

IFSL

— Fund Services —

30 September 2020

# The Assessment of Value Report IFSL Mazarin OEIC

*Industry knowledge,  
service quality  
and fund expertise*

## Assessment of value report

This report describes the assessment of value we have carried out for the following funds:



IFSL is the Authorised Corporate Director (ACD) for the IFSL Mazarin funds, which means we have the regulatory responsibility for operating them and we are accountable to investors and to the regulator, the Financial Conduct Authority (FCA).

As the ACD, new regulations from the FCA require us to carry out an assessment of value at least annually for every UK fund that we manage for your benefit.

The purpose of this assessment of value is to consider whether the payments that the prospectus allows to be taken from the fund are, in the words of the FCA, "justified in the context of the overall value delivered to unitholders".

## 1. Our approach to the assessment

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When carrying out this assessment, we have been guided by three key factors:

### The rules of the FCA

These require us to consider certain minimum criteria. These are all individually considered under headings 3 to 9.

### Ensuring the report is meaningful for different investors

We have sought to provide an assessment that's meaningful for investors with different reasons for holding our funds and different goals. We have been particularly guided by the following considerations for each fund:

- The specific investment objectives as set out in the prospectus
- The investment policies and strategies
- Any relevant benchmarks, including any against which performance is measured
- The fund's target market (the types of investors who could be expected to consider buying it).

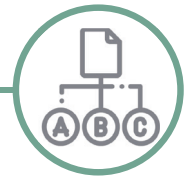
We have considered these factors as of 31 May 2020, not merely across a single year but - particularly in relation to performance - across timescales which better reflect the periods over which investors could be expected to hold these funds.

### The difference between assessing value for money and simply measuring cost

We believe that the best value for investors does not necessarily simply mean the lowest costs. As an example, the funds in this report are actively managed (where the investment manager will choose which investments to make based on their own research and processes), which can be expected to result in higher ongoing costs than for passive funds (funds where investments are chosen based on an index or because of the size of the company, for example, and not based on any decision by an investment manager). However, while we consider the higher costs as part of the assessment of value, we will also look at other factors, such as the actual returns achieved for investors, which are net of these costs.

Nevertheless, we are also clear that any assessment of value for money includes an assessment of the controls over costs borne by the funds.

## 2. The characteristics of the IFSL Mazarin funds



When we described our approach above, we said we considered the objectives and investment policies. In this section we summarise these characteristics for each fund.

### IFSL Mazarin Cautious Fund

#### Investment objective and policy

*The aim of the Fund is to provide capital growth, that is, to increase the value of your investment, over a minimum of 5 years. The Fund aims to have an average yearly volatility (a measure of the size of short term changes in the value of an investment), below 9% per year, over any 5-year period. This may limit the potential for capital growth. There is no guarantee that the Fund will meet its investment objective or volatility target and investors may not get back the amount invested.*

*At least 70% of the Fund's assets will be invested in other collective investment schemes, closed-ended funds and exchange traded funds, collectively known as 'Investment Funds'. This could include other Investment Funds managed by the same Authorised Corporate Director and/or Investment Manager.*

*The Fund is actively managed, which means the Investment Manager decides which investments to buy and when, and will invest in a range of different asset classes, across different regions and industries. Chosen investments are based on predicted volatility within asset classes and global markets, using information and research provided by an independent asset allocator. The asset class exposure is likely to include lower risk investments such as government and corporate bonds (both investment grade and sub-investment grade), derivatives, money market funds and cash. The Fund will typically have moderate exposure to higher-risk investments including shares in companies and real assets such as property and commodities (e.g. gold, silver and oil). The Fund uses EValue as its independent asset allocator.*

*In addition to the above, the Investment Funds may also hold other permitted investments such as money market instruments and structured products (a type of fixed-term investment where the amount you earn depends on the performance of a specific market or a specific asset). Investment Funds may be actively managed, or passively managed (tracking an index). The Fund may also invest directly in bonds issued by companies, shares in companies, and structured products. The Fund is permitted to use derivatives and forward transactions linked to exchange rates in order to reduce currency risk.*

*The Fund may also use derivatives to gain exposure to currencies however this is expected to be infrequent and will not form a significant part of the investment strategy.*

*The Fund will normally be fully invested save for an amount to enable ready settlement of liabilities (including redemption of shares) and efficient management of the Fund both generally and in relation to strategic objectives, however may hold higher cash balances in extreme market conditions*

#### Benchmarks

*IA Mixed Investment 20-60% Shares Sector*

## IFSL Mazarin Cautious Fund

### Investment objective and policy

*The aim of the Fund is to provide capital growth, that is, to increase the value of your investment, over a minimum of 5 years.*

*The Fund aims to have an average yearly volatility (a measure of the size of short term changes in the value of an investment), below 12% per year, over any 5-year period. This may limit the potential for capital growth.*

*There is no guarantee that the Fund will meet its investment objective or volatility target and investors may not get back the amount invested.*

*At least 70% of the Fund's assets will be invested in other collective investment schemes, closed-ended funds and exchange traded funds, collectively known as 'Investment Funds'. This could include other Investment Funds managed by the same Authorised Corporate Director and/or Investment Manager.*

*The Fund is actively managed, which means the Investment Manager decides which investments to buy and when, and will invest in a range of different asset classes, across different regions and industries. Chosen investments are based on predicted volatility within asset classes and global markets, using information and research provided by an independent asset allocator. The asset class exposure will include a mix of investments including shares in companies, derivatives, government and corporate bonds (both investment grade and sub-investment grade), money market funds and real assets such as property and commodities (e.g. gold, silver and oil). The Fund uses EValue as its independent asset allocator.*

*In addition to the above, the Investment Funds may also hold other permitted investments such as money market instruments and structured products (a type of fixed-term investment where the amount you earn depends on the performance of a specific market or a specific asset). Investment Funds may be actively managed, or passively managed (tracking an index).*

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*The Fund may also use derivatives to gain exposure to currencies however this is expected to be infrequent and will not form a significant part of the investment strategy.*

*The Fund will normally be fully invested save for an amount to enable ready settlement of liabilities (including redemption of shares) and efficient management of the Fund both generally and in relation to strategic objectives however may hold higher cash balances in extreme market conditions.*

*The Investment Association (IA), the trade body for UK investment managers, has created a number of 'sectors', as a way of dividing funds into broad groups with similar characteristics.*

### Benchmarks

*IA Mixed Investment 40-85% Shares Sector*

### 3. Range and quality of services

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#### What have we considered?

In this section we have considered the first area of the value assessment. This covers the quality of service we provide and the quality of service provided by any person to which any aspect of the funds' management has been delegated or who provides services to us.

#### How have we made our assessment?

We have reviewed and given consideration to the services delivered and how they affect investors in the fund and the delivery of each fund's objectives. We also give consideration to the quality of the service delivered by IFSL and each external provider.

We have considered, as we do for all value assessments, whether they have been managed within their investment restrictions and if there have been any operational errors or complaints. There are no material issues which we consider affect our conclusions about quality of service in this assessment period.

**We have reported under three subsections:**

**Services in relation to required independent third parties** - Depositary, Custodian and Auditor.

**Other third parties** - The Investment Manager and the Sponsor

**In-house functions** - Our own provision of services to the funds

In this part of our assessment, there are no material distinctions between any of the funds or of the share classes within the funds, unless we specify otherwise.

## Services in relation to required independent third parties

The following section considers the required independent third-party service providers: the Depositary, the Custodian and the Auditor.

### *The Depositary*

The Depositary is an independent entity charged with various regulatory responsibilities to the funds. It is a key part of the oversight of the fund.

The Depositary is paid from the fund it oversees directly under the terms of the prospectus. Its fees are shown in the statutory accounts.

As ACD we are responsible for selecting the Depositary, negotiating its fees and other commercial terms and for monitoring its performance and suitability on an ongoing basis.

In order to ensure we receive a good level of service we only work with a very limited number of Depositaries at any one time. There are presently two across the entire range of funds for which we, and our associated companies, are the ACD. The Depositary for these funds is HSBC.

We have assessed the Depositary based on a mix of criteria including but not limited to:

- size and reputation within the industry
- geographical relevance for the funds' strategies and investors
- service levels
- history of interactions
- resource and expertise
- costs and charges

Our interactions with them lead to constructive dialogue and challenge as we at IFSL work in collaboration with them to prioritise good outcomes for our fund investors.

## The Custodian

The Custodian is an independent entity responsible for holding the assets of the fund. Again, this role is key in ensuring good outcomes for investors.

The Custodian is paid from the fund directly under the terms of the prospectus. Its fees are shown in the statutory accounts. It is appointed by the Depositary but will be selected, and commercial terms will be negotiated and agreed, by us as the ACD.

Along with the Depositary, we review and monitor the performance of the Custodian and review the charges made to the funds.

In order to ensure we receive a good level of service we only work with a very limited number of Custodians at any one time. There are presently three across the entire range of funds for which we, and our associated companies, are the ACD. The Custodian for these funds is HSBC.

We have assessed the Custodians based on a mix of criteria including but not limited to:

- size and reputation within the industry
- geographical relevance for the funds' strategies and investors
- service levels
- history of interactions
- resource and expertise
- costs and charges

We at IFSL work in collaboration with them to prioritise good outcomes for our investors.



## *The Auditor*

The Auditor is an independent entity responsible for auditing the financial statements of the funds.

The Auditor is paid from the fund directly under the terms of the prospectus. Its fees are shown in the statutory accounts.

It is selected and appointed by us, as ACD, and we are responsible for negotiating the commercial terms, including the audit fees charged to the funds.

We have assessed the auditors based on a mix of criteria including but not limited to:

- size and reputation within the industry
- expertise, scale and involvement with regulatory and industry change
- appropriateness to overall business scale
- appropriateness for the range of funds for which we are ACD

We undertook a review of the Auditor we use for all of our funds during the first quarter of 2019. The review took into account each of the factors above, in addition to the costs to be borne by the funds. As a result of this review, we took the decision to appoint Ernst & Young as Auditor to the funds when they launched during July 2019.

## Other third parties - appointments and outsourcing

This section refers to the delegation of certain functions to, or the appointment of, an external entity. Such arrangements are not required by regulation but may be entered into at our discretion.

### *The Investment Manager and Sponsor*

We have appointed Baggette Asset Management Limited (Baggette) to manage the investments within the funds. Baggette are also the Sponsor and are responsible for the promotion and distribution of the funds.

Baggette receives an annual management charge payable under the terms of the prospectus.

We have assessed Baggette based on a mix of criteria including but not limited to:

- resource and expertise
- investment research, which is funded by Baggette themselves and is not an additional charge to the fund
- its control of transaction costs (which the fund pays) and how trades are executed
- whether they have been managed within their investment restrictions
- a review of any operational errors or complaints
- the timeliness with which complete and accurate data is provided to us
- how the funds are distributed

Having regard to these factors and our oversight and governance more generally, we conclude that the charges taken for the services of the Investment Manager and Sponsor were justified based on the overall value delivered to investors.

The results of our review of the service provided, with regard to the outcomes delivered versus each fund's objectives and the manner in which they were delivered, are discussed in more detail under the 'Performance' section below.

## In-house functions - the quality of our own services

### *Governance and oversight*

We dedicate senior manager and board level resource to our governance structures, including Product Governance, Investment, Risk and other operational committees. Combined with our model of running most services in-house, we believe that this level of governance helps us to safeguard the best interests of investors.

As ACD, we are responsible for overseeing any party that provides services to our funds and agreeing commercial terms for those services. We continuously review our service providers to ensure they continue to meet the high standards we expect for our investors.

### *Administration*

In the UK fund industry, it is not uncommon for an ACD to use third parties to carry out fund administration services. This may include dealing and settling purchases and sales of units in the funds, calculating the funds' dealing prices and maintaining the register of unit-holders in the funds.

We maintain our own systems and resources in order to carry these activities out ourselves. We do this so that we are able to retain specialist operational expertise and maintain transparency in our processes. This also means we can direct investment into our people and our technology in a cost effective manner, that we feel brings benefits to investors.

### *Investor communications and relations with investors*

We have a dedicated investor support team and, with the exception of some printing and publication work, all communication with investors is conducted by in-house staff, who provide support and information to end investors and their intermediaries. Working alongside our fund administration staff, this team benefit from technical training and specialist knowledge, enabling them to provide an efficient and responsive service for our investors.

### *Additional competencies*

In addition to our in-house expertise we maintain close relationships with recognised specialist law firms, accountants, trade bodies and training providers to maintain an up-to-date understanding of legal and regulatory expectations and best practice.

## Conclusion

Overall, we are satisfied with the quality of services provided to the funds by third parties or in-house.

## 4. Performance



When assessing the value represented by the performance achieved by the funds within the Mazarin range over the past twelve months we have considered an in depth package of information. This details the performance in the context of the expressed investment objective (and policy) of each fund, and the timescale specified within which an assessment of the success or otherwise of the investment is to be made, in the context of the:

- comparative outcome relative to their benchmark
- volatility (a measure that considers how often, and by how much, the value of an investment goes up and down relative to its average or to a benchmark)
- performance relative to a range of industry standard risk adjusted measures of performance
- the investment management activities and strategies undertaken by the investment manager

Where a fund is part of a range (as is the case with the Mazarin funds) the performance and volatility outcome of individual funds is also assessed in the context of that exhibited by others in the "connected" risk hierarchy.

The Mazarin funds are a defined range of portfolios with a progressively escalating exposure to UK and International company shares and a progressively diminishing exposure to UK and International Government and Corporate fixed income securities where the objective over time is to produce a series of progressively escalating risk and return outcomes.

Fund	Equity %	Bond %	Cash %	Other %
IFSL Mazarin Cautious	44.18	23.15	22.45	10.22
IFSL Mazarin Balanced	62.69	11.16	20.82	5.33

The table above shows the exposure of each fund to equities, bonds, cash and other assets. It is correct at the date of this review, on 31 May 2020.

### Conclusion

As the funds launched very recently, in July 2019, it is too early to reach a conclusion in respect of their performance versus the stated objectives. However, we note that since launch the fund portfolios have been managed and behaved as we would expect and we will keep the funds under review as part of our ongoing oversight processes.

## 5. ACD costs in general

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### What have we considered?

We have considered each component of the ongoing charges figure (OCF).

### *The components are as follows:*

#### **Fund management Fee**

This is a percentage fee paid from the fund to the ACD, Investment Manager and the Sponsor.

#### **Depositary fee**

This is a percentage fee paid from the funds to the Depositary.

#### **Custody fee**

This is a combination of a percentage fee and fixed, transaction-based fees paid from the funds to the Custodian.

#### **Audit fee**

This is a fixed annual fee paid from the funds to the Auditor.

#### **Registrar Fee**

This is a fixed annual fee per shareholder entry on the funds' register, paid to the ACD for maintaining the register of shareholders.

#### **KIID update fee**

This is a fixed annual fee paid to cover the cost of reviewing and updating the key investor information document (KIID) for each of the funds.

#### **FCA fees**

This is a fixed annual fee paid to the FCA for its role as regulator of IFSL and the funds.

#### **Legal Fees**

These are fees paid to external legal providers for the review, update and production of fund documentation such as the Prospectus.

## Ongoing charges figures per fund

Fund	Share Class	Ongoing Charges Figure (OCF)
IFSL Mazarin Cautious	A Class	1.38%
IFSL Mazarin Balanced	A Class	1.42%

IFSL do not apply exit charges to the IFSL Mazarin funds.

IFSL do not apply performance fees to the IFSL Mazarin funds.

The IFSL Mazarin Funds have an initial charge of 5%. As ACD we are able to waive this charge for investors and have done so routinely throughout the year, meaning no investors have paid the charge. We will remove this charge in the coming year.

The funds invest in other collective investment schemes, or funds. We have not directly considered the costs of these underlying funds, but their selection and suitability are part of our assessment of the quality of service provided by the Investment Manager and of the performance of the funds. The OCF figures above, and the performance of the funds, all take account of the underlying costs of these investments (i.e. performance is reviewed net of all charges).

### Conclusion

We are satisfied that the costs of the services provided represent reasonable value for our investors.

## 6. Comparable market rates



Periodically we review the fees we pay to third parties.

The comparable market rates for depositories, custodians and auditors are subject to a degree of commercial confidentiality. Nevertheless experience of past fees, the tender or review processes we use and our own awareness of the market mean that we believe our approach secures the best value for money when these contracts are reviewed or re-tendered; and that we review and re-tender with a reasonable frequency given the nature of the relationships and different costs of moving suppliers.

These specific funds have HSBC as the Depository. Depositories commonly structure their fees on an ad-valorem basis, which means fees are based on the size of the fund. The costs chargeable to the funds by HSBC were last reviewed by us in the first quarter of 2019. This resulted in a lower ad-valorem fee applied to the funds under the management of IFSL. The funds under review will benefit increasingly from the improved tariff as their AUM increases in size.

We have considered the fees which are paid to the investment manager and sponsor against those of similar services provided to other funds for which we are ACD.

The market rates for independent ACDs are also subject to a degree of commercial confidentiality and will vary depending on the size and type of fund. Contracts are commercially negotiated and reflect the competitive nature of the independent ACD market. Fund sponsors typically conduct full tendering processes and can move their funds to other independent ACDs. This ensures that IFSL remains competitive and offers value for investors.

In making our assessment of the overall costs, we have also compared the OCF for the funds with other similar funds in the market.

### Conclusion

We are satisfied that the costs are reasonable and appropriate compared to other similar funds.

## 7. Comparable services



With regard to ACD services, IFSL provides comparable services to other fund ranges. While the charging structure will vary depending on the size, nature and risks involved with particular funds, the fees paid by these funds are similar to those paid by other comparable funds within our range.

### Conclusion

We are satisfied that the costs are reasonable and appropriate compared to other similar funds.

## 8. Economies of scale



### What have we considered?

We have considered two different types of economies of scale relating to:

#### *The size and scale of the funds*

Larger funds are more profitable to us, in some cases we are charging a minimum fee to a fund until it grows in size.

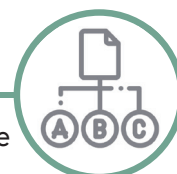
Certain services have fixed or minimum fees. This means that as funds grow they benefit from their increase in scale. We seek to ensure that each fund offers value to investors and is commercially viable in its own right taking in to account the impact of any fixed or minimum fees.

#### *The size and scale of IFSL as ACD*

The second area of economies of scale is where we can negotiate terms for the large number of different funds for which we act as ACD. We do this wherever we think it is in the interests of all the funds affected. We discuss with our suppliers the need to ensure that fees are fairly and transparently spread across all the funds. We particularly guard against the conflicts that can arise between funds in which we or an associated company act as ACD.

Depositary relationships are negotiated across multiple funds to achieve the best possible rates. IFSL negotiate Depositary fees on an appropriate sliding scale, with lower percentage fees applying as the fund reaches certain thresholds, ensuring economies of scale apply directly to the benefit of the fund and the investors.

## 9. Share classes



The IFSL Mazarin Funds have only one class of share and so there are no different share classes with different features to consider.



## 10. Our conclusion

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Overall, we are satisfied that the charges taken from the funds are justified in the context of the overall value delivered to investors.

### Additional Note for Investors

This assessment was conducted as at the funds' annual year end date on 31st May 2020.

In the period leading up to 31 May 2020, there was a significant global market reaction to the ongoing Covid-19 global pandemic. The impact on global markets going forward will depend on the ongoing scale, duration and individual approach of each country's government in the management of the pandemic, which continues to evolve on a day by day basis.

We do not anticipate any material impact on this assessment as a result but feel it worth ensuring investors are aware that we can give no reliable forward looking view as regards to those matters, particularly performance and returns, that are being and may continue to be impacted by the Covid-19 pandemic.