THE ASSESSMENT OF VALUE REPORT

MARLBOROUGH CAUTIOUS
MARLBOROUGH BALANCED
MARLBOROUGH GLOBAL

31st August 2020

Marlborough
Fund Managers

Marlborough
Fund Managers

Assessment of value report

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

Marlborough Fund Managers (Marlborough) are the Authorised Fund Manager (AFM) for the 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 AFM, 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 funds are, in the words of the FCA, "justified in the context of the overall value delivered to unitholders".

Marlborough
Fund Managers

1. Our approach to the assessment

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 the 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 them)

We have considered these factors as of 30 June 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 the 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 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.

Marlborough Cautious Fund

Investment objective and policy

The aim of the Fund is to increase the value of your investment over any 5 year period, through a combination of income, that is, money paid out of an investment, such as interest from bonds or dividends from shares and some capital growth, that is, profit on investments. The Fund aims to outperform the average of the IA Mixed Investment 20-60% Shares sector, after charges, over any 5 year period. However, there is no certainty this will be achieved.

At least 80% of the Fund will be invested in other funds, including exchange traded funds (which typically track an index) and investment trusts. This may include other funds operated by the Manager or its associates. Through these investments, the Fund will be exposed to a range of asset classes, creating a low to medium risk portfolio.

Between 20-60% of the Fund will be exposed to shares in companies, both UK and overseas, but typically this will be between 40-60%. At least 30% of the Fund will also be exposed to bonds, which are loans typically issued by companies and governments, and cash. This may include investment grade bonds, where the issuer has a higher capacity to repay the debt, as well as sub-investment grade bonds, which can be more vulnerable to changing market conditions but typically pay a higher rate of interest.

Through investing in funds, the Portfolio may also be exposed to other asset classes such as property, commodities (such as gold and oil), money market instruments, which are shorter term loans, cash and other permitted investments.

Funds purchased may also have the ability to use derivatives (investments whose returns are linked to another asset, market or other variable factor) to varying degrees, including funds which aim to deliver positive returns in a range of market conditions, often referred to as absolute return funds. The Fund may also invest in these asset classes directly (excluding property and commodities) up to a maximum of 20%.

The Fund is actively managed, which means the Investment Manager decides which investments to buy or sell and when. Investments will span a range of developed and emerging markets globally with no maximum or minimum exposure to any one market or geographical region.

The performance target is the level of performance the Fund aims to deliver after charges and with income reinvested however there is no certainty this will be achieved.

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. This Fund aims to be in the top half of all funds included in the IA Mixed Investment 20-60% Shares sector.

Benchmark:

IA Mixed Investment 20-60% Shares sector

Marlborough Balanced Fund

Investment objective and policy:

The aim of the Fund is to increase the value of your investment over any 5 year period, through a combination of capital growth, that is, profit on investments, and some income, that is, money paid out of an investment, such as interest from bonds or dividends from shares. The Fund aims to outperform the average of the IA Mixed Investment 40-85% Shares sector, after charges, over any 5 year period. However, there is no certainty this will be achieved.

At least 80% of the Fund will be invested in other funds, including exchange traded funds (which typically track an index) and investment trusts. This may include other funds operated by the Manager or its associates. Through these investments, the Fund will be exposed to a range of asset classes, creating a medium risk portfolio.

Between 40-85% of the Fund will be exposed to shares in companies, both UK and overseas, but typically this will be between 65-85%.

There will also be exposure to bonds, which are loans typically issued by companies and governments. This may include investment grade bonds, where the issuer has a higher capacity to repay the debt, as well as sub-investment grade bonds, which can be more vulnerable to changing market conditions but typically pay a higher rate of interest.

Through investing in funds, the Fund may also be exposed to other asset classes such as property, commodities (such as gold and oil), money market instruments, which are shorter term loans, cash and other permitted investments. Funds purchased may also have the ability to use derivatives (investments whose returns are linked to another asset, market or other variable factor) to varying degrees, including funds which aim to deliver positive returns in a range of market conditions, often referred to as absolute return funds.

The Fund may also invest in these asset classes directly (excluding property and commodities) up to a maximum of 20%.

The Fund is actively managed, which means the Investment Manager decides which investments to buy or sell and when. Investments will span a range of developed and emerging markets globally with no maximum or minimum exposure to any one market or geographical region.

The performance target is the level of performance the Fund aims to deliver after charges and with income reinvested however there is no certainty this will be achieved.

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. This Fund aims to be in the top half of all funds included in the IA Mixed Investment 40-85% Shares sector.

Benchmark:

IA Mixed Investment 40-85% Shares sector

Marlborough Global Fund

Investment objective and policy:

The aim of the Fund is to increase the value of your investment, over any 5 year period. The Fund aims to outperform the average of the IA Global sector, after charges, over any 5 year period. However, there is no certainty this will be achieved.

At least 80% of the Fund will be invested in other funds, including exchange traded funds (which typically track an index) and investment trusts. This may include other funds operated by the Manager or its associates. Through these investments, the Fund will be exposed to a range of assets, creating a medium to high risk portfolio.

At least 80% of the Fund will be exposed to shares in companies, both UK and overseas. Investments will span a range of developed and emerging markets globally with no particular maximum or minimum exposure to any one market or geographical region.

Through investing in funds, the Fund may also be exposed to other asset classes such as bonds, property, commodities (such as gold and oil), money market instruments, which are shorter term loans, cash and other permitted investments, although this is expected to be minimal. Funds purchased may also have the ability to use derivatives (investments whose returns are linked to another asset, market or other variable factor) to varying degrees, including funds which aim to deliver positive returns in a range of market conditions, often referred to as absolute return funds.

The Fund may also invest directly in shares up to a maximum of 20%.

The Fund is actively managed, which means the Investment Manager decides which investments to buy or sell and when. Investments will span a range of developed and emerging markets globally, with no particular maximum or minimum exposure to any one market or geographical region, but will maintain exposure to a range of countries.

Decisions around asset allocation are based on the Investment Manager's research process which considers the potential for loss as well as the overall return expectations for an asset class.

The performance target is the level of performance the Fund aims to deliver after charges and with income reinvested however there is no certainty this will be achieved.

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. This Fund aims to be in the top half of all funds included in the IA Global sector.

Benchmark:

IA Global sector

3. Range and quality of services

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 fund's' 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 funds and the delivery of the funds' objectives. We also give consideration to the quality of the service delivered by Marlborough and each external provider.

We have considered, as we do for all value assessments, whether the funds 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 - Trustee, Custodian and Auditor

Other third parties - The Investment Manager

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 unit 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 Trustee, the Custodian and the Auditor.

The Trustee

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

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

As AFM we are responsible for selecting the Trustee, 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 Trustees at any one time. There are presently two across the entire range of funds for which we, and our associated companies, are the AFM. The Trustee for these funds is HSBC.

We have assessed the Trustee 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 Marlborough work in collaboration with them to prioritise good outcomes for the funds' investors.

The Custodian

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

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

Along with the Trustee, 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 AFM. 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 Marlborough work in collaboration with them to prioritise good outcomes for the funds' investors.

The Auditor

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

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

It is selected and appointed by us, as AFM, 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 AFM

We undertook a review of the Auditor during the first quarter of 2019. The review, which took into account each of the factors above, in addition to the costs to be borne by the funds, resulted in a decision to change auditor from Barlow Andrews to Ernst & Young. This decision did result in an increase in the Auditor fees paid by the funds, but we considered this increase to be justified in the context of the value that the new Auditor would bring.

As a larger organisation, Ernst & Young are able to offer greater challenge and expertise as part of their audit.

We have used Ernst & Young for other funds for which we are AFM for some years and value their service.

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

We have appointed Marlborough Investment Management Limited to manage the investments within the funds:

The Investment Manager receives a share of the annual management charge payable to us under the terms of the prospectus.

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

- resource and expertise
- adherence to the fund's investment objective and policy and the way that the Investment Manager invested the fund's assets to achieve them
- investment research, which is funded by each Investment Manager themselves and is not an additional charge to the fund
- their control of transaction costs (which the fund pays) and how trades are executed
- whether the funds 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

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

The results of our review of the investment management services 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.

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 AFM, 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 AFM to use third parties to carry out fund administration services. This may include dealing and settling purchases and sales of units in our funds, calculating our funds' dealing prices and maintaining the register of unitholders in our 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 we have considered an in-depth package of information which details this performance in the context of the expressed investment objectives (and policies) of each funds, and the timescale specified within which an assessment of the success or otherwise of the investment is to be made, in the context of:

- comparative outcome relative to 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 these 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. These funds are a defined range of portfolios with a progressively escalating exposure to shares in companies (often referred to as equities) and a progressively diminishing exposure to cash and bonds where the objective over time is to produce a series of progressively escalating risk and return outcomes.

The table below shows the exposure of each fund to equities, bonds, cash and other assets. It is correct at the date of this review, on 30 June 2020.

Fund	Cash	Equity	Bond	Other
Marlborough Cautious	26.75	38.43	32.63	2.18
Marlborough Balanced	9.97	69.91	15.81	4.31
Marlborough Global	3.38	94.66	0.05	1.91

Conclusion

Marlborough Cautious Fund

Having reviewed the outcomes achieved by the Marlborough Cautious Fund we have noted that over a period of 5 years the fund has not performed in line with its performance target, to be in the top half of all funds in the IA Mixed Investment 20-60% Shares sector. However, the fund has met its stated objective to increase the value of investments in the fund over a 5 year period.

We remain confident that the existing investment manager will be able to deliver good performance outcomes for investors having done so over the longer term and since appointment. To address the performance of the fund versus its performance target, we have been working with the investment manager to agree appropriate enhancements that can be made. Whilst the fund will continue to be actively managed we expect to implement some of those decisions through the purchase of lower cost passive funds in order to reduce overall costs. The fund will also be adopting currency hedging to reduce the impact of currency movements which have previously resulted in a degree of underperformance. We will be closely monitoring the fund over the next 12 months including through our usual oversight processes and will report on the progress of these enhancements and their impact in our next annual assessment of value report.

Marlborough Balanced Fund

Having reviewed the outcomes achieved by the Marlborough Balanced Fund we have noted that the fund has outperformed its benchmark, the IA Mixed Investment 40-85% Shares sector average, and has done so whilst taking a level of risk that is either lower or very similar to its peers. The fund has also met its stated objective to increase the value of investments in the fund over a 5 year period.

Marlborough Global Fund

Having reviewed the outcomes achieved by the Marlborough Global Fund we have noted that over a period of 5 years the fund has not performed in line with performance target, to be in the top half of all funds in the IA Global sector average. However the fund has met its stated objective to increase the value of investments in the fund over a 5 year period.

We remain confident that the existing investment manager will be able to deliver good performance outcomes for investors having done so over the longer term and since appointment. To address the performance of the fund versus its performance target we have been working with the investment manager to agree appropriate enhancements. Whilst the fund will continue to be actively managed we expect to implement some of those enhancement decisions through the purchase of lower cost passive funds in order to reduce overall costs. In addition, the fund will be adopting currency hedging to reduce the impact of currency movements which have previously resulted in a degree of underperformance. There will also be a change in investment strategy that will lead to an increased exposure to the US market. We will be closely monitoring the fund over the next 12 months, including through our usual oversight processes and will report on the progress of these enhancements and their impact in our next annual assessment of value report.

All three funds may also benefit from our decision in future where investment is made into another fund with the same ACD, to rebate to it any management fee retained by it from that invested fund.

5. AFM costs in general

What have we considered?

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

The components are as follows:

Annual management charge
This is a percentage fee paid from the funds to the AFM and the Investment Manager.

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

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 small fixed annual fee, plus a fixed annual fee per unitholder entry on each funds' register, paid to the AFM for maintaining the register of unitholders.

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

Ongoing charges figures per unit class

Fund	Unit Class	Ongoing Charges Figure (OCF)
Marlborough Cautious	A Class	2.23%
Marlborough Cautious	B Class	1.73%
Marlborough Cautious	P Class	1.48%
Marlborough Balanced	A Class	2.11%
Marlborough Balanced	B Class	1.61%
Marlborough Balanced	I Class	0.61%
Marlborough Balanced	P Class	1.36%
Marlborough Global	A Class	2.34%
Marlborough Global	B Class	1.84%
Marlborough Global	P Class	1.59%

Marlborough do not apply exit charges to the funds.

Marlborough do not apply performance fees to the funds.

Conclusion

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

We have taken steps to improve the costs for most investors in the A and B Class units by moving them into our P class units. This is covered later in the report, under the heading "Unit Classes".

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.

This specific fund has HSBC as the Depositary. Depositaries commonly structure their fees on an advalorem basis, which means fees are based on the size of the fund. The costs chargeable to the fund by HSBC were last reviewed by us in the first quarter of 2019. This resulted in a lower ad-valorem fee applied to all the funds under the management of Marlborough. The funds 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 against those of similar services provided to other funds for which we are AFM.

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

This comparison uses the lead unit class, that is, the unit class that most investors are in. We then consider different charging between unit classes of this fund later, under the heading "Unit Classes".

Conclusion

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

7. Comparable services

Marlborough 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 this fund 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

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 Marlborough as AFM

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 AFM. 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 AFM.

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

9. Unit classes

The unit classes in the funds differ in the way that they treat income payments (either by distributing income payments or by accumulating them and reflecting this in the price) or by the level of annual and initial management charge applied to them.

Over a number of years, cheaper unit classes have been introduced by product providers and these have evolved to become the most commonly invested in.

This meant some investors remained in higher charging unit classes, with the consequence that such share classes did not provide as good value as the cheaper share classes (though otherwise they did not differ). Following a regulatory application made by Marlborough, we now have the ability to convert investors' units from higher charging unit classes to cheaper unit classes and therefore deliver the benefit of improved value. During the year under review, we carried out such a conversion, for all investors where there is no fee paid to advisers (or similar entities) in respect of their units, often referred to as renewal or trail commission. We wrote to investors to confirm when this had been done and to tell them how many units they now have in the new unit class.

The A and B share classes have an initial charge which may be applied of up to 5.25%. However, as we have made a conversion to the cheaper P class shares for all existing investors and are reducing the minimum initial investment and holding amounts, all investors will be able to access the P share class which has no initial charge applied.

10. Our conclusion

We will continue to progress our actions to address the performance outcomes for the funds, as referred to in section 4 above. Subject to that and having completed our assessment we are satisfied that the charges taken from the funds are justified in the context of the overall value delivered to investors for the period.

Additional Note for Investors

This assessment and report was conducted as at the 30 June 2020.

In recent months markets initially fell as the Covid-19 global pandemic began to unfold, and have subsequently largely recovered 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 regard to those matters, particularly performance and returns, that are being and may continue to be impacted by the Covid-19 pandemic.