
May 2018

Review prepared by Morningstar Investment Management Europe Ltd
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Aegon

Researched Fund Panel Update

Update – May 2018

At the Aegon Quarterly Review Meeting on 22nd May 2018 the following changes to the Aegon Researched Fund Panel were agreed.

In an effort to reduce the overall number of funds on the Researched Fund Panel to a target range of 80 – 100 funds we have recommended an above average number of funds be removed from the fund panel this quarter. This smaller list continues to provide an appropriate degree of concentration in each asset class.

Additions

IA Global: Standard Life Global Smaller Companies

Following the Aegon Quarterly Review Meeting in May 2018, we have added the Standard Life Global Smaller Companies fund to the Aegon Researched Fund Panel. Further information can be found below.

Standard Life Global Smaller Companies

Fund Objective

The fund aims to provide long term growth by investing predominantly in the shares of smaller companies listed on global stock markets. The fund typically holds a concentrated portfolio of stocks and is actively managed. In performance terms the fund aims to outperform the MSCI ACWI Small Cap Index.

Fund Manager

The fund was initially co-managed by Alan Rowsell and Harry Nimmo until Rowsell, who has more than two decades' experience, became its sole manager at the end of December 2016. Nimmo is head of Aberdeen Standard Investment's small-cap team, has more than three decades' experience in small-cap investing (primarily in UK equities) and is the founder of the group's proprietary quant model. Rowsell has been the driving force behind the portfolio throughout its life so far and he is supported by six other members of the small-cap team, each of whom makes a meaningful contribution to idea generation for the portfolio and whose responsibilities are split along regional lines. Rowsell can also draw on the group's broader analytical resources, including more than 60 equity analysts, though these tend to have a larger-cap focus.

About this fund

The fund is managed primarily from the bottom up, combining both proprietary quantitative screens and fundamental research. Both are steeped in the "Focus on Change" investment philosophy, which emphasises identifying the key factors that drive share prices. The quantitative screen ranks around 6,000 companies on the basis of 13 factors and its output helps guide the team's fundamental analysis. Looking at the top ranking 800 names, the team aims to identify companies with proven and sustainable business models, recurring revenues and quality earnings streams that have been mispriced by the market. Meeting management is key in understanding earnings predictability and in assessing management stability and capabilities. The team creates a list of its 100 best ideas, from which Rowsell typically builds the mainstay of the portfolio, although he is not restricted solely to it; he's free to include names outside of the list if he has higher levels of conviction. The portfolio usually comprises of 40 – 80 names and investments are driven by conviction and an optimal risk/reward profile within some flexible guidelines.

IA Japan: Lindsell Train Japanese Equity

Following the Aegon Quarterly Review Meeting in May 2018, we have added the Lindsell Train Japanese Equity fund to the Aegon Researched Fund Panel. Further information can be found below.

Lindsell Train Japanese Equity

Fund Objective

Aims to outperform the Topix index by investing in high-quality companies with durable, cash-generative business franchises. The profile of the fund can lead to larger variability in peer relative performance over shorter periods.

Fund Manager

The fund has been managed by Michael Lindsell since February 2004, having co-founded Lindsell Train, a boutique fund management house with Nick Train in 2000. Lindsell has been investing in Japan since the early 1980's and is supported by two junior analysts. The team is small but sufficient, given the concentrated portfolio of stocks held for the long term with limited turnover.

About this fund

Lindsell targets companies that are well established, have high barriers to entry and have strong financial characteristics. The universe of stocks which fall into their quality screen is narrow, and the portfolio is concentrated to the 20-30 best ideas based on in-depth fundamental analysis. The portfolio has a considerable degree of active share investing across the market cap spectrum, historically with sizeable overweight's to mid and small caps. This 'buffett-like' philosophy has delivered long-term outperformance of the index and peers.

Removals

IA Flexible Investment: Newton Multi Asset Growth

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the Newton Multi Asset Growth fund from the Aegon Researched Fund Panel.

The fund's Morningstar Analyst Rating was placed Under Review following the retirement of the fund's manager Chris Metcalfe. Going forward the fund will be managed by Paul Flood. Metcalfe ran the fund from March 2011 to the end of December 2017 and was a member of Newton's multi-asset team. Paul Flood has been manager of the Newton Multi-Asset Diversified Return fund and the Newton Multi-Asset Income fund and will continue to manage these alongside the Multi-Asset Growth fund. As a consequence of these changes our conviction in the fund has reduced and we have removed the fund from the Aegon Researched Fund Panel.

IA Mixed Investment 40-85% Shares: Newton Multi Asset Balanced

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the Newton Multi Asset Balanced fund from the Aegon Researched Fund Panel.

The manager of the fund, Matt Brown, was taken off the fund in the middle of January 2018 after moving to a full-time role on Newton's Real Return team. This follows Iain Stewart relinquishing his co-management position in November 2017 after announcing a reduction of his hours/portfolio management responsibilities at Newton.

Update – May 2018

The fund's new lead manager will be Simon Nichols, who is a member of the multi-asset team with 16 years at Newton. Nichols is a reasonably experienced investor although much of his portfolio management experience is in managing UK equity funds. He continues to manage three UK equity funds and has only managed multi-asset funds since February 2013. Given this change, the fund's Morningstar Analyst Rating has been placed Under Review by the Analyst team and we have therefore removed the fund from the Aegon Researched Fund Panel.

IA Mixed Investment 20-60% Shares: Janus Henderson Cautious Managed

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the Janus Henderson Cautious Managed fund from the Aegon Researched Fund Panel.

In February 2018 Janus Henderson announced that Chris Burvill the fund's manager would be taking an extended period of leave for medical reasons. In his absence the fund is being managed by Stephen Payne, who joined from Santander in May 2016 as co-manager. At the time, we viewed his appointment as long-term succession planning, during which his initial role would be as backup to Burvill. Over time we anticipated he would take the lead, as and when Burvill decided to wind down his responsibilities. Payne has 23 years' investment experience, which has been focused mainly on U.K. equity income investing, but also including some fixed interest. As he is unproven on moderate allocation mandates, and with the possibility he could step up to the lead portfolio manager role earlier than originally planned, our conviction has been reduced. This is reflected in moving the fund's Morningstar Analyst Rating to Neutral, having previously been Silver. As a result of these changes we have removed the fund from the Aegon Researched Fund Panel.

IA Asia Pacific ex Japan: Aberdeen Asia Pacific

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the Aberdeen Asian Pacific fund from the Aegon Researched Fund Panel.

The fund continues to hold a Morningstar Analyst Rating of Bronze however as per the decision to reduce the overall number of funds on the Panel we have removed the fund from the Aegon Researched Fund Panel.

IA Europe ex UK: Schroder European Opportunities

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the Schroder European Opportunities fund from the Aegon Researched Fund Panel.

As of 14 May 2018 there has been a change in management at Schroder European Opportunities. Steve Cordell, the fund's previous manager has passed on fund management responsibilities to Andrew Lyddon and Andrew Evans, with the investment policy amended and the fund name changed to Schroder European Recovery. Cordell has followed a top-down business cycle approach, focusing on areas deemed to offer the best opportunities according where the market is in the business cycle.

As part of the global value team headed by Nick Kirrage and Kevin Murphy, Lyddon and Evans follow a distinct bottom-up approach that focuses on identifying companies that they believe are undervalued relative to their long-term earnings potential. We therefore expect the portfolio to undergo a material change that will result in an equally different return profile. Lyddon and Evans have run a Pan-European fund, Schroder ISF European Value, with the same style since April 2016. Lyddon has also been a named manager on Schroder ISF Global Recovery, along with Kirrage and Murphy, since October 2015.

We have a high regard for Kirrage and Murphy--Schroder Recovery, a UK equity fund that they manage, has a Morningstar Analyst Rating of Silver-- and the investment process that their global value team implements. We note Lyddon and Evans' limited lead management experience, however, and as a consequence our conviction has waned and we have removed the fund from the Aegon Researched Fund Panel.

IA Global: Aberdeen World Equity

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the Aberdeen World Equity fund from the Aegon Researched Fund Panel.

The fund continues to hold a Morningstar Analyst Rating of Bronze however as per the decision to reduce the overall number of funds on the Panel we have removed the fund from the Aegon Researched Fund Panel.

IA Global: Jupiter Merlin Worldwide

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the Jupiter Merlin Worldwide fund from the Aegon Researched Fund Panel.

We continue to rate the longstanding managers and investment process followed by the Jupiter Merlin team highly. However, we feel that, as a fund of funds, this fund's high relative charges are a structural headwind for the portfolio. We believe this limits its opportunity to outperform conventional global equities in what is a rapidly changing landscape in terms of ease and cost of access for investors. Accordingly, the fund's Morningstar Analyst Rating has been downgraded to Neutral from Bronze and we have removed the fund from the Aegon Researched Fund Panel.

IA Japan; Invesco Perpetual Japan

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the Invesco Perpetual Japan fund from the Aegon Researched Fund Panel.

The fund continues to hold a Morningstar Analyst Rating of Bronze however we would like to broaden the Japanese fund selection by reducing the bias to fund's with a value style bias and introducing instead a fund with a growth style bias and have therefore removed the fund from the Aegon Researched Fund Panel.

Update – May 2018

IA UK All Companies; AXA Framlington UK Select Opportunities

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the AXA Framlington UK Select Opportunities fund from the Aegon Researched Fund Panel.

Following the announcement that Nigel Thomas, the long-standing manager of AXA Framlington UK Select Opportunities, is to step down on Dec. 31, 2018, and will retire from the group at the end of March 2019, the fund's Morningstar Analyst Rating has been placed Under Review. Thomas has been manager of this fund since 2002 and has had a long and successful career spanning over 30 years. He has handsomely rewarded investors who have stuck with him over time. Management of the fund will be passed on to Chris St. John, who has been highlighted as Thomas' successor for a number of years and although he is an experienced manager and joined the group in 2005 he has not had experience in managing mandates as large as this fund. As a consequence of these changes our conviction in the fund has reduced and we have removed the fund from the Aegon Researched Fund Panel.

IA UK All Companies; M&G Recovery

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the M&G Recovery fund from the Aegon Researched Fund Panel.

The fund continues to hold a Morningstar Analyst Rating of Bronze however as per the decision to reduce the overall number of funds on the Panel we have removed the fund from the Aegon Researched Fund Panel.

IA UK All Companies; Old Mutual UK Equity

Following the Aegon Quarterly Review Meeting in May 2018, we have removed the Old Mutual UK Equity fund from the Aegon Researched Fund Panel.

The fund continues to hold a Morningstar Analyst Rating of Bronze however as per the decision to reduce the overall number of funds on the Panel we have removed the fund from the Aegon Researched Fund Panel.

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