



CLEAR FUNDS ASSESSMENT

For the year ending 31

March 2019

Fund Manager: Schroders (“the Manager”)

Fund name: Schroder Life Atlas Multi
Asset Portfolio 3 Fund
 (“the Fund”)

Opinion: It is our opinion that the incidence and quantum of transaction costs incurred, and the control environment of those transaction costs in the operation of the Fund, represent good value/value for money.



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Introduction

This Clear Funds report is provided by PTL. PTL is a market leading and award winning specialist provider of independent governance services primarily in respect of UK pension arrangements. For more information see Appendix 1 to this report.

The purpose of this report is to provide professional investors, including trustees and managers of pension schemes, with an independent review of the cost levels and control environment relating to the transaction costs incurred by the Manager.

We have been engaged by the Manager to assess the extent to which the transaction costs incurred in the operation of the Fund (the “transaction costs”) represent good value for members of trust based defined contribution pension schemes.

In this context we have independently:

1. Considered the controls that exist to optimise transaction costs. Our conclusions are shown in Section 3 below.
2. Assessed the transaction costs incurred in the operation of the Fund. Our conclusions are shown in Section 4 below.

This is our second year of reporting on this Fund. We note that during the year covered by the assessment, the order management and trade execution application system for buying and selling investments was changed from Charles River to Aladdin.

We have reached a conclusion in relation to the value for members / money of the transaction costs.

Our conclusions are shown in Section 5 below.

This report is produced for the Manager. PTL permits the disclosure of this report, in full only, without assuming or accepting any responsibility or liability to any party, other than to the Manager, on our part.

1. Investment objective of the Fund

The Manager has set the investment objective of the Fund as follows:

The investment objective of the Multi Asset Portfolio (MAP) Fund is to outperform their specific benchmark over a market cycle, which is typically about five years.

The current benchmark of the Life Atlas MAPS 3 Fund is:

MSCI AC World (NDR) TL: 20%
MSCI ACWI GBP Hedged (NDR) TL: 20%
Barclays Global Aggregate – Corporate GBP Hedged TL: 30%
Barclays Global Treasury Index GBP Hedged TL: 30%.

The Fund seeks to achieve its investment objective through investment in a diversified range of growth asset classes. It does not seek to add value by trading on very short-term gyrations in markets, but instead seek out opportunities where markets are mispriced relative to their medium-term fundamental outlook. The portfolio is actively managed, with exposure to the underlying asset classes adjusted to ensure the portfolio is optimally positioned at each stage of the economic cycle. Further details of the asset allocation are included in Appendix 2.

The gross return for the Fund over the 12 months ending 31 March 2019 was 2.5%, in GBP. The benchmark for the same period delivered 5.0%. Further details of the Fund performance are included in Appendix 3.

2. Transaction costs incurred as a percentage of assets

It is positive to note that Schroders has provided transaction cost numbers for 100% of the assets held in the Fund using the data requirements outlined in the Defined Contribution Workplace Pensions Template (DCPT). The calculations and costs are outlined below:

DCPT Data	Transaction Cost (% of NAV)
Aggregation of Transaction Costs	0.3022
Transaction Costs for Buy and Sell Transactions	0.3022
Transaction Costs for Lending and Borrowing Transactions	0
Explicit transaction taxes	0
Explicit fees and charges	0.0052
Implicit costs	0.0518
Indirect transaction costs	0.2452
Anti-dilution offset	0.00
Securities lending and borrowing costs	N/A
Administration Charges	0.0210
Cost other than transaction costs	N/A

Additional notes:

- The market value of the Fund was £54,928,688 at 31 March 2019.
- The transaction costs are based on unaudited data.
- Investors who experience anti-dilution applied to their trades will need to record this as an additional transaction cost. The transaction cost is therefore a baseline indicator of the transaction costs incurred by an investor.
- The Fund does not undertake stock lending and so there are no stock lending costs.
- Explicit Transaction Taxes are captured within Indirect Transaction Costs
- Anti-Dilution Offset is applied at the underlying holding level and is therefore captured within Indirect Transaction Costs.

To place the transaction costs in context, the explicit Annual Management Charge (AMC) and Ongoing Charges Figure (OCF) for the year ending 31 March 2019 were as follows:

Series 1 AMC:	Investment management services	0.15%
Series 1 OCF:	As above plus other operational costs such as custody costs	0.15%

The AMC and OCF numbers are both the same because other expected operational costs are effectively borne by the Manager.

For context the Portfolio Turnover Rate (PTR) for the Fund was 37.71%. A comparison with previous years is not meaningful due to the Fund only recently being launched on 6 December 2017. Note after the year end covered by this report there was a significant spike in the PTR in April 2019 as the Global Multi Factor Equity Fund was replaced with the Sustainable Multi Factor Equity Fund. This switch was made at the request of the Atlas Trustee.

3. Opinion on the control environment

We have considered the qualitative controls operated over the transaction costs by the Manager. The scope of our assessment excluded outsourced services such as fund administration, transfer agency, custodian services and IT infrastructure.

We have seen evidence that there is a robust system of controls designed to ensure that transaction costs are optimised. This includes:

- A A strong end to end governance framework addressing transaction costs including thorough and clear policies for trading, brokerage and execution.
- B Strong programme governance on migration of order management and trade execution application system from Charles River to Aladdin including: parallel running ahead of Go Live and User Acceptance Testing
- C Strong governance oversight by the Group Order Management and Execution Committee and Trading Oversight Committees reporting.
- D The completion of Conduct Risk and Group Policy Attestations required from employees.
- E An ongoing wide breadth programme of internal audit oversight
- F An ISAE 3402 / AAF 01/06 Controls report (Type 2) for the calendar year ending 2018. The controls, and testing of those controls, relating to transaction costs were all found to be effective.

Furthermore we have seen evidence that these controls operate effectively.

As a consequence: **It is our opinion that controls exist and operate such that transaction costs are well controlled and should represent good value for members/money.**

As a result of our work, no specific recommendations on the qualitative controls environment were made to the Manager.

4. Opinion on the transaction costs incurred

We have carried out comparisons with historical data supplied by the Manager and concluded that transaction costs appear reasonable compared to previous experience. Furthermore, insofar as we have been able to do so, we have also carried out comparisons with external data and concluded that the transaction costs appear reasonable.

As a consequence: **It is our opinion that the transaction costs appear reasonable for this type of fund, in the context of the experience of the Manager and of other fund managers.**

As a result of our work, no specific recommendations on the transaction cost controls environment were made to the Manager

5. Overall opinion

Good value for members/money is necessarily highly subjective, meaning different things to different people over time depending on what they consider important at that time. **It is our opinion that the incidence and quantum of transaction costs incurred, and the control environment of those transaction costs in the operation of the Fund, represent good value for members/money.**

For more information in relation to this report please see Appendix 1.

APPENDIX 1 - CLEAR FUNDS BACKGROUND PAPER

A. Background

Section 25 of the Occupation Pension Schemes (Scheme Administration) Regulations 1996, as inserted by regulation 19 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 require the trustees or managers of relevant pension schemes, at intervals of no more than one year, to calculate the transaction costs borne by the members of their scheme and to assess the extent to which they represent good value for the members. Transaction costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments including on entry and exit from the fund.

Conduct of Business Sourcebook (“COBS”) 19.5 requires Independent Governance Committees (“IGCs”) of workplace personal pension plans to assess the ongoing value for money for policyholders particularly, though not exclusively, through assessing the direct and indirect costs incurred as a result of managing and investing and activities in connection with the managing and investing of the pension savings of policyholders including transaction costs.

This report is PTL’s assessment of the transaction costs incurred in the operation of the Fund for the year ending shown. It is designed to assist the trustees/IGC in fulfilling their obligation as set out above.

B. Credentials of PTL

PTL is retained by the Manager. They pay us a fee to carry out the assessments required to produce the Report.

PTL is a market leading and award winning specialist provider of independent governance services primarily in respect of UK pension arrangements. Amongst other appointments we act as an independent trustee on several hundred trust based pension schemes and we sit on a number of Independent Governance Committees. We have oversight or responsibility for in excess of £120bn of pension assets. More information on PTL can be found at www.ptluk.com.

PTL, its Client Directors and staff are all independent of the Manager insofar as:

- They are not directors, managers, partners or employees of the Manager, or any company within its group, or paid by them for any function other than in relation to this report or its earlier or later versions, nor are they members of any share option or performance related pay schemes of the Manager nor have they been within the last five years.
- They do not have a material business relationship of any description with the Manager, or any company within their group, and have not done so within the last three years.

Where PTL is acting as a sole or joint trustee to a pension scheme, we may be a client of the Manager, but we would not normally expect such a relationship to lead to a conflict of interest. Any potential conflicts of interest are recorded in a log and considered by PTL in accordance with its conflict of interest policy.

The team who carried out this assessment individually and collectively have sufficient expertise, experience and independence to act in this capacity.

C. PTL's responsibilities

PTL's responsibility was to assess whether transaction costs represent good value for members/money. We did this by assessing the qualitative controls operated by the Manager over the transaction costs.

In relation to the qualitative controls we assessed whether the suite of controls was sufficiently comprehensive and that existing controls were suitably designed. We also sought reasonable evidence that they operated as expected.

We also compared the incidence and quantum of transaction costs to historic data provided by the Manager, from our own records and/or from external sources where available and appropriate.

D. Inherent limitations

By their nature, qualitative controls may not prevent, detect and correct all errors or omissions in performing an activity.

Our assessment is based on historical information and in some cases un-audited data. The projection of our assessment of good value/value for money may not therefore be appropriate.

This report is specific to one particular fund. Due to differences in the nature of the assets held and the investment strategies pursued, it may not be appropriate to compare the reported costs or treatment of such costs with other funds.

Where transaction costs are borne by the Manager, rather than by members, we have excluded such costs from our analysis. This report may not therefore capture the full extent of all transaction costs, depending on the Manager's policy for passing on costs to the unit-holders. This means that the reported costs incurred by the Fund as described in this report may not be directly comparable with other funds.

It may not be possible to analyse transaction costs for some pooled fund investments, such as private equity, infrastructure, hedge funds and some externally managed third party funds, due to their private markets nature and a lack of available data. Private equity funds do not have to provide some disclosures, such as The Investment Association's Level II Disclosure Code. Pooled funds managed by US-based asset managers also fall outside of the Level II Disclosure Code. Additionally, the Schrodgers Pooled Funds Disclosure Statement omits data for one US equity fund.

The Ongoing Charges Figure (OCF) for the Fund, per the regulatory requirement and market convention, does not currently include explicit and implicit trading-related costs. Industry and regulatory developments may change the calculation methodology of the OCF going forwards to include the calculation of a 'trading OCF' component.

Transaction cost and Portfolio Turnover Rate (PTR) data used in the verification process in this report has been sourced from the latest available data from the Manager.

E. Controls assessed

Qualitative

1. Process for achieving and demonstrating Best Execution when placing trades with brokers. Review of execution policies, procedures and controls
2. Evidence of Best Execution via review of Transaction Cost Analysis (TCA) reports and Global Performance Review Committee TCA outputs
3. Review of dealing-related issues and client resolution via analysis of the Compliance Department's Breaches Register
4. Process for recording trading-related errors and proper client resolution via review of the Errors & Omissions log
5. Process for the ongoing monitoring of the efficiency of the dealing function via review of Management Information (to include, for example, No. of block executions per asset class, average number of underlying client allocations, % cancellations and % amendments/re-bookings)
6. Process for appointing and reviewing external service providers including new external asset managers
7. Process for monitoring and controlling "excessive" portfolio churn/fund management "style drift". Review of backward looking PTRs v current PTR via review of fund Factsheets and Schroders Pooled Funds Disclosure Statements
8. Process for negotiating terms with brokers and other market intermediaries. Review of Group Credit Risk Committee outputs and Global Performance Review Committee outputs
9. Process for cash flow management and crossing of trades/"Systematic Internalisers"

10. Separation of custodian, fund accounting, transfer agent, depository/trustee, actuary, legal, middle office and asset manager roles to confirm that the asset manager, and any other internal/external party who performs executions, has no pecuniary interest in fees incurred in the above services generated by excessive trading
11. Review of internal audit terms of reference relating to the dealing function and transaction costs
12. Review of external audit terms of reference relating to the dealing function and testing of transaction costs reporting
13. Process for approving payments to external suppliers from the asset manager and the fund
14. Process for choice of implementation method by the asset manager (physical or synthetic) and how this will impact on transaction costs via review of execution policies, procedures and controls
15. Process for scrutiny of transaction costs in external funds used via review of external TCA reports and associated asset manager actions
16. Policy and process for sharing income from any stock lending, commission sharing arrangements or other arrangement with other investors or funds, to offset transaction costs
17. Review of Internal Controls Report ISAE 3402/AAF 01/06 or SOCR or SSAE16 etc for exceptions and remedial actions
18. Dilution/anti-dilution adjustments policies and processes.

Quantitative

1. OCF calculations
2. Portfolio turnover rates (since inception): Life Atlas MAPS 3 Fund, Internal funds for primary transactions, secondary transactions (such a spot and forward FX) and in the unitholders units at the Life Atlas MAPS 3 Fund level.
3. Anti-dilution levies applicable on the unitholders units at the Life Atlas MAPS Fund 3 level and at levels of the internally and externally managed funds, where the Atlas MAPS 3 Fund invests as an investor.

Appendix 2 – Life Atlas MAPS 3 Fund asset allocation 31 March 2019

Periods 31 December 2018 and 31 March 2019

Asset class/region	Atlas MAPS 3 31 Dec 18 (%)	Atlas MAPS 3 31 March 19 (%)	Change (%)
Equities	40.3	40.8	0.5
Global Adv. Beta Equities	37.7	37.4	-0.3
Global Multi-Factor Equity	30.6	30.4	-0.2
Adv. Beta Small/Mid Cap	4.5	4.5	0
Adv. Beta Value	2.6	2.5	-0.1
Global Equity Futures	2.6	3.4	0.8
S&P 500 future	1.8	-1.2	-3.0
MSCI Emerging mkt future	1.3	2.1	0.8
Eurostoxx 50 future	-0.5	-0.5	0
Nikkei future	-	3.0	3.0
Fixed Income	58.8	57.8	-1.0
Adv. Beta Global Sov. Bonds	31.9	31.6	-0.3
Adv. Beta Global Corp Bonds	26.9	26.2	-0.7
Cash	0.9	1.4	0.5

Appendix 3 – Life Atlas MAPS 3 Fund performance periods to 31 March 2019

Periods to 31 March 2019

Performance

Total returns GBP (net)	Periods to 31 March 2019			
	3 month %	12 months %	Since inception % p.a. ¹	Since Inception Volatility % ²
Schroder Life Atlas Master Trust MAPS 1 Fund	8.2	2.4	1.7	10.7
Benchmark ³	9.2	6.6	3.2	10.0
Schroder Life Atlas Master Trust MAPS 2 Fund	6.9	2.6	1.8	8.2
Benchmark ⁴	7.6	5.8	3.0	7.6
Schroder Life Atlas Master Trust MAPS 3 Fund	5.3	2.5	2.0	8.3
Benchmark ⁵	6.1	5.0	2.6	8.3

Source: Schroders, Datastream, 1. Inception 8th December 2017. 2. Volatility calculated using daily data since inception 8th December 2017. 3. MSCI AC World (NDR) TL: 40%, MSCI ACWI GBP Hedged (NDR) TL: 40%, Barclays Global Aggregate – Corporate GBP Hedged TL: 10%, Barclays Global Treasury Index GBP Hedged TL: 10%. 4. MSCI AC World (NDR) TL: 30%, MSCI ACWI GBP Hedged (NDR) TL: 30%, Barclays Global Aggregate - Corporate GBP Hedged TL: 20%, Barclays Global Treasury Index GBP Hedged TL: 20%. 5. MSCI AC World (NDR) TL: 20%, MSCI ACWI GBP HEDGED (NDR) TL: 20%, Barclays Global Aggregate – Corporate GBP Hedged TL: 30%, Barclays Global Treasury Index GBP Hedged TL: 30%.

Appendix 4 – Glossary of terms

Annual Management Charge (AMC): the fee charged by the asset manager for managing the fund.

Anti-dilution adjustment: the difference between the unadjusted NAV price and the swung price received by the fund collected from individual trades as a result of swing pricing. Anti-dilution offsets the associated portfolio trading costs as a result of incoming and outgoing investors subscribing and redeeming from the fund.

Best execution: executing orders on behalf of clients to ensure the best execution result.

Bid/offer spread: the difference between the buy and sell prices of a stock.

Commission: is a service charge from a broker in return for handling the purchase or sale of a security.

DCPT: The Defined Contribution Workplace Pensions Template designed by the Association of British Insurers and the Investment Association.

Explicit costs: those charges that are directly measurable during the execution of a trade, such as broker commissions and tax.

Implicit costs: those costs that are not determined until after the execution of a trade has taken place.

Net Asset Value (NAV): this is calculated as the fund's assets less its liabilities, divided by the number of shares outstanding.

Ongoing Charges Figure (OCF): the ongoing charges expressed as a ratio of the total disclosable costs to the average net assets of the fund. The OCF includes the AMC and other ongoing operational costs such as custody costs.

Portfolio Turnover Rate (PTR): the percentage turnover rate taking into account the funds purchases and sales. The PTR will be influenced by the type of fund.

PTR calculation methodology:

$$\frac{(\text{Purchases} + \text{sales of securities}) - (\text{subscription of units} + \text{redemption of units})}{\text{average fund value over 12 months}} \times 100$$

PRIIPS: the Packaged Retail Investment and Insurance Products Regulations.

Slippage cost: the implicit cost arising from the difference between the execution price and arrival price. Depending on market conditions this cost could be positive or negative.

Soft commission: a transaction-based payment made by an asset manager to a broker-dealer that is not paid in actual pounds / dollars.

Swing pricing: an approach to mitigate the impact of large inflows or outflows within funds meaning investors pay a single price when purchasing or redeeming shares. This is an alternative to paying an offer price when purchasing shares or a bid price when redeeming.

Transaction Cost Analysis (TCA): the spread between two trade prices (execution price and actual price) where the difference between the two is called slippage.