



Association of British Insurers

The ABI Life & Pension Fund Sectors

Outcomes from 2007 ABI Sectors review

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Introduction

The ABI Sectors exist to enable investors and advisers to compare unit-linked life and pension funds on a like-for-like basis. This document gives details of new groupings for the ABI Sectors, which were agreed in July 2007 following a detailed review of the sector parameters.

The review process drew upon detailed input from insurers, fund managers, adviser firms, and also regulatory and consumer bodies, with the aim of ensuring the ABI Sectors remained transparent and up-to-date. Funds within the ABI Sectors will be grouped according to the sectors outlined in this document from January 25th 2008.

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Mixed Asset Sectors

The ABI Mixed Asset Sectors contain funds that are invested in a mixture of asset types, with varying exposures to equities over time. The parameters do not include requirements for defined risk strategies and should not be used as a measure of the risk of a particular fund or funds. Advisers and consumers should always check a fund's objectives, asset allocation and associated charges as well as risk, when considering funds.

Research undertaken in 2005 has confirmed that the equity limits for the managed sectors are appropriate, and that we should retain the current range of four sectors. We have introduced two significant changes to the labeling of these sectors; first to clarify the equity maxima of each managed sector, and second to rename the current **Stockmarket Managed Sector** as **Flexible Managed**. This new label better reflects the absence of equity limits and conveys the lack of restrictions on funds in this sector.

We have also defined what is meant by equities and fixed interest in the Mixed Asset and Fixed Interest sectors. Following research, we have decided that equities may include Preference Shares, Permanent Interest Bearing Shares and Convertibles; fixed interest is defined as Government Sovereign Bonds and Corporate Bonds.

Defensive (up to 35% Equity) Managed

- Maximum of 35% total equity (including Preference Shares, Permanent Interest Bearing Shares and Convertibles).
- No minimum equity requirement but managers' stated intention retains the right to invest in equities.
- Minimum of 85% Sterling based assets (including fixed interest hedged back to Sterling).
- Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.

Cautious (up to 60% Equity) Managed

- Maximum of 60% total equity (including Preference Shares, Permanent Interest Bearing Shares and Convertibles).
- Minimum of 20% total equity.
- Minimum of 60% Sterling based assets (including fixed interest hedged back to Sterling).
- Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.

Balanced (up to 85% Equity) Managed

- Maximum of 85% total equity (including Preference Shares, Permanent Interest Bearing Shares and Convertibles).
- Minimum of 40% total equity.
- Minimum of 50% Sterling based assets (including fixed interest hedged back to Sterling).
- Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.

Flexible (up to 100% Equity) Managed

- Maximum of 100% total equity (including Preference Shares, Permanent Interest Bearing Shares and Convertibles).
- No minimum equity requirement but manager's stated intention retains the right to invest up to 100% in equities.
- Minimum of 20% Sterling based assets (including fixed interest hedged back to Sterling).
- Fixed interest defined as Government Sovereign Bonds and Corporate Bonds

Distribution Funds

Funds in this sector must be capable of distribution of 'income', i.e. other than by encashment of units. As with the Managed and Fixed Interest sectors, the **Distribution Fund Sector** parameters include definitions for what may constitute equities and fixed interest.

- Net of tax yield on the underlying portfolio of at least 110% of the FTSE All Share yield.
- Maximum of 60% total equity (including Preference Shares, Permanent Interest Bearing Shares and Convertibles).
- Minimum of 20% total equity.
- Minimum of 50% Sterling based assets (including fixed interest hedged back to Sterling).
- Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.

UK Equity Fund Sectors

Advisers using fund data provider platforms (such as Defaqto, Financial Express, Lipper, and Morningstar) will be able to view flags for certain funds in certain sectors, to indicate specific investment characteristics. Funds in each of the UK Equity Fund Sectors will be flagged to indicate where a fund has one of the following characteristics: Socially Responsible; Trackers; Mid-Cap; Concentrated Portfolio (i.e. funds with less than 50 stocks); and Multi-Manager.

UK All Companies

- Funds which invest at least 80% of their assets in equities quoted on the UK stock market.
- Funds have the primary objective of achieving capital growth or total return.

UK Smaller Companies

- Funds which invest at least 80% of their assets in equities quoted on the UK stock market which form the bottom 10% by market capitalisation.

It is not normally possible to derive income from life and pension funds as they are not income-generating assets. However, there is clearly a distinct style evident in funds invested in this way and the parameters for the **UK Equity Income Sector** aim to group these in a comparable way.

UK Equity Income

- Funds which invest at least 80% of their assets in equities quoted on the UK stock market.
- Net of tax yield on the underlying portfolio of at least 110% of the FTSE All Share yield.

Overseas Equities Sectors

We have aimed to ensure that funds grouped in the **Global Equities Sector** have a genuinely global spread; hence the introduction of a requirement for funds to be invested in more than one equity region. We have also set the parameters to ensure a clear distinction between **Global Equities** and **Global Emerging Markets Equities** – particularly as funds invested in the latter are much less likely to be broadly diversified between equity regions or specific countries. The regional equity sectors are defined by FTSE World Indices, which generally consist of developed and advanced emerging markets. The Global Emerging Market Sector countries are therefore defined as those not covered by the FTSE World Indices¹.

The Overseas Equity Sectors also require funds to be broadly diversified within their relevant country or region. Funds that concentrate solely on a specialist theme, sector or single country in a multi-currency region would be incorporated in the Specialist Sector.

Funds with the following investment characteristics will be flagged where they appear on fund data provider platforms – Socially Responsible; Tracker; Mid-Cap; Concentrated Portfolio (i.e. funds with less than 50 stocks); Multi-Manager; and Equity Income.

¹ See www.ftse.com/Indices/FTSE_All_World_Index_Series/Downloads/country_matrix.pdf.

Global Equities

- Funds which invest at least 80% of their assets in equities.
- Funds must be invested in more than one equity region.
- Not to include funds which would otherwise qualify for the Global Emerging Markets Equity sector.

Europe including UK Equities

- Funds which invest at least 80% of their assets in equities quoted on UK and European stock markets.
- Not to include funds which would otherwise qualify for a UK Equity sector.
- Europe includes all countries in the FTSE World Europe/MSCI Europe indices.

Europe excluding UK Equities

- Funds which invest at least 80% of their assets in equities quoted on European stock markets, but which normally hold no equities quoted on the UK stock market.
- Europe includes all countries in the FTSE World Europe/MSCI Europe indices.

North America Equities

- Funds which invest at least 80% of their assets in equities quoted on United States and Canadian stock markets.

Asia Pacific including Japan Equities

- Funds which invest at least 80% of their assets in Asia Pacific equities and which include Japanese equities.
- Asia Pacific includes all countries in the FTSE World Asia Pacific index.
- Not to include funds which would otherwise qualify for the Japan Equity sector.

Asia Pacific excluding Japan Equities

- Funds which invest at least 80% of their assets in Asia Pacific equities, but which normally hold no equities quoted on the Japanese stock market.
- Asia Pacific includes all countries in the FTSE World Asia Pacific index.

Japan Equities

- Funds which invest at least 80% of their assets in equities quoted on the Japanese stock market.

Global Emerging Markets Equities

Fund data provider flags for this sector: Latin America, China; India; Russia; BRIC; Asian Tigers; and Emerging Europe.

- Funds which invest at least 80% of their assets in equities from emerging markets, as defined by the FTSE World Index Indices, without geographical restriction.
- Funds with more than 50% of assets in any one geographical region or theme, e.g. China, India, Latin America or BRIC, will also be flagged on fund data provider platforms.

Fixed Interest Sectors

Research undertaken by the ABI in 2006 identified a lack of homogeneity between some funds in the existing fixed interest sectors. The current UK Fixed Interest sector, for example, has broad objectives and contains a wide variety of funds, reflecting the emergence of new markets, and changes to traditional fund structures. In some cases, clusters of funds exist which differentiate themselves enough to warrant the creation of new sectors. Consequently, the following new sectors will be introduced to better categorise fixed interest funds – **Sterling Corporate Bond**, **Sterling High Yield** and **Global High Yield**. Requirements for funds in the **UK Index-linked Gilts Sector** allow funds to hold index-linked Corporate Bonds or other index-linked securities.

We have adopted sterling prefixes for many of the fixed interest sectors to reflect the allowances for currency hedging for funds invested in non-UK fixed interest stock. It follows that funds invested in non-UK stocks that do not hedge back to sterling would sit in the **Global Fixed Interest Sector**.

The duration requirements for the **Sterling Long Bond Sector** reflect the likely interest rate risk affecting funds, with the additional requirement for pension fund objectives to include consideration of movements in annuity purchase prices. The ABI recognizes that funds tracking long bonds or long bond indices may not have an annuity requirement in their objective if they are trackers, but this approach allows for the protection of an annuity.

As with the Mixed Asset Sectors, we have defined what is meant by fixed interest to ensure clarity and consistency. Fund data provider platforms will flag Multi-Manager; Socially Responsible; and Duration-Short funds.

UK Gilt

- Funds which invest at least 80% of their assets in UK Government securities (Gilts).

UK Index-linked Gilts

- Funds which invest at least 80% of their assets in UK Index Linked Government securities (Index-Linked Gilts).

Sterling Fixed Interest

- Funds which invest at least 80% of their assets in sterling-denominated (or hedged back to sterling) broad investment grade fixed interest securities.

- Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.
- Preference Shares, Permanent Interest Bearing Shares and Convertibles are not treated as fixed interest investments.
- Investment grade is established by the average of the ratings determined by Standard & Poor's, Moody's and Fitch. Broad Investment Grade is defined as (or equivalent to) BBB minus or above as measured by Standard & Poor's and by Fitch and Baa or above as measured by Moody's.

Sterling Other Fixed Interest

- Funds with investment policy permitting significant changes in asset allocation between broad investment grade and sub-investment grade securities.
- Funds which invest at least 80% of their assets in sterling-denominated (or hedged back to sterling) fixed interest securities.
- Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.
- Preference Shares, Permanent Interest Bearing Shares and Convertibles are not treated as fixed interest investments.

Sterling Corporate Bond

- Funds which invest at least 80% of their assets in sterling-denominated (or hedged back to sterling) broad investment grade corporate bond securities.
- This excludes Preference Shares, Permanent Interest Bearing Shares and Convertible Securities.
- Investment grade is established by the average of the ratings determined by Standard & Poor's, Moody's and Fitch. Broad Investment Grade is defined as (or equivalent to) BBB minus or above as measured by Standard & Poor's and by Fitch and Baa or above as measured by Moody's.

Sterling Long Bond

- Funds (used in conjunction with pension plans) with a specific objective for the movement in the value of units in the fund to approximate to movements in annuity purchase prices.
- Funds which invest at least 80% of their assets in sterling-denominated (or hedged back to sterling) long duration (10 years or more) broad investment grade fixed interest securities.
- Investment grade is established by the average of the ratings determined by Standard & Poor's, Moody's and Fitch. Broad Investment Grade is defined as (or equivalent to) BBB minus or above as measured by Standard & Poor's and by Fitch and Baa or above as measured by Moody's.

*N.B. Duration requirements for the **Sterling Long Bond Sector** reflect the likely interest rate risk affecting funds, with the specific additional requirement for pension fund objectives to consider movements in annuity purchase prices.*

Global Fixed Interest

Fund data provider flags for this sector: Single Country; Tracker; and Regional.

- Funds which invest at least 80% of their assets in non-UK broad investment grade fixed interest securities.
- Fixed interest defined as Government Sovereign Bonds and Corporate Bonds. Preference Shares, Permanent Interest Bearing Shares and Convertibles are not treated as fixed interest investments.
- Investment grade is established by the average of the ratings determined by Standard & Poor's, Moody's and Fitch. Broad Investment Grade is defined as (or equivalent to) BBB minus or above as measured by Standard & Poor's and by Fitch and Baa or above as measured by Moody's.

Sterling High Yield

- Funds which invest at least 80% of their assets in sterling-denominated (or hedged back to sterling) fixed interest securities.
- Funds which invest at least 50% of their assets in sub investment grade fixed interest securities.
- Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.
- Preference Shares, Permanent Interest Bearing Shares and Convertibles are not treated as fixed interest investments.
- Investment grade is established by the average of the ratings determined by Standard & Poor's, Moody's and Fitch. Sub investment grade is defined as (or equivalent to) below BBB minus as measured by Standard & Poor's and by Fitch or below Baa as measured by Moody's.

Global High Yield

Fund data provider flags for this sector: Single Country; Regional.

- Funds which invest at least 80% of their assets in non-UK fixed interest securities.
- Funds which invest at least 50% of their assets in sub-investment grade fixed interest securities.
- Fixed interest defined as Government Sovereign Bonds and

Corporate Bonds.

Preference Shares, Permanent Interest Bearing Shares and Convertibles are not treated as fixed interest investments. Investment grade is established by the average of the ratings determined by Standard & Poor's, Moody's and Fitch. Sub-investment grade is defined as (or equivalent to) below BBB- (as per Standard & Poor's) and by Fitch or below Baa, as measured by Moody's.

Property

We have sought to reflect the significant developments in property investments by splitting the existing Property Sector into **UK Direct Property**, **UK Property Securities** and **Global Property**.

Parameters for funds in the **UK Direct Property Sector** allow some flexibility to reflect changes to the inflow and outflow of investment into property funds. The requirement for UK Direct Property funds to normally invest at least 80% in UK property assets includes, for example, a 20% allowance for PICs or other property instruments.

We recognize there are times when cash flows into property funds may fluctuate. For this reason we will adopt a common sense approach to monitoring assets allocation in this sector so that fund managers are given sufficient flexibility, while also ensuring the comparability of funds in this sector.

The 50% minimum for non-UK assets in the **Global Property Sector** allows fund managers to include a mixture of property assets, up to this limit.

UK Direct Property

Fund data providers will flag Multi-Manager funds.

- Funds that normally invest at least 80% of their assets in UK property. Managers may occasionally use Property Index Certificates or other property instruments for up to 20% property investment.
- UK property defined as real estate located within the UK.

UK Property Securities

Fund data providers will flag Multi-Manager funds.

- Funds that invest at least 80% of their assets in property securities quoted on the UK stock market and direct property located in the UK.
- Property securities include real estate investment trusts, shares issued by companies that own, develop or manage direct property and Property Index Certificates.

Global Property

Fund data providers will flag Multi-Manager funds and Single Country funds.

- Funds that invest at least 80% of their assets in direct property and property securities.
- Minimum 50% non-UK assets.

Other fund sectors

We have clarified the approach taken to defining equities and fixed interest holdings for the Mixed Asset and Fixed Interest sectors. While we will allow preference shares to be included within equity holdings, research suggests preference shares have different risk/return attributes and consequently, we feel these should be captured in a distinct, stand-alone sector – **Sterling Preference Shares & Convertibles**.

The introduction of a **Specialist Sector** provides a home for funds that do not fit the core sectors, but where monitoring data is being supplied. Due to the lack of sector parameters of any kind, data providers and firms should take appropriate steps to ensure users of the ABI Sectors understand funds in this sector cannot be compared on a like-for-like basis.

Sterling Preference Shares & Convertibles

- Funds which invest at least 80% of their assets in sterling-denominated (or hedged back to sterling) Preference Shares, Permanent Interest Bearing Shares and Convertibles.

Money Market

- Funds which invest at least 95% of their assets in sterling (or hedged back to sterling) money market instruments.
- Money market instruments are defined as cash and near cash, such as bank deposits, certificates of deposit, and fixed interest securities within three months of maturity or floating rate notes.

Protected/Guaranteed Funds

Fund data providers will flag funds with a Guaranteed Minimum Return of Original Capital.

- Funds, other than money market funds, which principally aim to provide a return of a set amount of capital back to the investor (either explicitly guaranteed or via an investment strategy highly likely to achieve this objective) plus some market upside.

Commodity/Energy

Fund data provider flags for this sector: Multi-Manager; Precious Metals; Other Metals; Energy; and Materials.

- Funds that invest at least 80% of their assets in commodity and/or energy related securities.

Specialist

Fund data providers will flag Multi-Manager funds.

- Funds that have an investment universe that is not accommodated by the mainstream sectors. Performance ranking of funds within the sector as a whole is inappropriate, given the diverse nature of its constituents.

N.B. As there are no parameters for funds in the Specialist Sector, funds should not be compared on a like-for-like basis.

Unclassified

- Funds that do not provide sufficient data for the ICC to monitor their classification effectively.