

# The Asset Management Market Study: Frequently asked questions

## WHAT IS THE ASSET MANAGEMENT MARKET STUDY?

The Asset Management Market Study was a review of the asset management industry, conducted by the Financial Conduct Authority (FCA), the UK regulator, to assess whether competition between asset managers was working effectively. It looked at (amongst other things) whether investors get good value for money when purchasing asset management services.

## WHAT WERE THE FINDINGS?

The study, which concluded in 2017, found that price competition is weak in a number of areas of the industry. It also found that investors are not always clear on the objectives of funds; that fund performance is not always reported against an appropriate benchmark; and that governance bodies do not robustly consider value for money on behalf of fund investors.

As part of a package of measures to address these points, the FCA in February 2019 set out new rules and guidance on the following key areas that affect the Legal & General funds, in order to enable investors to better evaluate how their investments are expected to perform and whether they are performing in line with expectations.

### A) Objectives and benchmarks

The new rules and guidance set out how asset managers should describe fund investment objectives and policies to make them more useful to investors. They require asset managers to explain why or how their funds use particular benchmarks or, if they do not use a benchmark, how investors should assess the performance of a fund.

The FCA set out three categories of benchmark:

- A 'target' – a benchmark used to define the fund's target performance or to trigger a payment, such as a performance fee. For example, this is applicable to index funds and actively managed funds which aim to outperform a benchmark<sup>1</sup>

- A 'constraint' – a benchmark that constrains the composition of the portfolio. For example, some funds may only be permitted to invest in securities which form part of a particular benchmark
- A 'comparator' – a benchmark against which fund performance can be compared. For example, some funds may be compared to the average return of an IA sector which contains funds that are broadly comparable in terms of main asset types and potential exposure.

### B) Assessment of value

The new rules and guidance also introduce a requirement for asset managers to make an assessment of value, as part of their duty to act in the best interests of the investors in their funds.

This assessment will be performed annually against a set of minimum required criteria. A short summary of the assessment result for each fund, including corrective measures (if required), will be made publicly available for investors.

Asset managers will start publishing the summaries after 30 September 2019.

### C) Board composition

The FCA requires asset managers to appoint a minimum of two independent directors to their boards by 30 September 2019. We will, therefore, have appointed two members to our UK management company board by this date.

## OBJECTIVES AND BENCHMARKS

### WHICH FUNDS HAVE BEEN AFFECTED?

All of our UK authorised funds have been affected. Of these, we have made clarifications to 77 funds.

1. Index funds are 'passively' managed, as they seek to track a certain market index. By contrast, in actively managed funds, the manager uses their expertise to select investments to achieve the fund's objectives.

## WHAT CHANGES WILL BE MADE TO THE FUNDS' OBJECTIVES AND BENCHMARKS?

No changes are being made to the way the Legal & General funds are managed as a result of the new requirements.

We have clarified our investment objectives and policies, adopting a consistent approach to the inclusion of benchmark and objective information in our documentation. The areas we have addressed include:

- The type of fund benchmark (whether a fund has a target or constraining benchmark)
- Whether the fund has a comparator benchmark
- How the fund will aim to achieve its investment objective
- The style of management of the fund (whether it aims to track an index fund or whether it is actively managed)

## WHEN WILL THE UPDATED DOCUMENTATION BE AVAILABLE?

We have updated our fund documentation, including prospectuses, KIIDs and websites. The first editions of the updated factsheets will be released in September.

Information on the clarifications will be included in the fund's manager annual report. Our [fund centre](#) and [investments website](#) have details on the revised objectives and benchmarks.

## DO INVESTORS NEED TO DO ANYTHING?

No – investors do not need to do anything, as the way the funds are being managed is not changing. Investors may wish to compare their funds with others in our range to see if they still meet their needs.

## ASSESSMENT OF VALUE

### WHAT MEASURES ARE DUE NEXT?

As the requirements regarding the assessments of value for our fund range come into effect on 30 September 2019, we will update investors shortly. Once in effect, the assessments of value will be an ongoing requirement and data will be collected and assessed on an annual basis.

More broadly, we welcome the FCA's approach. We already review our products on a regular basis to make sure they offer value and will continue to do so within the assessment of value framework.

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### Disclaimer

The value of investments and any income from them may fall as well as rise and investors may get back less than they invest. Details of the specific and general risks associated with Legal & General's range of funds are contained within the Key Investor Information Documents and can be accessed on our website [www.legalandgeneral.com/investments](http://www.legalandgeneral.com/investments)

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