RBS Collective Investment Funds Limited

Overall Risk Management Policy and Governance.
Overall Context

RBS Collective Investment Funds Ltd ("RBSCIFL" or "the management company") currently acts as Authorised Corporate Director ("ACD") for four UK Retail Collective Investment Schemes including approximately £2.8bn of assets under management:

- RBS Investment Funds ICVC (12 sub funds);
- RBS Stakeholder Investment Fund ICVC (1 sub fund);
- RBS Index Tracker Funds ICVC (1 sub fund);
- RBS Investment Options ICVC (4 sub funds).

RBSCIFL’s immediate parent company is RBSG Collective Investments Ltd, which is a wholly owned subsidiary of The Royal Bank of Scotland Group plc ("RBSG"), and is managed within the Private Banking & Advice business which is part of the UK Retail Division of RBSG.

Control functions such as Internal Audit, Risk Management and Compliance provide support to all companies within the RBSG group of companies.

RBSCIFL is responsible for appointing its investment managers ("IMs") from time to time, as required. During this process, the parameters within which they operate are agreed. Some of these are mandatory, as required by the Collective Investment Schemes Sourcebook ("COLL") issued by the FCA and PRA.

Responsibilities of the ACD

The ACD is responsible for all aspects of risk management including:

- Administration
- Investment Management
- Fund Accounting & Pricing

These are undertaken by third party suppliers on behalf of the ACD. Compliance oversight is outsourced to Aviva Risk & Compliance ("ARC").

Accordingly, the Board of Directors of RBSCIFL is ultimately responsible for the appropriateness and effectiveness of the Risk management process. This is delegated to its Board Investment Committee, with day to day management being carried out collectively by InvCo. Risk issues can be escalated by the chairman of InvCo, and ad hoc meeting can be convened as long as the meeting has a quorum.

Additionally, the Board of Directors is responsible for the establishment and implementation of a robust and persuasive Risk culture. This includes responsibility for the procedures and controls in place for the measurement, management and reporting of Risk.

Whilst this document outlines the Risk management arrangements that the management company has in place, it also requires each of the delegated Investment Managers to retain in place Risk management policies and procedures. RBSCIFL will fulfill its ACD responsibilities by way of the following:

a) Identification and design of appropriate risk policies
b) Set appropriate risk appetites
c) Put in place appropriate controls to manage these appetites
d) Identify and set key risk indicators to monitor the risks contained within the risk policies
e) Monitor risks through appropriate management information, challenge and escalation, measuring consistency of information against expectations
f) Verification of the management information received to ensure that the controls and monitoring are based on complete and accurate information
g) Review the risk policies on a regular basis and re-evaluate the controls and monitoring.

RBSCIFL will fulfill its ACD responsibilities by way of the following:

- Setting and maintaining and implementing the risk appetite within which employees can operate, as well as ensuring this is articulated and communicated within the business and to Risk Management
- Implementing, investing in and maintaining processes within the business to manage the risks and ensure compliance with all RBSCIFL policies. This includes IT systems, tools, MI and general infrastructure
- Ensuring that all employees are aware of their risk management responsibilities through regular communication and training
- Regular testing and certification of the adequacy and effectiveness of controls and compliance with RBSCIFL policies, reporting the results and conclusions
- Ownership, identification, management and mitigation of the risks to which the business is exposed, as well as the issues identified.
Second Line of Defence
This is RBS Risk Management.

Broadly, it is responsible for owning and developing the risk management framework and tools which the business uses to discharge its responsibilities. It also provides oversight and challenge to the first line on management of its risks.

In detail, RBS Risk Management are responsible for:

- Ownership, development and maintenance of the Risk Management framework, tools and methodologies as well as its deployment to the business
- Design of the Risk Management policy standards, which provide the principles and minimum standards for delivering effective risk management
- Delivery of regular communications, training and awareness to the employees on Risk Management
- Oversight and challenge to the businesses and functions on:
  a) The adequacy and effectiveness of its use and the application of the risk management framework
  b) The appropriateness of its risk appetite levels to deliver a commercially sound, balanced and rewarded portfolio of risks
  c) The capability of its people and infrastructure
- Expert support and advice to the business on risk management, including interpretation and compliance with the risk policy standards and risk management framework
- Escalation of concerns to appropriate first line of defence management, as well as escalation of unresolved concerns to Senior Executive level. RBSCIFL Operations team conduct visits to the third party suppliers to conduct reviews of their systems and controls.

Additionally, Aviva Risk and Compliance (“ARC”) provide oversight and conduct reviews on the controls in place with RBSCIFL’s Third Party Administrators (“TPAs”). However, ultimate oversight rests with RBS Risk management.

Third Line of Defence
This is RBSG Group Internal Audit (“GIA”).

Broadly, it is responsible for providing independent assurance on the design, adequacy and effectiveness of RBSG’s system of internal controls.

In detail, RBS GIA are responsible for:

- Providing independent assurance on the design, adequacy and effectiveness of RBSG’s system of internal controls
- Linking findings to RBSG policies where appropriate.

Additional Risk Controls
The investment managers also operate their own risk procedures which help mitigate risk.

Any breaches to legislation or the IMA are reported to the relevant InvCo meeting for discussion and any remedial action required.

Inadvertent breaches of risk limits can also occur, such as if stock prices move up against market trends, so breaching the maximum holding allowed. Such breaches are managed by the Investment Manager, in consultation with InvCo, to minimise the costs of rectification to the ICVC shareholders.

Counterparty Risk
The investment managers are the primary lines of defence to manage counterparty risk.

This is achieved through rigorous procedures for the selection and approval of counterparties, including brokers. Additionally, credit limits are set and agreed with their Compliance departments. Counterparty risk is monitored on a daily basis. These procedures are reviewed at InvCo on an annual basis.

Risk Management
The ACD uses an outsourced model, whereby third party companies provide most of the services for which the ACD is responsible.

Accordingly, the ACD has in place a rigorous programme for monitoring and challenging their third party service suppliers.

Reports are supplied to the ACD, covering all aspects of the service provided. Performance is RAG coded to allow the ACD to take a proactive approach to the performance of each supplier. See section 5 for details of the supplied reports.

Monthly meetings are held with the suppliers (quarterly in the case of BlackRock) where these reports are tabled, and are subjected to discussion and challenge.

Compliance for RBSCIFL is outsourced under a Collective Service Agreement to ARC, who undertake desk based, remote testing and MI analysis on RBSCIFL’s third party providers. This scopes Fund Management, Pricing & Fund Accounting, BNYMellon and IFS Transfer Agencies. Identified and emerging risks are shared at InvCo and escalated in line with the High Level Controls document. Retail Compliance as second line of defence maintain oversight of ARC and conduct a high level review of their performance against the agreed Compliance Monitoring Plan.
Details of RBSCIFL

The various administration, investment management and fund accounting activities required to operate the RBSCIFL Schemes are delegated to various third parties. In addition, each of the RBSCIFL Schemes has an independent Depositary, who act as custodian for the underlying assets of each of the Schemes, and oversee the activities of RBSCIFL.

The diagram below shows the various delegated activities, and the Depositary relationships for each of the RBSCIFL Schemes:

<table>
<thead>
<tr>
<th>Scheme Name</th>
<th>RBS Investment Funds ICVC</th>
<th>RBS Stakeholder Investment Fund ICVC</th>
<th>RBS Index Tracker Funds ICVC</th>
<th>RBS Investment options ICVC</th>
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<tr>
<td>Funds</td>
<td>Balanced Equity Income Fund</td>
<td>RBS Stakeholder Investment Fund</td>
<td>RBS FTSE100 Tracker Fund</td>
<td>Income Fund</td>
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<td>Growth Fund</td>
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<td>Cautious Growth Fund</td>
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<td>High Yield Fund</td>
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<td>Balanced Growth Fund</td>
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<td>International Growth Fund</td>
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<td>Adventurous Growth Fund</td>
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<td>Capital Protected Accelerator Funds 1, 2, 3, 4, 5, 6</td>
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<td>Administration</td>
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<td>The Bank of New York Mellon</td>
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<td>IFDS</td>
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<td>(CTF) and Capital for the Junior ISA</td>
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<tr>
<td>Investment Manager</td>
<td>Aviva Investors RBS Global Markets (Capital Protected Funds only)</td>
<td>Aviva Investors</td>
<td>Blackrock (formerly k/a Barclays Global Investors)</td>
<td>Aviva Investors</td>
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Note: International Financial Data Services provide the administration for the RBS Investment Funds ICVC and the RBS Investment Options ICVC as sub agents for Aviva Life Services.

Governance Structure

The governance structure of the company is defined in its High Level Controls Document. Currently, this is the version approved in August 2011. Excerpts from this are shown below for ease. Further detail can be found in the document itself.
RBSCIFL Board

The board meets every 2 months. Additional ad hoc meetings may be called as required.

Principal Function
To direct the affairs of the Company in a manner that meets both RBS Group and regulatory requirements, and enables RBSCIFL as Authorised Corporate Director to discharge its responsibilities in managing the collective investment schemes. This includes receiving reports and recommendations from the relevant Committees and making decisions upon them.

Risk Responsibilities
Additionally, it is responsible for the consideration of the identification, prioritisation and management of key risks to the business, including operational, business continuity, financial, investment, compliance, legal, regulatory, market and reputational risks.

Board Investment Committee

This committee meets 4 times per annum. Additional ad hoc meetings may be called as required.

Principal Function
To enable the Board to carry out its responsibilities relating to the review of investment performance, the setting of fund parameters, the control of investments and the administration of the investment management.

Other Responsibilities
The Committee will also oversee the remit and workings of the RBSCIFL Investment Management Committee ("InvCo") and request reports, information and reviews from InvCo, and where appropriate, recommendations from InvCo on any matters relating to the review of investment performance, the setting of fund parameters, the control of investments and any other relevant matters.

To monitor performance against risk limits and each risk profile of the fund and escalate any emerging risk as appropriate to the RBSCIFL Board.

Investment Management Committee

This committee meets monthly, with a minimum of 11 times per annum. Additional ad hoc meetings may be called as required.

InvCo meets through 4 main meetings. These are as follows:
- Aviva Investors re Investment Controls
- Aviva Investors re Investment Performance
- RBS plc
- BlackRock

Principal Function
To monitor and to make recommendations to the BIC and the Board on matters relating to the review of investment performance, the setting of fund parameters, the management and control of investments and pricing in line with applicable regulations, and any other matters as may be required from time to time.

Other Responsibilities
To set guidelines and monitor the use of derivatives and carry out a full review of the derivative management policy at least once a year.
To set guidelines for counter party exposure and monitor.
To ensure compliance with RBSG investment risk requirements.
To review the matching of assets and liabilities.
To initiate actions where control issues are identified.
Consider all risk management issues for UCITS and Non-UCITS products, including derivative risk.
Approve annual Directors’ Certificate sign-off is complete and appropriate.
Review the pricing policy on an annual basis.
Review the tax allowances in unit pricing quarterly.
Monitor whether unit pricing policy is carried out correctly and address any issues arising.
Review box policies and procedures at least annually.
Where necessary, to escalate to the Board for action issues identified above and to draw to the attention of the Board any other matters relevant to the Company’s investment performance, fund parameters and control of investments.

Audit, Compliance & Risk Committee

This committee meets 3 times per annum, of which one will be held immediately prior to the submission of annual financial statements to the Board. Additional ad hoc meetings may be called as required.

Principal Function
To assist the Board to carry out its responsibilities relating to accounting policies, internal control, financial reporting, actuarial matters, risk management, regulatory reporting and compliance.

Risk Management Responsibilities
1) To maintain surveillance of the business risks throughout the Company.
2) To review the Business’s systems and controls in relation to risk and its procedures for monitoring the effectiveness of such arrangements.
3) To monitor significant weaknesses in control, as reported by RBSG Internal Audit or the External Auditors, and the implementation by management of appropriate remedial action.
4) Where necessary, to escalate to the Board for action issues identified in 1–3 above and to draw to the attention of the Board any other matters relevant to the Company’s risk management.
5) To receive and review minutes from the Risk Management Committee
6) Review ToR annually or where a significant business change warrants a review.
Compliance Responsibilities
1) To monitor the relationship with the FCA, PRA and other relevant regulatory bodies.
2) To review the Company’s compliance with the Financial Services & Markets Act 2000 and related legislation.
3) To review the systems and controls established by management for compliance with the regulatory requirements specified in the FCA and PRA’s Handbook.
4) To review the culture of compliance within the Company.
5) To review the Company’s overall compliance position, having particular regard for the FCA and PRA’s annual regulatory themes including Treating Customers Fairly.
6) To provide a forum for the discussion and resolution of compliance matters relating to the Company.
7) To provide a forum for discussion, as necessary, with External Consultants and the External Auditors on compliance matters.
8) Monitor performance against the Company’s regulatory commitments to training and ensuring the competence of all its employees, particularly those who are subject to additional Training and Competence and Approved Persons requirements.
9) Consideration of the Company’s reward strategy to ensure that it is consistent with its regulatory obligations.
10) Where necessary, to escalate to the Board for action issues identified in 1–9 above and to draw to the attention of the Board any other matters relevant to compliance.

Risk Management Committee
This committee meets monthly, with a minimum of 10 times per annum. Additional ad hoc meetings may be called as required.

Principal Function
To act as a first line of defence in identifying, assessing, managing and escalating all RBS CIFL business risks and to ensure that effective controls are in place throughout the business in order to manage its risks in line with business and Group requirements.

The Committee will operate as a risk management function, reporting to the Audit, Risk & Compliance Committee. The remit will be Operational, Regulatory, and Non-operational (including Credit, Market, Liquidity and Capital risk) which have the propensity to affect the Collectives Business. Key responsibilities are:

- To monitor and ensure the effective operation of the risk and compliance frameworks and controls in the Collectives Business and to ensure the existence of robust governance of the businesses.
- To monitor and control the operation of a consistent Risk Management Framework across the Collectives Business in line with regulatory requirements and leading industry practices.
- To set and communicate risk management objectives for the Collectives Business.
- To make recommendations on risk tolerance and best practice to the Board and the Audit, Compliance & Risk Committee for incorporation into Company and business policy and standards. This will encompass reviewing changes in financial engineering of products to ensure that risks are identified and addressed.
- To review, challenge and agree the strategies for managing material risks.
- To review risk implications of the operational plans, level of new business, product development and other projects as appropriate.
- Operational Risk - To review consolidated risk profile and reports of the Collectives Business. Specifically, to focus on:
  a) Risks at Significant or Major level
  b) Losses
  c) Issue management
  d) Any exceptions in respect of Business Continuity and/or Information Security
- Credit/Market Risk – To review exposure against agreed limits and any breaches by exception.
- Liquidity Risk – To review the Collectives Business exposure against targets.
- Capital Risk – To review capital positions of regulated companies.
- Regulatory Risk – To review compliance levels with relevant standards and any breaches by exception. To reduce the potential for financial, reputational and regulatory risk through non-compliance with financial regulations, including adherence to the principles of TCF.
- To review and recommend new risk limits to the Board and the Audit, Compliance and Risk Committee.
- To review Internal Audit, Group Risk and Regulatory Risk Compliance activity for the next quarter. Specific updates will be provided by each function where appropriate.
- To consider the potential impact of future organisational, regulatory or economic change on the Collectives Business risk profiles on the risk landscape over the next quarter/half year.
- On an annual basis a review of the content and compliance with the Committee’s Terms of Reference will be carried out together with an evaluation of the Committee’s effectiveness and membership.
- To report to the Board, Audit, Compliance & Risk Committee on the above. To draw their attention to any other matters relevant to risk within the business.
Risk Principles

These principles are designed to ensure that RBSCIFL complies with all Regulatory requirements and the environment relating to policies as well as meeting best practice and RBSG Governance requirements.

Changes to the policies will be identified through:

- Matters identified through business as usual ("BAU") activities
  - Governance structure (i.e. InvCo, the Risk Management Committee, the Board Investment Committee and the RBSCIFL Board of Directors)
  - Proactive review of regular management information, including risk limits reporting, through the above committee structure
- Regular review of the policies
- New or improved product offerings, as identified by Retail products; or new / amended regulations, as identified by Regulatory Risk

All the policies will be formally reviewed at least annually.

Reports Management

Under the terms of the IMAs, investment managers are required to furnish monthly reports (quarterly reports in the case of BlackRock) to InvCo. These reports are required to cover all aspects of investment management, as well as all aspects of risk management. The parameters for the risk profiles are held in the IMAs.

Any breach of the IMA, the prospectuses or the risk appetite are required to be corrected as quickly as possible, at no cost to the ACD or the customers, and reported to InvCo. Full details of this are included in the various IMAs.