details the use of derivatives, control framework and relevant restrictions. See RBSCIFL Derivatives Risk Management Policy Part 5.

8. Exposure Calculation

Exposure is measured by the method felt most appropriate by each Fund Manager, and monitored on a daily basis. It is based on the nature of the funds, as well as the standard approach adopted by the relevant Fund Manager. The appropriateness of the method is considered when RBSCIFL either appoints a Fund Manager, or a Fund manager wishes to change their method of calculation. This would be discussed at a special meeting of InvCo, who would then make recommendations to both the Oversight Committee and then to the Board of Directors of RBSCIFL.

The approach is currently the Commitment Approach. It is detailed in the relevant Investment Management Agreement ("IMA").

In summary, the details of the exposure calculation for the 2 investment managers are shown below.

8.1 Aviva Investors Global Services Ltd

Aviva Investors manage the following ICVCs, as shown in Section 1 above:

- RBS Investment Funds ICVC RBS Stakeholder Investment Fund ICVC; and
- RBS Investment Options ICVC (excluding the "Your Portfolio" funds).

Investments which have been lent under the Securities Lending programme are available as cover because the programme manager (JP Morgan) commits to return lent stock immediately it is required. JP Morgan can do this because they only lend out c. 80% of the available lending stock. Accordingly, they merely re-allocate the lender and return the stock out of their un-lent pool.

A commitment approach is employed for these funds. Under this approach, positions in derivatives and forward positions are converted to the equivalent position in the underlying assets. UCITS rules limit net exposure to derivatives to 100% of the net asset value of the fund and this applies to the Investment Funds and Stakeholder Fund. For the EMS funds within the Investment Options ICVC, these are covered by AIFMD rules. The limit for these funds is currently 150%. This is calculated and monitored on a daily basis by the Investment Manager. Individual fund managers may prefer to monitor against lower limits, but this is individual choice. Accordingly, the Compliance reports monitor against the 100% limit for the UCITS funds and 150% for the non-UCITS funds.

8.2 Standard Life Investments Ltd

Standard Life Investments manage the Your Portfolio funds of the RBS Investment Options ICVC.

The IM does not currently use derivatives. Were derivatives to be used, a commitment approach would be employed for these funds. Under this approach, positions in derivatives and forwards positions are converted to the equivalent position in the underlying assets. AIFMD rules require the funds to set out the net exposure to derivatives and for these funds this is set to 100% of the net asset value of the fund. This is calculated and monitored on a daily basis by the Investment Manager. Individual fund managers may prefer to monitor against lower limits, but this is individual choice. Accordingly, the Compliance reports monitor against the 100% limit.

8.3 Commitment Approach

The Investment Managers calculate concentration limits (and associated cover) on the basis of the underlying exposure created through the use of derivatives pursuant to the commitment approach. The calculation of exposure arising from OTC derivative must include any exposure to OTC counterparty risk. Additionally the Investment Advisors must calculate exposure arising from initial margin posted to and variation margin receivable from a broker relating to exchange traded derivatives which are not protected by client money rules or other similar arrangements to protect the sub-fund against the insolvency of the broker. The commitment approach converts a sub-fund's derivative positions into equivalent positions of the underlying assets and seeks to ensure the sub-fund is monitored in terms of any future 'commitments' to which it may be obligated.

9. European Market Infrastructure Regulation (EMIR)

EMIR stands for European Market Infrastructure Regulation and applies directly to each member state of the European Union. Its main change is to bring most OTC (Over The Counter) derivative contracts into clearing (mechanism for the management of sales and purchases) through centralised clearing houses rather than remaining as stand-alone bipartite agreements. This would effectively bring the transactions onto a recognised exchange.

EMIR also proposes the following changes:

- Regulators have acknowledged that there will be certain OTC derivative contracts that may never be cleared through a clearing house and so they have proposed additional risk mitigation requirements for these;
- A reporting obligation for all derivative contracts, whether exchange traded or OTC; and
- A common regulatory regime for central clearing houses and trade repositories across Europe.

The aim is to ensure better oversight of the market, better information for regulators and enhanced reduction in risk.

EMIR applies to each counterparty to a derivative trade, meaning that many of the obligations of EMIR apply to RBSCIFL's ICVCs, RBSCIFL complies with the reporting and oversight requirements of EMIR for all derivatives that are held. RBSCIFL also holds exchange traded derivatives ("ETD") in a number of its funds. These ETD, together with any OTC derivatives, need to be reported under EMIR.

Reporting Requirements

EMIR puts in place a 'Trade Repository' which is a data collection agent. Information returns on all derivative contracts is required to be made to these Trade Repositories, and each will handle the data requirements for specific product types. There are 6 Trade Repositaries that have been approved by the relevant EU body and only 3 are being referred by IMA members. These are DTCC, Unavista & Regis-TR with most UK bodies using DTCC.

The data required to be reported together with information on how to obtain a LEI (Legal Entity Identifier) has only recently been finalised. We have obtained LEIs for all Funds that use derivatives.

Aviva Investors complete this reporting for the Funds they manage on behalf of RBSCIFL. Standard Life Investments do not use derivatives in the Your Portfolio Funds so there is no requirement.

Aviva Investors report to the DTCC Trade Repository.

10. Depositary Oversight

- In addition to the ACD governance structure and local controls described above, independent review of the appropriateness of the risk management process is provided by the relevant Depositary.

If you would like this information in Braille, large print or audio format please contact us on **03457 24 24 24** (Minicom 0800 404 6160).

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