

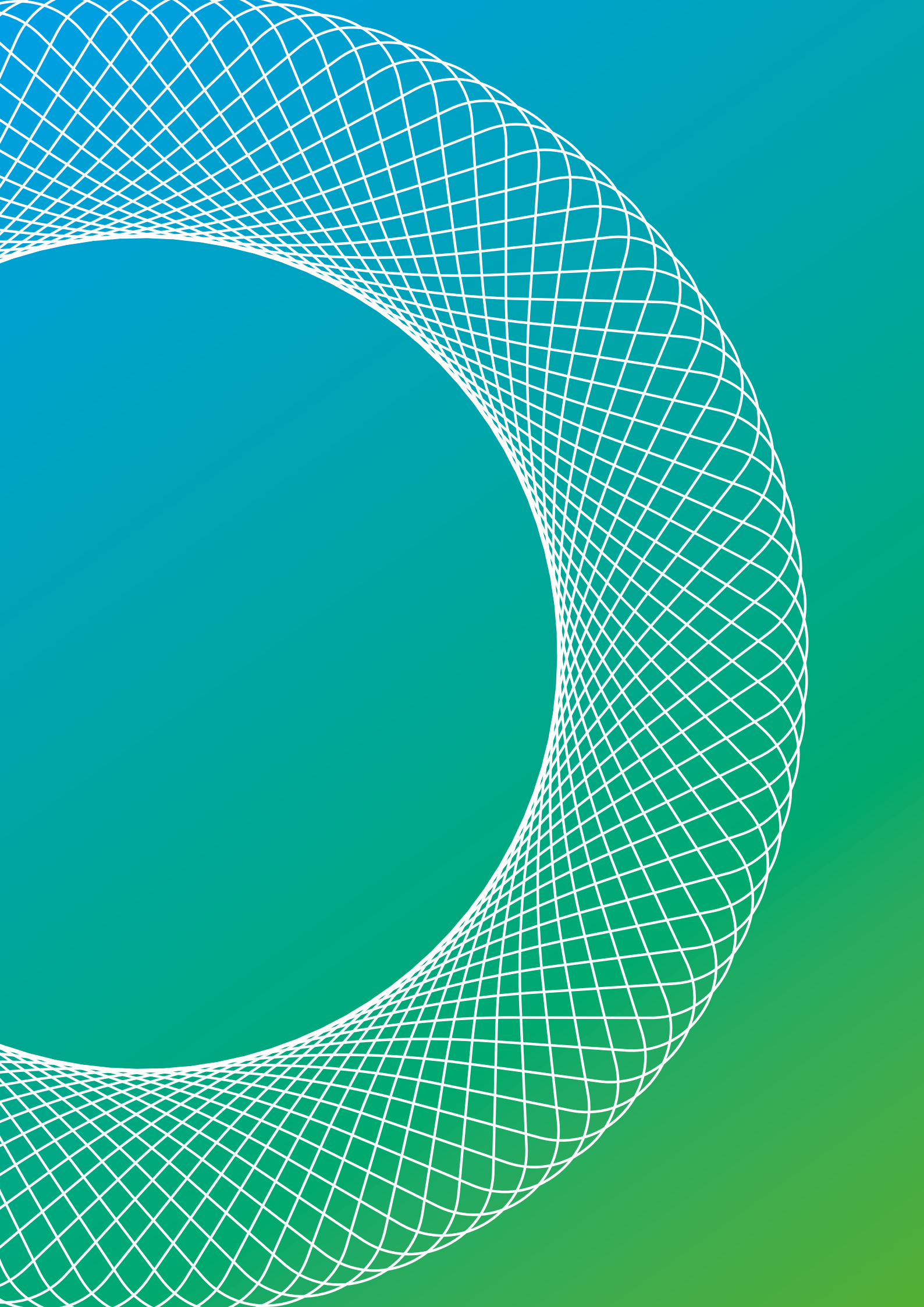


Hargreaves Lansdown

**Independent  
Governance  
Committee**

Report

2020



# Summary

The report outlines some of the work undertaken by the Independent Governance Committee (IGC) over the last year.

The default funds and strategy continue to offer value to members but further work is being done in this area. A revised strategy is currently being developed taking members up to and through retirement.

Many of the figures in the report are up to 31 December 2019 as has been the case in previous years. We are conscious that since then there has been market turmoil due to the impact of COVID-19. The default strategy of moving members progressively in to cash over the five years before retirement will have been of value. The nearer you are to retirement the more will have been invested in cash for those in the default.

The IGC has recommended that the signposting of the Adventurous, Balanced and Conservative funds be removed. This will simplify the proposition and make future changes more manageable.

Whilst there have been liquidity challenges with the Woodford funds previously in the Wealth 50, the IGC still supports having a favourite funds list to support members in making their own choices. An FCA review in 2017 supported the use of these types of lists. Hargreaves Lansdown has undertaken a thorough review of the Wealth 50 processes taking external insights and input from clients. The IGC has been given appropriate reassurance from Hargreaves Lansdown directors with supporting evidence.

Beyond the default, Wealth 50 and Adventurous, Balanced and Conservative funds, members have the same wide range of choice as all holders of HL's Self-Invested Personal Pension. The value to members is the range of choice allowing individuals to construct their own portfolios.

Further work is being done on Service Level Standards using a business analytics tool called Microsoft Bi. This will enable employers to better measure and understand the actual service being delivered to members. This has not yet been released at the date of publication but will go live during the coming year.

The market volatility and operational challenges presented by COVID-19 have underlined the investment in business continuity and cyber security made by Hargreaves Lansdown. This is important and of value to members.

Hargreaves Lansdown continues to invest in the development and governance of workplace pensions.

**Hargreaves Lansdown IGC**  
**30 March 2020**



# 1. Introduction

Welcome to the Independent Governance Committee's fifth annual report, which has been prepared for members of workplace pension schemes managed by Hargreaves Lansdown (HL).

## WHAT IS AN IGC?

An IGC is an Independent Governance Committee whose purpose is to represent the interests of members of workplace pension schemes, including members who are still in the scheme and those who have left.

Our IGC is made up of five individuals, the majority of whom are independent from HL. Each of our members has extensive knowledge, insight and experience within the pensions and finance industry; and of working with and for members, acting in their best interests and championing good member outcomes.

## WHAT DOES THE IGC DO?

Our primary objective is to ensure members of workplace pension schemes managed by HL receive 'value for money' from their pension scheme. We are committed to assessing value for money in a consumer-focused way, and with an emphasis on ensuring members have the best possible chance of achieving good outcomes at retirement.

### As a minimum, we have a duty to:

- act solely in the interests of workplace pension scheme members;
- operate independently from HL, in accordance with our Terms of Reference;
- assure ourselves that core financial transactions are processed promptly and accurately; and
- assess and, where necessary, challenge HL on whether these workplace pension schemes provide value for money for members.

### From April 2020, our remit will be extended to include:

- A new duty to report on HL's policies on environmental, social and governance (ESG) issues, member concerns and stewardship, for the HL Workplace SIPP.
- A new duty to oversee the value for money of investment pathway solutions for pension drawdown.

These latter two points will be incorporated into our report which we will publish in 2021.

This report documents our assessment of value for money for members during the financial year 2019/20.

You can find a copy of the IGC Terms of Reference and reports for previous years online at: [www.hl.co.uk/igc](http://www.hl.co.uk/igc)

## WHO IS HL?

HL provides investment services to 1.27 million clients and administers £105.2 billion of investments (as at 31 December 2019). HL provides a workplace pension scheme which is a Self-Invested Personal Pension (SIPP), known as the HL Workplace SIPP. As at 31 December 2019, there were 463 employers using the HL Workplace SIPP, encompassing over 118,000 members and £4.1 billion assets under administration.

## THE HL WORKPLACE SIPP

The HL Workplace SIPP is a qualifying workplace pension scheme for automatic enrolment. There are no 'legacy' charging arrangements, such as policy fees, initial unit charges or higher charges for members who no longer contribute. All clients have the same product and the same access to the full range of HL services, which alongside the Workplace SIPP includes Individual Savings Accounts (ISAs), a Fund and Share Account, flexible drawdown, annuity broking, individual SIPPs, stockbroking services, a range of multi manager and equity funds, a financial advice service, an online cash savings platform, and a currency service.

## 2. IGC Priorities Over The Past Year

In 2019/20 we set ourselves a number of key priorities for consideration and review during the year. These are listed below, together with reference to where a summary of our findings can be found within this report.

KEY PRIORITIES	REFERENCE
Re-visit each of the default option fund managers to see first-hand their approach to these funds.	3.1.1
Continue to monitor progress of the development of the de-risking arrangements available to members with the expectation of an updated range of solutions being available by the end of 2019/20.	3.1.4
Continue discussions with HL in respect of their ESG policies, giving due regard to the FCA's 2019 consultation and subsequent response.	3.1.5
Continue to press HL to develop and implement formal service level agreements and corresponding management information (MI) for the processing of member contributions and all member-related administration.	3.3
Explore in more detail the support available to members approaching retirement.	3.6
Seek members' views on their HL Workplace SIPP, specifically in relation to value for money, via the IGC member survey.	3.7.1
Seek employers' views on their HL Workplace SIPP, specifically in relation to value for money, via a new IGC employer survey.	3.7.2

















# 3. Value for money

We have created a framework to analyse the value for money that members receive.






The framework contains certain criteria that reflect what we believe constitutes value for money. Ultimately, the real value from a pension will be determined by the member and will be based on what they receive when they retire or more specifically, the point at which they need or want to start taking money out of their pension.

In this context, we will consider what HL is offering employers and scheme members now, which will influence what members may receive in the future. We see this as the way in which HL is working towards outcomes for members in retirement. This is the lens through which we will assess value for money for members.

Our value for money framework				
Value for money criteria	Specific areas reviewed	2018/19 status	2019/20 status (current)	Key reasons for current status
3.1 Investments & Performance	<ul style="list-style-type: none"> <li>• Default funds</li> <li>• ABC funds</li> <li>• Wealth 50</li> <li>• Fund de-risking</li> <li>• Environmental, Social &amp; Governance (ESG)</li> </ul>			<ul style="list-style-type: none"> <li>• Change needed in default funds raised in 2018/19, now underway</li> <li>• We have asked HL to review the ABC funds as a priority</li> </ul>
3.2 Charges	<ul style="list-style-type: none"> <li>• Platform charge</li> <li>• Fund charges</li> <li>• Transaction costs</li> <li>• Total charges</li> <li>• Exit charges</li> </ul>			<ul style="list-style-type: none"> <li>• Default fund fees within charge cap</li> <li>• Exit fees removed in September 2019</li> </ul>
3.3. Administration	<ul style="list-style-type: none"> <li>• Timely manner of allocating contributions</li> <li>• Management Information (MI)</li> <li>• GDPR</li> <li>• Auto enrolment &amp; re-enrolment support</li> </ul>			<ul style="list-style-type: none"> <li>• Contributions are allocated in a timely manner</li> <li>• MI is now in place to monitor processes (these had not been in place in 2018/19) – changing this from red to green</li> <li>• Support for employers is in evidence</li> </ul>
3.4 Member Support	<ul style="list-style-type: none"> <li>• Member helpdesk</li> <li>• Onsite support (face to face meetings &amp; financial education)</li> <li>• Communications &amp; website</li> </ul>			<ul style="list-style-type: none"> <li>• A range of support options exist for members</li> <li>• On-site education and meetings are a value-added service</li> <li>• Communications are varied and appropriate</li> </ul>
3.5 Security/Strength of Provider	<ul style="list-style-type: none"> <li>• Financial strength</li> <li>• Internal audit reports</li> <li>• Cyber security</li> <li>• Pension scams support</li> </ul>			<ul style="list-style-type: none"> <li>• HL is financially secure</li> <li>• Dedicated cyber security team preventing hostile cyber-attacks</li> <li>• Processes in place to manage potential scams and safeguard members' money</li> </ul>
3.6 Retirement Flexibilities	<ul style="list-style-type: none"> <li>• Pension freedoms access</li> <li>• Drawdown</li> <li>• Annuity broking</li> </ul>			<ul style="list-style-type: none"> <li>• Full access to pension freedoms available</li> <li>• Support options via tools, helpdesk and annuity service make it easier for members</li> </ul>
3.7 Feedback	<ul style="list-style-type: none"> <li>• IGC member survey</li> <li>• IGC engagement with employers</li> <li>• Complaints</li> <li>• Evidence of engagement</li> </ul>			<ul style="list-style-type: none"> <li>• Feedback on charges from some members remains consistent with previous years – suggesting further improvements are needed to highlight value-added aspects of the service</li> </ul>

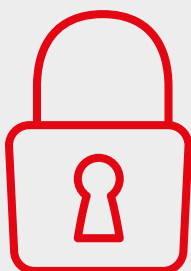
**KEY:**

-  Meets or exceeds the IGC's expectations
-  The IGC has identified areas for improvement which are being addressed / are in relation to emerging risks or regulation
-  The IGC has identified areas for improvement which have not yet been addressed

We continue to be mindful of the Pensions Policy Institute's (PPI) work in identifying the outcomes that are likely to be seen as positive for members when determining value for money. These outcomes are broadly:



**The value of the pension pot**



**The security of the pension pot**



**Trust in the pension scheme**

The factors detailed in the framework set out above each contribute to the outcomes identified by the PPI and we consider it is important to focus on all determinants of value for money in making an overall assessment.

### 3.1 INVESTMENTS & PERFORMANCE

All members have access to a default fund, or alternatively can select from a range of other investments on offer through HL. Members are directed towards two particular groups of funds from which they can choose:

- The ABC fund range; and
- The Wealth 50 fund range

As members are directed towards these two ranges, these are our primary focus in respect of our overall value for money assessment, alongside the default funds. We have not assessed any other investment options on an individual basis.

#### 3.1.1 DEFAULT FUNDS

##### What is a default fund?

Default funds are the funds an employer has chosen for scheme members. If a member does not choose where to invest their pension contributions, they will go into the default fund.

What are the default funds?

HL currently makes two default funds available for employers to choose from:

- A passively managed fund – currently [BlackRock Consensus 85](#)
- An actively managed fund – currently [Schroder Managed Balanced](#)

A member will only have one of these funds selected for them by their employer.

Additionally, cash has also historically been selected as a default fund where employers feel this is most relevant for their employees.

##### How do the funds work?

- The [BlackRock Consensus 85 fund](#) aims to mirror the investment strategy of the average fund in the 'IA Mixed Investment 40-85% Shares' sector. While the name of the sector sounds complicated, it simply means the fund can invest anywhere between 40% and 85% of its value in the stock market – not just in UK shares, but across the globe too.
- The [Schroder Managed Balanced fund](#) invests predominantly in shares. While it can invest up to 85% in shares, it typically holds less than this. Shares have the potential to grow in value, although they are considered higher risk as their value can rise or fall quickly in a short period of time. The remaining money is invested in other areas like bonds or cash. These are usually lower risk in order to balance the fund.

##### What's the difference between 'active' and 'passive' funds?

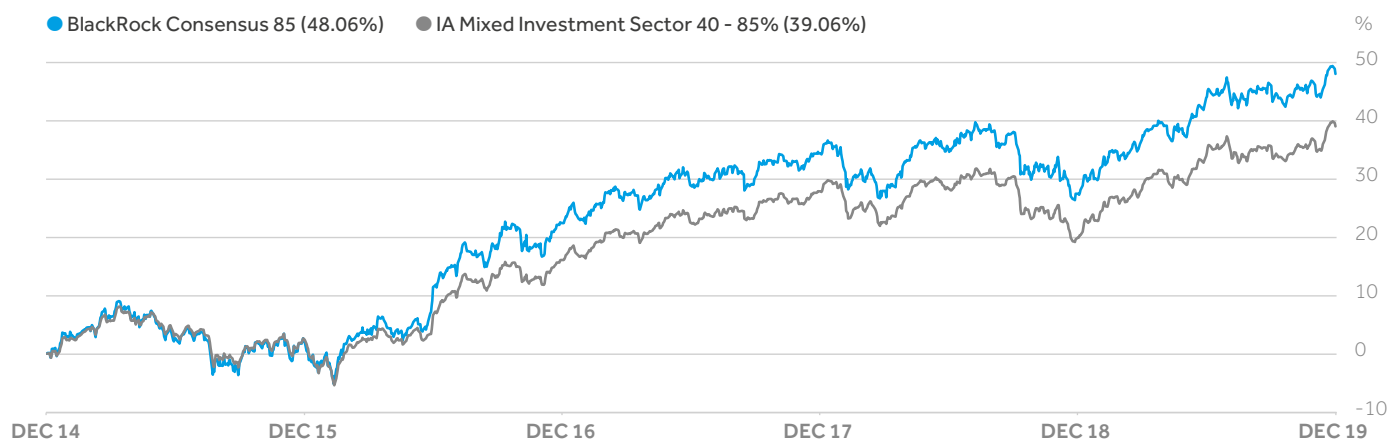
'Actively' managed funds are trying to beat the markets they are investing in. The Schroder Managed Balanced fund is actively managed.

The BlackRock Consensus 85 fund invests 'passively'. This means it aims to track the performance of the markets it invests in (like the UK, US or Europe), rather than try to beat them. This passive approach keeps the cost of investing down – meaning lower charges for your pension.



## How are the funds performing?

### BLACKROCK CONSENSUS 85 vs SECTOR



Source: Lipper IM 31/12/2019

Past performance is not a guide to future returns

% GROWTH	DEC 14-15	DEC 15-16	DEC 16-17	DEC 17-18	DEC 18-19	DEC 14-19
BlackRock Consensus 85	2.09	19.93	9.79	-5.17	16.15	<b>48.06</b>
Mixed Investment Sector	2.43	13.33	10.18	-6.25	15.98	<b>39.06</b>

### SCHRODER MANAGED BALANCED vs SECTOR



Source: Lipper IM 31/12/2019

Past performance is not a guide to future returns

% GROWTH	DEC 14-15	DEC 15-16	DEC 16-17	DEC 17-18	DEC 18-19	DEC 14-19
Schroder Managed Balanced	-0.35	17.32	10.22	-7.14	15.94	<b>38.71</b>
Mixed Investment Sector	2.43	13.33	10.18	-6.25	15.98	<b>39.06</b>



## How does the performance compare to other pension schemes?

As can be seen from the preceding graphs, the funds are displayed against what is known as a 'benchmark'. A benchmark is a standard against which the performance of a fund can be measured. In the case of the default funds, the Mixed Investment Sector has been used.

We feel it is important that we do not assess the default funds in isolation or solely in relation to the sector, but instead we also compare them with default funds available within other UK workplace pension schemes.

To do this we have used data produced by CapaDATA. They compare performance data from the 30 biggest workplace pension providers investing the pensions of more than 10 million Britons. They call this the Corporate Adviser Pensions Average (CAPA). CAPA is the average (mean) return over a fixed time period for all the schemes in the default universe for which they have been able to get data.

However, it should be noted that with regards the HL default funds, only the BlackRock fund has been used in the comparison, with data on the Schroder fund not available within the comparison.

We looked specifically at two scenarios; the first, a younger saver with 30 years to retirement; the second, an older saver with 5 years to retirement.

In the first scenario, the HL default fund was compared to 13 other UK workplace pension scheme default funds. Based on the annualised performance over five years to 30 September 2019 of the default fund, the HL fund ranked 11 out of 14, with 1 being the best performer and 14 the worst.

In the second scenario, the HL default fund was compared to 10 other UK workplace pension scheme default funds. Based on the annualised performance over five years to 30 September 2019 of the default fund, the HL fund ranked 4 out of 11, with 1 being the best performer and 11 the worst.

## SUMMARY

We met each of the default fund providers in 2019/20 which gave us the opportunity to directly question them on their approach to the management of their funds and how they aim to deliver on the funds' objectives. The default funds are performing in line with their objectives, they are delivering net returns above or broadly in line with their benchmarks, and the charges are all in line with our expectations for funds of each type and importantly are within the legal charge cap for workplace pension schemes. Further detail on the charges can be found in section 3.2.

However, when comparing each of the HL default funds' returns with returns achieved through default funds within other workplace pension schemes (using CAPA), it raises the question: 'could HL be working towards a better outcome for members at retirement?'

We believe that a member in either of the default funds would not have a poor outcome in retirement; however, we do feel that HL could and should work towards a better outcome for members.

The HL investment team keeps the suitability of each of the default funds under regular review. We meet regularly with the investment team and we have been satisfied with the default fund review process to date. HL has already started the process for replacing the default funds and they are keeping us up to date at each stage of this process. We remain confident that the default fund review process is effective.

Evidence of the utilisation of non-default funds can be seen in the number of members making alternative investment choices. 23% of members have chosen investments outside the default funds. This is in comparison to an average of more than 90 per cent of members investing in the default fund offered by their employer. We feel that the relatively high number of members actively choosing funds outside of the default reflects a potentially higher level of member engagement than in other workplace schemes.





### 3.1.2 ABC FUNDS

Pension scheme members have the option to choose their own funds and, in this regard, HL draws the members' attention to the ABC funds.

#### What are the ABC funds?

The labelling of the funds is designed to guide a member in terms of the level of investment risk borne by the funds:

**A** = 'Adventurous' **B** = 'Balanced'; and **C** = 'Conservative'.

#### How do the funds work?

- The **A** fund is the **Rathbone Global Opportunities fund**. The fund invests almost completely in shares, including those of higher-risk smaller companies. At the moment the fund mainly invests in developed markets, such as the US, UK and Europe.

Please note, the A fund was formerly the Lindsell Train Global Equity fund; however this was changed when the fund was removed from the Wealth 50 list due to the increase in HL shares held within the fund. As the fund has grown in size, the investment in Hargreaves Lansdown plc shares has grown too. HL has anticipated that the investment in Hargreaves Lansdown plc shares could grow further and to manage this conflict of interest HL took the decision to remove the Lindsell Train Global Equity fund from the ABC list and also from the Wealth 50. Although this was a well-performing fund which was meeting its objectives, we believe this was the right thing to do to manage the conflict of interest.

- The **B** fund is the **Baillie Gifford Managed fund**. The fund invests between 40% and 85% of its value into shares. But the fund is prepared to change where it invests depending on the economic outlook.
- The **C** fund is the **BNY Mellon Real Return fund**. This fund aims to produce attractive real returns over the long term with fewer ups and downs than the stock market. This fund aims to beat cash (1 month GBP LIBOR) by at least 4% each year.

In broad terms, the idea of the funds is that A is higher risk, C is lower risk and B is in the middle of the two.

#### What difference does the amount of investment risk make?

When it comes to investing, risk typically refers to the chance an investment's actual returns will differ from the expected return. Risk includes the possibility of losing some or all of your original investment. As an investor (which includes anyone who invests money in a pension), it is possible to manage investment risks, but in order to do that effectively an understanding of the different types of risks that can apply is crucial. We are not going to cover all the possible risks that can arise within a pension here. But typically speaking, the greater the investment risk taken, the greater the potential gains but also the greater the potential losses. By 'gains' and 'losses', we mean the amount you can actually see your pension investment increase or fall in value by.

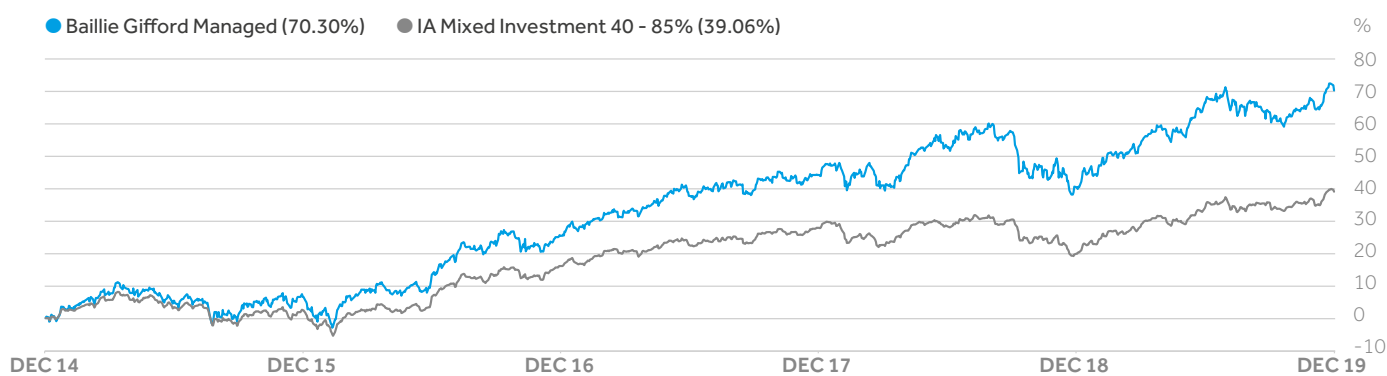


## How are the funds performing?

### RATHBONE GLOBAL OPPORTUNITIES vs SECTOR



### BAILLIE GIFFORD MANAGED vs SECTOR



### BNY MELLON REAL RETURN vs BENCHMARK



% GROWTH	DEC 14-15	DEC 15-16	DEC 16-17	DEC 17-18	DEC 18-19	DEC 14-19
Rathbone Global Opportunities	14.73	15.91	19.19	-1.28	25.22	<b>95.95</b>
IA Global Equity	4.08	24.45	13.80	-5.59	22.26	<b>70.14</b>
Baillie Gifford Managed	6.60	17.67	14.95	-2.61	21.27	<b>70.30</b>
Mixed Investment 40 – 85%	2.43	13.33	10.18	-6.25	15.98	<b>39.06</b>
BNY Mellon Real Return	1.24	4.10	2.42	-0.11	12.44	<b>21.25</b>
LIBOR GBP 1 Month + 4%	4.51	4.41	4.30	4.60	4.33	<b>24.20</b>

Source: Lipper IM 31/12/2019

Past performance is not a guide to future returns

## SUMMARY

The A and B funds are performing in line with their objectives, they are delivering net returns above their benchmarks, and the charges are all in line with our expectations for funds of each type (albeit they are more expensive than the default funds). Further detail on the charges can be found in section 3.2.

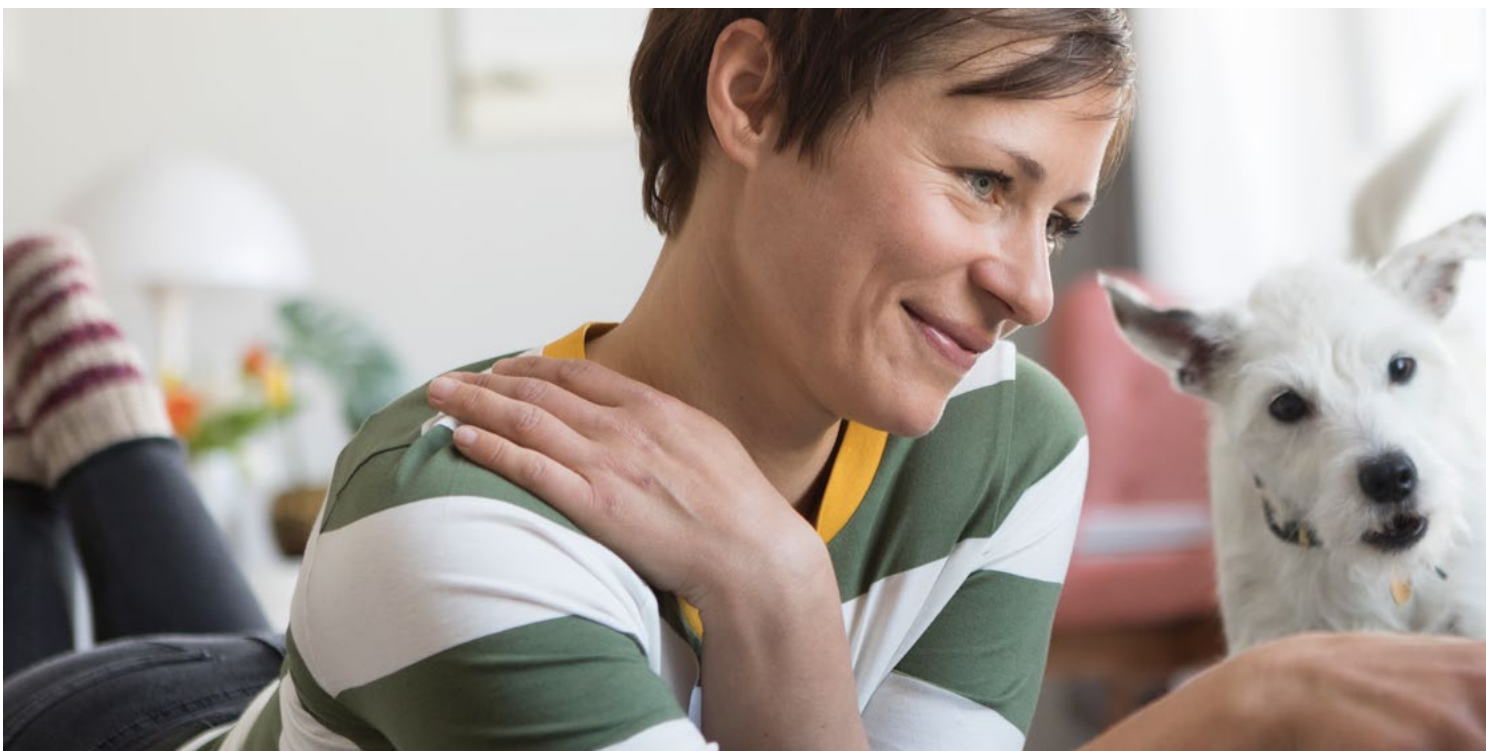
However, the C fund has had more difficulty meeting its objectives of returning cash plus 4% over time. While the graph demonstrates a struggle to perform in line with this, it is important to note that the fund's objective is actually cash plus 4% before charges and the graph shows the return after charges – this in itself is not very helpful to members. It also has higher charges than the other funds, although these are broadly in line with other funds of this type.

During the year, we had concerns that it was not made clear to members that when HL changed one of the funds (for example, when they changed the A fund), the member would have to actively decide whether to switch their existing fund holding to align it to the new fund selected by HL, because this would not happen automatically. HL addressed this immediately by updating their fund literature to make this point clear. We have also challenged HL on some of their terminology within the brochure, such as use of the word 'simple' to describe the concept – when we hold that the different risks involved in investing are not simple.

Taking everything into consideration, we have challenged HL on the continued relevance and benefit of offering the ABC funds to scheme members, primarily due to the following:

- The names of the funds do not adequately confer the level of risk being taken. For example, 'Conservative' may be interpreted as 'safe' or that no losses could occur (which is not the case).
- And the risks within each of the funds are neither fully explained nor contextualised. For example, a risk score on a scale of 1 to 10 and an explanation of what this means could be helpful to members.
- The way in which the performance is shown collectively for all three funds within one brochure creates a risk that this drives investors to the A fund due to it showing the highest performance. This risk is heightened by the lack of context around investment risk.
- The added complexity an additional fund range brings to members when selecting funds outside of the default, when they are also directed towards the Wealth 50 range of funds.

We have requested that HL reviews the ABC fund range as a priority in 2020/2021, with the aim of either removing it or replacing it with something of more relevance to members.



### 3.1.3 WEALTH 50 FUND RANGE

#### What are the Wealth 50 funds?

HL conducts detailed investment research into hundreds of investment funds and refines this research down into a list of preferred funds. Key criteria are performance potential and competitive management charges. This list of preferred funds is packaged as HL's Wealth 50 and is designed for people who would like to choose their own funds from a more succinct number of choices.

#### How do the funds work?

HL markets this fund list as their 'shortlist of favourite funds'. They state they are aimed at people who:

- Do their own research to see if a fund fits with their investment objective.
- Understand a fund can fall as well as rise in value and that you could get back less than you invest.
- Know how to select and maintain a diversified portfolio to reduce risk.

HL also offers access to a team of Financial Advisers for members who would like help and advice in selecting their funds. This comes at an additional cost to the member, but is a value-added service that not all pension providers offer in-house.

#### How are the funds performing?

There are too many funds for us to show the performance for each here. For those who are interested, details on each of the funds, including fund objectives, past performance and fund charges, can be found on the HL website:

[www.hl.co.uk/wealth-50/performance](http://www.hl.co.uk/wealth-50/performance)  
[www.hl.co.uk/wealth-50](http://www.hl.co.uk/wealth-50)

## SUMMARY

Our duty as an IGC is to assess whether all the investment choices available to members and in particular, investments that members are directed towards, are regularly reviewed to ensure alignment with the interests of members.

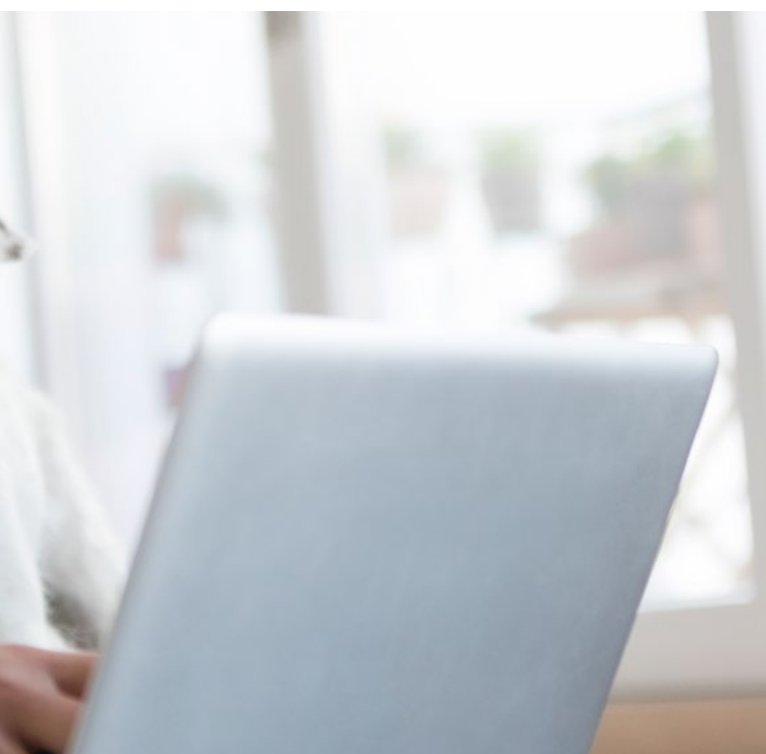
We spent a great deal of time this year discussing the Wealth 50 list and in particular HL's selection and de-selection processes and governance and due-diligence frameworks. Specifically, our focus has been on the impact on these processes and frameworks following the removal from the list of the Woodford Equity Income and Woodford Income Focus funds.

Following the events of last year HL took the opportunity to review the Wealth 50, including speaking to clients to ascertain their views and seeking independent insights, examining whether it still met client needs (which is all of HL's clients including members of their workplace pensions), and whether they could incorporate what they had learned into an improved offering.

HL also took the opportunity to consider future challenges which may arise within the team and their processes should HL's platform assets and fund management assets continue to grow. They also considered the future of fund research and how they can ensure they are meeting emerging client demands such as ESG and passive fund coverage.

It has been one of our priorities to understand what this review has entailed and crucially what it has concluded, that is to say what lessons have been learned. Of equal importance to us is to understand what changes have already been made, and what changes are yet to be made.

We have sought assurance from HL at senior leadership level and asked specific questions in relation to their review and everything they have done and continue to do to address what happened. We have been reassured on these matters and will continue to engage with HL on this subject.



### 3.1.4 DE-RISKING

#### What is de-risking?

A de-risking process is added to the HL default funds in the years close to a member's retirement date. De-risking involves automatically switching investments away from riskier assets to less risky assets (traditionally cash and bonds) as a member approaches the point at which they intend to draw retirement benefits. This reduces exposure to investment markets which can fall sharply and helps to protect members' pension investments during the period leading up to retirement.

#### How does de-risking work?

HL's current approach switches from the default fund and any self-selected funds to cash (through treasury services provided by HL Asset Management Ltd), within 5 years of a member's selected retirement age. The member has flexibility to change this timescale and go into other funds instead of cash.

Encompassing its workplace proposition, HL holds £5.5billion of SIPP assets in cash on behalf of its clients (as at 31 December 2019). HL manages its clients' money by distributing these cash balances across a panel of carefully selected financial institutions to ensure it is available on demand to support its clients' trading activities and that protection from the Financial Services Compensation Scheme (FSCS) is significantly increased compared with using just one or two banks. HL has appointed a Non-Executive Director to act as a client champion. This director is responsible for ensuring a fairness framework is applied when setting interest rates on cash.



## SUMMARY

In 2017/18 and again in 2018/19 we encouraged HL to consider an alternative approach to their de-risking arrangement in the belief that alternative arrangements should be in place. Broadly speaking, we believe that instead of solely targeting cash at retirement age other default approaches should also be available, targeting either flexible access or a secure income. The evident popularity of flexible drawdown clearly favours an option for funds to remain invested into retirement, even if the investment is exposed to a lower level of risk than one might expect to take in the many years before retirement.

At present the membership demographic for the HL Workplace SIPP is such that the majority of members are in the early to mid-stages of their pension savings journey, and therefore only a small proportion of members overall are currently impacted by any de-risking choice. However, we strongly believe this is an issue which must be addressed as a priority to ensure that members are more suitably catered for at retirement.

The HL investment team keeps the suitability of the de-risking arrangements under regular review. We meet regularly with the investment team and we have been satisfied with the review process to date.

HL has already started the process for introducing alternative de-risking options and they are keeping us up to date at each stage of this process. We remain confident that the review process is effective.

The Financial Conduct Authority (FCA) has been pursuing a similar point through their Retirement Outcomes Review, and they have introduced new rules primarily to help non-advised drawdown consumers who struggle to make investment decisions. Their new rules and guidance:

- introduce 'investment pathways' for consumers entering drawdown without taking advice;
- ensure that consumers entering drawdown only invest mainly in cash if they take an active decision to do so; and
- require firms to send annual information on all the costs and charges paid over the previous year to consumers who have accessed their pension.

The new rules and guidance come into force on 1 August 2020. We will be working closely with HL between now and then to oversee the value for money of the new investment pathway solutions that HL will be developing in line with the new rules.





### 3.1.5 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG)

#### What is ESG?

Environmental, social and corporate governance (ESG) criteria refer to three main factors investors consider with regard to a firm's ethical impact and sustainable practices. With regard to ESG investing, examples of ESG criteria include a company's impact on climate change or carbon emissions, water use or conservation efforts, anti-corruption policies, board member diversity, human rights efforts and community development.

#### Why is it important?

Increasing focus is being placed on ESG considerations, in particular within pension scheme investments. In June 2017, the Law Commission made recommendations to Government and to the FCA on pension funds and social investment. In June 2018, a joint response was published in which it was stated that "responsible investing can improve long-term returns for savers. Companies which have a strategy for dealing with climate change, uphold fair employment standards, and have strong and transparent governance structures should have a greater chance of succeeding and producing better investment returns in the long-term."<sup>1</sup>

#### HL's policies on ESG considerations, member concerns and stewardship

We have asked HL how ESG considerations are factored into their investment research, specifically in relation to the HL Workplace SIPP. HL has told us they are aware of the increasing focus in this area and has stated:

*"The integration of ESG is fundamental to the review process we are currently undertaking on our Workplace default funds. We believe that the management of ESG risks is an important factor in the construction of a portfolio that is suitable for our members, many of whom have a long period to invest before accessing their pension. We have discussed how ESG risks are factored into the management of the current default funds with both BlackRock and Schroder. ESG is now a key part of our investment research that is used to decide whether a fund is suitable for inclusion in the Wealth 50. We will continue to expand the scope of this in future.*

*We are planning to develop a climate change policy, investigating signing up to the United Nations Principles for Responsible investing (which include the creation of a Responsible Investment policy). Additionally, we are seeking to align our work to the United Nations Sustainable Development goals, and we are a part of the Bristol Sustainable Development Goals Alliance. Our carbon emissions reporting is also reported in our Annual report.*

*We conduct questionnaires and surveys on the request of shareholders, such as the Dow Jones Sustainability Indices, and the Carbon Disclosure Project. We are included in the FTSE4Good index."*

## SUMMARY

We are confident HL is taking ESG considerations seriously and has already made progress in this area. We will continue to review their progress and provide an update on our next report, in line with our extended remit.

<sup>1</sup> The Government's final response to the Law Commission's report: Pension Funds and Social Investment (Law Comm No. 374)



### 3.2 CHARGES

#### **What are charges?**

Every investment, including an investment within a pension, has a cost in the form of charges, even if you do not realise you are paying it. There are many different kinds of charges, but they all have one thing in common: the money is coming out of your pension.

What you are paying for is the management of your pension and the underlying investments. These charges can include platform fees, management fees, and other expenses.

#### **Why are charges important?**

Investment charges can add up, compounding along with your investment returns. This means you are not just losing the amount of money you have paid in charges, but you also lose any growth that money might have had if it had stayed in your pension for years into the future.

The UK Government has set a charge cap of 0.75% (of the value of an individual's pension fund each year) for all default funds within workplace pension schemes. HL's default funds are subject to this charge cap. It is important to note that transaction costs are not included within the calculation of the total charge when considering the total charge against the charge cap.

We have analysed the charges applicable to the default and ABC funds. The charges for all of the funds and investments offered through HL are available on their website. Although it is important that every member should understand what they are paying for their pension, it is equally important to know what the returns achieved by each of the funds net of all charges is. Ultimately, that is one of the key determinants of value for money. The net returns can be seen in the preceding sections of this report.

### 3.2.1 DEFAULT AND ABC FUNDS CHARGES TABLE

	Platform fee	Fund charge before discount	HL discount	Fund charge after discount	Total fee	Transaction costs	Interest paid
<b>DEFAULT FUNDS:</b>							
BlackRock Consensus 85	0.45%	0.22%	0.13%	0.09%	<b>0.54%</b>	0.04%	n/a
Schroder Managed Balanced	0.42%*	0.60%	0.27%	0.33%	<b>0.75%</b>	0.21%	n/a
<b>ABC FUNDS:</b>							
Rathbone Global Opportunities (from 1 August 2019)	0.45%	0.78%	0.26%	0.52%	<b>0.97%</b>	0.13%	n/a
Lindsell Train Global Equity (until 31 July 2019)	0.45%	0.72%	0.20%	0.52%	<b>0.97%</b>	0.04%	n/a
Baillie Gifford Managed	0.45%	0.43%	0.15%	0.28%	<b>0.73%</b>	0.06%	n/a
BNY Mellon Real Return	0.45%	0.80%	0.20%	0.60%	<b>1.05%</b>	0.17%	n/a
<b>DE-RISKING ARRANGEMENTS:</b>							
Cash	0%	n/a	n/a	none	<b>0%</b>	none	0%**

\* Platform fee reduced to ensure the total charge is within the 0.75% default fund charge cap.  
 \*\* Interest was reduced by HL to 0% (from 0.10% to 0.35%) following the Bank of England's Monetary Policy Committee on 10 March 2020, when the the base rate was reduced to 0.25% to counter the "economic shock" resulting from the coronavirus outbreak.

HL's platform fee is applied to each HL account separately and is tiered within bands:

- 0.45% for values up to £250,000
- 0.25% for values between £250,000 and £1m
- 0.1% for values between £1m and £2m
- No charge for values over £2m

Therefore members with pension funds valued at over £250,000 will be subject to a lower platform fee than the one stated in the table above.

There is no platform fee charged on money held as cash. HL has confirmed they have a process in place to ensure that the difference between earnings and the distribution on cash is below the 0.75% default fund charge cap.

## SUMMARY

The charges for the default funds within the HL Workplace SIPP fall within the Government's default fund charge cap of 0.75%. This means 100% of members have access to a scheme that meets the charge cap requirements; some members take advantage of this while others have elected to invest in assets that may have higher charges. All charges are clearly disclosed within the fund literature and on the HL website.

We are satisfied that the disclosed transaction costs demonstrate that the default funds and the ABC funds are managing transaction costs well.

We note the platform charge for the HL Workplace SIPP is higher than many other workplace pension providers'. However, members also benefit from a range of additional services which the IGC believe contribute to value for money. In addition, HL's considerable buying power enables the default and ABC funds to be offered at significant discounts to members.

### 3.2.3 EXIT CHARGES

We are pleased to confirm that exit fees ceased to be charged within the HL SIPP from 19 September 2019.

### 3.3 ADMINISTRATION

#### What does administration of a workplace pension involve?

Fundamentally, pension scheme administration is ensuring the pension runs smoothly and effectively. Our primary concern is to ensure:

- member and employer contributions are allocated in a timely manner;
- member data is kept private and secure; and
- employers are supported in fulfilling their auto-enrolment duties.

#### How well does HL administer workplace pension schemes?

HL has confirmed the following:

- During 2019/20, 100% of member contributions have been collected and invested in a timely manner (all contributions were invested on the following day after being received).
- They treat the privacy and security of members' data very seriously and they are fully compliant with current data protection regulations, including the General Data Protection Regulation (GDPR).
- They provide continuing support to all employers with a HL Workplace SIPP to ensure they continue to comply with auto-enrolment legislation. HL employs a team of relationship managers, which we have witnessed to be relevantly qualified and extremely knowledgeable, to provide employer support at initial set up and on an on-going basis.

An error was identified in 2019 in which approximately 2,000 scheme members had been placed within the incorrect share class for their default fund. HL has assured us that a thorough investigation is taking place to understand how this happened and to ensure it does not happen again and that additional controls have already been implemented to prevent re-occurrence. In the meantime HL has contacted all impacted members and is making payments to rectify their plans, to ensure they are in no worse position than if the error had not occurred.

## SUMMARY

We are satisfied that HL is fulfilling its duty to ensure scheme transactions are processed promptly and accurately. We are assured that the error made in respect of the incorrect share class was a one-off event and is being dealt with appropriately.

We believe the level and quality of services offered to employers is a key contributor of delivering value for money to members.

Last year we sought assurances from HL on their commitment to having in place formal service level agreements (SLAs) and corresponding management information (MI) this year. This is important to enhance the monitoring and management of administration processes. We are pleased to confirm that HL has implemented SLAs and MI and this information is now being shared with us on a regular basis.

Further work is being done on SLAs using a business analytics tool called Microsoft Bi. This will enable employers to better measure and understand the actual service being delivered to members. This has not yet been released at the date of publication but will go live during the coming year.

### 3.4 MEMBER SUPPORT

#### Why is member support important?

Supporting members is key to ensuring they understand their pension, how it works, how they can make informed decisions about it and when the best time is to make those decisions.

We seek to ensure that:

- members are supported with technical and processing queries; and
- members are communicated with at the right time and in the appropriate manner.

#### How does HL support members?

HL has a wide range of member support services, communication methods and tools that they offer:

- Member helpdesk – the helpdesk receives enquiries from members which range from basic administration queries to complex issues relating to the tapered annual allowance or sophisticated investment products. Whilst the helpdesk does not provide advice we have observed a high level of competency and support with regard to complex queries. In addition, both calls and email queries are dealt with in an efficient manner.





Year	Calls taken	Calls Missed	Missed %	% immediate answer (<5 secs)	Average Abandoned (sec)	Average Pick up time (sec)	Max Delay
<b>2019</b>	<b>24,078</b>	<b>891</b>	<b>3.6%</b>	<b>58.1%</b>	<b>32</b>	<b>19</b>	<b>08:57</b>
2018	26,478	746	2.8%	70.0%	27	14	07:27
2017	23,511	880	3.7%	45.4%	27	19	07:51

Enquiry completed within	OVERALL			PERCENTAGE			CUMULATIVE %		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
<b>Same day</b>	3,687	5,487	<b>4,540</b>	54%	54%	<b>55%</b>	54%	54%	<b>55%</b>
<b>1 day</b>	2,006	3,410	<b>1,961</b>	30%	34%	<b>24%</b>	84%	88%	<b>78%</b>
<b>2 days</b>	588	715	<b>742</b>	9%	7%	<b>9%</b>	93%	95%	<b>87%</b>
<b>3 days +</b>	505	542	<b>1,058</b>	7%	5%	<b>13%</b>	100%	100%	<b>100%</b>
<b>Total</b>	6,786	10,154	<b>8,301</b>						

- Onsite support to members – from 1st January to 31st December 2019 the team conducted 1,097 (1,078 in 2018) days at employer sites. This included 9,438 (9,374 in 2018) individual meetings and 644 (689 in 2018) financial education presentations.
- Communications to members – periodically, HL will send communications to members to highlight the importance of specific aspects of their pension. We have seen samples of these communications, which we believe are both relevant and informative.
- Website and tools for members – the majority of HL Workplace SIPP schemes are provided with an employer-branded website. Members can review and change their investments online, plus there is a wide range of pension guides and an interactive calculator to assist with members' pension planning. Members can also access their accounts via the individual HL site or via mobile apps. As at February 2020 56% (56% in March 2019) of members are registered online.

## SUMMARY

We firmly believe the level and quality of services and the range of communications offered to members is a key contributor of delivering value for money to members. This is evidenced in our own member survey.

### 3.5 STRENGTH/SECURITY OF PROVIDER

#### What is provider strength/security and why is it important?

Members should feel confident that their pensions are safe and that the provider responsible for looking after their money will be there for years to come. To make sure members' pensions are well protected if things do go wrong, there are many different regulations that the providers of pension schemes have to conform to and a number of organisations that work to ensure members' interests are looked after. But to safeguard against things going wrong in the first place is of paramount importance. Pension providers like HL can do this by ensuring they have sufficient financial resources for the running of their business, robust governance and risk frameworks in place, and the right people managing and overseeing their operations.

#### Strength/Security of HL

HL maintains adequate financial resources at all times. The FCA regulates the investment services provided by HL and the European Directive CRD IV is directly binding on firms in the UK. As a result of this, HL is required to carry out, at least annually, a comprehensive assessment of its risks and the amount of capital it must hold. The HL board must demonstrate to the FCA that it understands its risks, knows how they could manifest and the impact they could have on HL.

HL has a strong balance sheet with large cash balances and no external debt. It has not previously issued debt, has never undertaken any external borrowing and is not seeking to raise additional capital.

Additionally the Workplace Solutions business within HL (the part of the business responsible for the Workplace SIPP) has its own Risk Management Forum which is chaired by the head of the department. This forum manages the risks and controls relevant to HL workplace pension schemes.

#### SUMMARY

We have engaged with HL at board level to confirm the firm's commitment both to the workplace pensions market and to investing in the systems and talent necessary to ensure the highest levels of security of members' funds and, more generally, to provide the infrastructure to achieve positive member outcomes. The financial strength of HL itself is fundamental to being able to do this.

We have full visibility of internal audit reports relating to the HL Workplace business. The audits completed during this reporting period have been completed and actioned to the satisfaction of HL auditors and ourselves.

### 3.5.1 CYBER SECURITY

#### What is cyber security?

Cyber security is the practice of protecting against cyber attacks on an organisation. It aims to reduce the risk of cyber attacks and protect against the unauthorised exploitation of systems, networks and technologies.

#### How does HL manage cyber risks?

The following update has been provided by the HL cyber security team:

*"Protecting our clients' money and information is extremely important to us. 'Safe and Secure' remains a core part of our corporate strategy. Our overarching Cyber Security strategy was approved by the HL board during 2019, and is underpinned by an ever evolving programme of cyber activities managed by our Chief Information Security Officer. Activities are positioned to address the ever changing cyber threat, as well as changes in both the internal and external environment.*

*During 2019 we meet the requirements of regulation such as PCI-DSS, PSD2 and GDPR, and we continued to follow best practice standards such as the SANS CIS, GCHQ's ten steps and ISO27002:2013. We believe that continuously testing our controls, systems and processes is a fundamental part of practicing good cyber security. To achieve this we manage a rolling programme of vulnerability assessments, penetration tests and red team exercises, with accredited leading cyber security firms. We use the results from these exercises to improve our ability to detect and respond to security threats. Our approach is one of 'defence in depth', during 2019 we continued to invest in our internal security teams and systems. Maintaining a good security culture also remains a key focus, and during 2019 we increased our network of companywide security champions, to ensure the whole of HL group was represented."*

#### SUMMARY

We are assured that all possible measures have been put in place to reduce the risk of successful cyber attacks and to ensure the security of member data and the funds they hold.

### 3.5.2 PENSION SCAMS SUPPORT

#### What is the impact of pension scams?

It is a sad fact that pension scams are on the increase in the UK, with fraudsters finding increasingly sophisticated ways to part savers from their money. The internet and advances in digital communications mean these kinds of scams are becoming more common and harder to identify.

#### How does HL protect against scams?

HL has a robust and proportionate process in place to mitigate the risk of transferring to a pension scheme which is potentially being used for a scam while minimising any unnecessary delays. This process starts with each transfer pack issued to a member containing information about the risk of pension scams and could end with a decision being made by a senior member of HL on whether the transfer should proceed.

Any request which is a potential cause for concern is referred to the relevant internal Technical Team. This could be because the transfer is to a Small Self-Administered Scheme (a legitimate type of pension scheme in its own right but one which is often used by scammers); if there are concerns about the stated employer; if there is the involvement of an unregulated introducer; or for any other reason which raises concerns. The request then goes through one or more stages of increasingly detailed checks, which could include the reason for the request, the receiving scheme, the sponsoring employer, any adviser, proposed investments and whether HMRC can confirm they have no concerns with the scheme. Every stage ends with a decision to refer to the next stage, agree the transfer or refuse the transfer.

#### SUMMARY

We are very satisfied with HL's approach to protecting members from pension scams and we feel this is an important safeguard for members' retirement savings.

### 3.6 RETIREMENT FLEXIBILITIES & PENSION FREEDOMS

#### What are pension freedoms?

The pension freedoms were introduced in April 2015 and represented a complete overhaul of the UK's pensions system. The most significant change was that pension savers no longer had to access their pension by buying an income from an insurance company (known as an annuity). Instead the new rules meant savers could access all of their pension savings from age 55 and either access it all as one cash lump sum, access it in stages while leaving the un-accessed part invested, buy an annuity, or do a combination of any or all of these.

The pension freedoms gave pension savers almost complete flexibility over their pension and retirement savings.

#### What choices does HL make available to members?

Members have access to the complete range of pension freedoms and flexibility within the HL Workplace SIPP. This is unusual in a workplace pension scheme, as many of the more traditional schemes in the market would require a member to transfer to a separate arrangement to access the full range of pension freedoms.

Key services offered by HL include:

- HL has been offering drawdown since 2006.
- HL's whole-of-market, annuity broking service, which includes access to enhanced annuities, is available to all members. Online tools are also comprehensive and highly functional. There is no charge to use the service to find out more about annuities and get quotes. The commission charged if the member goes ahead is clearly stated on the quotes they receive before they apply.
- To support members with important decisions at retirement, members can access financial advice from HL's in-house advice team. This is at a separate, explicit cost, specifically for the advice provided.

#### SUMMARY

We believe the range of options made available to members by HL, and the accessibility of these options, make a significant contribution to value for money for members.

In 2019/20 we sought to explore in more detail the support available to members approaching retirement. We reviewed sample communications that are issued to members in this situation and we are confident that these are helpful in supporting members at such an important time. In line with new FCA rules, members are now sent communications about their retirement from age 50, regardless of their chosen retirement date.

### 3.7 FEEDBACK

We believe it is crucial that members' own views are sought on what constitutes value for money.

Since 2016, we have sent a survey each year to the members of HL workplace pensions. The aim is to develop a better understanding of members' overall views on value for money but also to note any shifts in attitudes or perceptions over the preceding 12 months. Our research builds on in-house research carried out by HL which has been useful for our initial deliberations.

We are pleased to note that once again the survey responses have broadly been very positive.



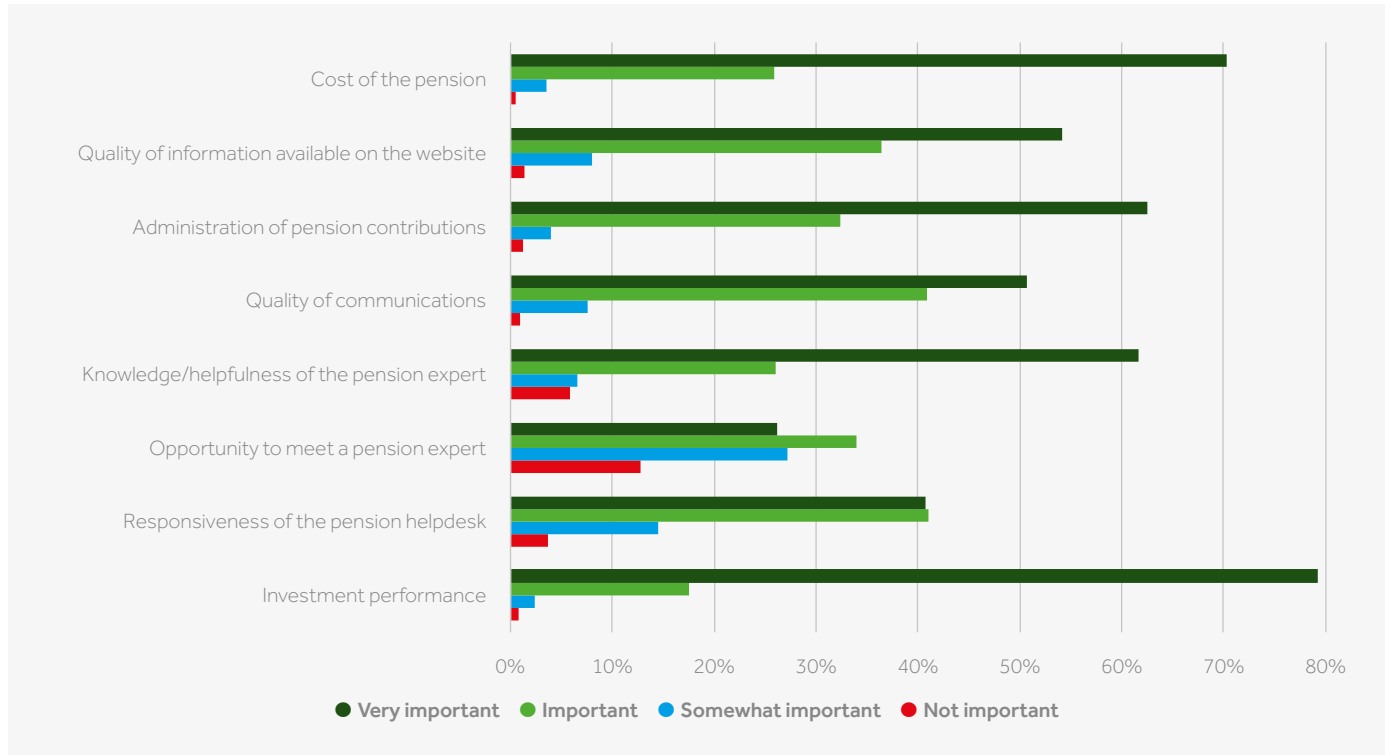




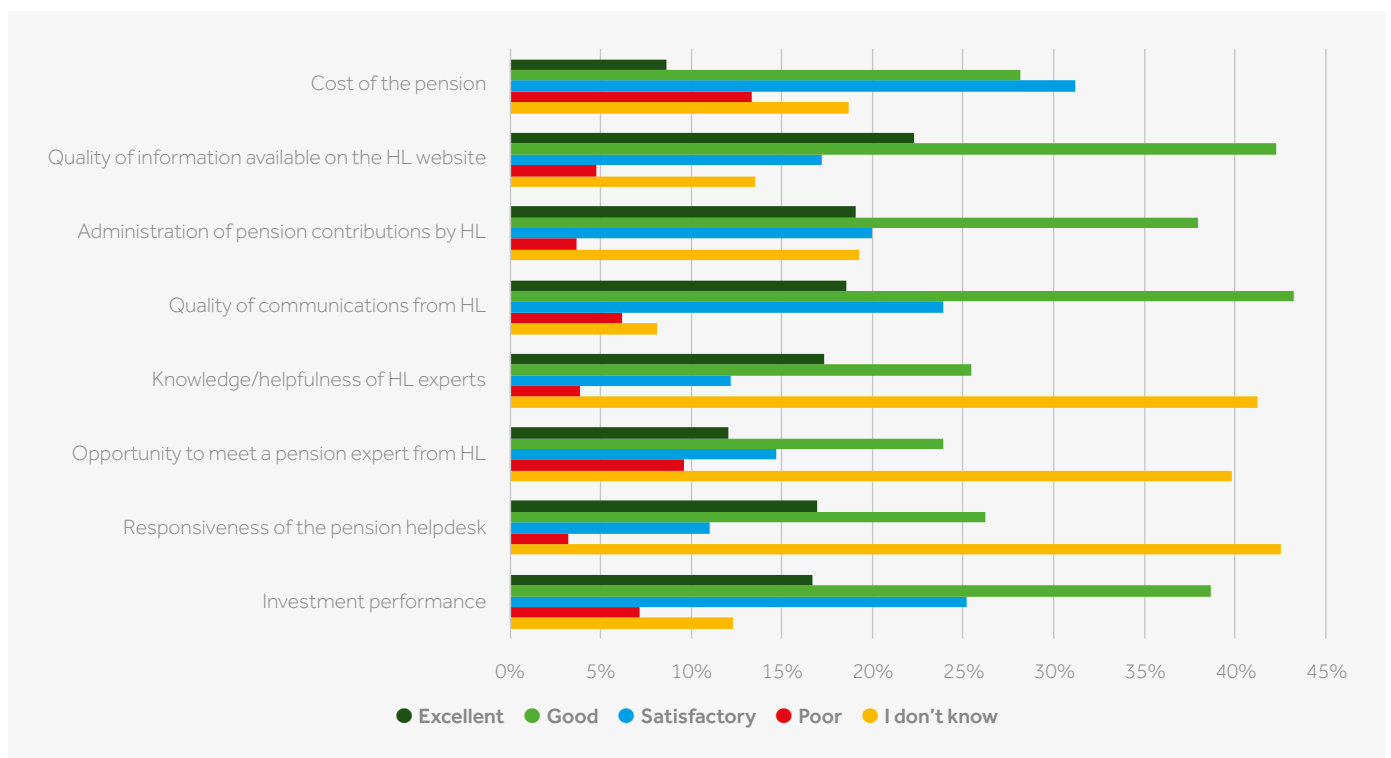
### 3.7.1 IGC MEMBER SURVEY 2019

Responses from the 2019 and 2018 surveys have been considered in tandem, with a summary of the key outputs shown below. The survey was sent to over 50,000 members and was completed by 1,567 respondents, compared with 2,513 in 2018.

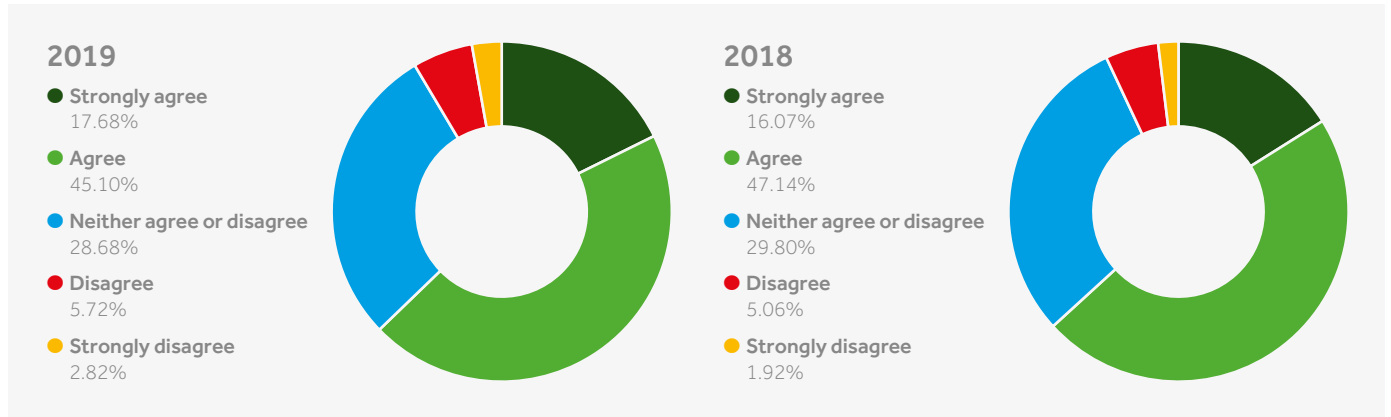
#### 1. When thinking about a company pension, how important are the following features to you?



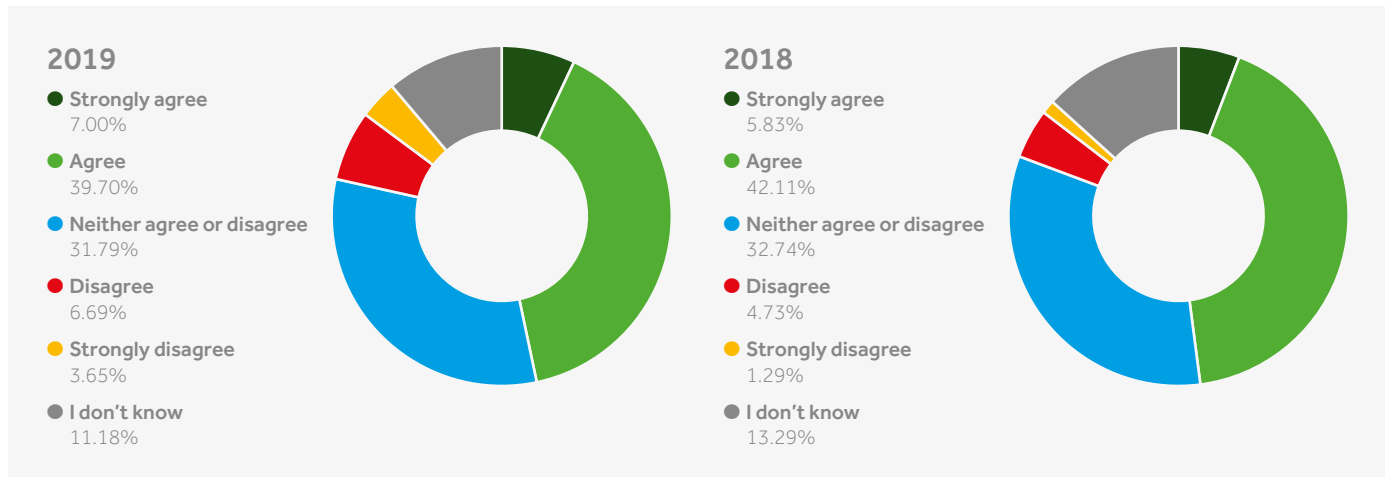
#### 2. Please rate the following features of your HL Workplace Pension:



**3. To what extent do you agree with the statement 'I feel my employer provides a good pension plan'?**



**4. To what extent do you believe your HL workplace pension represents value for money?**



**SUMMARY**

The responses this year indicate members are becoming more demanding of their pension plan, with all eight factors listed in question one having increased responses of 'Very Important'. Members are expecting all of these eight factors to be present and to work for them and their pension.

Respondents appeared to have a better knowledge of how their investments had performed and an increased negative opinion of the associated costs, with members rating the 'Cost of the pension' as 'Poor' increasing from 5% to 13%.

While service and the HL helpdesk remain the most positively mentioned aspects of the respondent's schemes, the most frequent area cited as requiring improvement (in which HL has control) is in the costs associated with the pension. This has been a recurring theme since we started the survey. And perhaps not surprisingly we have seen more comments on a desire for more sustainable or environmentally friendly investment options being available.



### 3.7.2 IGC ENGAGEMENT WITH EMPLOYERS

We attended a number of employer governance committee meetings during 2019 with the aim of witnessing the quality of presentation and information provided by HL relationship managers and also with a view to receiving feedback of employer priorities. It is evident that the effort put into governance meetings by the HL relationship management team is much appreciated by employers. The agenda papers are comprehensive and very well presented, the management information provided is appropriate and, on the evidence of those meetings attended, the level of discussion about pension matters and current issues attracts a high level of employer engagement. Specific comments about the service provided by HL are acted upon promptly and it is evident, as a consequence, that the meetings are highly valued by employers and make a major contribution to improved member communications.

It had been our intention in 2019/20 to seek feedback from a wider group of employers via an employer survey. However, on reflection we felt this would not add any greater value than the employer visits we have made and will continue to make, and that our time in this area is more effectively spent focussing on obtaining feedback direct from members.

### 3.7.3 COMPLAINTS

During the period of this report, 12 complaints, most of which related to administrative tasks, were received by HL regarding the workplace pension. 3 of these complaints were upheld.

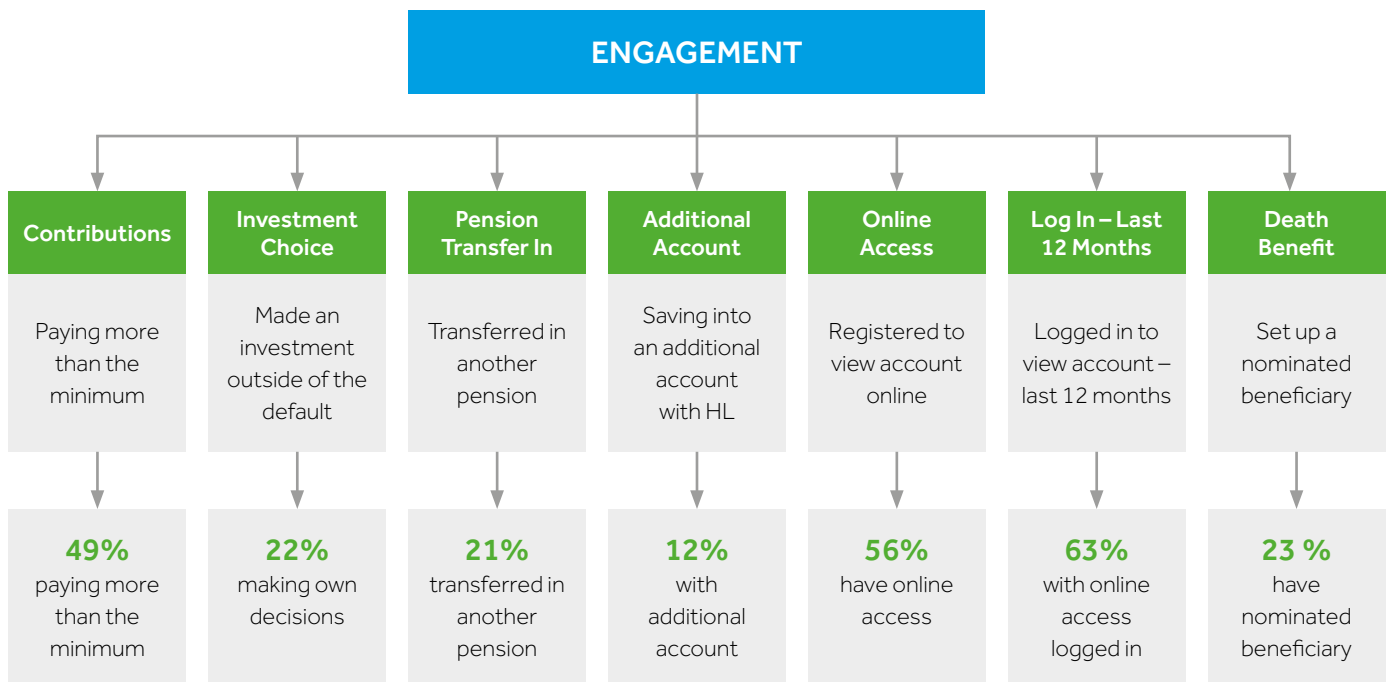
The IGC has no concerns in respect of these complaints given the extremely low volume and that none were considered to be of a serious or systemic nature. This represents less than 0.1% of the membership.

### 3.7.4 EVIDENCE OF ENGAGEMENT

We are particularly keen to explore the hypothesis that greater member engagement can lead to better member outcomes. In particular, we believe additional member contributions (above the minimums offered by their employer) and active fund choices are indicators of increased engagement.

HL has developed a framework, which includes a range of indicators, to quantify levels of member engagement. An extract can be found below.

We are particularly pleased with this development from HL and following a request from the IGC, this information continues to be produced for employer governance meetings to support conversations the HL relationship managers have with their employers regarding activities or initiatives which could be undertaken to increase member engagement.



Source: HL internal, February 2020.

Note: Results are for all members, except contributions which is only for members currently receiving employer pension contributions.



# 4. Priorities for 2020/21

- 1 Review of the default funds and ABC fund range.
- 2 HL's policies on environmental, social and governance (ESG) issues, member concerns and stewardship.
- 3 Value for money of investment pathway solutions for pension drawdown.
- 4 Development of HL's shortlist of favourite funds.
- 5 Recurring member feedback around areas for improvements.



# 5. Member Representation

HL has put in place the following arrangements to be used by members who would like to make representation to the IGC:

**Email: [IGC@hl.co.uk](mailto:IGC@hl.co.uk)**

Or by writing to:

**FAO: IGC**

**Freepost HARGREAVES LANSDOWN**

# 6. Conclusion

We are pleased to report that Hargreaves Lansdown has noted the red flags in our previous reports and has taken action.

The default funds and strategy continue to offer value to members but the offering can and will be further improved. This supports members who are less engaged and who do not want to make their own investment choices.

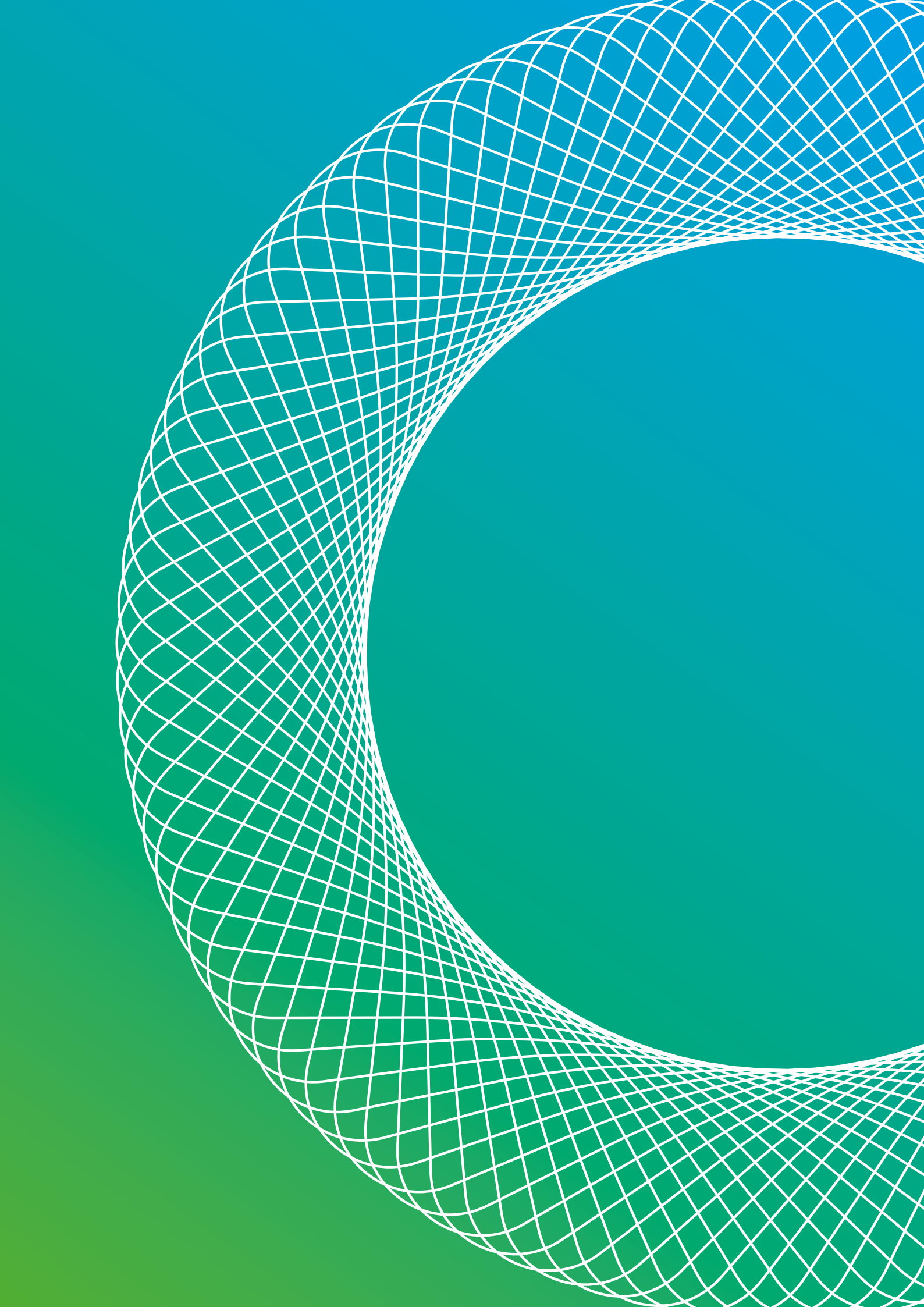
Members who want to make their own choices are supported by improving communications and high quality engagement which is measured and monitored. The value is in the choices and ease of access.

The new analytics tool powered by Microsoft Bi will be introduced to help employers monitor service standards.

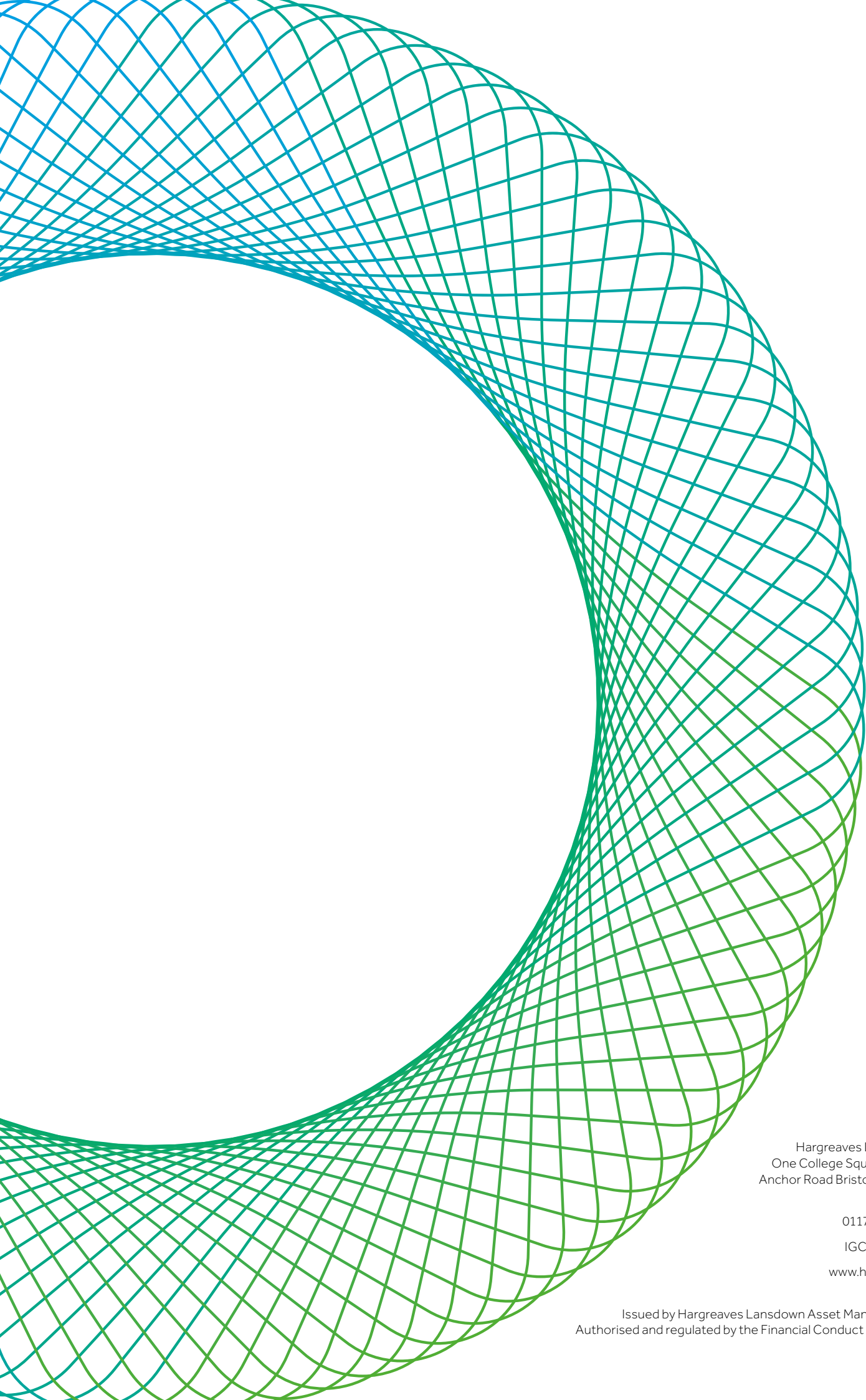
The coming year will be important in development bringing together much of the work and investment in resources over the past few years.

The IGC looks forward to seeing the benefits the changes will bring to members.









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