

For use with advisers, employers and trustees. Not for use with customers.



# Our default solutions



# Overview

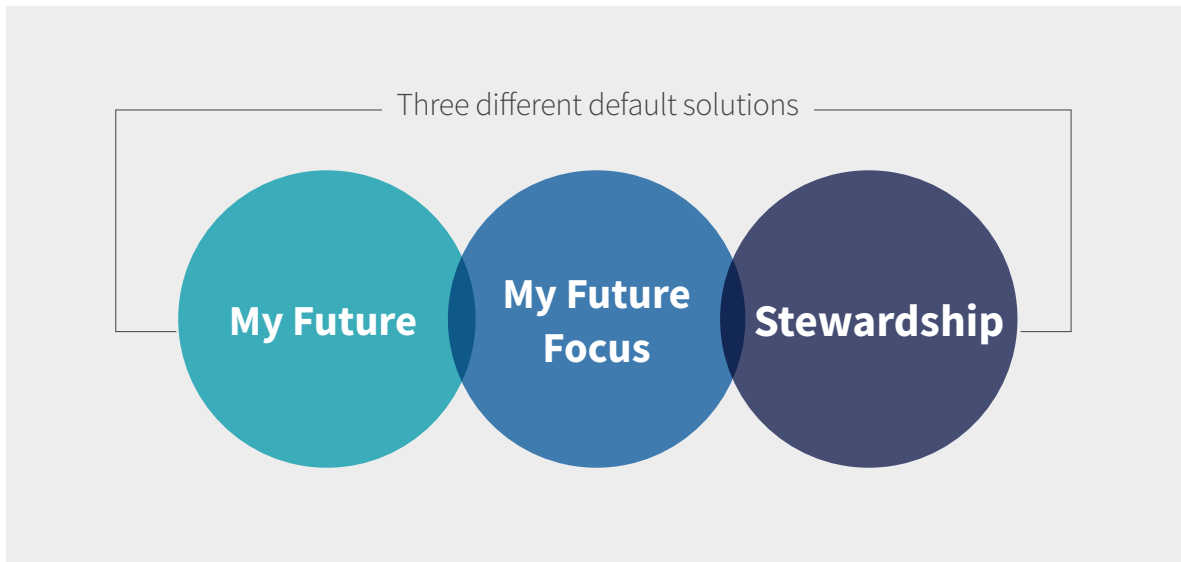
We recognise that members want peace of mind during their journey to retirement.

Maximising returns for investors, while managing the risk that they're exposed to is at the heart of our default solutions.

It's for this reason that instead of trying to predict what's going to happen from one day to the next in the financial markets, we prefer to stay focused on what we're in a position to be able to control. That's on aiming to achieve two key objectives – to give members the opportunity to benefit from gains in the world's financial markets, while trying to minimise the impact of any unpleasant shocks.



**We recognise that our customers will have different needs when it comes to their pensions, and so that we can help you respond to this, we've created three investment solutions - My Future, My Future Focus and Stewardship Lifestyle default - as shown below.**



By having three default solutions we aim to provide you with a choice so that you feel comfortable choosing a solution which is aligned with your members' needs.

You should be aware that whichever default solution is selected, the value of investments can fall as well as rise and your members could get back less than has been invested

# Our default options **in brief**

## MY FUTURE

- ✓ Strategic yet dynamic asset allocation.
- ✓ Overseen by BlackRock's global client portfolio solutions team, with the exception of the My Future Annuity Fund which invests in the L&G Future World Annuity Aware Fund.
- ✓ Default 'universal' strategy that sits alongside three options targeting annuity purchase, cash lump sum and drawdown.
- ✓ My Future Growth, Consolidation, Drawdown and Cash Lump Sum Funds target specified long-term volatility levels as a way to manage risk throughout retirement journey.
- ✓ Invests in index tracker funds managed by BlackRock to achieve exposure to equities and fixed income.
- ✓ 15-year glidepath.
- ✓ In line with Aviva's commitment to become a net zero carbon business by 2040, the My Future Growth, Consolidation and Drawdown Funds invest in the BlackRock World ESG Insights Equity Fund.
- ✓ The cash in My Future is invested in the BlackRock Liquid Environmentally Aware Fund, which is a money market fund that takes environmental factors into consideration.
- ✓ The My Future guide can be found **here**.

## MY FUTURE FOCUS

- ✓ Managed by Aviva Investors.
- ✓ Strategic and dynamic asset allocation.
- ✓ Default 'universal' strategy as well as options which target annuity purchase, cash withdrawal and drawdown. The My Future Focus Annuity Fund invests in the L&G Future World Annuity Aware Fund.
- ✓ The My Future Focus Growth, Consolidation, Drawdown and Cash Lump Sum Funds target specified long-term volatility levels as a way to manage risk throughout retirement journey.
- ✓ Invests in Aviva Investors' passive and actively managed funds.
- ✓ Exposure to a broad range of asset classes, including developed market equities and bonds, as well as UK property, high yield bonds and emerging market equities and bonds.
- ✓ 10-year glidepath.
- ✓ Responsible investment and environmental, social and governance (ESG) considerations are integrated into the design and ongoing management of My Future Focus. This is achieved through Aviva Investors' active approach to stewardship, the integration of ESG considerations and the creation of a 'tilt' within the passive regional equity portfolios, which is optimised and consistent with the risk/return profile of the underlying benchmark.
- ✓ We've also introduced carbon intensity reduction targets, which are aligned to Aviva's ambition to be a net zero business by 2040.
- ✓ The My Future Focus guide can be found **here**.



## STEWARDSHIP

- ✓ This is Aviva's Environmental, Social & Governance (ESG) offering for customers who want to know their money is making a positive difference in their retirement journey to the world they and their family live in.
- ✓ Invests in the Stewardship Funds, which are actively managed by our dedicated fund manager Aviva Investors.
- ✓ 10-year glidepath, which moves members from the Stewardship International Fund to the Stewardship Managed Fund and the Stewardship Bond Fund.
- ✓ The Stewardship process incorporates negative screening and engagement with companies to bring about positive change.
- ✓ The UK Stewardship Fund was the first UK ethical fund of its kind, launched in 1984.
- ✓ The Stewardship guide can be found [here](#).



# My Future

The My Future “universal” strategy combines two multi-asset funds, My Future Growth and My Future Consolidation.

The My Future Growth Fund focuses on driving long-term growth in excess of inflation. This fund predominantly invests in equities to grow the size of members’ savings over the long term. The My Future Consolidation Fund predominantly invests in more defensive assets, and therefore, government and corporate bonds, to reduce fluctuations in members’ savings pots as they get closer to retirement.

## My Future Growth

**We like to think of My Future Growth as the engine of the pension since it’s made up of various levers which the investment team - global fund manager BlackRock - pulls to drive performance and increase the value of members’ pension savings.**

Irrespective of what members decide, or haven’t yet decided, to do with their pension savings at retirement, the My Future Growth Fund is used in the solution until 15 years before their selected retirement date. The fund has been designed with an annualised long-term volatility target of 12%.

## My Future Consolidation

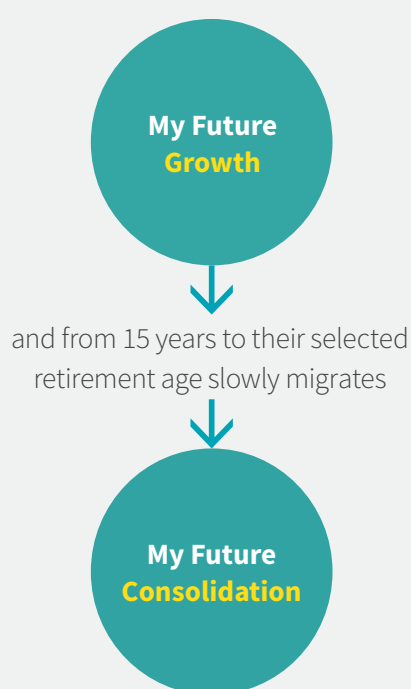
**The My Future Consolidation Fund is used from 15 years before retirement in the “universal” strategy and, therefore, when members are getting closer to retirement. It’s at this point in the journey that preserving the value of the savings built up in the growth stage is key.**

To reflect this, My Future Consolidation has been designed with an annualised long-term volatility target of 4%, with a focus on preserving the value of a member’s pension savings. This enables us to manage the risk in the fund as members get closer to retirement when there’s less time to recoup any losses.

## The My Future solution includes the following features:

- Multi-asset approach overseen by global solutions provider BlackRock.
- Designed to provide a balance between risk and return; this relationship is managed throughout the journey to retirement – giving members the opportunity to benefit from gains in the world’s financial markets, while trying to limit the impact of any potential downturns in the market on their pension savings as they get closer to retirement.

### Member Journey



Members are invested in the My Future Growth Fund until 15 years before retirement. My Future Growth has been designed to grow the value of members’ pension savings in the first stages of the retirement journey.

Then starting 15 years before retirement, members’ savings are gradually moved into the My Future Consolidation Fund, where the focus is very much on preserving the value of savings built up in the growth stage.

Alongside the My Future “universal” strategy, we have three alternative options targeting:

Annuity

Cash Lump Sum

Drawdown

Retirement options are explained on page 12.

- My Future is underpinned by Aviva’s in-house governance process to monitor the solution and the funds in the solution, and to check that they continue to perform in line with their objectives and remain suitable for members.

# My Future Focus

The My Future Focus “universal” strategy also combines two multi-asset funds, My Future Focus Growth and My Future Focus Consolidation. Like in My Future, the Growth fund aims to grow the size of the pension ahead of inflation, while the consolidation fund focuses on capital preservation.

As well as traditional asset classes, equities and fixed income, the My Future Focus Growth Fund also invests in emerging market equities and bonds, high yield bonds and property. This aims to increase diversification and reduce the fund’s dependency on one asset class to drive returns.

## My Future Focus Growth

**My Future Focus Growth is the first stage of the My Future Focus solution. It’s the engine room of a member’s pension savings focusing on driving long-term growth by investing in a broad spectrum of asset classes. The fund targets 75% of the volatility of the global equity markets.**

The fund invests in a range of growth assets, including emerging market bonds and high yield bonds to increase diversification and reduce the dependency on equity markets to drive performance. The broad mix of growth assets can also help dampen volatility in times of market stress and provide a smoother journey for members.

## My Future Focus Consolidation

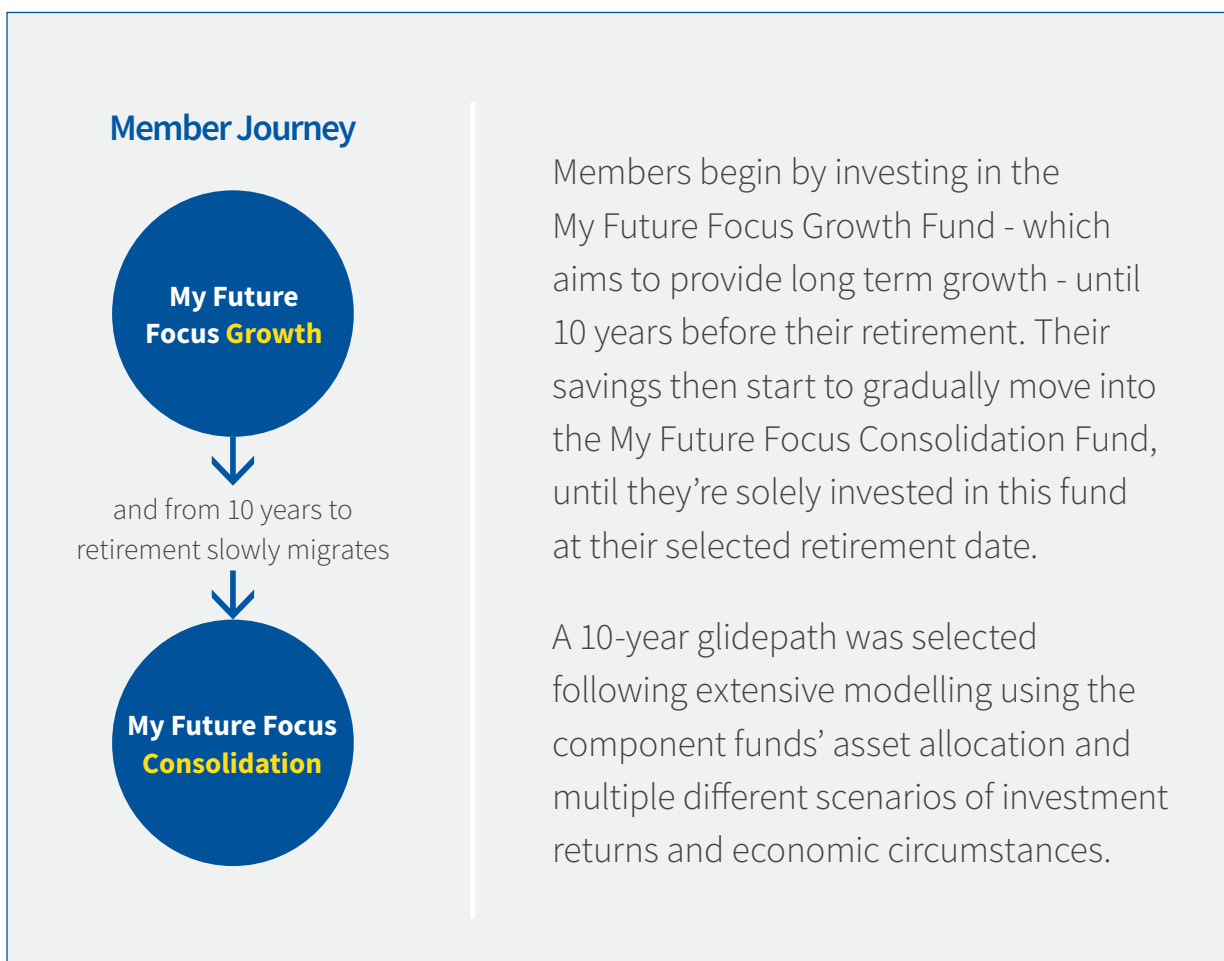
**A member’s pension savings are kept in the growth stage until 10 years before their retirement. At this point, members’ savings are gradually moved into the My Future Focus Consolidation Fund, until the member’s pension savings are solely invested in this fund at retirement.**

The My Future Focus Consolidation Fund invests in a broad range of asset classes to deliver moderate returns while keeping the journey to retirement as smooth as possible. The fund targets 25% of the volatility of the global equity markets.



## The My Future Focus solution includes the following features:

- The My Future Focus funds are managed by Aviva Investors' multi-asset team.
- Environmental, social and governance (ESG) considerations are integrated into the investment solution through Aviva Investors' active approach to ownership and stewardship, and the creation of a 'tilt' within the passive regional equity portfolios.



Alongside the My Future Focus “universal” strategy we have alternative options targeting:

**Annuity**

**Cash Lump Sum**

**Drawdown**

Retirement options are explained on page 12.

- My Future Focus is underpinned by Aviva's in-house governance process to monitor the solution and the funds in the solution, and to check that they continue to perform in line with their objectives and remain suitable for members.

# Stewardship

The Stewardship Lifestyle Strategy gives our customers the opportunity to save for a future for themselves and their families through the Stewardship Funds while actively contributing to a sustainable long-term future for the world around them.

The Stewardship Lifestyle Strategy uses the Stewardship International, Stewardship Managed and Stewardship Bond Funds from joining the scheme to when members reach their selected retirement date. The Stewardship Funds are managed by Aviva Investors, our dedicated asset manager.

The Stewardship Lifestyle Strategy also reflects the enhanced flexibility available to members following the introduction of pension freedoms by the government in 2015. It's been designed for members who want to keep their options open in terms of how they take their savings at retirement.

Reflecting the use of the Stewardship Funds throughout the strategy, members can be reassured that:

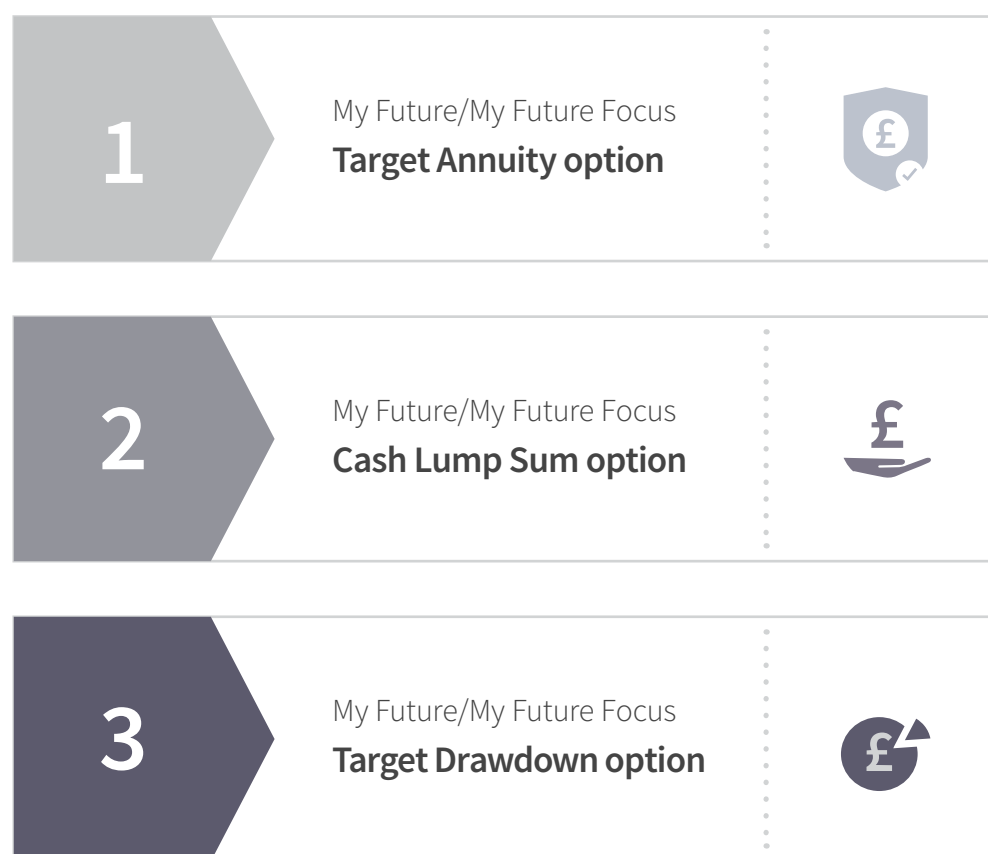
**“Regardless of when members first invest, ethical and ESG considerations are integrated all the way up to their selected retirement date.”**



# Retirement options

As mentioned, My Future and My Future Focus enable members to target the purchase of an annuity, take a cash lump sum or draw down an income with their pension savings. They can also decide to keep their options open and invest in the “Universal” strategies.

Members can choose to switch into any one of these options as they approach their selected retirement date. In this way, we hope to provide members, who have a clear idea of how they’ll use their pension savings, with investment strategies aligned to their target destination.





# Governance

For us, the robust governance of our default solutions is just as important as the management of them.

We have a responsibility to ensure our default solutions are performing in line with their design and expectations, and as we told members they would. We also need to be confident that the solutions are performing in the way we expect them to, and that they're taking the amount of risk that we deem suitable for members.

In the same way that members want peace of mind that their hard-earned savings are being well looked after, we want to be comfortable that our default solutions are fulfilling their role. We've designed our default solutions to help our customers secure the type of retirement they have in mind.



To fulfil this objective the solutions are monitored closely as part of Aviva's well-established in-house governance and monitoring processes.

**“ This enables us to respond and adapt the solutions when there are external developments, such as changes in regulation or legislation. ”**





# Our approach to responsible investment

There's growing recognition that incorporating environmental, social and governance (ESG) factors alongside active ownership is key to delivering a successful investment strategy, ultimately helping to improve outcomes for workplace pension scheme members.

## MY FUTURE

The My Future solution allocates part of the My Future Growth, Consolidation and Drawdown funds to the BlackRock World ESG Insights Equity Fund, managed by BlackRock.

The BlackRock World ESG Insights Equity Strategy invests in companies in the FTSE Developed Index, that are generating returns while delivering tangible ESG outcomes. The management team at BlackRock assesses ESG data from multiple sources, aggregating them into 15 proprietary sustainable descriptors that encompass ESG issues. We believe this allows for the construction of a fund better positioned to deliver long-term investment and sustainable outcomes, including a 50% reduction in carbon intensity and potential emissions compared to the FTSE Developed Index.

**The cash in My Future is held in the BlackRock Liquid Environmentally Aware Fund. This fund, which is also known as LEAF, takes environmental factors into consideration.**



## MY FUTURE FOCUS

### **ESG considerations are integrated throughout the design and the ongoing management of the My Future Focus solution.**

By engaging with companies and voting at company meetings, good practice is promoted among the funds held in My Future Focus, which as mentioned are managed by Aviva Investors. This helps to reduce investment risk on ESG issues.

In addition, analysts and portfolio managers across all asset classes integrate ESG research into the investment analysis and decision-making process. Aviva Investors' internal proprietary ESG score is a critical component of ESG integration. This proprietary ESG score combines a quantitative tool, using both internal and external data sources, complemented by qualitative research. This ESG research is integrated within My Future Focus as follows:

The regional equity funds are optimised to have a higher ESG score than their respective benchmarks, combined with a carbon intensity reduction pathway that targets the annual reduction in carbon intensity required to meet Aviva's net zero ambitions (cutting carbon intensity by 25% by 2025, 60% by 2030 and net zero by 2040), while targeting a low tracking error.

Exclusions are also used in My Future Focus again to ensure the solution is aligned with our net zero target and our overall approach to responsible investment. The solution doesn't invest in companies and sectors that generate prescribed levels of revenue from controversial weapons and civilian firearms; those involved in unconventional fossil fuels (arctic oil, oil sands); tobacco producers and distributors; thermal coal; and UN Global Compact violators.

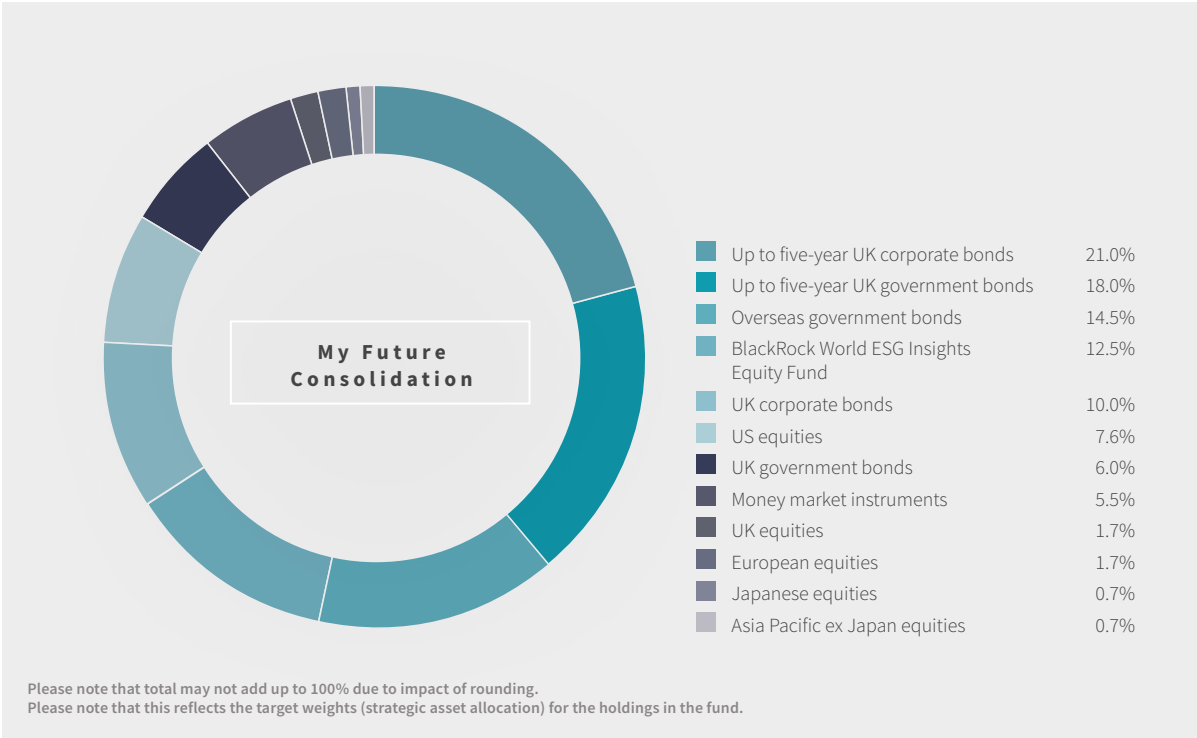
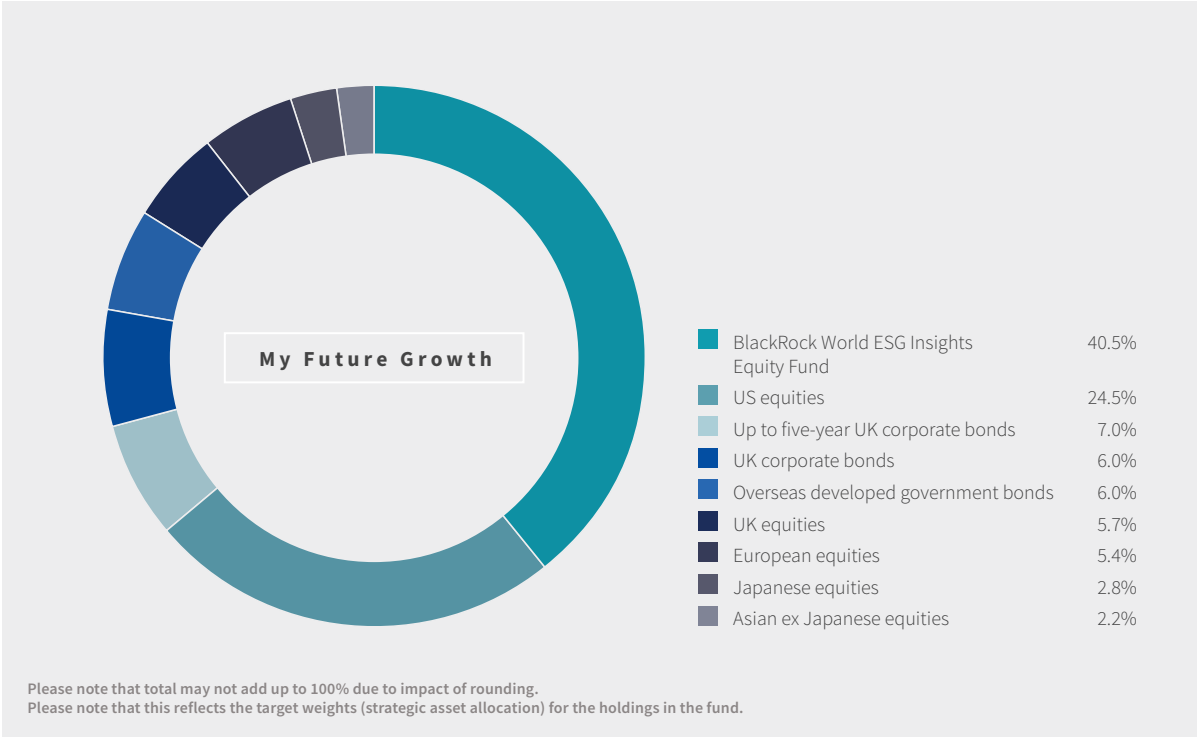
## STEWARDSHIP

**Launched in 1984, the Stewardship Funds have a proud heritage as the UK's first ethical fund range, while also incorporating environmental, social and governance (ESG) considerations. The aims of the Stewardship Funds have remained broadly consistent:**

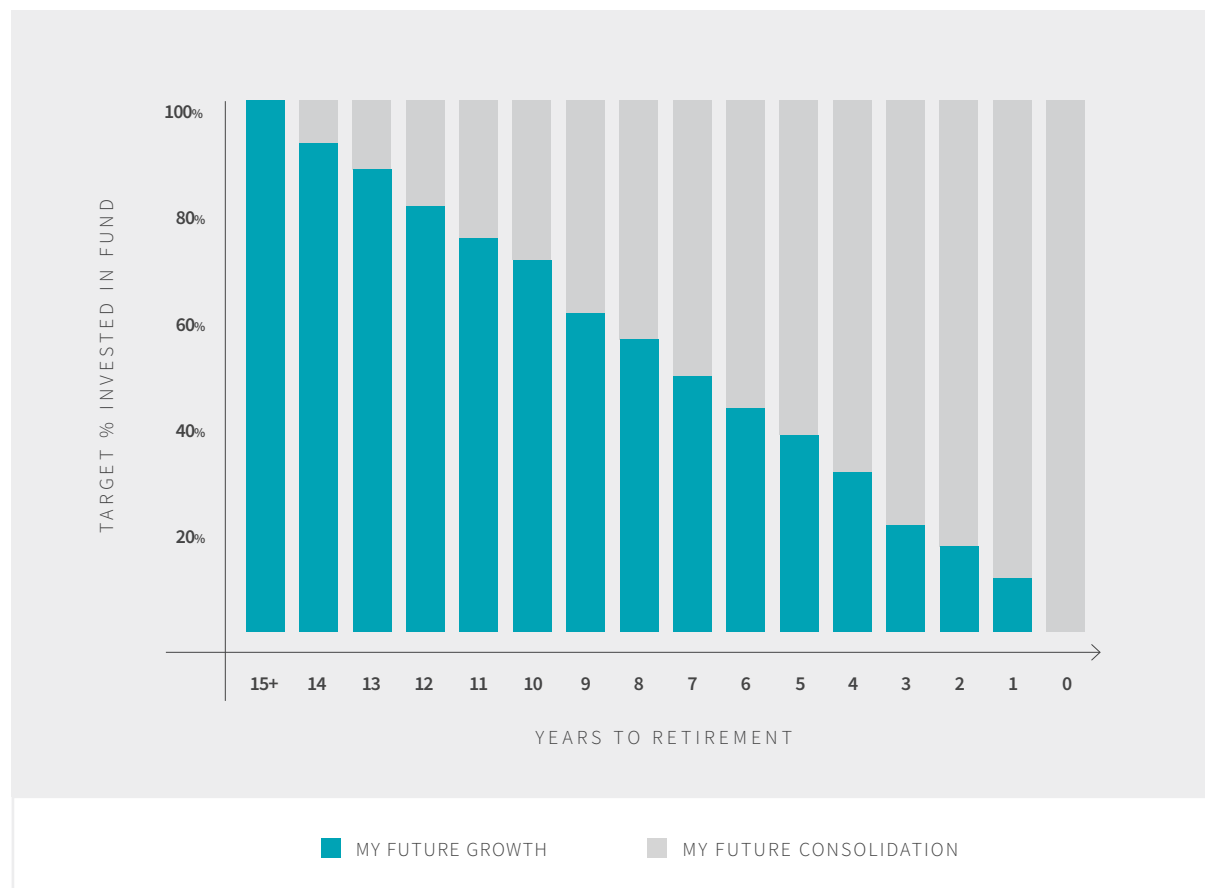
- 1 Exclude** companies that don't meet certain ethical standards or that harm society or the environment
- 2 Support** companies that make a positive contribution to society
- 3 Encourage** better business practices through shared ownership and dialogue



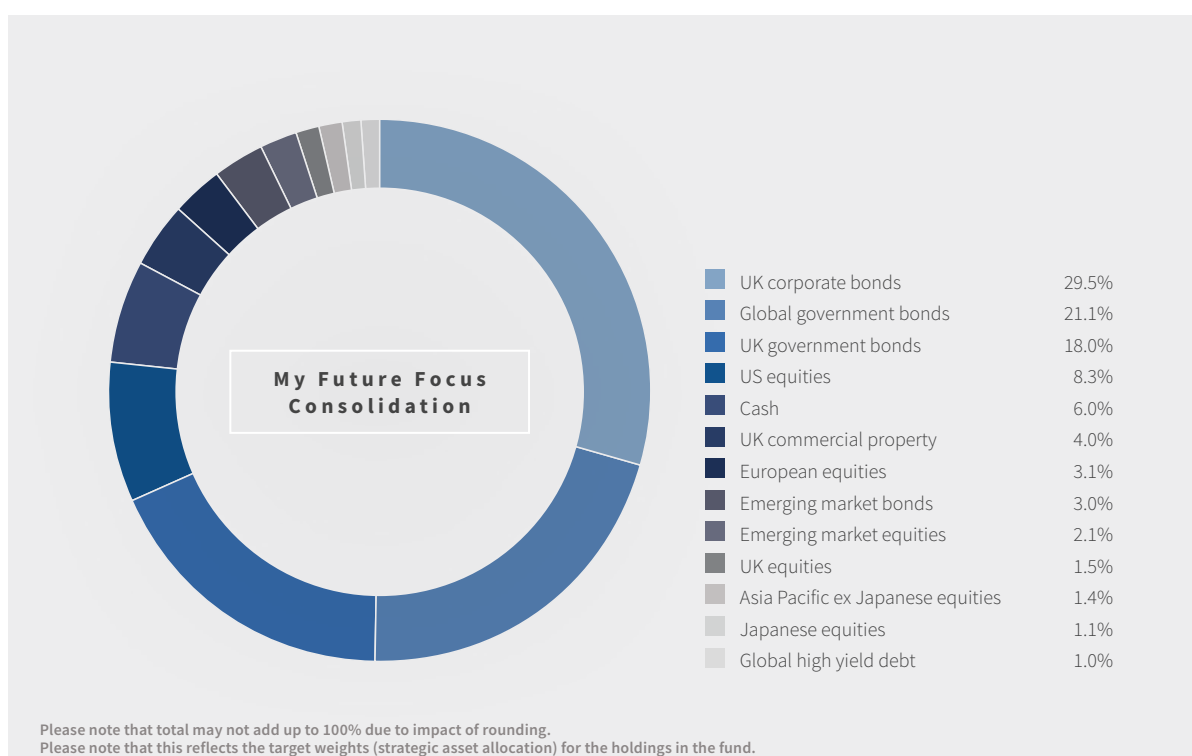
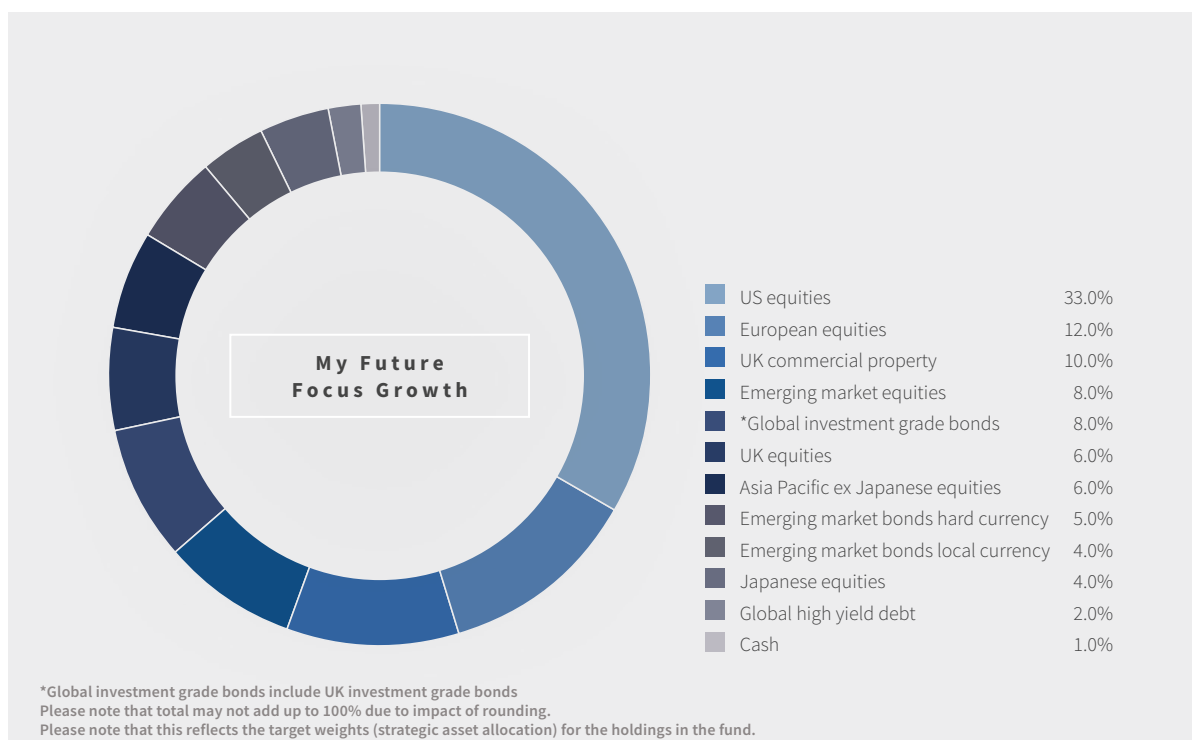
# Asset allocation - **My Future** **‘Universal’ strategy**



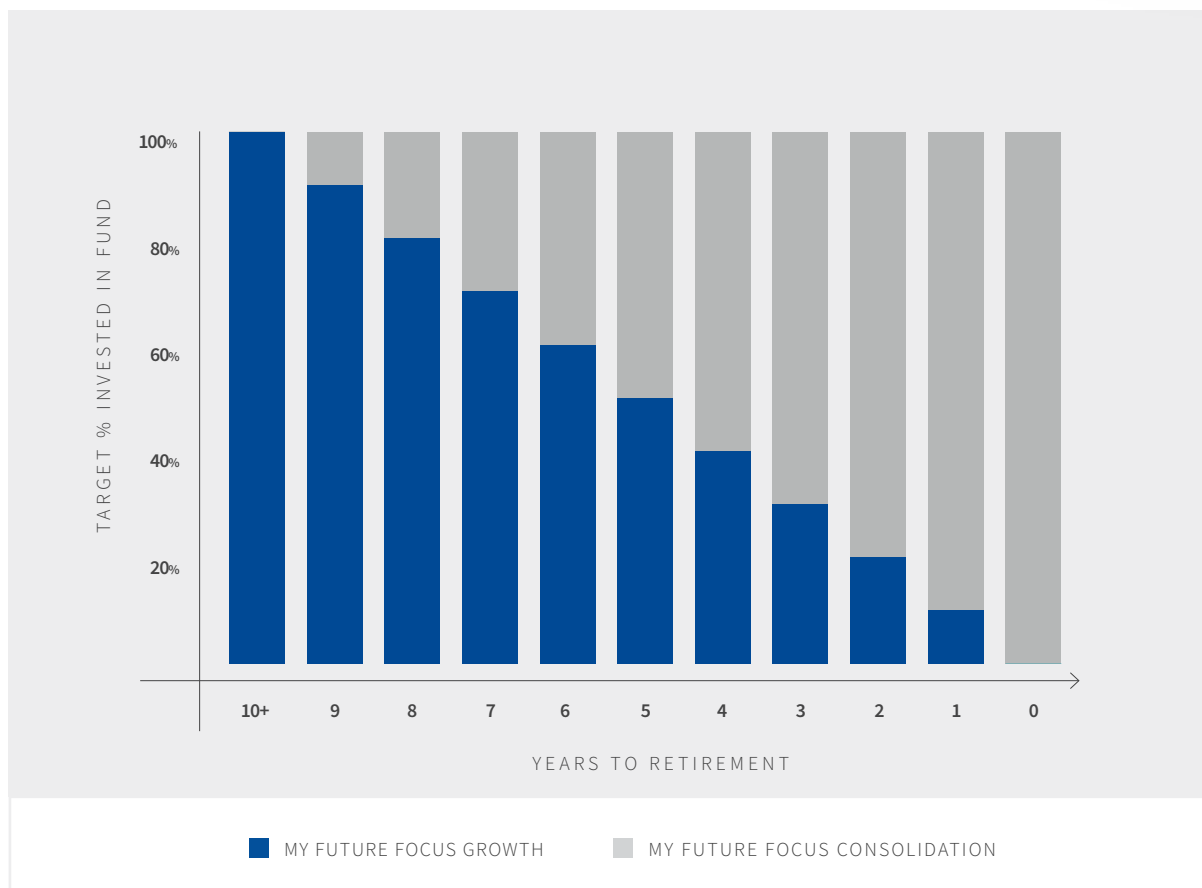
The following glidepath shows how money is moved from the My Future Growth Fund and into the My Future Consolidation Fund.



# Asset allocation - **My Future Focus** **‘Universal’ strategy**

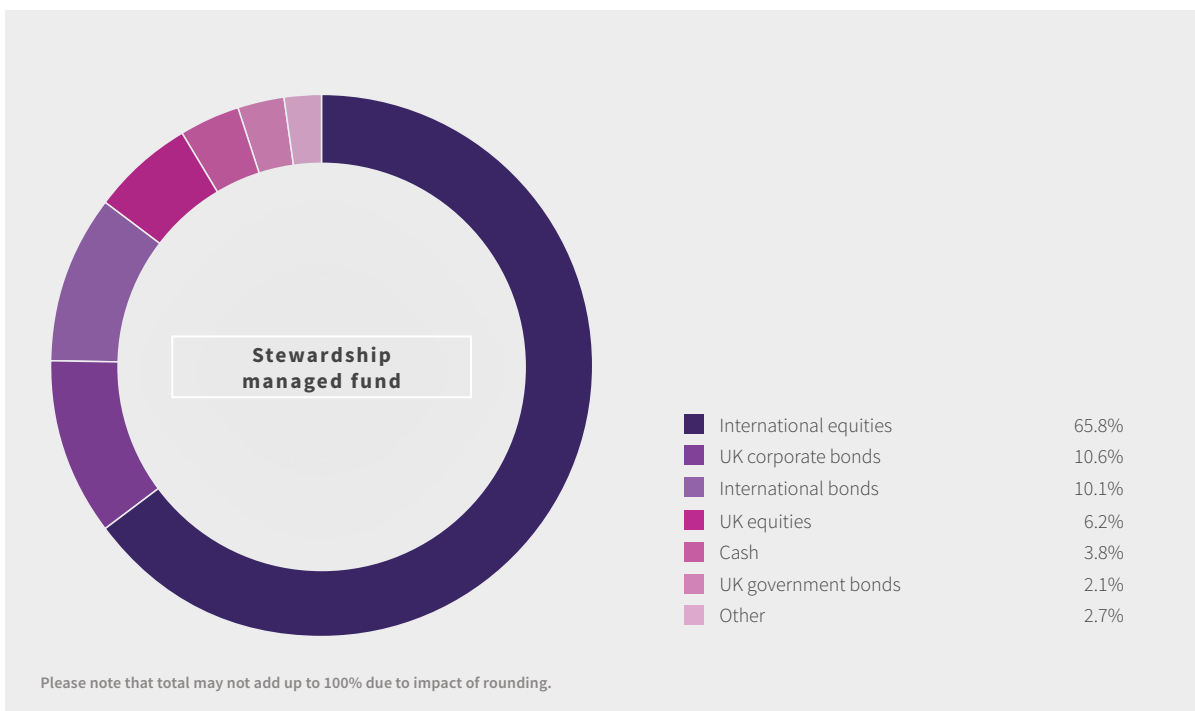
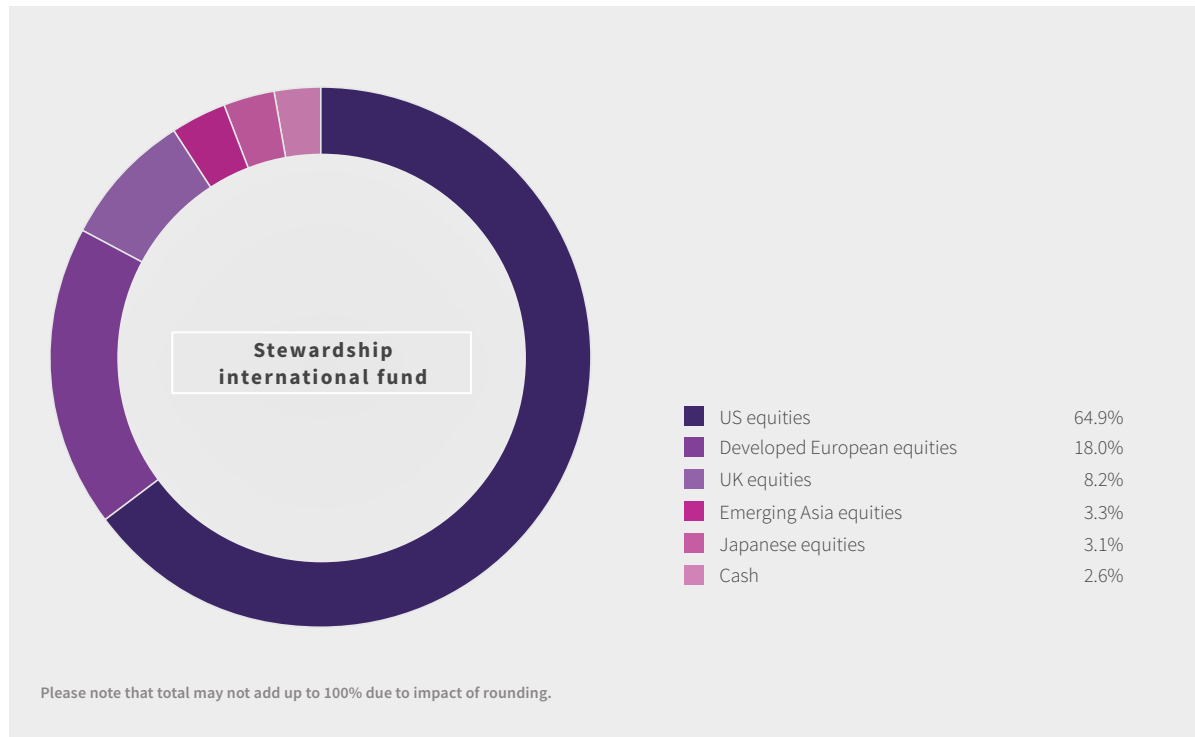


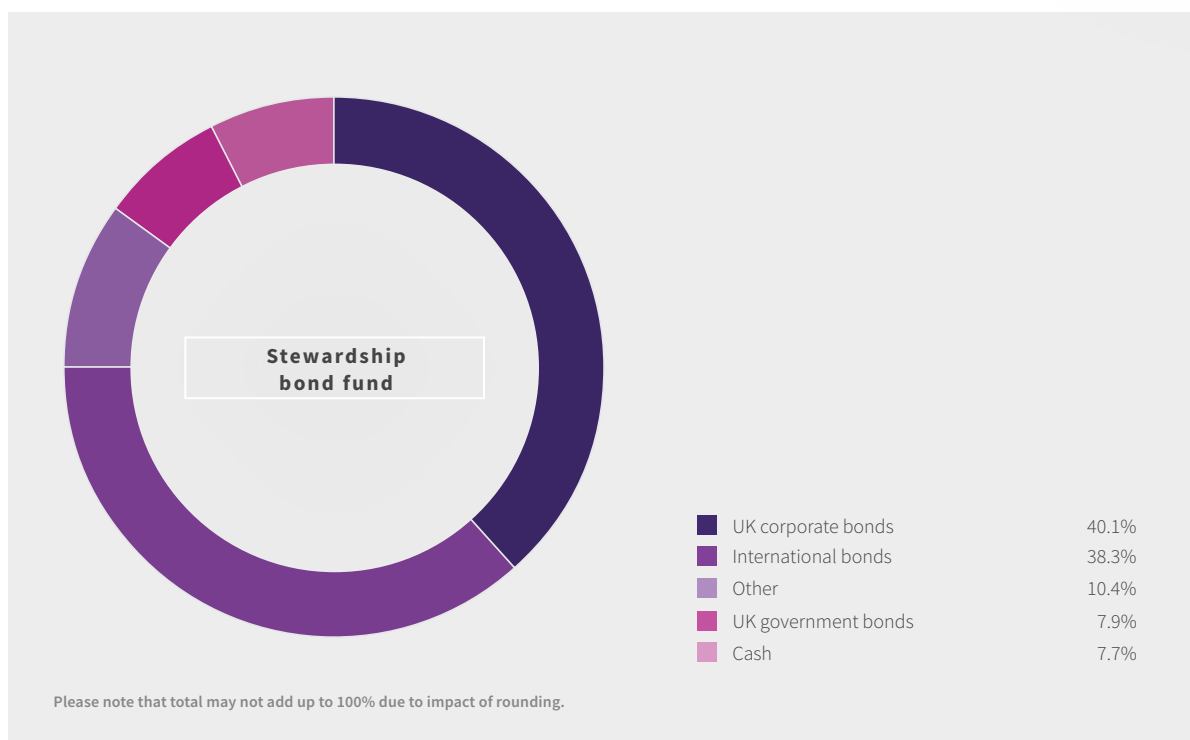
The following glidepath shows how money is moved from the My Future Focus Growth Fund and into the My Future Focus Consolidation Fund.



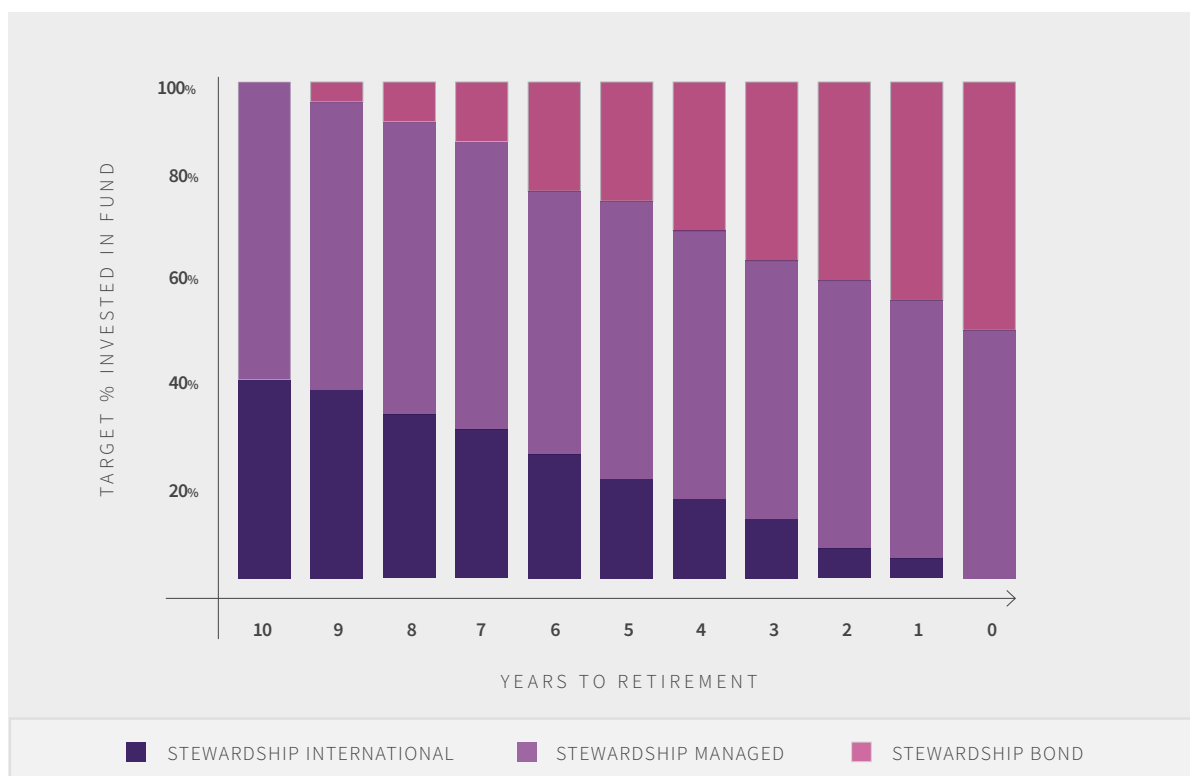


# Asset allocation - **Stewardship Funds**





**The glidepath for the Stewardship strategy is shown below.** The chart shows the underlying funds which make up the strategy and how members' monies are gradually moved from one fund to another during the journey to retirement.



# Glossary

## **Actively managed funds**

The fund manager chooses which investments to buy and sell, with the aim of achieving higher returns than the fund's benchmark.

## **Asset allocation**

This refers to the composition of a fund and its exposure to different asset classes, including company shares, fixed interest and commodities. Investing in different asset classes can help to provide the benefits of diversification and reduce risk.

## **Asset class**

A collective term to describe different types of investment such as fixed interest investments and shares.

## **Blended fund**

A blended fund is made up of more than one underlying fund. This type of fund can invest in different asset classes, including company shares, bonds and money market instruments. This allows investors to diversify their investment risk using one fund, which also helps them to keep track of the investment more easily.

## **Diversification**

Diversification refers to investing in more than one type of investment. This approach is taken by investment specialists to prevent investors 'putting all of their eggs in one basket' so to speak and to prevent investors from relying on the performance of only company shares, property or bonds during their journey to retirement. Investing in both company shares and bonds can help to reduce the risk that investors might be exposed to as this can reduce their exposure to the fall in value of company shares, for example, should stock markets fall, which would negatively impact the performance of their investment savings.

## **Emerging markets**

India and Brazil are two good examples of emerging markets. Both countries are experiencing industrialisation and are growing rapidly as a result. Investing in emerging markets can provide higher returns, albeit with a higher level of risk, and therefore the potential for greater losses.

## **Equities (or ‘shares’)**

Company shares are also known as equities. Shareholders have a ‘share’ in a company’s assets. Shares are bought and sold on a stock market, such as the London Stock Exchange, and their value can go up and down, sometimes sharply, depending on the fortunes of the company and stock markets in general.

Companies may also pay a share of their profits to shareholders, known as dividends. While there’s more opportunity for potential gains with shares than some asset classes, there’s also greater risk that they could fall in value. UK company shares are the shares of companies listed on the UK stock market, while international company shares refer to the shares of companies listed on stock markets outside the UK, including the US, Europe and Japan, as well as less developed countries, including parts of Asia and Latin America.

## **ESG**

ESG stands for environmental, social and governance criteria. These are the factors which investment managers use to decide how well a business is performing with regard to its impact on the environment, on society, and therefore its role in the communities where it operates, and also how a company functions in general, in terms of executive pay, diversity and shareholder rights, for example.

## **Fixed interest (or ‘bonds’)**

Loans issued by a government (those issued by the UK government are also known as ‘gilts’) or a company, known as corporate bonds. Investors receive a regular income in the form of interest payments and the full value of the bond upon maturity.

## **Fund**

Is where an investor’s assets are pooled with those of other investors and then invested in shares, fixed interest or property on their behalf by a fund manager.

## **Fund of funds**

A fund of funds invests in several different funds, rather than directly in shares, bonds or other investment types. Fund of funds aim to provide investors with greater diversification, enhanced returns, lowered risk or a combination of all three. This type of fund may invest in actively managed funds, index funds or both.

## **High yield bonds**

Referred to as an alternative asset class, high yield bonds are another type of fixed income investment. Such bonds provide investors with the potential for higher returns, but also involve investors taking on a greater amount of risk. This is because high yield bonds are issued by companies which have been assigned a lower credit rating by global ratings agencies than investment grade bonds.



## Index funds

The aim of an index fund is to track the performance of an index of a specific financial market. A UK equity index fund will track the performance of the UK's FTSE All-Share Index. The fund manager does this by investing in most of the company shares in an index, with the aim of replicating the performance of that index.

## Money market instruments

The term 'money market instruments' is a mechanism for short-term borrowing and lending between organisations. Money market investments typically include what are described as 'near-cash instruments', including certificates of deposit, floating rate notes and treasury bills. They're not to be confused with bank or building society deposit accounts.

The returns that money market investments can provide will reflect the rate of interest set by the Bank of England and will typically be lower than returns from fixed interest investments, property and shares. While the value of money market instruments will normally fluctuate less than the value of fixed interest investments, property and shares, there is a risk that they won't keep pace with inflation. Also, if the annual management charge of a money market fund is higher than prevailing interest rates or the returns generated, the value of the fund will go down.

## Property

Property investment usually means commercial property, such as offices and retail, leisure and industrial developments. It can also include residential property. As well as the potential increase in their value, property investments can also produce rental income. Property can be subject to heavy falls and sharp increases in value. It's also less liquid than other assets and it can take more time to buy and sell property than investments in other asset classes.

## Risk

Risk is how likely investors are to lose money if they invest in a particular asset. However, by investing in riskier assets, you could potentially earn a better return over the long term.

## Underlying funds

This is a collective term used to refer to the funds included in a blended fund.

## Volatility

As far as investing is concerned, risk tends to be associated with potentially higher volatility. The higher the risk levels, the more likely the value of a fund may go up and down from day to day.

## Volatility targets

Long-term volatility targets to help manage risk and reduce the likelihood of members' savings experiencing large fluctuations in value.

# Contact us

If you have any questions about any of the information in this brochure, please feel free to contact us using one of the methods below.

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**0800 145 5744**

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