ZEDRA

DO MORE. ACHIEVE MORE.

Chair's annual report

NFU Mutual
Workplace Personal Pension Plans

Year ended 31 December 2021

The ZEDRA Governance Advisory Arrangement (GAA)

September 2022

Executive summary

This report on the workplace personal pension plans provided by NFU Mutual ('the Firm') has been prepared by the Chair of the ZEDRA Governance Advisory Arrangement ('the GAA') and sets out our assessment of the value delivered to policyholders and our view of the adequacy and quality of the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations, and stewardship.

Further background on the activity of the GAA and details of the credentials of the GAA can be found in Appendices C and D respectively. The GAA works under Terms of Reference, agreed with the Firm, the latest version of which is dated 14 April 2022 and is publicly available (see Appendix D).

This report also covers two workplace pension plans provided by the Firm. The Group Stakeholder Pension Plan (GSP) is the larger of the two pension plans and offers policyholders a default option. The Group Personal Pension Plan (GPP) does not offer policyholders a default option. This is our seventh annual report. This report covers the accumulation phase workplace pension products only; there is a separate Chair's Annual Report which covers the Investment Pathways product (i.e., the decumulation phase of the workplace personal pension plans).

As Chair of the GAA, I am pleased to deliver this value assessment of the GSP and GPP provided by the Firm. The GAA has conducted a rigorous assessment of the Value for Money delivered to policyholders over the period 1 January 2021 to 31 December 2021. The GAA has developed a Framework to assess Value for Money which balances the quality of services and investment performance provided to policyholders against what they pay for those services and investment performance. Further details are set out on page 6.

A COLOUR CODED SUMMARY OF THE GAA ASSESSMENT

	Weighting toward VfM assessment*	GSP	GPP
1. Product strategy design and investment objectives	7%	🟢	🟢
2. Investment performance and risk	20%	🟢	🟢
3. Communication	13%	🟢	🟢
4. Firm governance	5%	🟢	🟢
5. Financial security	7%	🟢	🟢
6. Administration and operations	13%	🟢	🟢
7. Engagement and innovation	3%	🟡	🟡
8. Cost and charge levels	33%	🟢	🟢
Overall value for money assessment	100%	🟢	🟢

** May not add to 100% due to rounding*

Quality and investment features

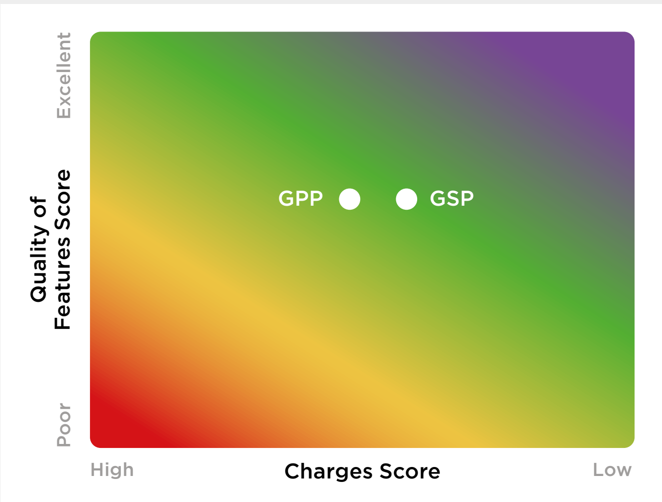
🟣 Excellent 🟢 Good 🟡 Satisfactory 🔴 Poor

Cost and charge levels

🟣 Low 🟢 Moderately Low 🟡 Moderately High 🔴 High

The Overall Value for Money rating is determined on a rating scale based on the product of the overall scores for the individual Features and the weightings shown in the above table. The Investment and Quality Features combined represent two-thirds of the overall score and the Cost and Charge Levels represent one-third of the overall score. It is visually represented by the heatmap below.

VALUE FOR MONEY SCORING



The overall conclusion is that the Firm's GSP and GPP provide good value for money.

The GAA has challenged the Firm to improve member engagement in order to get greater member feedback through conducted surveys as well as looking at ways to reduce the additional charges within the GPP offering. Moreover, the GAA noted some areas of improvements such as better integration of **ESG** financial considerations within the default and self-select investment options within the GPP and GSP, increasing the range of funds available to policyholders, quantifying statements of aims and objectives for investment options and clear communication of these to members, improving engagement with policyholders on feedback and online capabilities to help policyholder execute on fund switches, and conducting peer group benchmarking of costs for GSP and GPP. The NFU Mutual's approach to ESG is still evolving and the GAA would expect to see ongoing developments in this area.

Details of the numbers of policyholders and their funds were supplied to the GAA for the assessment.

We also concluded that the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship were adequate and of good quality. NFU Mutual has provided details of its ESG policy and shareholder engagement to the GAA, which clearly explains the approach and how it is implemented. The policy is reviewed on an annual basis. The range of funds offered is relatively small and there are no ethical or green funds within the range.

Where we have used technical pensions terms or jargon, these are explained in the glossary in Appendix E.

The FCA has introduced new requirements this year. One of these new changes require us to undertake a comparison with other similar options available in the market. If an alternative scheme(s) would offer better value, we must inform the pension provider. I can confirm that we have not considered it necessary to make this notification this year. Our view on each Feature we are required to make a comparison on is included in the relevant section of the report. Details of how we selected the comparator group, and a consolidated view of our comparator findings is set out in Appendix B.

The GAA has not raised any concerns with NFU Mutual during the year.

I hope you find this value assessment interesting, informative, and constructive.

Clare James

Chair of the ZEDRA Governance Advisory Arrangement

September 2022

If you are a policyholder and have any questions, require any further information, or wish to make any representation to the GAA you should contact:

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Tiddington Road, Stratford upon Avon, Warwickshire CV37 7BJ

Alternatively, you can contact the GAA directly at zgl.gaacontact@zedra.com

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Overview of the value assessment

The GAA has assessed the Value for Money delivered by the GSP and the GPP to their workplace personal pension policyholders by looking at costs versus investment and service benefits. More detail about how we have done this is set out below.

Regulatory changes

The Framework used for this year's assessment has been updated to reflect changes to the Conduct of Business Sourcebook (COBS) in effect from the 2021 assessment year. This has included an explicit assessment of **net investment performance**, and the assessment of any charges the policyholders might need to pay in operating their policy which are in addition to any annual management charges and transaction costs. Our framework already included assessment of communications and processing of **core financial transactions**. These changes have been reflected in the assessments reported on in sections 2. Investment Performance and Risk, 3. Communication, 6. Administration and Operations and 8. Cost and Charge Levels.

In addition, the regulatory changes introduced a requirement to undertake comparisons of the Firm's product offering against a suitable comparator group of providers' products across net investment performance, communications, processing of core financial transactions, and costs & charges. We have included comments on these comparisons in each relevant section of the report. Details of how the comparator group was selected and a consolidated view of the comparison outcomes are included in Appendix B.

Our approach

The GAA believes that value for money is subjective and will mean different things to different people over time, depending on what they consider important at that time.

What is clear is that it is always a balance of cost versus investment and service benefits. Our fundamental approach has therefore been to compare all the costs paid by policyholders against the investment performance and quality of services provided to policyholders.

The key steps for the GAA in carrying out the Value for Money assessment are:

- Issuing a comprehensive data request to the Firm, requesting information and evidence across a wide range of quality features, including net investment performance, as well as full information on all costs and charges, including **transaction costs**.
- Attending a number of formal meetings with representatives of the Firm to interrogate the data provided and to enable the GAA to question or challenge on any areas of concern. All such meetings have been documented by formal minutes and a log is also maintained containing details of any challenges raised, whether informally or through formal escalation.
- Once the Firm has provided all information and evidence requested, the GAA has met to discuss and agree provisional Value for Money scoring using the Framework developed by the GAA.
- The provisional Value for Money score, including a full breakdown, has then been shared and discussed with the Firm.

The Framework developed by the GAA to assess overall Value for Money for policyholders involves rating the Firm against eight different Features covering Quality of Service, Investment Performance and Strategy, and the Cost and Charge Levels borne by the Policyholders. This assessment is undertaken of the Firm's product(s) relative to the GAA's view of good practice.

The Quality of Service Features and Investment Features have been determined based directly on the FCA's requirements for assessing ongoing Value for Money set out in COBS 19.5.5, in particular services relating to communications with policyholders and processing of core financial transactions. The Quality of Service Features considered has been expanded to include other aspects the GAA considers important based on the GAA's experience of conducting Value for Money assessments over the past several years, such as the Firm's governance structure, the financial security for policyholders, the Firm's approach to engagement and innovation, and a wider overview of the administration quality and processes.

Within each of the Quality of Service Features and in the assessment of Investment Features are several sub-features. These sub-features are each scored using a numerical scoring system of 0 to 4, where 4 is 'excellent', 3 is 'good', 2 is 'satisfactory', 1 is 'poor' and 0 is 'non-compliant or insufficient information has been provided'. Scoring is aided by means of score descriptors, developed for each sub-feature, ensuring the GAA adopts a consistent approach to scoring across clients. Each set of score descriptors outlines what the GAA would expect to see in order to achieve each numerical score. The scores for each sub-feature are then aggregated to the Feature level based on the GAA's view of the relative value of the sub-feature to the policyholders.

The GAA then went on to consider the value represented by the Cost and Charge Levels which policyholders have to bear. The assessment of Cost and Charge Levels is primarily driven by the level of ongoing charges for investment management, administration, and platform fees. The GAA also considers the transaction costs and how they are controlled, and any additional costs the policyholders pay in the investment and management of their policies. The Cost and Charge Levels are rated on a numerical scale of 1 to 4 where 4 is 'low' charges, 3 is 'moderately low' charges, 2 is 'moderately high' charges and 1 is 'high' charges.

This assessment takes into account information available to the GAA on general levels of costs and charges for pension providers in the marketplace.

The scores for each Feature are then combined using the weightings set out in the table in the Executive Summary to determine an Overall Value for Money rating. The weightings used are based on the GAA's views of the relative importance to the policyholders of each Feature. The weightings are tilted towards the Features and sub-features which have been identified in the regulations relevant to forming this assessment of value. Where possible, the GAA has taken into account the likely needs and expectations of this group of policyholders, based on the information made available by the Firm.

In the sections on the following pages, we have described the Firm's approach to delivering each of the Features, and the rating the GAA has awarded, together with any areas for improvement we have identified.

In addition, there is a section setting out the GAA's views on the adequacy and quality of the Firm's policies on **ESG** financial considerations, non-financial considerations, and stewardship. Whilst this is a largely qualitative assessment, the GAA has considered the Firm's policies in comparison to others the GAA has knowledge of.

An assessment has also been made of the net investment performance, quality of communications and quality of the administration service including processing of core financial transactions, and costs and charges relative to a suitable comparator group of product providers. Comments on the outcome of these assessments is included in the sections for the relevant Features. We have also considered whether an alternative provider would offer better Value for Money so that we can inform the Firm if we believe this to be the case. Details of the comparisons, including how the comparator providers and products were determined is set out in Appendix B.

1. Product strategy design and investment objectives

Value score: ○ Excellent ● Good ○ Satisfactory ○ Poor

What are we looking for?

We expect to see an investment strategy for the default that is designed and managed taking the needs and interests of policyholders into account, evidenced by appropriately defined risk ratings, and consideration of the investment time horizon and age profile of the membership.

We want to see that all investment options have clear statements of aims and objectives – in particular that as well as qualitative objectives, there are quantitative objectives in place, that investment performance outcomes can objectively be measured against. Ideally, we would like to see evidence that these objectives link back to the needs of policyholders.

We are also looking for evidence of a robust ongoing review process for all investment options, including the default, and evidence that the Firm has taken steps to implement changes to investment options, where appropriate, to ensure alignment with policyholders' interests.

Whilst policies on ESG financial considerations and non-financial matters are considered separately on page 23, we expect to see evidence of how these matters are taken into account in the design of the investment strategy and in investment decision making.

The Firm's approach

NFU Mutual offers policyholders, for both the GSP and GPP, a limited range of funds, which are actively managed. It is the Firm's belief that a focused range of funds provides better member outcomes. Policyholders have online access to fund factsheets which provide clear statements of aims and objectives.

Performance is monitored regularly at quarterly meetings with remedial action taken where required. Benchmarks have been set with the aims and objectives of policyholders in mind and these are clearly articulated in fund factsheets and other communications. Recognising that the Firm's core strength was its understanding of the UK markets, the management of some overseas assets has been outsourced to third-party managers since early 2019.

NFU Mutual takes an integrated approach to ESG and it is considered alongside traditional financial measures. The approach is pragmatic and recognises that it is easier to implement for equities than for fixed income instruments. ESG policies of third-party managers are reviewed for compliance. The Firm uses Institutional Shareholder Services (ISS) for voting at meetings and have over the last year voted against important issues, mainly relating to remuneration and appointment of directors.

NFU Mutual offers two workplace personal pensions plans.

GSP is no longer open to new employers, although new members are able to join an existing GSP. The default fund for GSP is the Mixed Portfolio Max 100% Shares Fund which predominantly invests in equities. There are a further seven unit linked funds for policyholders to choose from. In addition, there are lifestyle strategies targeting drawdown, cash and annuity objectives.

GPP is closed to new employers but accepts new policyholders for existing employers.

GPP does not offer a default fund or strategy, but most policyholders are invested in the Mixed Portfolio 40-85% Shares Fund, with some policyholders in the With Profits fund. Policyholders have one unitised With Profits fund, along with seven other unit linked funds to choose from.

The Firm's strengths

The funds themselves and all internally managed elements do not use financial derivatives, but there is the ability for some minimal use within some of the externally managed elements of the international equity funds. These are 'long only' strategies in areas such as forward contracts for currency hedging and index futures and they are not used to obtain leveraged market exposure.

Investment performance is regularly reviewed by the Financial Services Management Committee and there is a quarterly presentation to the main Board. The range of funds available is regularly reviewed by the Financial Services Proposition Governance Forum.

These processes, in the opinion of the GAA, separate the various functions and deliver a rigorous process with regards to investment matters. All funds offered to policyholders are actively managed as the Firm believes this adds value to policyholders as compared to taking the passive or index-tracking approach.

The funds offered to policyholders are regularly reviewed. Previous reviews have resulted in the introduction of new funds and the outsourcing of the management of some overseas assets to third-party managers. Additional lifestyles have been introduced and the default lifestyle for the GSP has been changed to the more appropriate drawdown lifestyle, based on the choices made by policyholders at retirement. The Firm has provided the GAA with the decision matrix for communication with policyholders. The GAA has reported on these changes in previous reports.

ESG considerations are integrated into the investment process and are considered alongside traditional financial measures.

All fund factsheets along with pricing, investment performance and charges are available online and easily accessed by policyholders. The fund factsheets state the investment objective, provide risk ratings on a scale of 1 to 6, have a crown rating of up to 5 crowns and provide a clear breakdown of asset allocation.

Areas for improvement

GAA observations

The GAA would expect to see continued progress on the integration of ESG financial considerations within the default and self-select investment options within GPP and GSP, appreciating that this is an evolving area.

In addition, the GAA would like to see further consideration given to the range of funds available to policyholders, although it is noted that the vast majority of policyholders invest in the default for the GSP and the Mixed Portfolio 40-85% Shares Fund for the GPP.

Finally, the investment options available to policyholders have clear statements of aims and objectives. These are clearly stated on fund factsheets that can be downloaded from the website. However, the GAA would like to see that the statements of aims and objectives are quantified and stated clearly to members.

2. Investment performance and risk

Value score: ○ Excellent ● Good ○ Satisfactory ○ Poor

What are we looking for?

We would expect to see a robust governance framework under which investment performance is monitored on a regular basis. Performance should be measured against investment objectives, including against a measurable and stated benchmark. Performance should be net of fees. In addition to the stated benchmark comparison risk adjusted returns should also be considered.

Where there are any concerns over investment performance, we expect to see evidence of appropriate action being taken, which may include engagement with investment managers and/or implementing changes to fund options. We also expect to see evidence that the strategies are effective and take into account the policyholders' attitudes to risk.

The Firm's approach

The default fund for GSP is the Mixed Portfolio Max 100% Shares Fund. It was last reviewed in November 2019 and NFU Mutual concluded that it met its stated aims and objectives.

NFU Mutual has a clear process for reviewing performance. The Financial Services Management Committee reviews performance regularly and presentations are made to the main Board on a quarterly basis. The range of funds available is also regularly reviewed by the Financial Services Proposition Governance Forum.

Performance is reviewed for both strategic asset allocation and stock selection. Performance is reviewed against the benchmark and by quartile to ensure good outcomes for policyholders.

The process for managing investment performance and risk is rigorous and NFU Mutual has demonstrated that changes are implemented when required. Initially, a full review of the fund range and lifestyle arrangements was carried out in 2016 which resulted in additional funds and lifestyles being introduced to the range for policyholders. The net performance of investment strategies is reviewed on a quarterly basis to ensure alignment with interest of relevant policyholders. The fund range and options are regularly reviewed with the strategies annually reviewed. There are also quarterly asset allocation meetings with performance looked at on a monthly and/or quarterly basis and actions taken after those meetings.

The Firm's strengths

The GAA notes that performance of the default fund for GSP for the year to 31 December 2021 was second quartile for the 1-year, 3-year and 5-year periods and third quartile for the 10-year period. Performance was ahead of the benchmark for the 1-year, 3-year and 5-year periods.

The majority of investors in GPP invest in the Mixed Portfolio 40-85% Shares Fund, which was also negatively impacted by Covid-19. Here too there has been a rebound in performance with performance in the first quartile for all periods for the 12-month period to 31 December 2021. Performance was ahead of the benchmark for the 1-year, 3-year and 5-year periods.

NFU Mutual has demonstrated that there is a robust governance framework in place and has provided clear evidence of the monitoring undertaken during the year. Investment Committee minutes highlight that investment performance is reviewed for both internally and externally managed funds. This is alongside fund strategies and positioning.

There is evidence that the processes for monitoring risk and performance work as demonstrated by performance outcomes during 2021 for the two funds where most policyholders are invested.

The default returned 15.62% against a benchmark (ABI Flexible Investments) of 13.12%. 2021 was considered a good year from an investment performance perspective – mixed asset funds did well due to a strong year for equities and also the relative performance of the underlying single asset class component funds, with the exception of the international equity fund which was held back by its geographic positioning. Year to date, the funds had been coping relatively well with the volatility so far in 2022. These funds cover most of the members within the GAA.

Net investment performance

The net investment performance of the most significant funds available to policy holders and, where available, the 1-year performance of the benchmarks against which those funds are measured by the Asset Manager are set out in the following table.

Fund Name	Net Investment Performance	Benchmark
Mixed Max 100%	**15.62%**	**13.12%**
Mixed 40-85%	**13.29%**	**10.67%**

Comparator results

We have assessed how the net investment performance provided to the Firm's policyholders compares to other sufficiently similar employer pension arrangements. This takes account of both the nature of the provider and the performance of the investments being offered relative to an appropriate benchmark.

This assessment identified that the one year net investment performance for the Firm's policyholders over 2021 was average for providers of a similar product.

Areas for improvement

The GAA did not identify any specific areas for improvement.

3. Communication

Value score: ○ Excellent ● Good ○ Satisfactory ○ Poor

What are we looking for?

As a minimum we expect communications to be fit for purpose, clear and engaging and to be tailored to take into account policyholders' characteristics, needs and objectives.

We would expect to see a comprehensive suite of communications including annual benefit statements, pre-retirement wake-up letters and retirement option packs.

Information on administration charges and transaction costs should be made available to policyholders on a publicly available website annually, including illustrations of the compounding effect of the administration charges and transaction costs on an annual basis.

In a high quality communication service offering we would expect a substantial online offering, with a range of online support materials such as online calculators to enable personalised calculations with various selectable options. We would expect telephone support to be available, with good evidence of telephone scripts, call monitoring and staff training.

Additionally, we would expect policyholders to be able to switch investment options online and to have support available to help them make appropriate decisions. In particular, we would expect there to be appropriate risk warnings built into the process.

We would expect the provider to be able to offer a range of different retirement options for policyholders, as well as clear signposting to policyholders on where they can obtain guidance and advice on their retirement options.

The Firm's approach

NFU Mutual's communications are clear and free from jargon. Policyholders are provided with comprehensive welcome packs and pre-retirement wake-up communications are issued at age 50 and then annually from age 55.

Whilst there are no case studies, policyholders are encouraged to make use of NFU Mutual's Financial Planning Service which is well signposted. Contact can be made by letter, email, online and telephone and details are easily available to policyholders. Policyholders are required to either write or telephone when making fund switches; online options are as yet not available.

NFU Mutual provides policyholders with information on a range of retirement options, including signposting to Pension Wise, their Financial Planning Service and open market options with Heritage and Select Pensions.

The Firm's strengths

NFU Mutual provides policyholders with the full range of communications and signposts important retirement milestones. Policyholders are able to access financial advice when required through the Firm's Financial Planning Service.

The GAA has reviewed a range of sample communications which are clear and free from jargon. These communications are reviewed regularly and updated in line with prevailing regulations, service offerings, and tax implications.

Policyholders are able to communicate with the Firm via a range of options including letter, telephone, email, and online messaging. However, there remains the requirement to either write in or telephone in order to switch funds. The Firm seeks feedback after all calls made by policyholders. Any complaints are analysed to determine if there are any improvements that can be made to the service.

NFU Mutual has communicated with policyholders to highlight new fund and lifestyle options.

Access to an IFA is available but at an additional charge.

Comparator results

We have assessed how the communication materials provided to the Firm's policyholders compare to other sufficiently similar employer pension arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's policyholders over 2021 were marginally below average for providers of a similar product.

Areas for improvement

GAA observations

There has been little feedback from policyholders over the year. The GAA would like to see further engagement in this area.

Online capabilities could also be improved to help policyholders execute decisions such as fund switches more dynamically.

4. Firm governance

Value score: ○ Excellent ● Good ○ Satisfactory ○ Poor

What are we looking for?

We would expect to see a comprehensive governance structure in place for appointing and monitoring service providers, with evidence of regular reviews being undertaken and active changes being made as required.

The Firm's approach

NFU Mutual has a clear process for appointing and monitoring performance of investment managers, both internal and external. Investment Committee minutes provide a clear indication of the process. The GAA notes that there is a robust process for managing risk and assessing investment performance. There is also a robust process for continually assessing IT systems for vulnerabilities and risk assessing IT applications. New IT equipment was rolled out to all staff in 2021. Also, processes are in place for checks on various risks and performance on administration as evidenced by actions taken to improve SLAs throughout 2021.

The Firm's strengths

NFU Mutual has a clear process, as evidenced by the Terms of Reference for the Investment Performance Committee, for appointing and monitoring performance of investment managers and performance is monitored on an ongoing basis. Discussions and actions taken are recorded in minutes. The Financial Services Proposition Governance Forum meets every month to discuss fund performance (quarterly in depth), risk and current issues relating to the options available to policyholders.

Areas for improvement

The GAA did not identify any specific areas for improvement.

5. Financial security

Value score: ○ Excellent ● Good ○ Satisfactory ○ Poor

What are we looking for?

We look for information about the financial position of the Firm supported by evidence such as accounts as well as ratings from third party rating agencies, where available.

We also look for information about how the assets are protected, for example in the event of fraud or bankruptcy, at both Firm and manager level. This could relate to FCA or PRA protection, ringfencing or the structure of the underlying product.

We are looking for evidence of a clear process to warn policyholders about fraud and scams and for Firms to be actively monitoring for possible scamming activity.

The Firm's approach

NFU Mutual is a UK registered insurance company and is required to adhere to the rules in relation to capital adequacy and solvency ratios as laid out by the Prudential Regulation Authority (PRA). The PRA sets testing thresholds and the GAA is satisfied that based on these requirements, policyholders' interests are protected.

In 2021 the Firm achieved an overall profit of £182m (2020: £143m loss). Despite seeing strong premium growth with an increase in Gross Written Premium Income to £1,825m (2020: 1,705m), in 2021 the core General Insurance business delivered an underwriting loss of £89m (2020: £109m profit) which reflected a challenging year for claims costs due to the economic and inflationary effects of Brexit and Coronavirus.

The Group and NFU Mutual Solvency II coverage ratio increased to 204% (2020: 203%).

The Firm's strengths

NFU Mutual operates under the PRA regime which provides the GAA with reassurance that policyholders' interests are protected.

The Firm has demonstrated that it has a robust policy with regards to transfer requests and that every effort is made to safeguard policyholders against fraud.

Policyholders requesting a transfer are sent the FCA leaflet about scams along with transfer forms. UK transfers use Origo, which is secure and significantly reduces the risk of fraud. Overseas transfers are checked manually. Both follow the ABI code of conduct and there is an audit process in place. In suspicious circumstances the transfer can be referred to the financial crime unit. However, if a policyholder insists on a transfer, NFU Mutual asks the policyholder to sign confirmation that all checks and warnings had been received. However, recent regulatory changes have introduced powers for providers to refuse an insistent transfer if they have sufficient reason to suspect the customer is being scammed, following the full process of checks.

Strategy for fraud management is set by the Anti-Fraud Policy (which is reviewed annually) and associated guidance. NFU Mutual takes appropriate action where fraud is either suspected or identified. Where fraud is identified the root cause is analysed to help prevent future threats. The Financial Crime Team also conducts regular horizon scanning and monitors emerging fraud trends/typologies – considering the approach and raising awareness across the business where required. There is high level of engagement with industry groups, anti-fraud bodies, conferences and law enforcement to ensure their approach remains compliant and in line with industry best practice.

Areas for improvement

The GAA did not identify any specific areas for improvement.

6. Administration and operations

Value score: ○ Excellent ● Good ○ Satisfactory ○ Poor

What are we looking for?

We expect Firms to have robust administration processes in place with appropriate service standard agreements and regular monitoring and reporting around adherence to those service standards. In particular, we are seeking evidence that core financial transactions are processed promptly and accurately, such as processing contributions, transfers and death benefit payments.

We look for evidence of regular internal and external assurance audits on controls and administration processes. In particular, we are looking for a robust risk control framework around the security of IT systems, data protection and cyber-security. We would expect to see evidence that cyber-security is considered as a key risk by the Firm's relevant risk governance committee and that appropriate monitoring, staff training and penetration testing is put in place.

We expect Firms to have a comprehensive business continuity plan and evidence of its effectiveness through appropriate testing or in maintaining continuity of business during the COVID-19 pandemic.

We would expect to see a low level of substantive complaints and demonstration of a clear process for resolving complaints.

The Firm's approach

Administration is carried out in-house and service levels are closely monitored. Clear standards are set and there are quality audits to ensure these are adhered to.

Customer Service Update response was at 98.5% for calls in 2021. Staff remained home working but still had an office presence throughout lockdown. The contact centre had an escalation route and back office support. The Financial Services Technical team were available to members upon request.

By retaining administration in-house, NFU Mutual is able to react quickly and decisively to emerging issues and maintained a two-day turnaround.

The Firm’s strengths

The administration practices at NFU Mutual are run to tight standards. Payments out are processed on a 5-day target and 99% were processed on time. Policy servicing achieved 97% completion on a 5-day target.

The Firm was able to update policyholders about changes in working practices due to Covid-19 by updating the website. Business continuity plans were successfully implemented with no major issues experienced.

NFU Mutual was able to evidence a high adherence to administration Service Standards throughout the year.

The Firm has comprehensive business continuity plans in place and business continuity was maintained throughout the year.

NFU Mutual was able to evidence a very low level of incidence of complaints and were able to demonstrate the process for resolving those complaints with appropriate redress being provided for the small number of complaints that were upheld.

Comparator results

We have assessed how the quality and timeliness of the administration services, including the core financial transaction processing, provided to the Firm’s policyholders compare to other sufficiently similar employer pension arrangements.

This assessment identified that the administration services provided to the Firm’s policyholders over 2021 were average for providers of a similar product.

Areas for improvement

The GAA did not identify any specific areas for improvement.

7. Engagement and innovation

Value score: ○ Excellent ○ Good ● Satisfactory ○ Poor

What are we looking for?

We expect to see evidence that the product is reviewed at least annually, with new products or services being launched on a regular basis, that have been developed taking into account policyholders' characteristics, needs and objectives, including direct feedback from policyholders.

We are looking for evidence of regular, proactive engagement with policyholders to obtain feedback and for this feedback to be taken into account when reviewing the product offering.

The Firm's approach

There are a number of committees in place to oversee the products offered to policyholders. The range of funds, fund characteristics along with aims and objectives, performance and risk, fees, and relevance for policyholders are reviewed regularly on a rolling three-year basis and updated where required. There are also regular reviews of business services.

This process has resulted in the addition of new funds, the introduction of new lifestyle options and the outsourcing of some overseas assets to third-party managers.

The Firm's strengths

NFU Mutual was able to demonstrate that the product is under continuous review. They made use of their internal compliance assurance team's capability to do a mock deep dive on how they treat customers with additional needs. For example, appropriate care is expected at the product review stages and, therefore, they take the additional needs of customers into account at all stages of the review. The Propositions processes make clear reference to customers with additional needs – underlining the commitment to ensuring fair outcomes for all customers.

And, in NFU Mutual's 2021 GPP product review, they have recommended contacting all policyholders with values under £10,000 to see if they wish to take benefits as a 'small pot' or UFPLS.

Recent changes have significantly improved the flexibility for policyholders. The GAA has reviewed Investment Committee minutes and proposition reviews and the Firm has demonstrated that its offering is reviewed on a rolling three-year basis with changes made where required.

NFU Mutual has demonstrated that it is able to take action where required within the constraints of a fund range that remains relatively limited.

Improvements since last year

External managers had been appointed for overseas funds.

Areas for improvement

GAA challenge

Client feedback surveys were carried out, but engagement appeared to be limited. The GAA would like to see improved engagement to get greater member feedback.

8. Cost and charge levels

Value score: ○ Low ● Moderately Low ○ Moderately High ○ High

What are we looking for?

The GAA has considered the overall level of charges borne by policyholders over the year. This included assessing:

- The fund annual management charges, administration charges and transaction costs being borne by policyholders
- Any other charges being paid by policyholders to manage and administer their workplace pensions
- The process for collecting and monitoring overall member charges, including transaction costs
- How the Firm monitors charges
- Whether the overall level of charges is reasonable, bearing in mind the nature of the investment, level of performance, and degree of risk management
- The distribution of charges across policyholders

Whilst we have considered the average total costs and charges payable by policyholders we have noted where there may be notable outliers such as high charges for small pots.

Required disclosures relating to costs and charges payable by the Firm's policyholders can be found in Appendix A.

The Firm's approach

The AMC for the GSP is 0.749% per annum or lower for all fund options, with lower charges for larger fund values. The charging structure is implemented via the use of rebates with reference to the gross AMC of 1% per annum. Rebates are 0.251% to 0.50% per annum, depending on fund size.

The AMC for the GPP is 0.625% per annum across all funds. There is no bid/offer spread but allocation rates vary between 95% and 98%, depending on the size of the premium, for payments started after 31 December 1997 (or 97% to 100% where no commission is payable). There are no exit charges for all policyholders, irrespective of age.

Transaction costs for the year under review were between 0% for the Deposit, Fixed Income, and Index-linked funds, with the Property fund having the highest costs of 0.07%. Transactions costs for the Mixed Portfolio Max 100% Share Fund, the default for the GSP, were 0.04%. Transaction costs for the Mixed Portfolio 40-85% Shares Fund, where the majority of the GPP policyholders are invested, was also 0.04%.

There are additional charges within the GPP. These relate to JP Morgan fees for accounting/custody/depositary services for the GPP, their externally managed assets through external asset managers, and some funds can directly hold assets with specific additional charges such as Exchange Traded Funds or Investment Trusts. The main fund used, Mixed 40-85% Shares Fund has additional charges of 0.15%.

The Firm's strengths

Costs for external managers and service providers were negotiated at outset, forming an integral part of the selection process, and are regularly reviewed once in place to ensure continued value for money. JP Morgan fee schedules are reviewed at least annually, and Mercer/external manager fees were discussed at quarterly Joint Advisory Board meetings, with Mercer actively engaging with the external managers on potential fee enhancements as part of their regular due diligence cycle. An annual value assessment produced by Mercer included a comparison of charges to similar funds from a broad universe, and NFU Mutual internal annual Value for Money assessment considered external and total charges for all funds in light of the service and performance delivered. All outsourced arrangements are formally reviewed every 3-5 years including a re-tender where appropriate.

Comparator results

We have assessed the overall cost and charge levels payable by the Firm's policyholders in comparison to policyholders of other sufficiently similar employer pension arrangements. This takes account of the nature of the provider.

This assessment identified that the overall cost and charge level paid by the Firm's policyholders over 2021 were average for providers of a similar product.

Areas for improvement

GAA observations

NFU Mutual did not conduct any peer group benchmarking of costs for the GSP or GPP.

GAA challenge

NFU Mutual should look at ways of reducing the additional charges within the GPP offering.

ESG financial considerations, non-financial matters and stewardship

What are we looking for?

Where the Firm has an investment strategy or makes investment decisions which could have a material impact on policyholders' investment returns, the GAA will assess the adequacy and quality of the Firm's policy in relation to ESG financial considerations, non-financial matters, how these are taken into account in the Firm's investment strategy or investment decision making. We will also form a view on the adequacy and quality of the Firm's policy in relation to stewardship.

We expect the Firm's policy in relation to these considerations:

a) Sufficiently characterises the relevant risks or opportunities;

b) Seeks to appropriately mitigate those risks and take advantage of those opportunities;

c) Is appropriate in the context of the expected duration of the investment; and

d) Is appropriate in the context of the main characteristics of the actual or expected relevant policyholders.

We also expect that the firm's processes have been designed to properly take into account the risks or opportunities presented.

Whilst this formal requirement falls outside the overall Value for Money assessment, the GAA's Value for Money framework does take into account, where relevant, when scoring the area of Product Strategy Design and Investment Objectives on page 8, how the Firm has integrated ESG financial considerations and non-financial matters in the Firm's investment strategy and investment decision making.

The Firm's approach

NFU Mutual takes an integrated approach to ESG and fund managers consider ESG alongside traditional financial measures. The Firm's approach is to engage proactively with management teams in order to effect change where required. It is the Firm's policy to cast its vote at all meetings and this is executed using the proxy services of ISS, although it has taken a tougher stance than that recommended by ISS in a number of cases. The Firm has well developed ESG and stewardship policies in place for UK equities and this is now being extended to overseas investments as well.

These policies are implemented across fixed income investments as far as possible. The introduction of green bonds has facilitated this process. Following industry feedback, NFU Mutual believes that exclusions are likely to play a more important role than they do in equities.

ESG for third-party overseas investments are assessed using Mercer's ratings for individual funds.

Areas for improvement

GAA observations

The GAA considers the policies to be adequate and of good quality. NFU Mutual has provided details of its ESG policy and shareholder engagement to the GAA, which clearly explains the approach and how it is implemented.

The NFU Mutual's approach to ESG is still evolving and the GAA would expect to see ongoing developments in this area.

Appendix A: Cost and charge disclosures

The FCA has introduced requirements that the administration charges and transactions costs information, in relation to each relevant scheme must be published by 30 September, in respect of the previous calendar year: These disclosures must include the costs and charges for each default arrangement and each alternative fund option that a member is able to select. They should also include an illustration of the compounding effect of the administration charges and transaction costs, on a prescribed basis and for a representative range of fund options that a policyholder is able to select. NFU Mutual has provided the GAA with the following disclosures in respect of the period 1 January 2021 to 31 December 2021. In addition, these disclosures (for all default and non-default funds) are provided on a publicly accessible website at www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement/pension-transaction-costs-for-2021

For their GSP plans, NFU Mutual provides one default fund (Mixed Portfolio Max 100% Shares), together with 7 other unit linked pension funds to choose from for your contributions. All their unit linked funds are actively managed and incur both ongoing charges and trading costs when the fund manager buys and sells shares within the fund. Not all of these costs are incurred every time a security is traded. However, the charges for each of the unit linked funds are listed below:

Ongoing charges and transaction costs for Group Stakeholder Pension funds series 1 and series 2 as at 31 December 2021:

Name of stakeholder pension fund	Ongoing charges*	Transaction costs**
Deposit	0.75%	0.00%
Fixed Interest	0.75%	0.00%
Index Linked	0.75%	0.00%
International	0.75%	0.01%
Mixed Portfolio 40-85% Shares	0.75%	0.01%
Mixed Portfolio Max 100% Shares	0.75%	0.02%
Property	0.75%	0.07%
UK Equity	0.75%	0.02%

** Ongoing charges are taken annually for managing the fund. They include the AMC (annual management charge), as well as operational fund costs such as custody, trading and reporting costs.*

***Transaction costs are incurred when trading underlying investments. They can be explicit such as stamp duty tax and regulatory / exchange levies; or they can be implicit e.g., the arrival cost. The arrival cost is the price difference between the valuation of an asset before an order, and the execution price at which it is actually traded.*

Group Stakeholder Pension Plan – Default Fund Illustration of Total Costs

The table below is included to give you an idea of the compounding effect of the ongoing charges and transactions costs if, for example, you had taken out a Group Stakeholder Pension Plan and invested in the Mixed Portfolio Max 100% Shares fund.

Mixed Portfolio Max 100% Shares Fund		
Years	Before charges + costs deducted	After all charges + costs deducted
1	**£11,400**	**£11,300**
3	**£14,300**	**£14,000**
5	**£17,300**	**£16,700**
10	**£25,400**	**£23,900**
15	**£34,300**	**£31,600**
20	**£44,200**	**£39,800**
25	**£55,200**	**£48,500**
30	**£67,400**	**£57,800**
35	**£80,800**	**£67,600**
40	**£95,700**	**£78,100**

Notes:

1. *Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.*
2. *The starting pot size is assumed to be £10,000.*
3. *Inflation is assumed to be 2.5% each year.*
4. *The initial monthly contribution is assumed to be £100.*
5. *Contributions are assumed to increase in line with assumed earnings inflation of 2.5% each year throughout the projection.*
6. *Values are estimates and are not guaranteed. The value of investments can fall and you may get back less than invested.*
7. *The projected growth rate for the Mixed Portfolio Max 100% Shares fund is 4.6% each year.*
8. *Charges may change.*

Appendix B: Comparison report

Commencing with the 2021 year assessments the FCA introduced a requirement that a comparative assessment be made of certain sub-features of the Value for Money assessment. The GAA is required to compare the Firm's offering against a selected group with other similar product options available in the market based on publicly available information. If an alternative scheme(s) would offer better value, we must inform the pension provider.

As this is the first year when these disclosures are required the availability of public information relating to the sub-features that need to be compared is limited prior to the publication of this year's reports. ZEDRA Governance Ltd's GAA operates for a number of Firms, all of whom have agreed that the GAA can make use of the data we have gathered on their offerings in order to improve the meaningfulness of the comparisons undertaken this year. This is done on an anonymised basis.

How the comparators were selected

The GAA has selected a number of comparator products that we determined are sufficiently similar products so as to be comparable to those provided by the Firm for this purpose. The selection was based on the following broad criteria:

- Type of product i.e. whether accumulation or pathways, and within accumulation whether the product is a SIPP or workplace group personal pension
- Products where Firms provide similar services, for example in the case of a SIPP whether the provider has responsibility for setting and monitoring the investment strategy
- Similar membership cohort, for example staff schemes for staff of the provider.

Based on these criteria we believe that the comparator products chosen will provide a reasonable comparison for the policyholders of the GSP and GPP.

Comparison of net investment performance

We have assessed how the net investment performance provided to the Firm's policyholders compares to other sufficiently similar employer pension arrangements. This takes account of both the nature of the provider and the performance of the investments being offered relative to an appropriate benchmark.

This assessment identified that the one year net investment performance for the Firm's policyholders over 2021 was average for providers of a similar product.

Comparison of communication provided to policyholders

We have assessed how the communication materials provided to the Firm's policyholders compare to other sufficiently similar employer pension arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's policyholders over 2021 were marginally below average for providers of a similar product.

Comparison of administration services

We have assessed how the quality and timeliness of the administration services, including the core financial transaction processing, provided to the Firms policyholders compare to other sufficiently similar employer pension arrangements.

This assessment identified that the administration services provided to the Firm's policyholders over 2021 were average for providers of a similar product.

Comparison of costs and charges

We have undertaken the comparison of cost and charge levels considering three categories of charges:

- Annual administration charge
- Transaction costs
- Other costs and charges

We have assessed the overall cost and charge levels payable by the Firm's policyholders in comparison to policyholders of other sufficiently similar employer pension arrangements. This takes account of the nature of the provider.

This assessment identified that the overall cost and charge level paid by the Firm's policyholders over 2021 were average for providers of a similar product.

Appendix C: GAA activity and regulatory matters

This section describes the work that the GAA has done over the year and also covers the other matters which we are required to include in our annual report.

GAA engagement and actions this year

We prepared and issued a request for data on all the relevant workplace pension policies in late 2021.

Members of the GAA had a meeting with representatives of NFU Mutual to kick off the Value for Money assessment process for the 2021 calendar year and to discuss and agree timescales.

Members of the GAA had a meeting with representatives of NFU Mutual to discuss the information that had been provided in response to the data request. This was an opportunity for members of the GAA to meet key personnel with responsibility in the various different areas including investment strategy and how this has evolved, fund range including design of defaults, investment governance, approach to ESG, non-financial matters and stewardship, administration and communications and risk management. In some cases, given COVID 19 considerations, this meeting was virtual.

Members of the GAA had a meeting with representatives of NFU Mutual to discuss the GAA's provisional scoring of Value for Money of the in-scope NFU Mutual workplace pensions and the approach for meeting the cost and charges disclosure requirements in COBS 19.5.13.

As part of the Value for Money assessment process, NFU Mutual has provided the GAA with all the information that we requested, including evidence in the form of minutes and other documentation to support areas of discussion at the site visit. In particular, the GAA has seen evidence of ESG integration within NFU Mutual's investment decision process, and evidence of their stewardship approach.

The GAA held several meetings during the year to review and discuss the information we received and to develop and improve the way that we assess Value for Money and report on this.

Over the last year the GAA reviewed and evolved our Value for Money assessment framework to include a broader range of evaluation criteria, which is reflected in this report. Some of these changes were made in response to regulatory amendments relating to the Value for Money assessment criteria and what must be disclosed to workplace pension fund members.

The GAA documents all formal meetings with NFU Mutual and maintains a log which captures any concerns raised by the GAA with NFU Mutual, whether informally or as formal escalations. The key dates are:

Item	Date
Issue data request	16/12/21
Kick off meeting	18/01/22
Site visit	21/03/22
GAA panel review meeting	25/04/22
Discuss provisional scoring	24/06/22
Scoring meeting with NFU Mutual	05/07/22

Concerns raised with the Provider by the GAA and their response

The GAA has not raised any concerns with NFU Mutual during the year covered by this report.

The arrangements put in place for policyholders' representation

The following arrangements have been put in place to ensure that the views of policyholders can be directly represented to the GAA:

- The role of the GAA and the opportunity for policyholders to make representations direct to the GAA has been communicated to policyholders via the NFU Mutual website and has been highlighted on annual benefit statements since April 2016. A paragraph has also been added to the Key Features Document for any new policyholders.

- NFU Mutual will receive and filter all policyholder communications, to ensure that this channel is not being used for individual complaints and queries rather than more general representations which may be applicable to more than one policyholder or group of policyholders. Where NFU Mutual determines that a communication from a policyholder is a representation to the GAA, it will be passed on in full and without editing or comment for the GAA to consider.

In addition, the GAA has established a dedicated inbox at zgl.gaacontact@zedra.com so that policyholders can make representation to the GAA direct. NFU Mutual will include details of this contact e-mail address on their website.

Appendix D: ZEDRA GAA credentials

In February 2015 the Financial Conduct Authority (FCA) set out new rules for providers operating workplace personal pension plans (called relevant schemes) to take effect from 6 April 2015. From that date, providers had to have set up an Independent Governance Committee or appointed a Governance Advisory Arrangement whose principal functions would be to:

- Act solely in the interests of the relevant policyholders of those pension plans, and to
- Assess the "value for money" delivered by the pension plans to those relevant policyholders.

These requirements were then extended to Firms providing investment pathways in respect of pathway investors from 1 February 2021.

The FCA rules also require that the Chair of each Independent Governance Committee and Governance Advisory Arrangement produce an annual report setting out a number of prescribed matters.

The ZEDRA Governance Advisory Arrangement ('the GAA') was established on 6 April 2015 and has been appointed by a number of workplace personal pension providers and investment pathways providers. ZEDRA Governance Ltd is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments we act as an independent trustee on several hundred trust-based pension schemes, and we sit on a number of IGCs. We have oversight or responsibility for in excess of £120bn of pension assets. More information on ZEDRA Governance Ltd can be found at www.zedra.com/pension-schemes

The members of the GAA are appointed by the Board of ZEDRA Governance Ltd. The Board is satisfied that individually and collectively the members of the GAA have sufficient expertise, experience, and independence to act in the interests of relevant policyholders or pathway investors.

The Board of ZEDRA Governance Ltd has appointed ZEDRA Governance Ltd to the GAA, including as Chair. All of ZEDRA Governance Ltd's Client Directors act as representatives of ZEDRA Governance Ltd on the GAA and Clare James currently represents ZEDRA Governance Ltd in the capacity of Chair. More information on each of ZEDRA Governance Ltd's Client Directors, their experience and qualifications can be found at www.zedra.com/zedra-team

Dean Wetton, acting on behalf of Dean Wetton Advisory UK Ltd, is also appointed to the GAA. Dean Wetton and Dean Wetton Advisory UK Ltd are independent of ZEDRA Governance Ltd. Information on Dean's experience and qualifications can be found at www.deanwettonadvisory.com

The GAA has put in place a conflicts of interest register and maintains a conflicts of interest policy with the objective of ensuring that any potential conflicts of interest are managed effectively so they do not affect the ability of ZEDRA Governance Ltd or Dean Wetton Advisory Ltd to represent the interests of relevant policyholders or pathway investors.

The terms of reference agreed with the Firm can be found at: www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement

Appendix E: Glossary

Active management

The investment of funds where the skill of the fund manager is used to select particular assets at particular times, with the aim of achieving higher than average growth for the assets in question.

Annual management charge (AMC)

A deduction made by the pension provider or investment manager from invested assets, normally as a percentage of the assets. The AMC is generally how the pension provider or investment manager is paid for their services.

Annuity

A series of payments, which may be subject to increases, made at stated intervals, usually for life. If the annuity is 'joint life', it will continue to a spouse (usually at a lower rate) after the death of the original person receiving the payments ('the annuitant').

COBS

The Conduct of Business Sourcebook prepared by the Financial Conduct Authority (FCA). In particular when we use COBS in this report we are referring to Chapter 19 of the COBS which sets out the provisions relevant to the Value for Money Assessment of workplace pensions.

Core financial transactions

The essential processes of putting money into a pension policy or taking it out, namely:

- Investment of contributions.
- Implementation of re-direction of future contributions to a different fund.
- Investment switches for existing funds, including life-styling processes.
- Settlement of benefits – whether arising from transfer out, death or retirement.

Decumulation

The process of converting pension savings to retirement income.

Environmental, social and governance (ESG)

These are the three main factors looked at when assessing the sustainability (including the impact of climate change) and ethical impact of a company or business. ESG factors are expected to influence the future financial performance of the company and therefore have an impact on the expected risk and return of the pension fund investment in that company.

Flexible access

This refers to accessing pension savings in the form of income and/or lump sums. Pension savings that are not being accessed immediately will generally remain invested.

Life-styling

An automated process of switching investment strategy as a policyholder approaches retirement, in a way that is designed to reduce the risk of a policyholder's retirement income falling.

Net investment performance

The investment performance of the fund after deducting all asset management charges, administration charges, taxes and fees for managing the fund including any transaction costs.

Pathway investor

A retail client investing in a Firm's pathway investment offering.

Pathway investment

A drawdown fund which is either a capped drawdown pension fund or a flexi-access drawdown pension fund.

Relevant policyholder

A member of a relevant scheme who is or has been a worker entitled to have contributions paid by or on behalf of his employer in respect of that relevant scheme.

Transaction costs

A combination of explicit and implicit costs included within the price at which a transaction (i.e. buying or selling an asset) takes place.

With profits

An insurance contract that participates in the profits of an insurance company. The insurance company aims to distribute part of its profits to with profits policy holders in the form of bonuses.

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