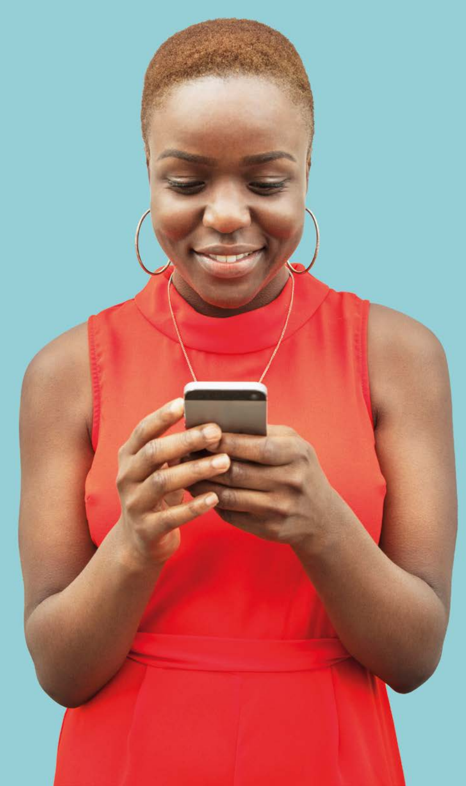
Virgin MONEY



The team at Virgin Money
PO Box 9522
Chelmsford
CM99 2AB

virginmoney.com

VIR number:

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GOOD NEWS - WE'RE IMPROVING YOUR INVESTMENT FUNDS

We're always looking for better ways to invest your money. So, on or around 20 February 2023 we're making some changes to our Growth Fund 1, Growth Fund 2 and Growth Fund 3. You're currently investing in one of these funds through your pension - if you're in Glidepath, it'll be Growth Fund 3.

We believe improvements to how the funds invest should increase potential returns - and be better for people and the planet.

The main objective of each fund remains the same - to grow your money over the longer term (five years or more) by investing in shares and bonds from around the world.

What do you need to know?

Our growth funds are examples of what's often known as a 'fund-of-funds'. This is an investment fund that invests in other funds, rather than directly in shares and bonds. From the date above, we'll pick funds that are a bit more choosy about what they invest in. We're confident this is a good way to give you a better balance of risk and return in the future.

We're replacing most of the underlying funds based on the new criteria shown below. Just so you know, our growth funds will continue to invest in things like government bonds, corporate bonds and shares.

Here's how it will work:

- **ESG considerations** – we'll invest in funds which include Environmental, Social and Governance (ESG) factors. Most of these will be index-tracking funds like they are today. But rather than investing in all companies in a particular market, ESG factors are considered to adjust how much the funds invest in each company.

  We'll do this across most markets we invest in, although some markets won't have a fund which fits the criteria. So, these changes will be made where we can and where we believe it'll add value.

EVEN BETTER VALUE

More great news – we're reducing the annual charge on these funds from 0.85% to 0.75%.

There's nothing you need to do, we'll automatically make this change on 9 January 2023.

If you are invested in our AE Growth Fund 3, the charge isn't changing as it's already 0.75%

- **Reduce / exclude investments in specific areas** – we're aiming to avoid, or greatly reduce, investing in companies involved in certain activities - such as tobacco and coal. We'll also exclude, where possible, companies that fail UN principles on good behaviour. This will be done by choosing funds with these exclusions. We've set a limit of 0.5% of the value of each of our growth funds for these activities.

We're taking care of everything, so you don't need to do a thing. But if you want to know more, check out the enclosed info – including the new section in your fund's Investment Policy.

Why are we doing this?

We believe that looking at how companies operate and their impact on society will lead to better outcomes for you, people and the planet. We'll continue to invest in a wide range of companies to make sure the risk is spread, but will now look at any ESG risks and harmful activities too. We'll also consider investing more in companies that could benefit from the move to a low carbon way of working.

Are there any risks with these changes?

With any change in investment strategy, there's no guarantee it'll lead to better returns. It may even lead to lower returns compared to leaving our funds unchanged.

Is there a cost to this?

There'll be some transaction costs to make these changes. We'll be selling most of the underlying funds to buy new ones, although we don't expect the costs to be more than 0.4% of the fund's value. So, if you had £10,000 in one of our funds, the transaction cost would be £40 or less. This will happen behind the scenes and will reduce the unit price slightly (and therefore the value of your investment) when it happens.

Over the medium to long term, we believe the additional potential returns should more than make up for the cost of making these changes.

What if you don't like the changes?

We're making these changes because we think they'll improve the ESG credentials and performance potential of the fund. However, we're giving you plenty of notice in case you decide they're not for you.

If you aren't happy with the changes, you can switch to our other funds at no cost. You can also transfer your money to another provider. We won't charge you anything to leave but will be sorry to see you go.

Any questions?

We can't give you advice, but can answer lots of other questions. Just give us a call on **03456 10 20 30***. We're here 8am to 9pm Monday to Friday and 9am to 6pm on Saturdays. We'll do everything we can to help.

If you want an up-to-date valuation at any time, simply sign in to Online Service or call our automated valuation line on **0800 917 9791**.

The team at Virgin Money

*Calls may be monitored and recorded. Calls to 03 numbers cost the same as calls to 01 and 02 numbers and they are included in inclusive minutes and discount schemes in the same way.

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Investment Policy addition

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Currently, you invest through a pension 'feeder' fund into our Growth Fund 1, 2 or 3. For example the Virgin Money Pension Growth Fund 3 invests fully in the Virgin Money Growth Fund 3.

The following wording is being added to the Investment Policy for Growth Fund 1, Growth Fund 2 and Growth Fund 3 (including AE Growth Fund 3). Just so you know, there are no other changes. We will make these changes on or around 20 February 2023.

One way in which the Fund seeks to manage risks and opportunities is via Environmental, Social and Governance (ESG) considerations.

Where the Investment Adviser feels it is beneficial from a risk or return perspective, and suitable investment options are available, investments will be chosen because of their integration of ESG considerations into stock selection (increasing / decreasing allocation to individual companies based on the ESG scoring process of the index provider / fund manager), adoption of sustainable investing objectives or policies, positive shareholder engagement policies, and/or investment in companies providing products and services that support the transition to a low carbon economy.

In addition, the Fund will limit (to no more than 0.5% of the value of the Fund's assets) indirect exposure to companies which:

- make more than 5% of their earnings from tobacco products, thermal coal or unconventional oil and gas (such as oil sands or shale gas),
- are involved in the manufacture of controversial weapons such as cluster munitions or anti-personnel landmines,
- or who violate the UN Global Compact principles on human rights, labour, the environment and anti-corruption.

If the Investment Adviser determines that the allocation to the above type of companies does exceed 0.5% of the value of the Fund's assets, the Investment Adviser will take action to reduce exposure to below 0.5% (by selling underlying funds identified as contributing to the over exposure) within a reasonable timeframe, ordinarily within two months.

We expect the Fund to have a better ESG rating (based on the analysis and scoring system of one or more market leading data providers) and lower carbon emissions compared to investing in the same mix of assets using a standard indexing approach without ESG consideration. This will be reported in the annual value statement when reviewing the non-financial performance of the Fund.

What does ESG mean?

"Environmental, Social and Governance" (ESG) is the term used for a set of factors to consider when deciding whether to invest in a company. They're important as they represent risks and opportunities in how that company provides its products and services. There is a growing expectation that companies need to consider their impact on society and the planet.

- **Environmental** - Issues such as carbon emissions, natural resource usage, pollution and waste management and biodiversity.

- **Social** - Examples include human and labour rights, diversity and inclusion, inequality and customer relations.
- **Governance** - This covers things like corporate governance, risk management, tax transparency and anti-corruption.

What does this mean for our fund?

We'll use the ESG considerations below to help us decide which funds to select:

We will invest more in companies that are managing risks well and are putting themselves in a good position for the future in the part of the economy they support. At the same time, we won't invest (or we'll greatly reduce our investment) in companies if we believe they're not managing their risks appropriately.

We won't invest (or we'll greatly reduce our investment) in companies that support things we don't think have a place in the future - like digging up coal for burning in power stations.

Future investment – we'll also look to invest in funds with a specific focus on sustainable objectives.

How will adding ESG considerations work?

The following example should give you an idea of how our investment in a range of companies would be impacted by the changes.

- We currently invest in funds that track the FTSE All Share Index, as well as other markets. If there are just three healthcare companies in this index - making up 1%, 2% and 5% of the index - a standard tracker fund, like we use now, will invest 1%, 2% and 5%.
- We swap this standard FTSE All Share tracker fund for a fund that tracks a UK equity index with ESG factors integrated into it. Based on the research and insight of the index provider, they might decide that:

  - healthcare company A has relatively poor environmental practices and are at increased risk of fines in the future.

  - company B has sensible plans to reduce carbon emissions.

  - company C is under increasing pressure with labour conditions for some offshore manufacturing.

So, they adjust the index weight from 1%, 2% and 5% to 0%, 4% and 4%. Exposure to the healthcare sector remains at 8%, but company level exposure has been tilted towards the companies with better ESG credentials.

- The index will make similar assessments across the other sectors in the UK equity market. This'll mean a UK equity fund (tracking this new index) which is still well diversified, has exposure to all major sectors - apart from a few specific exclusions - and invests across lots of companies (but not as many as the standard index). The expected outcome is a fund that's better positioned for the future (in terms of reduced exposure to potential risks which may negatively impact share prices) and will hopefully perform better in the long run compared to the standard tracker fund.
- We won't be able to do this across all markets – sometimes, there aren't the right funds to invest in - but we will where we can and where we believe it'll add value.

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