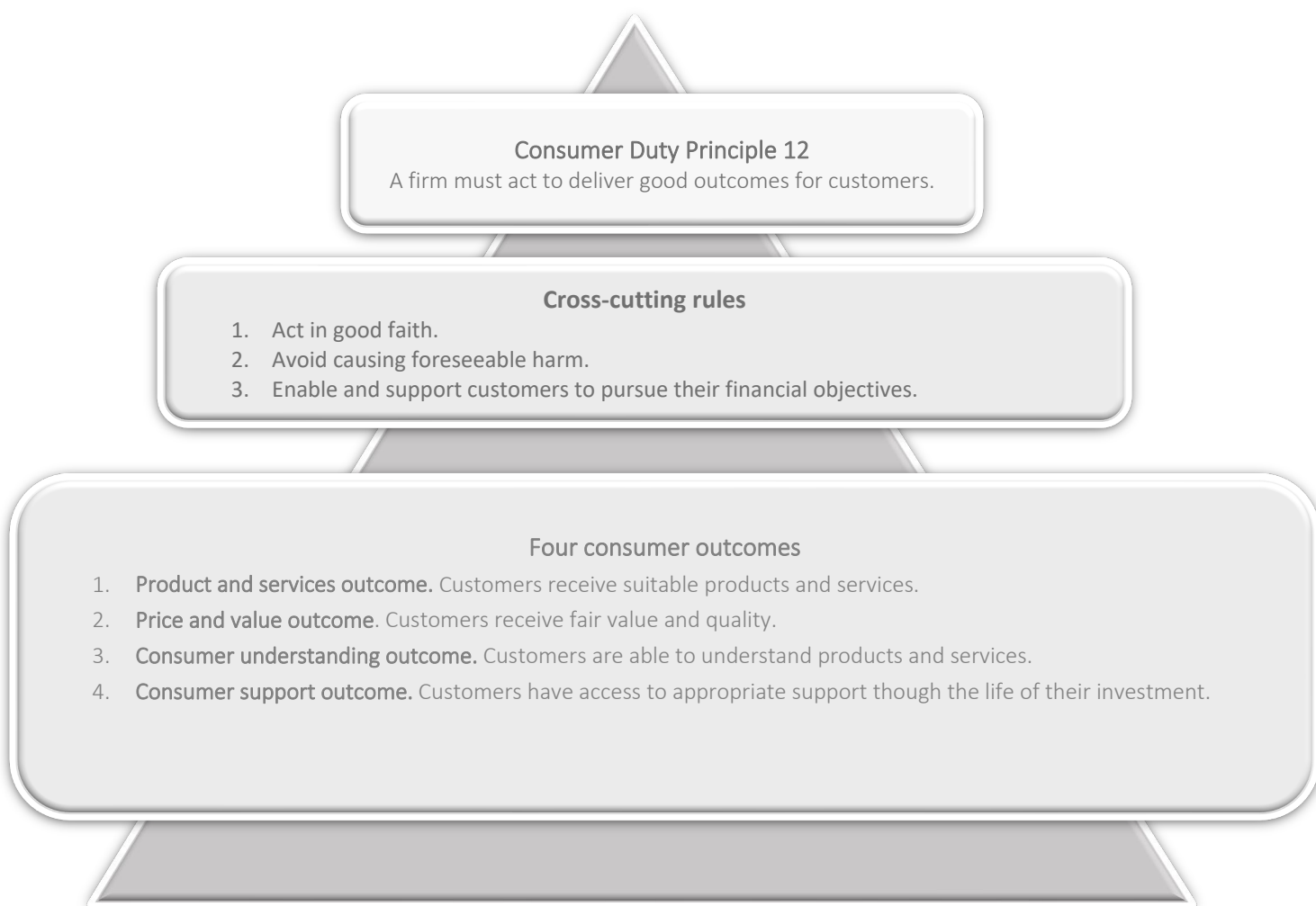


# How is Wellington implementing the FCA's Consumer Duty rules?

## What is the Consumer Duty?

The Financial Conduct Authority (FCA) has set out the final rules and guidance for a new Consumer Duty that sets higher and clearer standards of consumer protection in the provision of retail financial. The rules have been published as [PS22/9: A new Consumer Duty](#), alongside finalised guidance [FG22/5](#). Firms have until 31 July 2023 to fully implement the Consumer Duty requirements for new and existing products and services, and until 31 July 2024 for closed products and services.

The Consumer Duty comprises the regulatory components set out below.



### How is Wellington captured by the rules?

Our UK entity, Wellington Management International Limited (WMIL), is directly covered by the new rules in its capacity of distributing and marketing funds in the UK. The Consumer Duty applies to products and services offered to retail customers but excludes non-retail financial instruments.<sup>1</sup>

Wellington Management offers a range of funds that are manufactured outside of the UK by its non-UK affiliated entities, Wellington Luxembourg S.à r.l. and Wellington Alternative Investments (“Wellington non-UK affiliates”).

While Wellington non-UK affiliates are outside the scope of the UK rules, they will endeavor to provide distributors in the UK with sufficient information to enable them to meet their own regulatory obligations via the European MiFID Template (EMT), the adopted industry-wide template. Wellington non-UK affiliates will provide information to its distributors in line with the Duty in relation to funds covered by the scope of the Duty, namely its Ireland- and Luxembourg-domiciled UCITS funds that are available to retail customers via intermediaries in the UK.

### How is Wellington implementing the Duty?

WMIL is currently working on an implementation plan to meet the requirements that are relevant to its business practices. While WMIL does not have any retail clients, it is assessing the impact of the Consumer Duty in respect of its role in relation to Wellington’s non-UK funds that are registered for distribution to retail investors in the UK.

WMIL seeks to act openly, honestly, and fairly in a manner that is consistent with the reasonable expectations of our clients and distribution partners.

WMIL’s approach to implementing the four consumer outcomes is summarised below.

#### Products and services outcome

This outcome seeks to ensure that all products and services for retail customers are fit for purpose and are designed to meet consumers’ needs, characteristics and objectives and are distributed appropriately.

WMIL has designed a product-governance process intended to meet the requirements of distributors under the Duty. In addition, Wellington non-UK affiliates undertake a target market<sup>2</sup> assessment, broadly aligned with the requirements of the FCA’s product governance rules (PROD 3) to support European distribution activity via third-party intermediaries.

We will assist our third-party distributors in the UK with complying with the products and services outcome under the Consumer Duty by providing information on our funds via the European MiFID Template (EMT).

<sup>1</sup> Non-retail financial instruments include products with a minimum investment of £50,000, or equivalent amount for a financial instrument denominated in another currency, where the equivalent amount is calculated not more than three business days before the date the financial instrument was first issued.

<sup>2</sup> The ‘target market’ means one or more groups of retail customers sharing common features whose characteristics, needs and objectives the product is or will be designed to meet, as identified by the manufacturer of a fund.

### Price and value outcome

This outcome seeks to ensure products and services deliver fair value to retail customers. Fair value is about more than price. Its focus is on the relationship between the price the customer pays and the overall benefits of a product.

While Wellington non-UK affiliates are outside the scope of the UK rules, they will endeavor to provide distributors in the UK with sufficient information to enable them to meet their regulatory obligations. Wellington non-UK affiliates have undertaken fair value assessments on Wellington Management Ireland- and Luxembourg-domiciled UCITS funds and will make the outcomes of the value assessments available to their distribution partners and is working to complete the updated European MiFID Template (EMT) in due course.

With regards to the fair value assessment obligations established by the Duty, WMIL will seek to establish arrangements that are consistent with providing fair value to retail customers by obtaining information on fair value assessments undertaken by Wellington non-UK affiliates and take this into consideration when determining its distribution strategy.

### Consumer understanding outcome

This outcome seeks to ensure that communications to consumers support and enable them to make informed decisions about financial products and services throughout the customer journey.

WMIL has policies and procedures in place to ensure that all communications are clear, fair, and not misleading and comply with applicable regulations. WMIL will seek to ensure it has a framework in place for complying with applicable rules.

### Consumer support outcome




This outcome seeks to ensure that firms consider and provide the support their customers need. It applies to all firms who are responsible for interacting directly with, and providing support to, retail customers.


N/a; WMIL does not interact directly with, or provide support to, retail customers.

### What methodology has been applied for fair value assessments?

Our methodology seeks to incorporate the regulatory regimes applicable to Ireland- and Luxembourg-domiciled funds manufactured by a Luxembourg-domiciled management company, alongside the principles of the Duty.

The methodology primarily considers the following elements:

 <p>Performance</p>	<p>Our funds offer actively managed strategies with long-term performance and/or return objectives.</p> <p>We consider how our funds have performed, in line with their objectives and investment strategy, by evaluating each fund’s net-of-fees returns at a fund level, looking at the S class shares in the fund’s base currency to provide a fund-level assessment.</p> <p>Funds are assessed against their benchmark; where funds do not have a benchmark, absolute (positive) performance is assessed. Annualised net returns are assessed over one-year, three-year, five-year, and 10-year periods (as applicable to a fund). Where funds have not outperformed for two or more of these periods, further analysis is undertaken to consider the peer-universe performance by looking at Morningstar peer rankings to assist in this aspect of the fair value assessment. Funds with a track record of less than one year are not included in the assessment as they do not have sufficient data.</p>
 <p>Costs</p>	<p>Costs are assessed versus immediate competitor peer group to help us assess fair value against comparable market rates for comparable products.</p> <p>To review our costs against those of our competitors, we compare the Ongoing Charges Figure (OCF), as this is a consistent measure set by the regulators and is the cost figure we use in our factsheets and Key Investor Information Documents (KIIDs). The OCF is based on expenses for the most recent calendar year period. It excludes fund transaction costs, except in the case of depositary fees and an entry/exit charge paid by the fund when buying or selling shares in another collective investment undertaking. A more detailed description of the charges that apply to each fund is set out in the "Charges and Expenses" section in the prospectus for each fund.</p> <p>We compare our funds’ OCF to the OCF of the most comparable funds, sourced from either the same Morningstar peer category or other equivalent data provider.</p>
 <p>Service-related factors</p>	<p>In addition to their benchmark-relative returns and costs, some of our funds have additional characteristics, that investors may find important. For example, certain funds may:</p> <ul style="list-style-type: none"> <li>• Employ a risk-mitigation strategy (beta hedge) against a broad fall in markets.</li> <li>• Incorporate an environmental, social and/or governance characteristic or investment objective.</li> <li>• Use investment techniques that aim to focus on providing investors with income alongside long-term total returns.</li> </ul>

 <p>Active management</p>	<p>Our funds aim to achieve their objectives through active management.</p> <p>We conduct an annual review of our equity funds to ensure that these funds are sufficiently differentiated from their benchmarks to warrant active management fees. Our quantitative analysis looks at active share, tracking error and R-squared data points against guidelines set by the European Securities and Markets Authority (ESMA). We review in more detail any funds that are flagged by this quantitative analysis in order to establish whether they still qualify as being actively managed.</p> <p>Funds with a track record of less than one year are not included as they do not have sufficient data.</p>
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### Will you publish a full value assessment report?

While the manufacturing of Wellington Management funds is outside the scope of the UK rules on completing and publishing value assessments, we will endeavour to support our distribution partners in meeting their regulatory obligations by completing fair value assessments and populating the European MiFID Template (EMT). We have summarised our methodology in this update, but we do not intend to publish a full value assessment report at this time. We will continue to monitor the regulatory requirements and commercial considerations applicable to our funds.

### How will the outcome of our fair value assessments be provided to distributors?

On request, we will provide the information set out in the updated European MiFID Template (EMT) manually via email to our distribution partners. We aim to publish the updated European MiFID Template (EMT) through standard automated data publishing processes in due course.

### Who can I contact if I require further information?

Please contact your Wellington Management representative.

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