

The background features large, expressive brushstrokes in shades of blue and purple, creating a sense of movement and depth. The strokes are layered, with some appearing more prominent than others, and they curve across the page.

Hargreaves Lansdown

**Independent
Governance
Committee**







Report

2021

YOUR DASHBOARD

A committee of independent professionals (the "IGC") have assessed whether your workplace personal pension plan gives you value for money. The key factors the IGC considered are summarised below, together with the IGC's rating of each factor and where more work is needed.



	VALUE FOR MONEY COMPONENT	RATING
Investment strategy and performance	Are investment strategies appropriate and reviewed?	
	Are investments performing well?	
Communications, engagement and support	Are communications to members clear, appropriately targeted and accessible?	
Administration and service	Are financial transactions processed promptly and accurately?	
Other features	We considered other features that we thought relevant to value for money.	
Costs and charges	Are the charges reasonable for the product?	



CALLS TO ACTION

- If you are in cash, you should review whether this is appropriate for your long-term investment needs.
If you are close to retirement, you should check the lifestyle approach is right for you.
- Some of the funds aren't performing as well as they could. This is, in part, why HL is reviewing the investment strategies.

The IGC is satisfied that most members are receiving value for money from their workplace pension. The IGC has, however, found a number of areas for improvement. More detail can be found in our full report.

Saving to provide for retirement is one of the most important financial decisions you'll make. Good planning, the amount you contribute and the product and fund choices you make will all make a big difference to your retirement income. It's important to bear in mind when deciding how best to prepare financially for retirement that saving in a pension scheme offers valuable tax benefits to most of us that can considerably boost our retirement income.

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Introduction

Hello and welcome to our report on your pension scheme. In this report, we'll tell you whether we think the scheme gives you value for money and our opinion on some of Hargreaves Lansdown's investment policies.



My name is Richard and I chair the committee that's written this report. Our main job is to assess whether you get value for money from your pension scheme. You can find how we did this and much more information on the background and role of the committee by reading the rest of this report. It's enough to say for now, though, that we're here to act only in your interests and that we're independent of Hargreaves Lansdown (who from now on I'll call "HL").

The report includes some important "calls to action". These are things you need to do to make the most of your pension scheme.

We've written the report for you, but we recommend you talk about it with a financial adviser.

Sometimes we've had to use industry jargon. Where we've done this, we've put the words in **bold** and given a definition in the jargon buster which you can find at the very back of the report.

The committee has been through some significant changes since our last report. Four of the five members of the committee were changed. I was appointed as the new independent chair and we had new "**terms of reference**" (these set out what we do) which included some new jobs for us. It's been a busy year for us, but we're really pleased with the progress we've made. I hope you are too.

We'd love to hear your views or comments on this report or your pension scheme. You can email us on IGC@hl.co.uk

Or write to us at;

FAO: IGC

Freepost HARGREAVES LANSDOWN

Thank you for reading this report.

A handwritten signature in black ink, appearing to be 'Richard Butcher', written in a cursive style.

Richard Butcher

Independent Chair

Our conclusion on value for money

Our overall conclusion is that your scheme gives you value for money.

While the costs you pay aren't the lowest available on the market, our assessment is that they are, in our view, reasonable particularly when all the benefits provided to you are considered.



What we considered when doing our value for money assessment

In this section I'll tell you how we went about assessing value for money, the factors we considered and why we arrived at the conclusion.

VALUE IS MORE THAN JUST COST

Value for money has been defined by the National Audit Office as "The optimum combination of whole-life costs and quality". This is the definition we've worked to.

Because, however, there is a lack of perfect information about what's available and at what price and because some parts of the proposition are qualitative, what's "optimum" can only be theoretical.

Nevertheless, a value for money assessment must take account of the quality of the pension proposition as well as its cost and consider how that compares to what's available for equivalent schemes from other providers in the marketplace.

We've created a framework to analyse the value for money ("**VFM**") you get.

The framework helps us to make sure we consider the factors that contribute to **VFM** in a robust and consistent way. You can find more information on this framework, along with a full list of the factors we considered in Appendix 3.

Ultimately, the real value from your pension will be measured by you, based on what you receive when you need or want to start taking money out of it. Two of the most significant factors that'll influence that, however, are out of our control. They are what you and your employer pay into the scheme and the decisions you make just before you take the money – and that's why there are two calls to action here:

CALLS TO ACTION

- Review how much you have in pension savings and make sure you (a) have enough to pay for the standard of living you want in retirement or (b) are paying in enough to fill any gap. You can speak to a financial adviser to help you do this.
- Before you take your pension, we strongly recommend you understand the options and check your chosen option is right for your circumstances. Take advice or guidance if you're unsure. The government provides a free and impartial service to help you understand your retirement options. Pension Wise are available online (www.pensionwise.gov.uk), by calling 0800 138 3944 or face-to-face. The service is for those aged 50 and over.

INVESTMENT STRATEGIES AND PERFORMANCE

2020 was an unprecedented year. The economic impact of the COVID-19 pandemic saw extreme volatility in markets around the world ending the year positively as hopes of a vaccine became a reality.

You'll be invested in a "Default fund" or one or more of the many other funds on offer through HL. There's also the option of holding your pension money as cash. You may have, like many others, selected funds from the "ABC fund range". We looked at **Default funds** and the ABC range when doing our **VFM** assessment.

You can find out which fund you are invested in by logging in to your online account, or by calling or writing to HL.

THE DEFAULT FUNDS

The **Default funds** are:

- **BlackRock Consensus 85** which aims to mirror the investment strategy of the average fund and can invest anywhere between 40%-85% of its value in shares in global equity markets, not just UK companies. The rest is invested in bonds and cash.
- **Schroder Managed Balanced** which invests in a balance of shares, bonds and cash. The fund is actively managed, trying to beat the markets it invests in. The fund can invest up to 85% in shares but has typically held less than this.

Both **Default funds** aim to achieve a balanced investment outcome using shares, bonds and cash to lower the overall fund risk in relation to returns.

Cash has also historically been selected as a default option for a minority of you. It's important you review whether holding cash is appropriate to your long-term investment needs. Holding cash may be suitable if you intend to access the money from your pension in the short term but is highly unlikely to be suited if this is not the case.

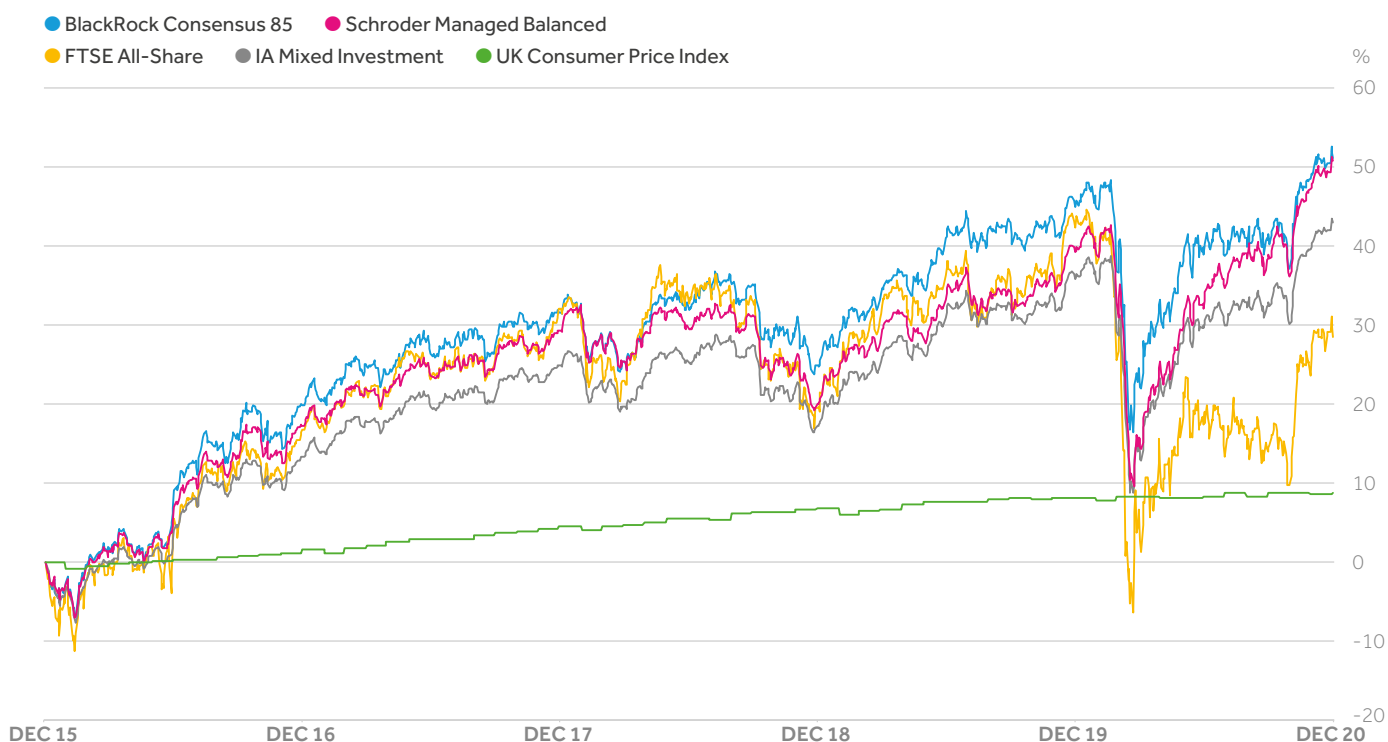
CALL TO ACTION

It's important to check your pension investments are right for your circumstances and goals. If you're holding a lot of cash in your pension, think carefully about whether this is right for you and ask for guidance or advice if you're not sure. You can get help by speaking to a financial adviser.

DEFAULT FUND PERFORMANCE

As you can see from this graph, both **Default funds** performed well over the last five years compared to their benchmark (the IA Mixed Investment Sector 40-85%).

DEFAULT FUNDS vs SECTOR



Source: Lipper IM 31/12/2020

Past performance is not a guide to future returns

We also considered how the funds had performed compared to the **Default funds** of other workplace pension schemes. We did this using data to 31 December 2020 produced by the independent company Lipper for a selection of providers we believe represents a good peer group for comparison. This is shown in the graph below.

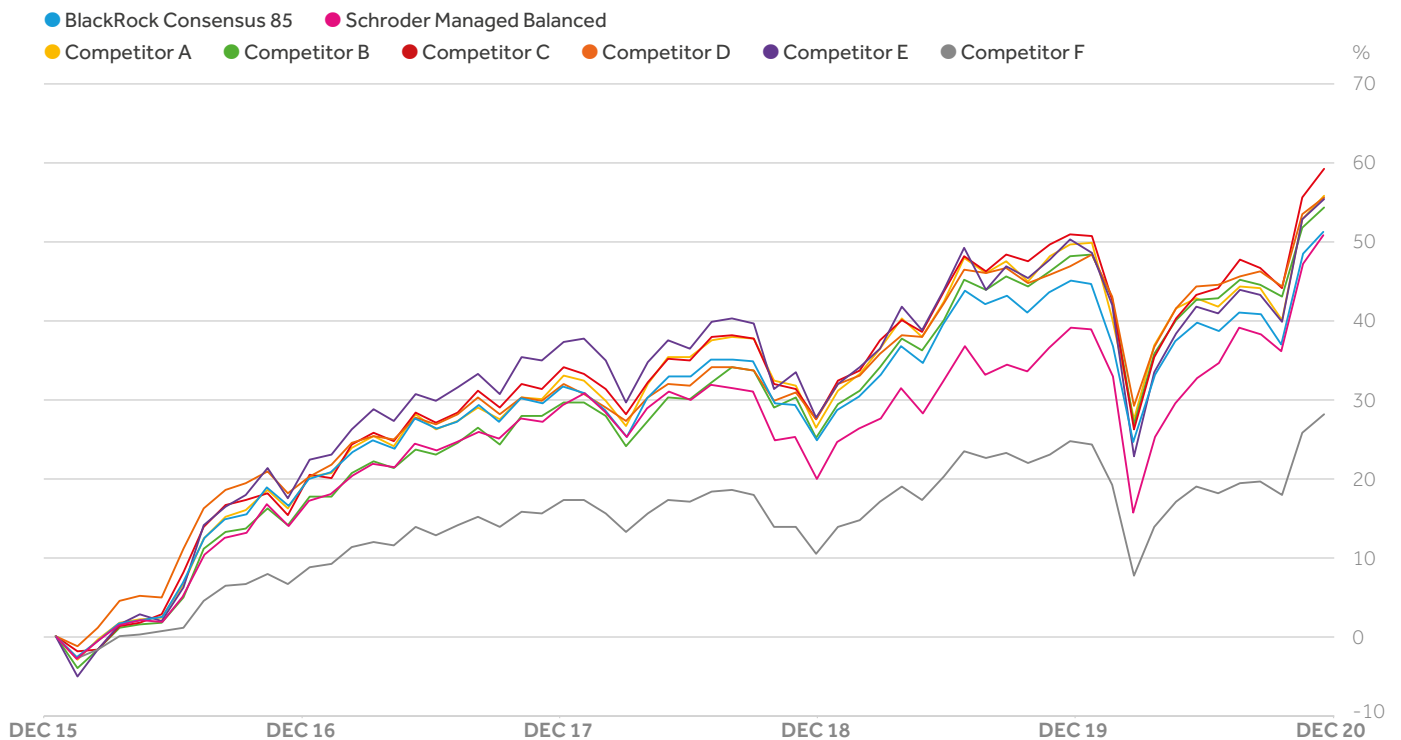
As you can see from this graph, both **Default funds** performed broadly in line with their peers, although we believe both could do better. Last year's IGC report noted HL had started a process for replacing the **Default funds** and was working to revise its default strategy. This review is still in progress. We have been told the new default solution will allow greater flexibility in how assets are allocated, provide more "**de-risking**" options (see later) and make adjustments to the level of investment risk. HL has told us this new default solution will be available by the end of 2021.

We welcome the enhancements being made to the **Default fund** proposition but we're disappointed by the length of time the review has taken.

We believe the **Default funds** are designed and executed in the interest of the members albeit they can be improved upon. We're not, however, satisfied that their reviews or the actions that follow the reviews are carried out quickly enough. We've challenged HL about this. We will monitor HL's proposed delivery of enhancements to the **Default fund** proposition and report more next year.

Although there are statements setting out the **aims and objectives** of the **Default funds**, we do not think they are as clear as they might be. We've challenged HL to review these statements and will report back to you next year.

DEFAULT FUNDS vs COMPETITORS



Source: Lipper IM 31/12/2020

Past performance is not a guide to future returns

INVESTMENT STRATEGIES: ABC FUNDS

The HL ABC funds are designed with reference to the level of investment risk each can take: "A" stands for adventurous; "B" stands for balanced and "C" for conservative. 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.

- The **A** fund is the **Rathbone Global Opportunities fund**. This invests almost completely in company shares, including those of higher-risk smaller companies. Presently, the fund mainly invests in developed markets, such as the US, the UK and Europe.
- The **B** fund is the **Baillie Gifford Managed fund**. This invests between 40% and 85% of its value into company shares, although the managers of the fund are prepared to change where it invests depending on the economic outlook.
- The **C** fund is the **BNY Mellon Real Return fund**. This aims to produce attractive inflation beating returns over the long term with fewer ups and downs than the stock market. This fund aims to beat the return you can earn on cash (1 month GBP LIBOR) by at least 4% each year.

The risk level typically indicates the chance that an investment's actual return will differ from its expected return. This includes the possibility of losing some or all your original investment. Typically, 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 see your pension investment increase or fall in value.

ABC FUND PERFORMANCE

The A and B funds are performing in line with their objectives, delivering returns after charges above their benchmarks. The charges are in line with our expectations for funds of each type. Charges for these funds are generally higher than the **Default funds** (see Appendix 4 for information on Charges).

Fund C continues to struggle to meet its objective of returning LIBOR plus 4% each year. It also has higher charges than the A and B funds, although these are broadly in line with other funds of this type.

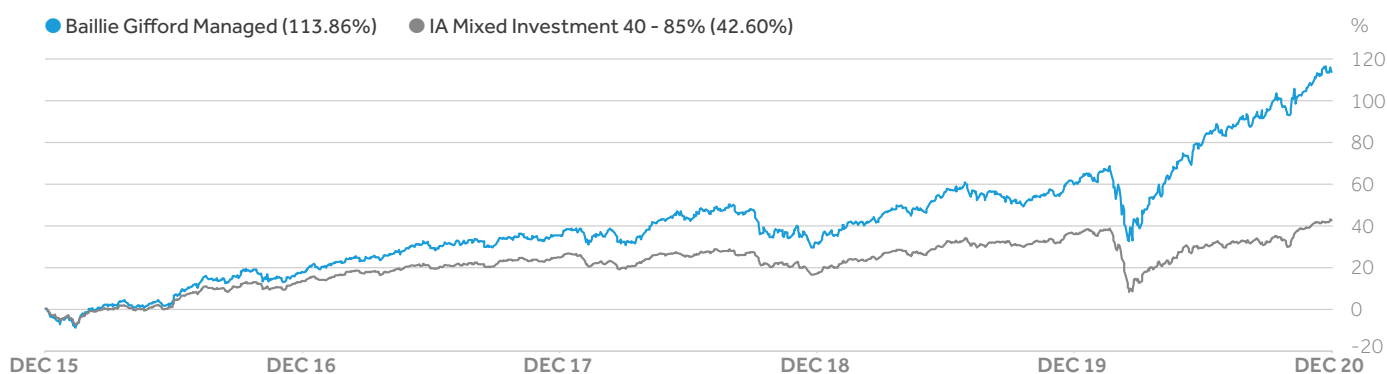
Last year, we asked HL to review the relevance and value of the ABC range as a priority. We asked HL whether the names Adventurous, Balanced, Conservative were appropriate and whether their risk descriptions were accurate and clear, particularly in relation to the C fund. HL is still in the process of this review and no material changes have been made. We're disappointed this is taking them so long but continue to push them to conclude it.



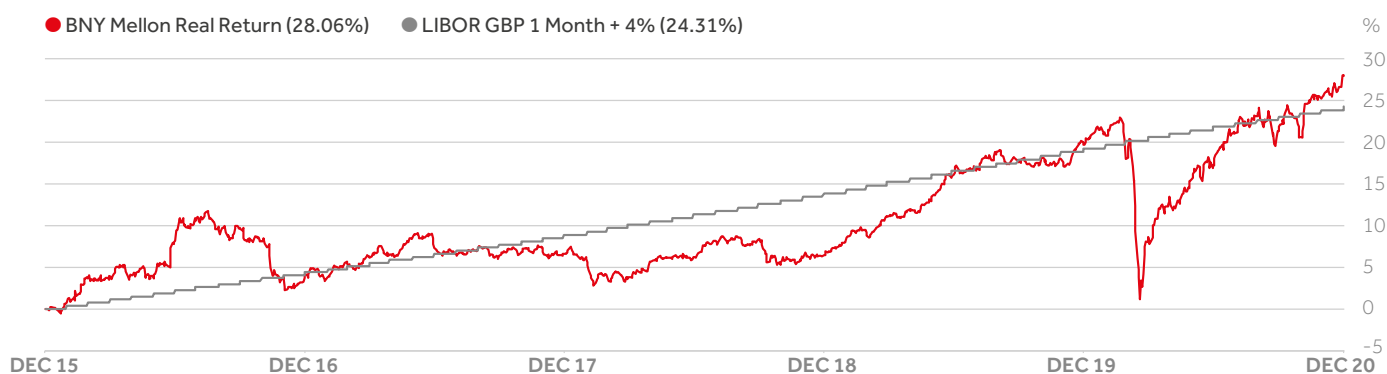
RATHBONE GLOBAL OPPORTUNITIES vs SECTOR



BAILLIE GIFFORD MANAGED vs SECTOR



BNY MELLON REAL RETURN vs BENCHMARK



% GROWTH	DEC 15-16	DEC 16-17	DEC 17-18	DEC 18-19	DEC 19-20	DEC 15-20
Rathbone Global Opportunities	15.91	19.19	-1.28	25.22	30.28	122.52
IA Global Equity	24.45	13.80	-5.59	22.11	14.87	87.55
Baillie Gifford Managed	17.67	14.95	-2.61	21.27	33.87	113.86
Mixed Investment 40 – 85%	13.33	10.18	-6.25	16.00	5.02	42.60
BNY Mellon Real Return	4.10	2.42	-0.11	12.44	6.94	28.06
LIBOR GBP 1 Month + 4%	4.41	4.30	4.60	4.72	4.21	24.31

Source: Lipper IM 31/12/2020

Past performance is not a guide to future returns

INVESTMENT STRATEGIES: LIFESTYLING

As you approach retirement the scheme may automatically switch your investments in a phased way over a period to align them with how you'll take your benefits in retirement. This is a process called "**lifestyling**".

HL's current approach is to **lifestyle** to cash starting five years before your selected retirement age.

During 2020, HL had a Non-Executive Director who acted as a client champion responsible for ensuring a fairness framework was applied when setting interest rates on cash. This was enhanced to make it more robust during the year.

You have the flexibility to increase or reduce the five-year timescale and switch into other funds instead of cash.



CALL TO ACTION

If you're getting close to retirement you should check the **lifestyling** approach set up by HL is right for you.

In 2017/18 and 2018/19, we asked HL to consider an alternative approach to their **lifestyling** arrangement. Specifically, instead of solely targeting cash at retirement age we suggested making other approaches available, targeting either **flexible access** or a **secure income**.

In response to our challenge, we can report that the proposed new default solution will incorporate alternative **lifestyling** options.

FUND REVIEWS BY HL

We meet regularly with the investment team and we're satisfied the characteristics and net performance of the funds are regularly reviewed by HL to ensure alignment with your interests and that they take action to make any necessary changes. We're happy the review process is effective although we're not satisfied that the actions that follow the reviews are carried out quickly enough. We've challenged HL about this and will report back to you next year.

WEALTH SHORTLIST

Last year we wrote about the Wealth Shortlist funds. We've not considered them any further this year. This is because our responsibilities are in relation to the investments within HL's Workplace SIPP and so we've focussed on the default arrangements and also whether all the investment choices available, including default options, are regularly reviewed.

COMMUNICATIONS, ENGAGEMENT AND SUPPORT

During your life you'll have some very important decisions to make about retirement saving and HL has an equally important role to play in helping you to make those decisions and, more generally, in raising your awareness on pension matters.

The decisions you will need to make include:

- whether to join or remain in the pension scheme offered by your employer
- how much money to pay into your scheme
- where to invest your savings
- what to do as you get close to, and reach, taking your retirement benefits

Our focus has been on whether HL's approach is based on promoting better retirement outcomes for you. HL tells us their solution is designed to deliver significantly higher member engagement than what's on offer elsewhere in the pension industry. And we wanted to test that.

As part of our **VFM** assessment we looked specifically at the process HL follows to prepare the communications they'll send you. We also considered several aspects of communications, engagement and support:

- HL's Workplace Financial Education programme
- the key communications you'll receive at various times from HL
- the support given to vulnerable customers

Communications process

We reviewed HL's three-stage process for producing member communications which HL calls "discovery", "control" and "measurement".

In the first stage – discovery – HL says their guiding principle is that, for you to achieve a good outcome in retirement, it's necessary for you to engage in the retirement planning process. We agree wholeheartedly with this as a principle and have been pleased to see evidence that HL has invested significantly in initiatives to support you to engage in your retirement planning. HL quantifies this by considering several factors indicating the extent to which you are actively engaging, such as whether you have logged in to your account in the last year. HL's latest statistics show 80% of you are currently engaging in some shape or form. We're particularly pleased to see that around 50% of you are paying contributions above the required minimum. This is very encouraging – the contribution you pay is the single most important decision you make about retirement saving.

In the second stage – control – HL seeks to follow a process which ensures that all the content is relevant, concise and compliant. Our review of this process showed it to be both robust and thorough.

In the third stage – measurement – HL carries out tracking, for example of response rates, to monitor communications for their effectiveness. HL often tests different versions to learn from the findings as to what works best in terms of engagement.

We also reviewed the multiple channels and communication tools used by HL to communicate with you. These may be emails, postal mailings, web pages, videos, factsheets, articles, and onsite meetings (where HL specialists may attend sessions at your place of work).

Finally, we looked at the communication between HL and your employer. Your employer has a potentially important role to play in supporting you, so the material provided to them by HL is an important part of the whole process.

In summary our assessment was that, in the main, the communications to you are fit for purpose and properly consider your likely characteristics, needs and objectives.

Workplace Financial Education programme

HL has developed a wide range of tools to help educate and engage you. At the heart of this is HL's "financial wellbeing" programme where, if you work for a larger employer, a team of specialists deliver live group presentations and one-to-one meetings as well as providing recordings following the sessions. HL's aim is to see most people on a one-to-one basis to allow them to discuss their own personal financial circumstances. During 2020, the specialists delivered over 400 financial education presentations, attended by over 9,000 people. They also delivered nearly 5,000 individual meetings with members. HL's own feedback is that this programme is highly valued.

We believe that initiatives such as this go a long way to explaining why HL is achieving the levels of engagement at 80% noted earlier and so significantly contributes to the value you get from your scheme.

Key communications

The communications from HL are many and varied, and we've focused on those which relate directly to the important decisions you need to take. We've assessed whether the communications to you are fit for purpose and properly consider your likely characteristics, needs and objectives. We've focused on the clarity of the communication including its visual appearance.

Default fund

The way that HL describes the **Default funds**, and in particular their **aims and objectives** and the risks, is extremely important in helping you to choose where your money is invested.

We have some reservations about how this is done currently but, as we noted earlier in this report, HL is currently reviewing the **Default funds** and so we will return to this in next year's report.

Lifestyling

Another important aspect is "**lifestyling**".

We're satisfied with the way that **lifestyling** is communicated to you, both, in the welcome pack you receive when you join the scheme and when you are approaching retirement.





Periodic communication

HL sends you communications periodically. You'll for example receive an annual illustration setting out how your savings are performing, what their estimated value is at your retirement and monthly newsletters and investment reports.

HL also sends communications to you to highlight the importance of specific aspects of your pension – such as getting online, logging in to keep track of your savings and transferring previous pension policies.

As you approach retirement, there are some important decisions you need to make. We therefore specifically assessed the support provided to you at this time by HL: a Fifties Retirement Planning guide together with a series of letters; a turning 50 letter; reminders; a six months to retirement letter; and a two months to retirement letter.

Finally, we looked at the communications sent to you around the time you make decisions on how you'll access your pension savings.

Overall, we considered the periodic communications sent to you by HL to be comprehensive and fit for purpose.

Website

HL's website has become an increasingly important medium for communicating with and supporting you. Our **VFM** assessment focused on the functionality provided on the website, including the range of online tools and calculators available to assist you with your decision making.

We considered that the quality of the website and the online functionality was good.

Vulnerable customers

A vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to harm, particularly if HL do not act with appropriate levels of care. The characteristics of vulnerability can include poor health (such as mental impairment), a significant life event (such as a bereavement or taking on new caring responsibilities), a low ability to cope with financial or emotional shocks and low or poor literacy or numeracy skills.

It's important that vulnerable customers are protected and treated fairly.

The evidence we saw confirmed that this was the case.

CONCLUSION

Our overall assessment of the communications, engagement and support provided by HL is that they're fit for purpose and properly consider your likely characteristics, needs and objectives.

The reservations we have about the **Default funds**, and how they are described, are currently being addressed by HL.

We've been particularly impressed by HL's investment in the important area of engagement, and the evidence points to the delivery of some very real benefits.

ADMINISTRATION AND SERVICE

Your pension savings are one of your most important and largest assets. When you need to interact with your scheme, it's critical you achieve what you've come to do smoothly, efficiently and securely, whether you choose to use the website or to speak to someone, whether you're adding money, changing your address or taking your benefits.

We all know poor administration and service when we experience it. Our **terms of reference** require us to assess whether HL processes core financial transactions promptly and accurately. To help us make this assessment we consider a wide range of factors, including:

- the accuracy of their service
- whether they complete activities in an appropriate timeframe
- whether administration is automated or requires intervention by a person – which increases the risk of human error
- whether HL independently assesses the controls they have in place to ensure their administration is working correctly

We also assessed more generally the quality of the service they provide to you. To help us make this assessment we considered, amongst other factors:

- how well HL protect you against fraud and scams
- how happy people say they are with HL's service
- whether your data is kept secure
- the support given to members being auto enrolled into a pension scheme
- the level of complaints HL receive about their service

CONCLUSION

Our assessment is that HL provides good administration and service.

We specifically want to call out the effort HL go to protect you from fraud and scams. HL has a strong set of internal measures to protect you, including a dedicated fraud strategy and a review team to assess pension transfers that HL believe could be at risk of fraud. HL leads on several industry initiatives such as an Asset-Management Anti-Fraud Forum and by chairing the TISA Financial Crime Working Group and participates in others, including having a representative on the Board of the Pension Scams Industry Group.

HL does, however, have weaknesses around the level of automation in their administrative processes and the level of independent assessment of their controls.

The most commonly used processes are automated (such as the receipt of contributions which accounted for over 90% of the weekly processed items), but there were many other processes which rely on manual intervention increasing the risk of human error.

HL was able to evidence controls to ensure quality of service and has a strong internal audit function to monitor performance.

Although there's external independent checking of some controls, including cyber security and compliance with the set of **FCA** rules around keeping your assets safe (CASS), this isn't widespread across HL's other business processes. We've challenged HL on this and will report back to you next year.

In last year's report you were told that a new reporting tool was being deployed to enable employers to better measure and understand the actual service being delivered to members.

This reporting tool is now in use and the outputs are being used in employer governance meetings. The report, however, was wrong to suggest the tool could be used to measure service levels directly, and independently, by employers. Instead, the tool is used to provide employers with data to help them better understand how their members are using the scheme as well providing engagement analysis comparing their members with others in similar industries. HL failed to correct the IGC's understanding of the purpose of the tool and have introduced new controls to avoid similar misunderstandings in the future.

OTHER FEATURES

There are some features of what HL provide that don't fit neatly into the other categories listed above but are essential to the smooth running of your savings.

Governance

As well as being sustainable, secure businesses, pension providers like HL can safeguard against things going wrong in the first place by ensuring they have robust governance and risk frameworks in place as well as the right people managing and overseeing their operations.

Our assessment was HL does have robust governance and risk frameworks in place as well as the right people managing and overseeing their operations.

Other Benefits

HL is a large business offering a wide range of services. By being a workplace pension scheme member, you can also benefit from a variety of other features and benefits.

Our assessment was HL provided other benefits that may be of use to you.



Sustainability and ongoing investment into developing the proposition

The sustainability of HL as a business is crucial as you are trusting them to look after your pension for years to come. HL's financial stability also impacts on its ability to invest in improvements to the service you get and to ensure your pension keeps pace with whatever changes occur in the future.

Our assessment was HL is a sustainable and stable business but, although we saw evidence of investment in developing the proposition and of a strategy for the wider proposition, they do not appear to have a strategy for investing in improving the proposition. We will challenge HL to develop a proposition investment strategy over the coming months and report back to you next year.

Reputation

Reputation is important when considering value for money as it impacts on your likelihood to contribute to your pension; you're more likely to feel comfortable contributing to a firm with a good reputation.

This being the case, we considered whether there are any negative or positive aspects of HL's reputation that members should be aware of.

HL has suffered by its promotion of the Woodford Equity Income fund prior to its collapse and has taken steps to overcome this by redeveloping its promotion of funds with its new Wealth Shortlist proposition.

HL has a robust approach to managing its reputation and considers traditional press, social media, review websites such as Trustpilot, Feefo and Google, as well as client behaviour, such as transfers

away and measures of investor confidence. In several areas HL can evidence a positive reputation, however there are areas HL has already identified to improve its reputation and is working on this.

Overall, our assessment was that HL has a good reputation and has an effective internal process to manage its reputation.

Cyber Security and Robustness of IT Systems

HL needs to provide secure IT infrastructure to keep your savings safe from cyber-attacks.

We were provided with a variety of evidence to show the robustness of HL's approach to Cyber Security, such as adhering to external standards and external reviews of HL's approach. This external assessment has been reviewed at the most senior level of HL's management, showing the seriousness with which they take Cyber Security.

We're confident HL manages Cyber Security well.

HL also needs to provide robust IT systems so that your pension can be run in an efficient and timely way.

HL suffered a significant problem with its IT systems on 9 November 2020 following the announcement of the success of trials of a vaccine that was effective against coronavirus. We've been assured that this issue has been resolved, but we've not received sufficient evidence to show how many smaller incidents have occurred and what preventative measures are in place to stop issues occurring again. Although they have very recently provided us with more data on this we've not yet considered it. We will consider this data in the coming months and report back to you next year.



COSTS AND CHARGES

Every investment, including an investment within a pension, has a cost.

There are many kinds of cost and charge, but they'll have one thing in common: the money is coming out of your savings.

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

Why are costs and charges important?

Costs and charges can add up, compounding along with your investment returns. This means you aren't just losing the amount of money you have paid, but you also lose any growth that money might have had if it had stayed in your savings into the future.

The UK Government has set a cap on charges for all **Default funds** within workplace pension schemes of 0.75% of the value of an individual's pension savings each year. HL's **Default funds** are subject to this charge cap. It's important to note that **transaction costs** aren't included within the calculation of the charge cap.

We've analysed the costs and charges applied by HL and the charges applicable to the **Default funds** and ABC funds.

The costs and charges for all the funds and investments offered through HL, including for the **Default funds** and ABC funds are available on their website here: www.hl.co.uk/funds

You can find the charges and **transaction costs** for the **Default funds** and ABC funds, together with further information about HL's charges in Appendix 4.

Although it's important that you understand what you are paying in costs and charges, it's equally important to know the returns achieved by each of the funds after costs and charges have been taken out. Ultimately, this "net return" is one of the key determinants of value for money.

Our assessment was that the costs and charges were, in our view, reasonable.

COMPARISONS WITH OTHER PENSION SCHEMES

It was your employer that chose HL as the provider of your workplace pension scheme.

Across the market there are around 30 providers of such schemes, and about a dozen of them are large enough to have an IGC.

Some IGCs have seen benefit in comparing their provider's scheme with other similar schemes available on the market. Several providers with IGCs – though by no means all – have participated in a research study which has analysed data across their schemes. The analysis has included data on features, benefits and performance (i.e., the various components that make up value for money). To be clear it hasn't included member data. This has provided those IGCs with an opportunity to compare and contrast.

It's anticipated that the study will be repeated in 2021, and HL has confirmed they will give serious consideration to participation. In any event it will likely become a regulatory requirement soon for IGCs, as part of their value for money assessment, to make comparisons in some shape or form with other comparable options on the market.



What we considered when doing the investment policies assessment

In this section we'll tell you how we went about assessing the quality and adequacy of HL's investment policies on Environmental Social and Governance (or "ESG") matters, Non-financial matters and Stewardship.

We were given additional responsibilities in 2020, which included a duty to consider and report on the adequacy and quality of HL's policies on Environmental, Social and Governance (or "**ESG**") financial considerations, non-financial matters, stewardship and other financial considerations, as well as how these policies have been implemented. If they don't have these policies, we need to examine the reasons for that.

Let's start by first looking at what these terms mean.

ESG

ESG financial considerations are factors related to the way companies operate. This is important because your savings are invested in funds which invest in companies and those companies need to operate in a sustainable way if they are to give you a good return. Examples of **ESG** criteria include:

- Environmental factors: a company's impact on climate change, it's carbon emissions and it's conservation efforts
- Social factors: a company's attitudes to human rights, equal employment opportunities and community development
- Governance factors: a company's anti-corruption policies, the diversity of its board members and approach to executive remuneration



NON-FINANCIAL CONSIDERATIONS

Non-financial matters are factors which might influence investment decisions that are motivated by ethical concerns, such as improving quality of life or showing disapproval of certain industries. Although the financial case for making an investment is a vital part of the decision-making process, non-financial factors can also be important to some people.

STEWARDSHIP

Stewardship relates to the way a pension provider or fund manager engages with the companies in which they're investing to encourage positive change, such as on matters involving corporate strategy and culture, their efforts on reducing climate change and workplace policies and practice.

OTHER FINANCIAL CONSIDERATIONS

When saving into a pension it's likely you'll be invested for a long time and so will be exposed to longer-term financial risks. References to other financial considerations may include risks in relation to interest rates, liquidity, concentration, exchange rates, politics and counterparties.

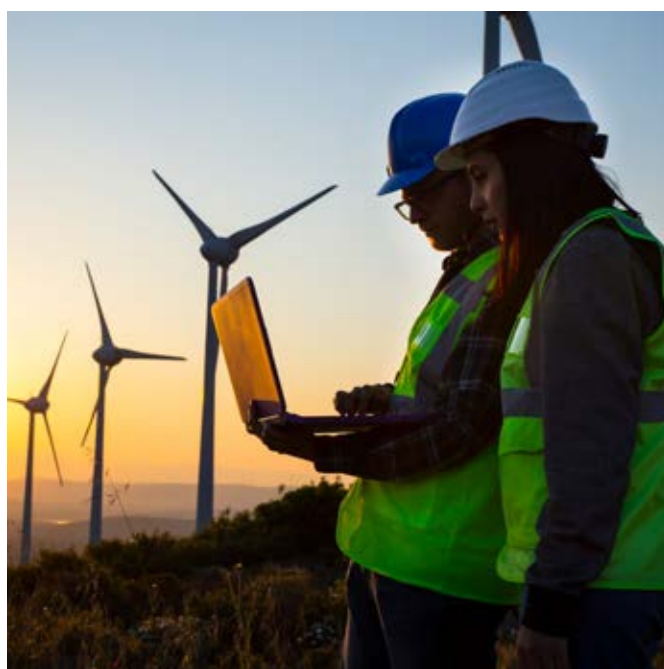
CONCLUSIONS

Throughout 2020 we spent time discussing HL's relevant policies. These have been evolving and are yet to be finalised in writing. While we understand the various approaches being applied and have a sense of what the written policies will be, we're unable to complete an assessment on their quality and adequacy until such time that they are fully documented. Therefore, we conclude that in 2020 HL didn't have formalised policies in place for **ESG** financial considerations, non-financial matters, stewardship and other financial considerations.

HL has told us the reasons these policies aren't yet in place which can be summarised as follows:

- Different parts of the HL group have been operating separate policies, or where no policy exists, under separate principles, in relation to these considerations and matters. For example, Hargreaves Lansdown Fund Managers (the part of HL which manages its own funds) has its own responsible investment policy and an engagement policy that incorporates stewardship.
- In respect of **ESG** financial considerations, there's no policy because HL has been assessing **ESG** as part of its wider research, due diligence and review processes.
- In respect of non-financial matters, there is no policy because HL has been assessing non-financial matters as part of its wider research, due diligence and review processes on the external fund managers it uses for the default and ABC funds.
- In respect of stewardship, there is no policy because HL has no control over the stewardship of the external funds used in the Workplace SIPP. However, it does review the stewardship policies of the external fund managers it uses for the default and ABC funds as part of its fund manager research, due diligence and review processes.
- In respect of other financial considerations, there is no policy because HL has been assessing other financial considerations as part of its wider research, due diligence and review processes on the external fund managers it uses for the default and ABC funds.

HL assures us they are currently working on an all-encompassing **ESG** policy for the business (thus covering the Workplace SIPP), which is expected to be finalised in 2021. Therefore, we expect to assess the adequacy and quality and the implementation of this policy and include our findings in our next IGC report.



Investment pathways for drawdown

The pathways are four investment strategies that can be used for those starting to drawdown their benefits. Investment pathways were launched by HL on 29 January 2021.

We had a duty to assess the investment pathways before they were launched and raise any concerns with HL. We carried this out during 2020 and in this section we'll set out what we thought. Our report for next and the following years will include further consideration of **VFM** taking into account, amongst other things, HL's experience of them since launch.

WHAT ARE INVESTMENT PATHWAYS?

Pathways are a new set of investment options launched by HL in January 2021 to help you make investment decisions close to when you draw or when you are drawing your benefits. There are four pathways depending on what you intend to do:

Pathway 1: for people who have no plans to touch their money within the next five years.

Pathway 2: for people who plan to take a guaranteed income (annuity) within the next five years.

Pathway 3: for people who plan to start taking a long-term income within the next five years.

Pathway 4: for people who plan to take out all of their money within the next five years.

INVESTMENT STRATEGIES

We thought the investment pathways appeared to have been designed and would be managed in your interests. We also thought they had clear statements of **aims and objectives**.

The investment pathways were designed based on a set of assumptions about the **aims and objectives**, risk appetite and the capacity for loss of those who would invest in them. We thought this was satisfactory, but we urged HL to review these assumptions as people start to use the pathways.

REVIEW OF PERFORMANCE AND ALIGNMENT WITH YOUR INTERESTS

As the pathways had yet to be launched there was no performance to review. We did, however, review HL's process for choosing the funds. We thought it satisfactory.

The investment pathways were designed based on a set of assumptions about who would invest in them and how they would behave. We thought this was satisfactory, but we urged HL to

review these assumptions and behaviours as people start to use the pathways.

CORE FINANCIAL TRANSACTIONS

As the pathways had yet to be launched there was no administrative performance to review. We did, however, review HL's service standards and systems. We thought them satisfactory.

CHARGES AND INVESTMENT COSTS

We thought the level of charges HL were proposing to apply looked satisfactory.

As the pathways had yet to be launched there were no investment costs to review. We did, however, look at historic data for the investment solutions the pathways would use. We thought that satisfactory.

We had asked HL to gather data on the costs and charges being applied by other firms however there was very little publicly available data at the time. We've asked them to gather more in time for our formal **VFM** assessment next year.

COMMUNICATIONS

We reviewed both HL's process for designing communications as well as the key outputs. We thought these would be fit for purpose.

The communications were designed based on a set of assumptions about who would invest in the pathways. We asked HL to review these assumptions as people start to use the pathways.

We had some reservations about other components of the HL communications package. We asked HL to reflect on these reservations and report back to us in time for our formal **VFM** assessment next year.

CONCLUSIONS

Our conclusion was that the investment pathways would give you value for money.

This conclusion, however, was based on HL making a set of reasonable assumptions which we've urged them to test against experience as people start to use the pathways. Now that HL and other providers have launched their pathways we've asked HL to provide us with comparative data analysis time for our formal assessment next year.

Understanding your views

While we can rely on our expertise and carry out research, only you can tell us what features of value for money are important to you.

Since 2016, we've been surveying members to understand their views. This has given us valuable insight into what you value and areas for improvement and we've shared this each year with HL to enable them to compare this with their own member survey responses.

Given the range of feedback both we and HL has gathered to date, we chose not to run our survey again in 2020. Instead, we asked HL to review and assess the feedback they've gathered through their own member survey over the past few years, with a view to identifying specific actions to take forward. We'll continue to assess the work being done in this area in 2021 and provide an update in our next report.

Despite this, we'd still love to hear what you think. You can let us know your views by emailing us on IGC@hl.co.uk.

Or by writing to us at;

FAO: IGC
Freepost HARGREAVES LANSDOWN

Please note we cannot deal with complaints or general enquires. These should be raised with HL.



HL and us

You'll have seen from earlier in this report that we're independent of HL. That said, we could not have carried out our **VFM** assessment without their support. As well as acting as our secretary, HL has constructively and openly answered the questions we've asked and responded to the challenges we raised. The IGC Chair has attended a Hargreaves Lansdown Asset Management Limited board meeting to present the IGC's conclusions from this report..

Limitation of our VFM assessment

Our conclusion is based on performing analysis on features, benefits, service and costs and charges across all workplace personal pension plans that HL administers. It hasn't been possible to look on a member-by-member basis. As a result, you may have a different experience of value for money compared to other members.



APPENDICES



Appendix 1

Who the committee is and why we are here.

We are an Independent Governance Committee (or "IGC").

WHAT IS AN IGC?

An IGC is a 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.

Your IGC is made up of five individuals, four of whom (including the chair) are independent of HL. The fifth is an employee of HL but he still has a duty to represent your interests.

Each of us 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're committed to assessing value for money in a member-focused way, and with an emphasis on ensuring you 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.

Since April 2020, our remit has been 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.

This report documents our assessment of value for money during 2020.

You can find a copy of our IGC **terms of reference** and reports for previous years online at: www.hl.co.uk/igc

WHO SITS ON THE IGC?

You can find information on the current members of the IGC in Appendix 2.

Appendix 2

Who is on the committee?

The current members of the committee are shown below.



RICHARD BUTCHER
Independent chair

Richard is Managing Director of PTL a market leading and award winning professional independent pension trustee company. Richard has been involved in pension scheme governance since 1985. He is a Fellow of the Pensions Management Institute (PMI). Richard is Chair of the Pension and Lifetime Savings Association (PLSA), the industry association for pension schemes. He has sat on various working groups and committees for the industry, the regulators, the Bank of England and others in relation to, amongst other things, the disclosure of investment costs and charges, Productive Finance, policy development and **ESG** investment matters. He has also sat on the Council of the PMI, the PLSA DC Council (which he chaired for two years), the Pension Regulators DC Practitioners Panel and the Department of Work and Pensions Trustee Panel. He is a regular contributor to the trade press and has won several awards and accolades.

Richard is qualified to be a member of an IGC by merit of his significant experience in and knowledge of the pensions industry, his expertise in assessing the value for money of arrangements such as this (gathered from his role on similar boards) and his knowledge of **ESG** and underlying investment costs and charges. He is qualified to chair the IGC by merit of his significant experience of and positive track record in chairing similar arrangements as well as other boards and committees.



HELEN CAREY
Independent member

Helen is Compliance & Operations Director at AV Trinity. She has over 20 years' experience working in a variety of roles in the pensions industry, including workplace pensions. This includes supporting employers when making important decisions for their members and directly advising scheme members pre and post retirement. Helen is passionate about good member outcomes and financial education, having played an active role in improving financial understanding in schools and in the workplace. Helen is a Chartered Financial Adviser and Fellow of the Personal Finance Society.

Helen is qualified to be a member of an IGC by merit of her extensive knowledge and experience of pensions and investments, her in-depth technical understanding of how these products work, **ESG** risks and opportunities and the regulations applying to workplace pensions, and her hands-on experience of advising consumers on their retirement planning and in-retirement needs.



RITA BAJAJ
Independent member

Rita is a financial services consultant with over 25 years' broad industry experience. She has held senior investment positions at global and UK asset managers, such as Royal London and Invesco Perpetual. She also served as EMEA CAO at State Street and is a former Financial Conduct Authority regulator. Rita is passionate about improving retirement outcomes and value for money for members, including sustainable investing and **ESG** considerations. Rita is a Chartered Financial Analyst (CFA).

Rita is qualified to be a member of an IGC by merit of her significant direct Global Equity markets investment & **ESG** expertise and knowledge of the asset management/custody industry, her risk & controls management experience both as a former **FCA** regulator supervising asset management firms and as a controls executive.



IAN COSTAIN
Independent member

Ian is a qualified actuary with more than 25 years' experience in the pensions industry. In the early part of his career he worked for various insurers and the UK's largest network of financial advisers. His roles covered product development, pricing, marketing, and distribution. From 2003 to 2009 Ian was Head of Policy & Public Affairs for AXA UK. At an industry level he was a founding member of the Association of British Insurers' Consumer Engagement Committee. Ian has been an independent consultant since 2009 with a strong focus on the regulation of pensions. He has spent a year at The Pensions Regulator leading their strategic thinking on the regulation of the pensions market, and over a year at the Financial Conduct Authority as a special adviser on pension policy.

Ian is qualified to be a member of an IGC by merit of his wide-ranging experience in the pensions industry extending from consumer protection – he has worked specifically on pensions for several regulators – to the technical design and pricing of pension products themselves.



MARK WALTER
HL employed member

Mark joined Hargreaves Lansdown in 2010. He is responsible for managing HL's relationships with the fund management companies available through the HL platform. He has extensive experience of HL's operational, commercial, and client-facing functions, enabling him to bring a rounded view to assessing value for money within workplace pensions and investment pathways, as well as how **ESG** is integrated into investing. Mark is passionate about expanding access to financial services. Mark holds the Diploma in Regulated Financial Planning.

Mark is qualified to be a member of an IGC by merit of his experience of the investment and platform industry – bringing a deep understanding of the operation of an investment platform and the performance of investments offered to individual investors in the UK.

NOTES

Our **terms of reference** state that all members of the IGC must act solely in the interests of Workplace scheme members and pathway investors. This applies to HL employed members, who are free to participate in the IGC without it conflicting with the other terms of their employment.

The members of the IGC were appointed after a robust recruitment process. For the HL employed member this included advertising the role to all HL staff. For the external members, HL advertised the position on their website and other channels. For all positions, multiple rounds of interviews took place which were conducted by panels independent of each other. Richard Butcher, the independent chair, was involved in the interview and selection process for all the new members appointed in 2020 (Mark, Rita and Ian). The recruitment process was also overseen by HL's human resources and talent acquisition team.

Our respective histories mean that together, we've sufficient expertise and experience to act in your interest. In addition, we're sufficiently independent to act in your interest. This is because four of us are independent of HL and the one who is an employee is contractually able to be and has demonstrated his independence during our meetings. HL monitors whether IGC members have the required skills, experience and independence to carry out our roles.

There were four changes to the IGC during the year. David Grimes (independent chair), Bob Grainger (independent member), Nick Dykes (HL employed member) and Rob Byett (HL employed member) all came off the IGC in 2020 as their terms of office came to an end. They were replaced by Richard Butcher, Rita Bajaj, Ian Costain and Mark Walter. Helen Carey continued on the committee. We would like to thank David, Bob, Nick and Rob for all of their work on the IGC since 2015.

Appendix 3

Our value for money framework.

We've created a framework to analyse the value for money ("**VFM**") you get.

The framework helps us to make sure we consider the factors that contribute to **VFM** in a robust and consistent way. The framework was developed over several stages. The key stages were as follows:

- We agreed our approach to the assessment
- We developed a "scorecard"
- We agreed the features to be scored in the scorecard
- We individually scored the features based on information given to us by HL
- We compared and, in some cases, amended our individual scores during a moderation meeting
- We aggregated our scores to arrive at group conclusions
- We agreed our result

A full list of the features we considered is below.

Benefits: Investments and performance:

- Whether default investment strategies are designed and executed in the interests of relevant policyholders, including the approach to **de-risking**
- Adaptability of default arrangements (not limited to automatic enrollment) to changing circumstances
- Gross risk adjusted investment performance (especially default funds)/risk metrics/diversification – consistency with objectives and portfolio volatility
- Appropriate range of choice of accumulation funds
- Whether the characteristics and net performance of investment strategies are regularly reviewed, and that action is taken to make any necessary changes
- Adequacy and quality of policy in relation to **ESG** financial considerations (if present)
- Adequacy and quality of policy in relation to other financial considerations (if present)
- Adequacy and quality of policy in relation to stewardship (if present)
- Adequacy and quality of policy in relation to non-financial matters (if present)
- Ongoing fund governance
- Interventions and actions relating to poor performing funds

Benefits: Communications, engagement and support

- Default strategies: clear statements of **aims and objectives**
- Overall member communications fit for purpose/quality (including education) clarity, visual appearance etc
- Range of comms tools
- Tactical approach i.e. communications at points of susceptibility.
- Real time access and functionality

- Online functionality (update, contribute, transact)
- Online tools (tax planner, modeller etc)
- Additional member support on pension saving (e.g., online support, telephone helpline etc.)
- Support through workplace
- Support at retirement – communications
- Vulnerable customers – robust approach
- Alternative form (e.g., braille) and alternative language communications
- Member education tools
- Website quality

Benefits: Administration and service

- Whether core financial transactions are processed promptly and accurately
- Performance against SLAs
- Level of automation (STP)
- Scam protections
- Customer satisfaction measures (e.g. NPS)
- Choices at retirement – the range of decumulation choice available
- Independent assurance of controls
- Data protection (GDPR)
- Auto-enrolment and re-enrolment support
- Levels of complaints

Benefits: Additional factors

- Additional governance structures for the benefit of members (e.g. Governance/supervision committees with external/independent members/Operation risk controls/Internal audit function)
- Additional (financial or other) benefits available to members by virtue of being a workplace pension policyholder (such as discounts on other products from the insurer)
- Sustainability of product/provider
- HL's willingness and ability to invest in the proposition
- HL reputation
- IT robustness including management of cyber risk

Costs and charges

- Platform charges
- Investment costs
- **Transaction costs**
- Exit charges
- Other costs (non-elective)
- Other costs (elective)
- Total cost (aggregate cost)

Appendix 4

Costs and charges information.

DEFAULT AND ABC FUND CHARGES

The following charges applied to the investments and cash used as a default and the ABC funds as at 31 December 2020.

	ANNUAL CHARGE	TRANSACTION CHARGE	TOTAL
Blackrock Consensus 85	0.10%	0.07%	0.17%
Schroder Managed Balanced	0.33%	0.28%	0.61%
Cash	No interest paid and no charge (HL retain some interest)		
Rathbone Global Opportunities	0.52%	0.12%	0.64%
Ballie Gifford Managed	0.27%	0.12%	0.39%
BNY Mellon Real Return	0.65%	0.27%	0.92%

Further information about these funds and the others available in the scheme can be found here – www.hl.co.uk/funds.

HL ANNUAL PLATFORM FEE

HL applies an annual charge to the value of funds you hold in your pension as follows:

VALUE OF FUNDS	CHARGE
On the first £250,000	0.45%*
On the value between £250,000 -£1m	0.25%
On the value between £1m - £2m	0.1%
On the value over £2m	No charge

No platform fee is applied to cash. Full details of charges are in the tariff of charges on the last page of [HL's Terms and Conditions](#).

* Some schemes are on a lower charge for this tier. This table shows the number of schemes at each fee level:

PLATFORM FEE ON FIRST TIER OF FUND HOLDINGS IN DEFAULT INVESTMENT	DEFAULT INVESTMENT OPTION	NUMBER OF SCHEMES	PERCENTAGE OF TOTAL
0.45%	Blackrock Consensus 85	360	57%
0.40%	Blackrock Consensus 85	14	2%
0.35%	Blackrock Consensus 85	14	2%
0.30%	Blackrock Consensus 85	5	<1%
0.25%	Blackrock Consensus 85	12	2%
0.42%	Schroder Managed Balanced	195	31%
0.40%	Schroder Managed Balanced	9	1%
0.35%	Schroder Managed Balanced	5	<1%
0.25%	Schroder Managed Balanced	12	2%
0.45%	Cash	5	<1%
0.35%	Cash	3	<1%
0.30%	Cash	1	<1%

FIND YOUR ILLUSTRATION

How much your pension is worth will depend on a number of factors. The most important one is usually how much you and your employer pay in. How your investments perform, and the impact of charges make a significant difference too. All investments have their own charges. The level of charges will vary in different investments and this will affect your pension value.

Hargreaves Lansdown are required to publish illustrations to help you understand how charges can affect what your pension might be worth in future. They're not a prediction of what might happen – instead they're illustrations based on assumptions that the Financial Conduct Authority requires HL to use.

HL will email you with confirmation of which platform fee applies to your scheme and send you a link to the illustration that applies to your scheme too. Links to all of the illustrations can be found below:

PLATFORM FEE ON FIRST TIER OF FUND HOLDINGS IN DEFAULT INVESTMENT	DEFAULT INVESTMENT	LINK TO ILLUSTRATION
0.45%	Blackrock Consensus 85	Download Illustration (PDF)
0.40%	Blackrock Consensus 85	Download Illustration (PDF)
0.35%	Blackrock Consensus 85	Download Illustration (PDF)
0.30%	Blackrock Consensus 85	Download Illustration (PDF)
0.25%	Blackrock Consensus 85	Download Illustration (PDF)
0.42%	Schroder Managed Balanced	Download Illustration (PDF)
0.40%	Schroder Managed Balanced	Download Illustration (PDF)
0.35%	Schroder Managed Balanced	Download Illustration (PDF)
0.25%	Schroder Managed Balanced	Download Illustration (PDF)
0.45%	Cash	Download Illustration (PDF)
0.35%	Cash	Download Illustration (PDF)
0.30%	Cash	Download Illustration (PDF)

JARGON BUSTER

Glossary of certain terms used in this report

Aims and objectives (Investment)

An investment fund's aims and objectives should set out what the fund intends to achieve and how it intends to achieve it; for example, to grow at x% a year measured over a x year cycle, by taking no more than x risk. The aims and objectives allow you to choose a fund that matches your own aims and objectives.

Default fund

How your savings are invested if you or your financial adviser (if you had or have one) didn't tell HL otherwise.

De-risking or lifestyling

De-risking or lifestyling is a process where, as you approach retirement the scheme automatically switches your investments in a phased way over a period to align them with how you'll take your benefits in retirement. De-risking strategies are usually considered in the years before people take benefits.

ESG (Environment, Social, Governance)

ESG refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies (return and risk).

FCA

The Financial Conduct Authority, a regulatory body for financial services companies.

Flexible access

This describes you taking your benefits directly from your savings in regular or irregular and varying amounts at any time. This is available to you after you reach age 55 (57 from 2028).

Secure income

This describes using all or part of your savings to buy an insurance policy (an "annuity") that'll continue to pay a regular and perhaps increasing amount of pension for the rest of your life. This is available to you after you reach age 55 (57 from 2028).

Terms of reference

The IGC's terms of reference set out what we will do. Our terms of reference can be found here www.hl.co.uk/IGC

Transaction costs

Transaction costs are part of the total costs of managing investment funds and are reflected in the return you receive from your fund. They are incurred when investment managers buy, sell, borrow or lend investments. Transaction Costs include such items as tax, stamp duty and dealing commission and custodial fees.

Value for money (VFM)

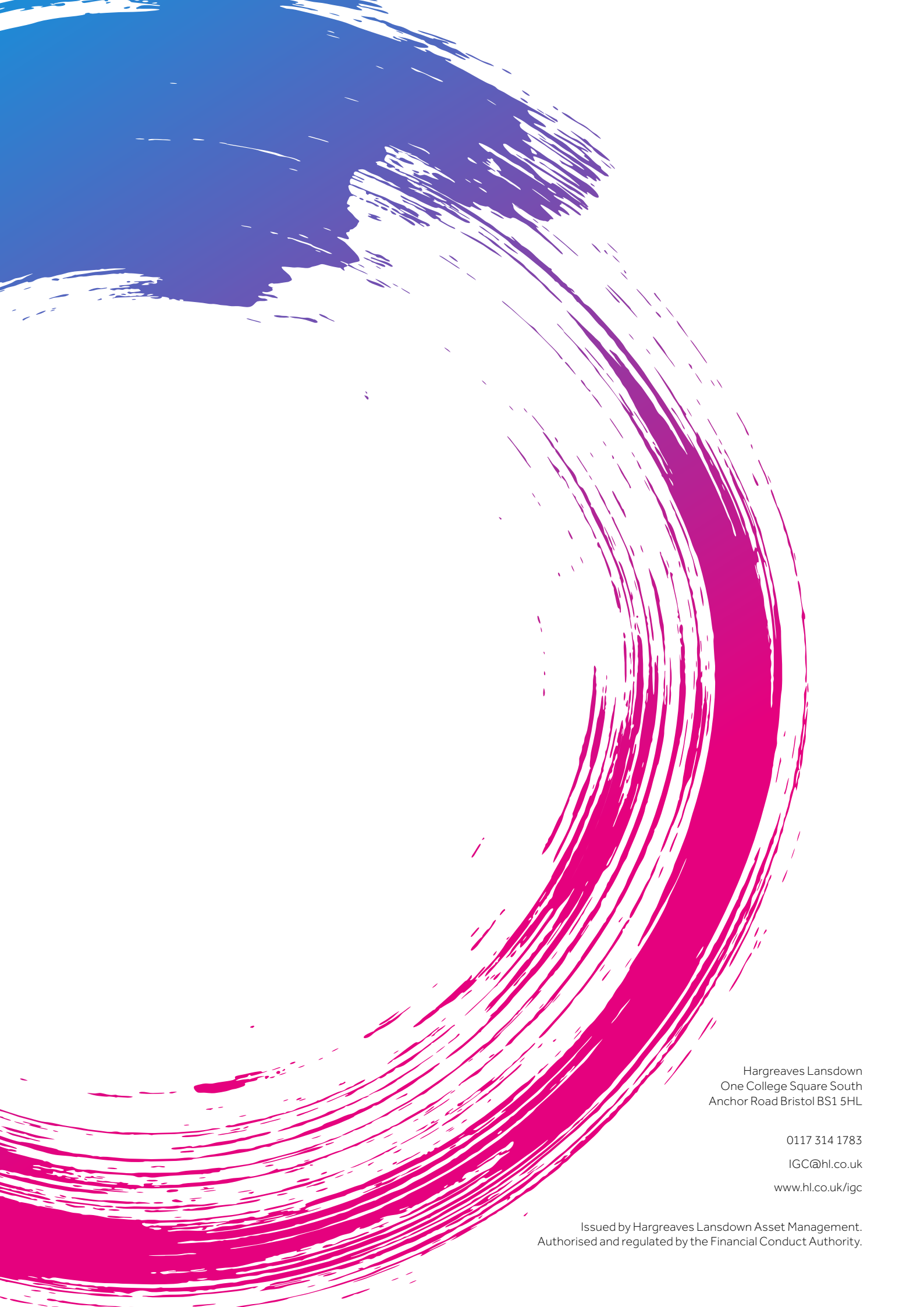
The balance of cost versus benefits.

Value for money has been defined (by the National Audit Office) as "The optimum combination of whole-life costs and quality".

Because, however, there is a lack of perfect information about what's available and at what price and because some parts of the proposition are qualitative, what's "optimum" can only be theoretical.

Nevertheless, a value for money assessment must take account of the quality of the pension proposition as well as its cost and consider how that compares to what's available for equivalent schemes from other providers in the marketplace.





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