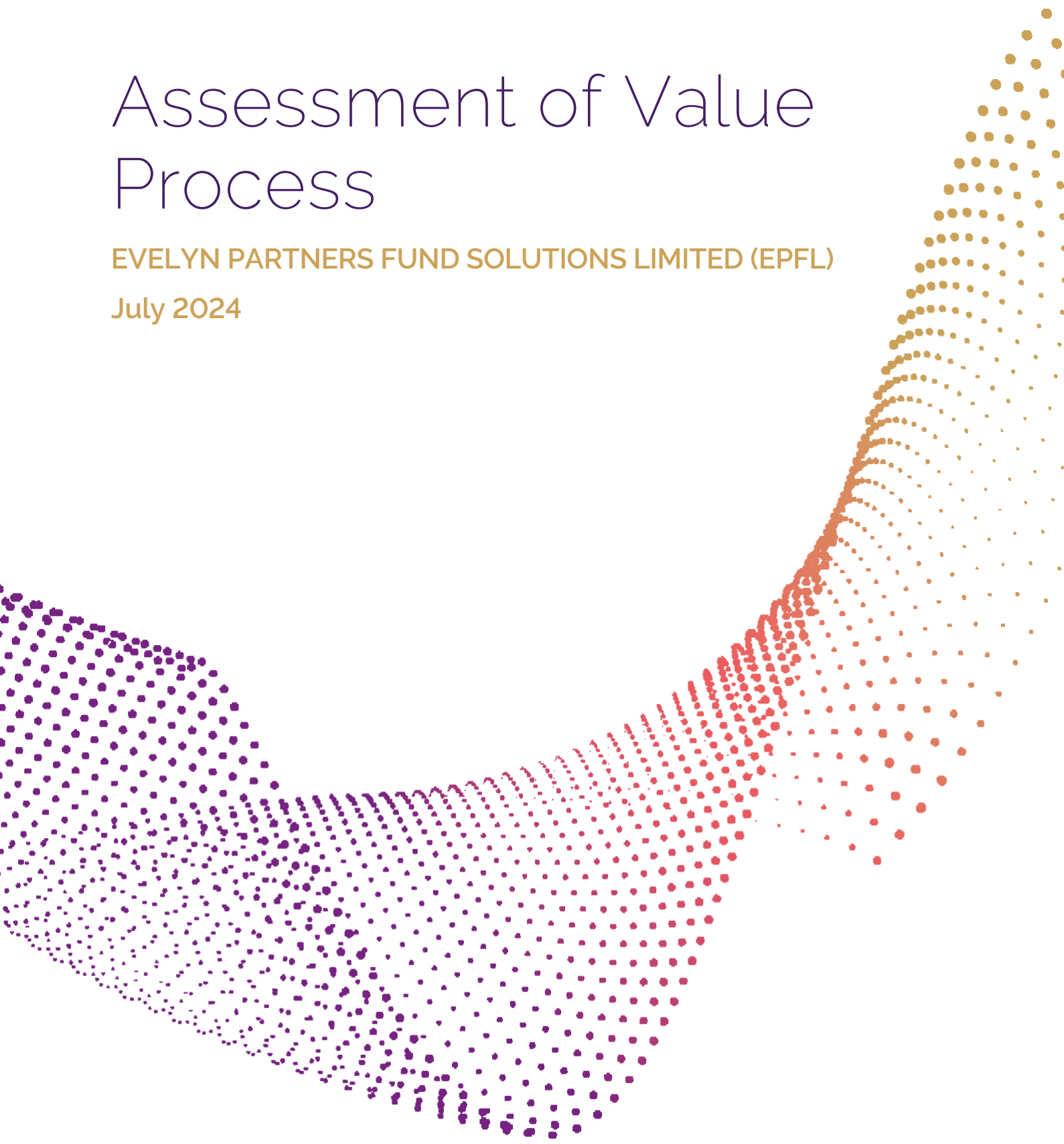


Assessment of Value Process

EVELYN PARTNERS FUND SOLUTIONS LIMITED (EPFL)

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Assessment of Value Process

As part of a move to strengthen fund governance, the FCA requires Authorised Fund Managers (AFMs) such as EPFL to carry out and publish an annual Assessment of Value (AOV) Report for each of the funds that they control.

The report outlines each fund's assessment and concludes on whether the EPFL Board believes that the fund offers value to unitholders. The report also explains the corrective action required in the event of the Board deciding that the fund does not offer value. The EPFL Board, whose chair is an Independent Non-Executive Director (INED), must ensure that the AFM carries out the required assessment and acts in the best interests of the unitholders.

EPFL believes that the AOV process provides greater transparency and ultimately provides better outcomes for unitholders. To support the ongoing evolution of our AOV reporting, EPFL had sought additional guidance from the Funds Board Council to review and strengthen our process.

The EPFL AOV Committee consists of our INEDs (including the chair of the EPFL Board), Executive Directors and members of the Leadership Team (including the Head of ACD Services), the Head of Funds Compliance and members of the AOV team (as presenters) and Relationship Management (as observers) to ensure a collaborative independent approach.

The published AOV report, which follows the seven criteria set out by the FCA, is the result of a rigorous review process. This process includes a review by a dedicated EPFL Investment Committee, whose main focus is to review the performance of the fund, plus a full review by the Assessment of Value Committee which reviews the completed assessment and the data used to support all conclusions. EPFL uses third-party systems to ensure that comparative data is relevant and up to date. At the end of each section, EPFL awards a Red, Amber or Green (RAG) status rating to determine the assessment for each fund, as summarised below:

Green - On balance, the Board believes the Fund has delivered value to shareholders, with no material issues noted.

Amber - On balance, the Board believes the Fund has delivered value to shareholders but may require some action.

Red - On balance, the Board believes the Fund has not delivered value to shareholders and significant remedial action is now planned by the Board.

In the event a fund had an action stated in its previous AOV Report (e.g. via an **Amber** or **Red** rating), the RAG rating to be applied for the current year will be determined by the outcome of that action. This applies to all seven sections of the AOV report.

Future Developments

EPFL will continue to review output from the regulator and industry bodies, such as the Investment Association, in order to keep up to date with industry developments. EPFL also reviews AOV produced by industry peers and will incorporate best practice as appropriate.

Approach to each criteria and RAG ratings

1.1 Quality of Service

'The range and quality of services provided to unitholders'.

The annual due diligence review, regular interactions with the Delegated Third-Party Investment Manager (DTPIM) and the number of fund level breach events will form the basis of the assessment for Quality of Service. The Board will consider the quality and timeliness of interactions throughout the year, for example via due diligence questionnaires, and the materiality of any observations or reservations as noted on the EPFL Findings Letter. Where there are no material issues, a **Green** RAG status would be awarded.

Where a material issue has been identified via the due diligence process or via a regulatory concern, this could lead to an **Amber** or **Red** rating. Similarly, if the EPFL Board believes that any service falls short of what is expected, for example, the non-provision of documentation required for EPFL to perform its oversight, an **Amber** rating may be considered.

Also considered would be the level and nature of any breaches (at fund and / or DTPIM level) throughout the review period. Any breaches of a material nature may attract an **Amber** rating as would recurrences.

Non-material breaches or incidents would also be considered to warrant an **Amber** rating.

Any **Amber** ratings would require an explanation in the 'follow up' actions of the remedial action that EPFL felt was necessary.

Should the matter be considered serious enough, e.g., an FCA reportable breach, or a previously identified issue not remediated in the next review period, the section may be marked **Red** and immediate action would be required.

Any award of an **Amber** or **Red** rating would be considered on a case-by-case basis.

There is no distinction made between an existing fund or one that has been launched in the last twelve months prior to review.

¹ As indicated by scheme documentation

² Reference point is the month-end prior to the fund's year-end.

1.2 Performance

'The performance of the scheme, after deduction of all payments out of scheme property as set out in the prospectus (in this rule, COLL 6.6.23E and COLL 8.5.19E, "charges"). Performance should be considered over an appropriate timescale having regard to the scheme's investment objectives, policy and strategy'.

Where the performance of the fund over its recommended minimum holding period¹ is found to be above an appropriate benchmark at the reference point²; and the fund is compliant with its investment objective and policy the fund may be awarded a **Green** RAG status. Funds under six months old³, or funds where the investment objective and policy has been changed, or where there has been a change in the DTPIM in the twelve months prior to the review, would generally be given a **Green** RAG status, if performance was not significantly behind the benchmark, as there has not been enough time to determine if the changes have been effective. In this case, performance of the fund will be closely monitored through the normal course of EPFL's oversight.

Where a target benchmark exists, if the performance of the fund over its recommended minimum holding period is below that of its target benchmark at the reference point, an **Amber** rating may be awarded.

Where performance is assessed over a rolling period, the fund will be assessed at the reference point over the period indicated in the fund objective / benchmark. For example, a fund which has an objective to beat a benchmark over a rolling three-year period will be assessed at the reference point for the three-year period up to the reference point. There will only be one performance assessment carried out.

Funds behind the benchmark, or newly launched funds where performance was significantly behind the benchmark may be given an **Amber** RAG status. Follow up action may include confirming with the DTPIM whether the benchmark was suitable, and determining what action, if any, could be taken to address performance.

A **Red** RAG status may be given for continuous underperformance, e.g. two or more consecutive

³ Per Investment Association Guidance.

Amber ratings. In awarding a **Red** RAG status, the Board will first take into consideration the investment manager's explanation of what happened to result in the poor performance, their thoughts on why they felt the original action was a good idea, how they were going to deal with the areas of concern (sell, hold or acquire particular assets) and the reason why and what, if anything has or will be done to restructure the portfolio.

For all funds that attract an **Amber** or **Red** RAG status, the EPFL Investment Committee would continually monitor and liaise with the relevant DTPIM where it was deemed necessary. EPFL will regularly invite DTPIM to present investment plans to the Investment Committee as part of its responsibility for performance monitoring.

If the prior year's AOV Report stated that EPFL would monitor a fund's performance (as a result of its **Amber** rating) and it transpired that EPFL was satisfied with the performance in the prior twelve months, then another **Amber** rating may be warranted. If however performance had deteriorated, that may require intervention by EPFL a **Red** may be warranted.

1.3 AFM costs

'In relation to each charge, the cost of providing the service to which the charge relates, and when money is paid directly to associates or external parties, the cost is the amount paid to that person'.

EPFL regularly reviews the costs and quality of the services provided to the funds, e.g., Depositary / Trustee, Global Custody, Investment Management and Fund Audit and whether the charges for each element of the service are justified given the underlying costs, e.g. whether profit margins are justified. EPFL itself operates a competitive cost model which is reviewed by the Board on an annual basis.

If the EPFL Board believes that the charges are justified, a **Green** RAG status is awarded, otherwise an **Amber** or **Red** may be considered.

1.4 Economies of Scale

'Whether the AFM is able to achieve savings and benefits from economies of scale, relating to the direct and indirect costs of managing the scheme property and taking into account the value of the scheme property and whether it has grown or contracted in size as a result of

the sale and redemption of units'.

EPFL expects a mechanism to exist that allows shareholders to pay less in percentage terms as the fund increases in size or via other means. This could be achieved through a tiered fee structure; the exact thresholds being determined by each DTPIM. Where such a structure exists, a **Green** RAG status will be provided, otherwise an **Amber** rating may be given for this section. Follow up action requires the situation to be remediated. Should the situation continue, it will result in a **Red** RAG status.

1.5 Comparable Market Rates

'In relation to each service, the market rate for any comparable service provided: (a) by the AFM; or (b) to the AFM or on its behalf, including by a person to which any aspect of the scheme's management has been delegated'.

EPFL uses third-party tools to identify funds of a similar size, investment objective and portfolio composition (the peer group) with which to compare the overall cost of the fund (OCF). A tolerance of 10% from the median is set to take account of any funds at the extreme ends of the peer group. Where the fund is below the median (including the 10% tolerance) it will be given a **Green** RAG status.

Any funds in excess of the median plus its 10% tolerance will be given an **Amber** RAG status. There may be no follow up action if the EPFL Board are comfortable that the size of the fund, or the investment strategy of dealing in collective investment schemes, has contributed to the higher OCF figure.

A **Red** rating may be given where EPFL had previously highlighted an issue and if the DTPIM has not acted on it. In this scenario, that section may have been marked as **Amber** the previous year.

In line with its tendering procedures, EPFL regularly benchmarks the costs of comparable services, for example Depositary / Trustee, Global Custody, Fund Audit and its own ACD fee.

Where a fund has been awarded an **Amber** for Comparable Market Rates in the prior year's AOV Report. depending on the outcome of any specific action, another **Amber** rating be warranted if no further action is deemed necessary. However, if there was a commitment made to reduce an investment management fee

or move investors to another share class, that may result in a **Red** rating.

1.6 Comparable Services

'In relation to each separate charge, the AFM's charges and those of its associates for comparable services provided to clients, including for institutional mandates of a comparable size and having similar investment objectives and policies'.

Where the DTPIM has provided information on the fees for segregated mandates of a similar size and mandate or confirmed that they are comparable to what is being charged in the fund, and EPFL are comfortable with this information, the section would be awarded a **Green** RAG status.

Where the DTPIM has not provided this information, EPFL will compare the fund against other similar funds administered by EPFL and similar mandates managed by the same DTPIM. Where the investment management fee of the fund is below that of the median of the established peer group, a **Green** rating may be awarded.

Where the investment management fee is above that of the median, EPFL would consider any additional services within the fee that distinguishes them from the peer group.

An **Amber** status may be awarded where the EPFL peer review, based on other EPFL administered funds, highlighted a difference.

As per the Comparable Market Rates section, if the situation wasn't resolved the following year, then the Board may consider whether this should be marked **Red**.

1.7 Classes of Shares

'Whether it is appropriate for unitholders to hold units in classes subject to higher charges than those applying to other classes of the same scheme with substantially similar rights'.

A **Green** RAG status is awarded when there is a clear distinction between the share classes and evidence from the register that holders were in the correct share class, e.g., minimum investment levels being met in the case of cheaper share classes.

An **Amber** RAG status would be awarded where

there was no discernible difference between share classes but there was a different pricing structure for each, e.g., the distribution strategy. A **Red** RAG status would be awarded where remedial action, e.g., the closure of an expensive share class, had not been taken.

If you have any questions or wish to discuss this document further, please contact the Fund Oversight Team directly or duediligence@evelyn.com