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The **benefits**
of a **smoothed**
approach

M &G Important Information

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What we'll cover today...

01

Why use
smoothed
funds



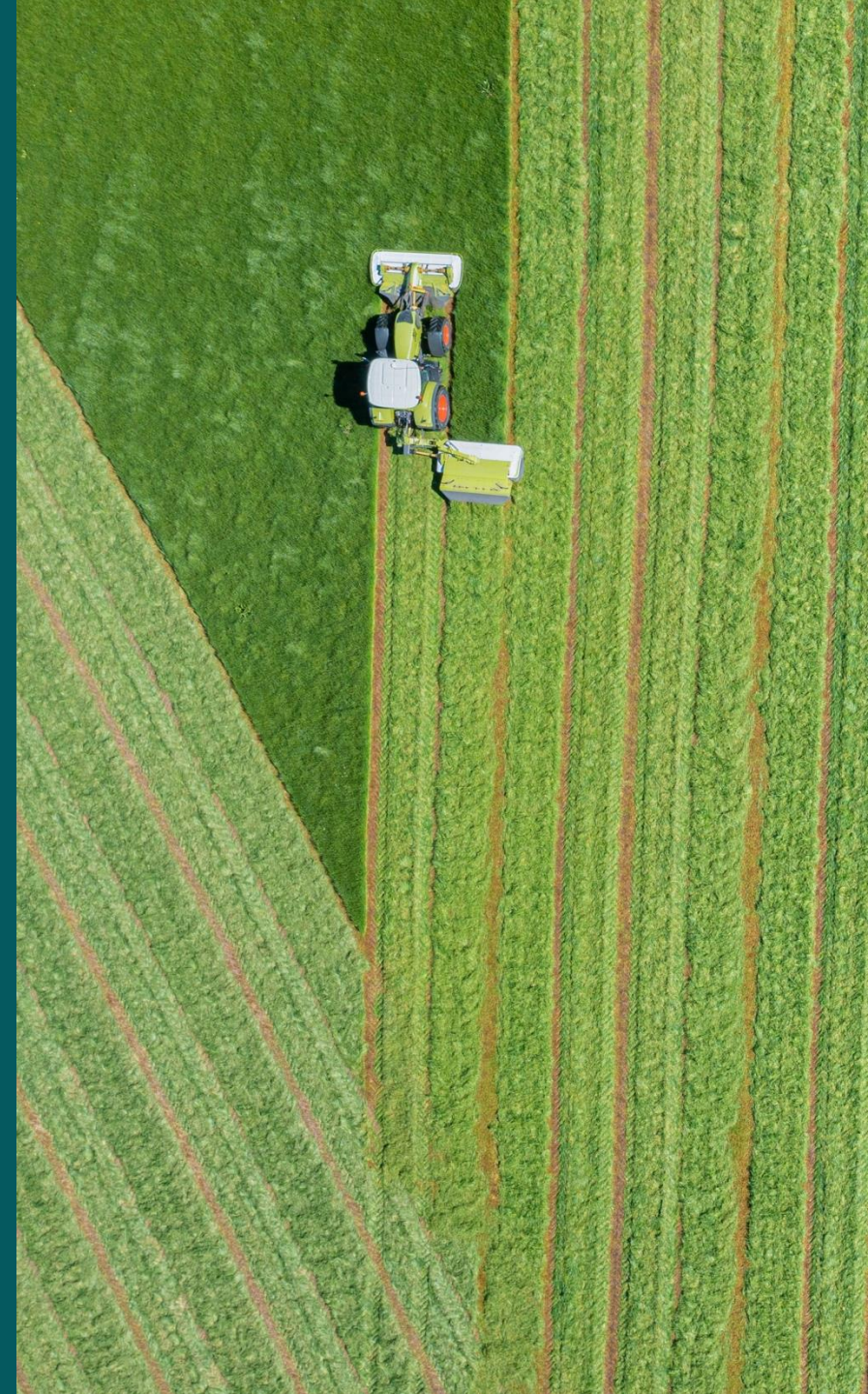
02

Types of
smoothed fund



03

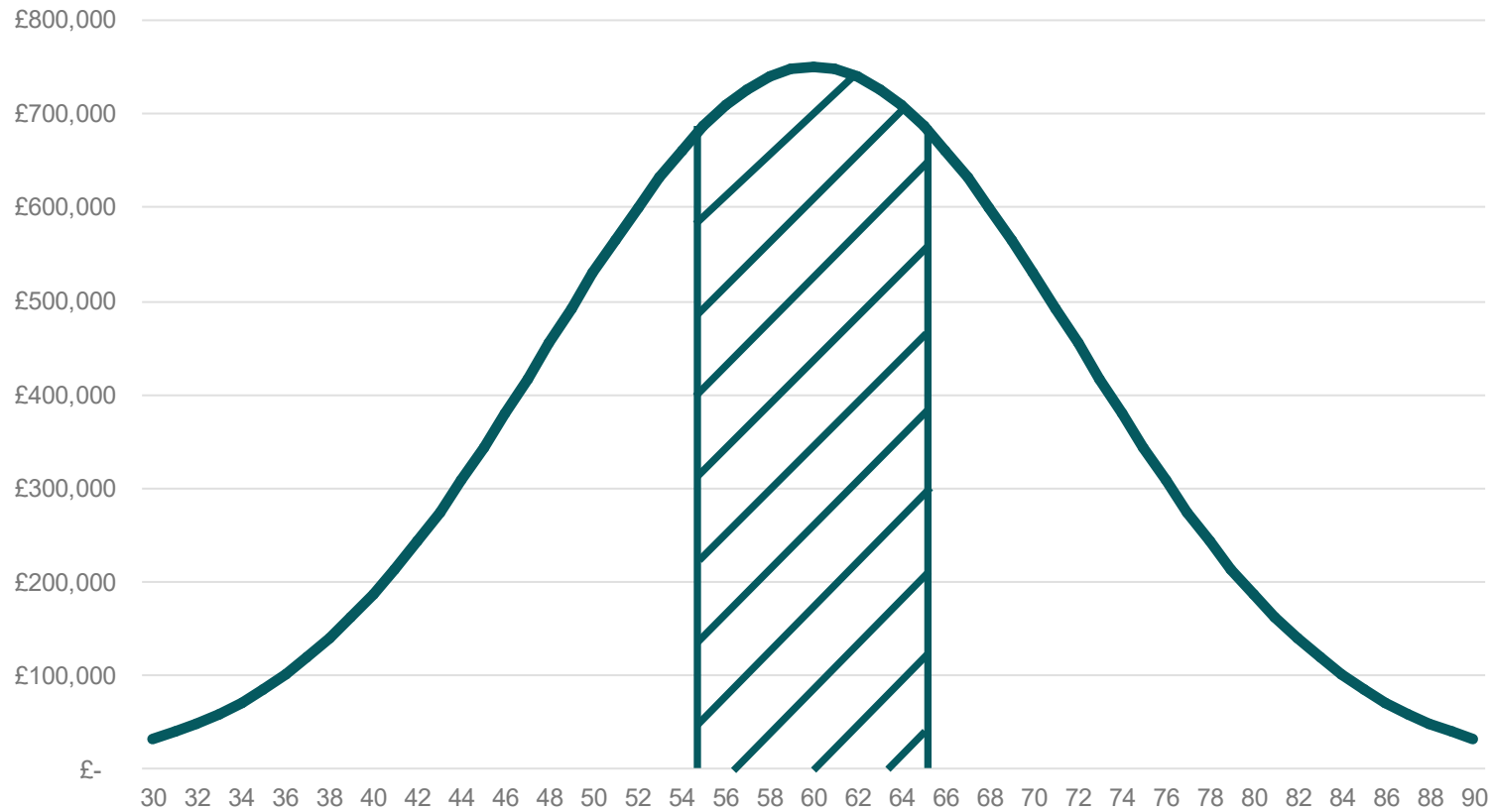
How to assess



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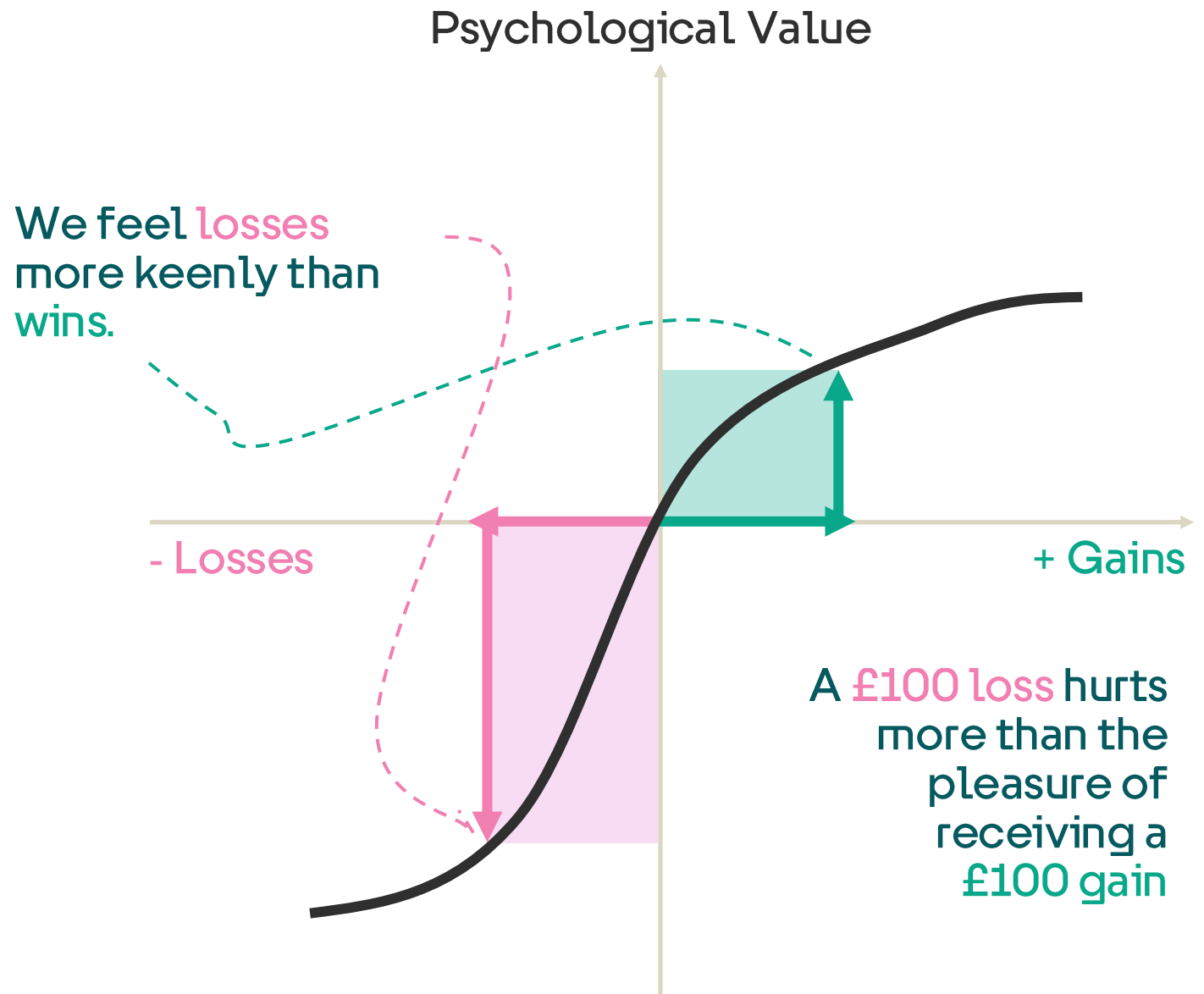
Why use
smoothed
funds?





The Fragile Decade

Loss aversion



Striking
the right
balance

Will I last?



Will my money last?

The client reality...

I need someone to help me make sense of it.. and feel ok about it.

What if I spend too much now... and regret it later?

I don't want to worry about what markets are doing every day.

I know I should start drawing income but is now the right time?

I just want to feel like I'm doing the right thing.

I'd rather wait and see... markets feel uncertain.



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Types of smoothed fund



Types of smoothed fund

With-Profits

Smoothing via bonuses &
Market Value Reductions

Future Expectation of Returns

Smoothing via Expected
Growth Rates & Unit Price
Adjustments

Backward- facing averaging

Smoothing via rolling historic
average

With-Profits

How?

- Regular + Final Bonus drive returns
- MVRs can apply on withdrawals

Pros

- Bonus rates = expectation management
- Smoother year-to-year profile (via bonus process)

Cons

- Most opaque (bonus + final bonus + MVR mechanics)
- Actuarial layer (discretion + governance/reporting)
- Potential of MVR “sting” at exit remains

Future Expectation of Returns

How?

- **Set Expected Growth Rate (EGR)**
- **Smoothed price grows daily with EGR**
- **Limits/corridors control divergence**
- **Breach limits – Unit Price Adjustment (up or down)**
- **Unusual conditions – suspension of smoothing possible**

Pros

- **Predictable “guide” return path (EGR)**
- **Cashflow / Forecasting anchor for advisers**
- **Helps set and manage future expectations for clients**
- **Transparency - Mechanical & formulaic**

Cons

- **UPAs happen (up/down)**
- **Performance lags markets**
- **Adjustments can be large in certain circumstances (i.e. COVID)**

Backward-facing averaging

How?

- Smoothed Price = average of past prices (e.g. rolling 26-week average)
- Explicitly based on what's already happened

Pros

- Easiest to explain (it's an average)
- Likely to be least volatile – shock dampening by design

Cons

- No forward-looking expectation of returns (harder for forecasting)
- Lag is built-in
- Smoothing takes time to apply (i.e. averaging in period)

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Assessing smoothed funds



What are the key factors?

Costs & Charges



01

Scale, structure & smoothing



02

Access to private markets assets to help reduce volatility



03

Lifting the hood



04

Why smoothed funds are more expensive



Underlying
fund
management



Smoothing
framework/
cost of
guarantees



Governance +
operations



Access to a
wide range of
asset types*

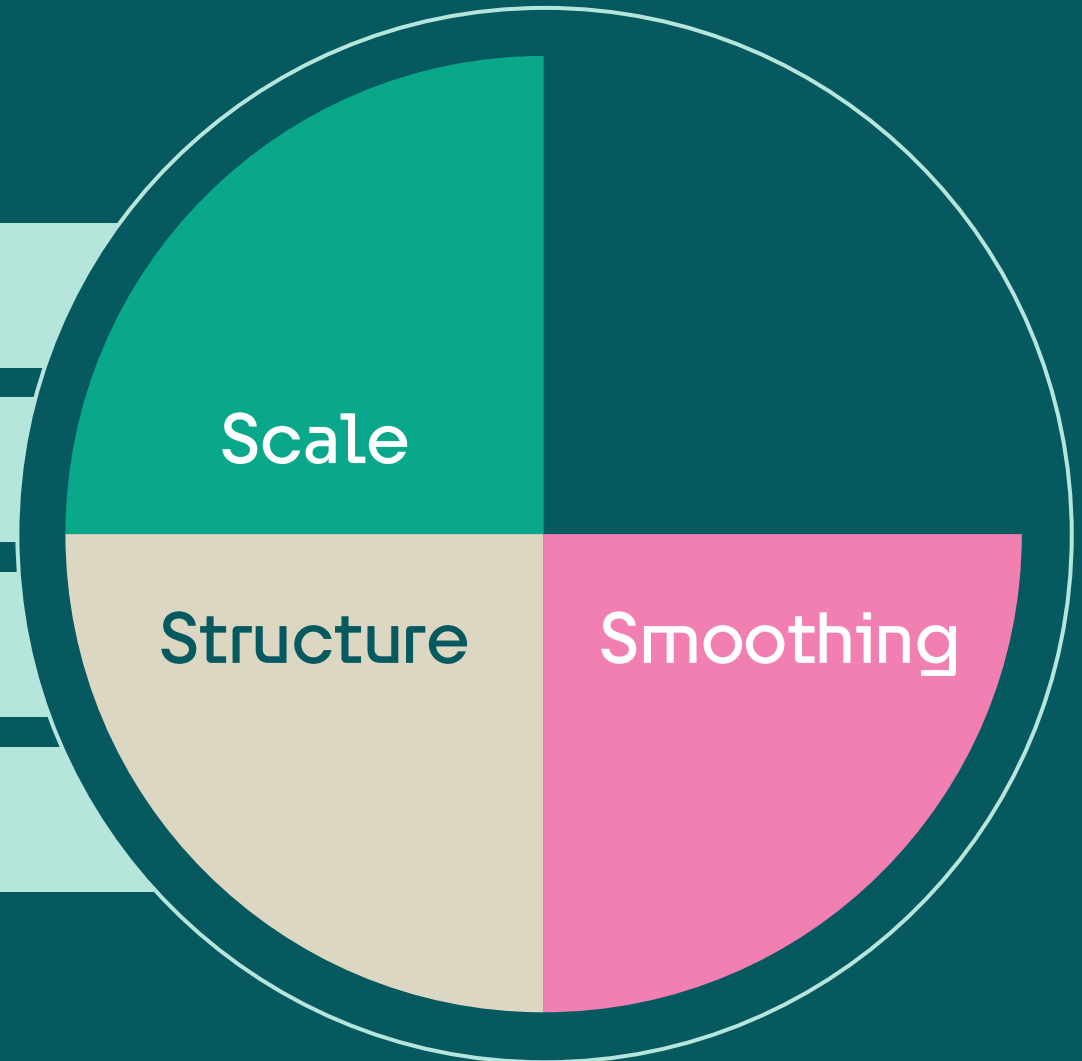
*Not applicable to all
funds – check!



Dealing &
Liquidity
Management

What does this unlock?

-  Multi-Layered Diversification?
-  Institutional Grade Private Market Exposure?
-  Stable Investment Journey?
-  Strong Performance Track Record?



Private Market Exposure

Why invest?

- 01 Uncorrelated returns improving diversification
- 02 Potential for higher returns
- 03 Potential for lower portfolio volatility
- 04 Potential inflation protection characteristics
- 05 Sustainable investment opportunities

Lifting the hood – what type of engine?

Fund does the heavy lifting



Asset
Diversification

Where does the
underlying fund
invest?



Active or Passive
management?

Are assets
bespoke or
conventional
funds?



Access to a wide
range of assets

Does the fund have
access to non-
traditional asset
classes? How
multi-asset is it
really?



Size/expertise of
management team

Is the
management of
the fund run by
experts?



Cost
Efficiency

Do the underlying
assets of the
fund warrant the
costs?

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Questions?

The home
of
retirement
planning

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