

VALUE FOR MONEY REPORT 2021



This report demonstrates how value is being delivered for investors



NFU Mutual
FINANCIAL PLANNING

REPORT PURPOSE

In accordance with rules set out by our regulator, the Financial Conduct Authority (“FCA”), all UK Authorised Fund Managers like NFU Mutual Unit Managers Limited (“MUMCO”) must carry out an annual value for money assessment for all investment fund units offered to the public.

The annual assessment is required to demonstrate whether and how value is being delivered for investors in each class of unit in each fund, and to take corrective action if it is not. The assessment must be explained annually in a report made available to the public.

We have assessed our funds based on data to 31st May 2021. The detailed output of this assessment was presented to MUMCO’s Board in September 2021, who robustly challenged its findings.

This document provides you with a summary of the latest findings and covers investment fund units currently available under the NFU Mutual OEIC and the NFU Mutual Portfolio Funds OEIC. This report does not cover any other investment fund units offered by NFU Mutual.

THE 2021 VALUE FOR MONEY ASSESSMENT SUMMARY

SERVICE

Overall, MUMCO’s internal team and its external service providers have delivered a good quality of service for all funds over the 12 months since the previous review. The service levels have been maintained despite the move to remote working as a result of Covid-19.

PERFORMANCE

Our funds continue to deliver performance in line with customers’ reasonable expectations.

COSTS AND CHARGES

MUMCO’s total fund charges are competitive and affordable in the context of expected future investment returns. The current fund charges are sufficient to cover MUMCO’s costs and MUMCO has made modest profits in recent years.

Inherent economies of scale could eventually lead to a sufficient level of profit to allow a reduction in annual management charges. However, for this review we believe that MUMCO’s costs and charges are reasonably well balanced from a value for money perspective.

DEVELOPMENTS SINCE THE LAST REVIEW

Between July 2020 and May 2021, the FCA looked at the processes used by different Authorised Fund Managers for their regulatory value for money assessments. They published their findings on 6th July 2021, and this has been considered as part of MUMCO's latest review.

We have incorporated some small amendments allowing for the FCA observations and we will look to incorporate a number of FCA recommendations over the coming

year. For this review we have made our report more customer-friendly and relevant.

We have also made it more accessible via the NFU Mutual website.

Since the last value for money assessment, which was approved by MUMCO Board in September 2020, the following changes have been made to the international equity strategy:

- In February 2021 the Global Emerging Markets fund was closed and all customers were switched out. It was deemed that the balance between customer cost, risk and the potential returns was not appropriate for continued customer investment.
- In 2020 a new international equity investment strategy was adopted for the Global Growth and portfolio funds. The intention is to improve customer outcomes by using external specialist overseas investment managers in certain international equity markets.
- To soften the more significant impact of the external management costs for the Global Growth fund, we reduced MUMCO's Annual Management Charge for this fund from 0.75% to 0.65% p.a.

In addition to this, with effect from July 2021, the strategic asset allocation strategy for the three portfolio funds has changed. This has involved the introduction of new externally managed high yield and emerging market debt assets for the 20-60 fund, and higher proportions of the new international equity assets for the 40-85 and Max 100 funds.

These changes will result in a larger proportion of each fund being managed externally, with a small increase in charges being made against each fund. The intention is

to more than offset that with higher future risk-adjusted returns. Details of the latest charges for each fund can be found in its Key Investor Information Document.

Finally, NFU Mutual has continued with the development of our investment processes to integrate Environmental Social and Governance (“ESG”) principles. Over the last year this has involved changes to our marketing literature to reference our approach to ESG, and new ESG commentary on the NFU Mutual website.



THE 2021 VALUE FOR MONEY ASSESSMENT

An annual assessment is required to demonstrate whether and how value is being delivered for investors in each class of unit in each available fund, and to take corrective action if necessary. This assessment has been made against a number of prescribed areas identified by the FCA, we have summarised these as Service, Performance and Costs as follows:

Service – by reviewing how we monitor and measure:

- Internal services which provide oversight of our investment function
- Client service levels and communication
- The success of external suppliers helping to run the funds.

Performance – by assessing whether the fund has delivered performance in line with stated objectives and expectations.

Costs and Charges – by ensuring that the fund is priced appropriately:

- With a clear cost framework and cost savings passed to clients where possible
- With competitive charges compared to similar funds available in the market
- With consistent charges compared with other MUMCO products and classes of unit offered. (Since MUMCO currently only sells one class of units to retail customers for each fund, this particular factor is not relevant for us).

ASSESSMENT CONTINUED

We believe that the assessment of value exercise should make it easy for investors to evaluate whether their investment manager is providing them with value for money.

In addition to this report, we publish other fund documentation on the My Investments section of our website (nfumutual.co.uk) which you may find useful:

- Current objectives and fees for each fund in their Key Investor Information Documents
- Latest performance and details of fund holdings are available in our Monthly Factsheets
- The Annual Reports and Prospectuses.

The latest value for money findings are shown in the scorecard below, based on each fund's level of service, performance, and costs / charges. A simple traffic light scoring system is used to represent our findings.

- The fund doesn't provide reasonable value for money
- The fund requires attention
- The fund provides reasonable value for money

We use a broad range of data to create the following assessments for each fund's level of service, performance, and costs/charges. The results of this examination are then analysed to establish the reason any fund has been flagged as red or amber.

THE FINDINGS

Fund Umbrella	Fund Name	Service	Performance	Costs and charges
NFU Mutual OEIC	Gilt and Corporate Bond	●	●	●
	Global Growth	●	N/A*	●
	UK Growth	●	●	●
	UK Equity Income	●	●	●
NFU Mutual Portfolio Funds OEIC	Mixed Portfolio 20-60% Shares	●	●	●
	Mixed Portfolio 40-85% Shares	●	●	●
	Mixed Portfolio Max 100% Shares	●	●	●

* The structure of the Global Growth fund changed in 2020 and as a result does not have sufficient performance data to be fully assessed.

Explanations of the ratings for service, performance, and costs/charges are summarised in the sections that follow. The rating, assessment process, and any proposed remedial actions have been subject to scrutiny by MUMCO's Board.

SERVICE

Overall, we believe that NFU Mutual's internal team and external service providers have delivered a good quality of service for all classes of unit within all MUMCO funds over the 12 months since the previous review. This is evidenced by:

- External partners consistently meeting their Service Level Agreements (SLAs)
- Low error rates (e.g. on unit pricing) and low volumes of customer complaints
- No material issues raised in reviews from external auditors, or the NFU Mutual compliance assurance team.

Service levels have been maintained despite the unprecedented challenges presented by COVID-19 which necessitated most staff within outsource partners and NFU Mutual moving to work from home.



PERFORMANCE

Our performance assessment is based on the following four criteria:

- Achievement of the fund objective
- Relative performance against similar funds
- Performance against the stated benchmark index
- Morningstar's risk-adjusted overall performance rating.

Each criterion contributes an equal proportion to the overall score. Where a measure is either not applicable or not available, it is not used, and the other weightings are adjusted accordingly.

As noted in the scorecard, the structure of the Global Growth fund changed in 2020 and it is too early to make a full assessment on long-term investment performance under the new strategy.

The UK Equity Income Fund ●

All the funds are assessed as green, except for the UK Equity Income fund, which is rated amber. This is because its investment objective is comparatively difficult when viewed alongside other MUMCO funds. It aims to achieve capital growth as well as a growing income in excess of the FTSE All Share index. However, in common with its industry peers, the fund has consistently underperformed the FTSE All Share benchmark index over the period.

Income targets have continued to be achieved, but the unit price dropped below its value from 5 years before following the fall of the UK equity market in the wake of COVID 19 in February 2020 (the measure used to assess capital growth). The threshold to meet the capital growth objective was achieved again by the end of April 2021.

By comparison to peers, the fund performance has been in line with or slightly better. The fund has maintained the middle star rating (★★★☆☆) from Morningstar, (an investment research firm that independently rates investment managers), throughout the period and usually been in the top half of similar peer funds. It also has a place on Sanlam's, white list (a select group of funds that have produced superior returns over five years), of the top UK Equity Income funds.

Against that background, we do not believe that the current amber rating is a cause for concern. However, for the next value for money assessment, we plan to review all benchmark indices to see if there are practical alternatives more closely aligned to the fund's investment objectives.

Overall, we believe that all MUMCO funds continue to deliver performance in line with customers' reasonable expectations.

COSTS AND CHARGES

MUMCO's total fund charges are reasonably competitive, having lower than average charges for their market sectors. The only exception is the Global Growth fund, which is why we have given it an amber rating.

The Global Growth Fund ●

The main reason for the Global Growth fund's charges being comparatively high is that we now carry additional third-party management charges for the outsourced elements of the portfolio.

MUMCO's annual management charge has been reduced to 0.65% from 0.75% to offset some of this, but the fund is still 0.07% p.a. above the market average for that sector.

As explained earlier, the driver behind this change was to improve customer outcomes by ensuring access to the relevant expertise in certain international equity markets.

It is too early to make a judgement on long-term investment performance under the new strategy, but the initial results are promising.

Against that background, no further action is planned at this stage, but we will continue to monitor the position.

Another thing that we consider in relation to our charges, is the extent to which they will be covered by likely future investment returns.

Most of our funds are predominately equity-based investments. Although equity returns are typically more volatile than other assets, over the longer term (say five or more years) we expect them to outperform other asset classes and to comfortably cover the cost of our charges.

Our only fully non-equity fund is the Gilt & Corporate Bond fund. In the current low interest rate environment, our projected growth rate for this fund is 1.1% p.a. We expect the fund's charges to account for just under half of this.

In addition, there will be product service charges for customers to pay (between 0.20% and 0.45% for our My Investments platform).

However, the Gilt & Corporate Bond fund benefits from a materially lower charge than any of our other funds. It is competitive and still offers the prospect of higher returns than a cash fund.

Therefore, we have assessed our Gilt & Corporate Bond funds as acceptable from a value for money perspective.

Finally, in relation to costs and charges, our latest assessment concludes that MUMCO's costs are not unreasonable for a company of its size. The current fund charges are sufficient to cover MUMCO's costs and MUMCO has made modest profits in recent years.

Going forward we are looking to grow funds under management which should, over time, improve profitability due to economies of scale. This could eventually lead to a sufficient level of profit to allow a reduction in annual management charges. However, for this review we believe that MUMCO's costs and charges are reasonably well balanced from a value for money perspective.

PRACTICAL INFORMATION

Bank of New York Mellon (International) Limited is the Depository for all MUMCO's funds.

Further information about the funds, copies of the fund's prospectuses and the latest annual and half-yearly reports for the funds may be obtained free of charge, at any time, from N.F.U. Mutual Unit Managers Limited, Tiddington Road, Stratford-upon-Avon CV37 7BJ (0800 622 323). These documents are available in English.

The last published prices of shares and other practical information on the funds, including how to buy or sell shares is available from nfumutual.co.uk/investments/fund-centre. You can also request this information, during normal business hours, from N.F.U. Mutual Unit Managers Limited, Tiddington Road, Stratford-upon-Avon CV37 7BJ (0800 622 323).

N.F.U. Mutual Unit Managers Limited may be held liable solely on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with the relevant parts of the prospectus for the fund.

An explanation of many of the terms used can be found in the glossary of the Prospectus.



NFU Mutual

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We're committed to supporting our customers, whatever your circumstances or needs we're here to help.

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