ZEDRA
DO MORE. ACHIEVE MORE.

Chair's annual report

NFU Mutual Investment Pathways

Year ended 31 December 2021

The ZEDRA Governance Advisory Arrangement (GAA)

September 2022

Executive summary

This report on the Investment Pathways policies 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 pathway investors 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 B and C respectively. The GAA works under Terms of Reference, agreed with NFU Mutual, the latest version of which is dated 14 April 2022 and are publicly available (see Appendix C).

This is our first annual report on Investment Pathways policies provided by the Firm. Investment Pathways were launched by the Firm in January 2021 and made available to their clients approaching retirement but have yet to make a final decision on how they would like to access their benefits. This report covers Investment Pathways i.e., the decumulation phase of the products only; there is a separate Chair's Annual Report which covers the accumulation phase of the workplace personal pension plans.

As Chair of the GAA, I am pleased to deliver this value assessment of the Firm's Investment Pathways. The GAA has conducted a rigorous assessment of the Value for Money delivered to pathway investors over the period 01 February 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 pathway investors 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

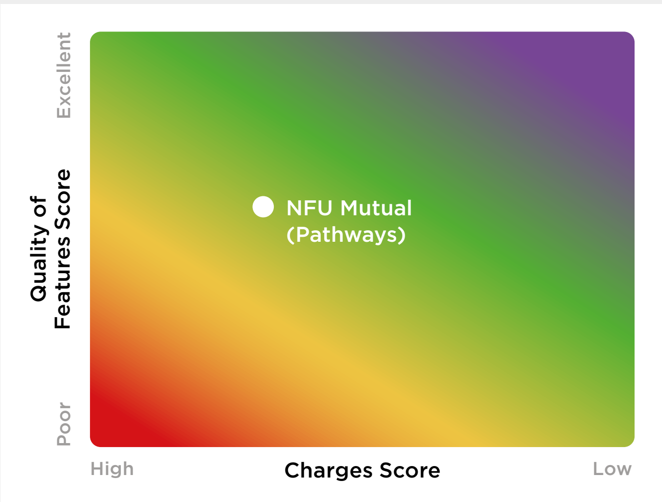
	Weighting toward VfM assessment*	Investment Pathways
1. Product strategy design and investment objectives	13%	
2. Investment performance and risk	13%	
3. Communication	20%	
4. Firm governance	3%	
5. Financial security	7%	
6. Administration and operations	7%	
7. Engagement and innovation	3%	
8. Cost and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

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

Quality and investment features	**Cost and charge levels**
Excellent · Good · Satisfactory · Poor	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 NFU Mutual's Investment Pathways, open to customers with an NFU Mutual My Investments Select Pension Plan, provide good value for money.

Some areas of improvement include those which the GAA has challenged NFU Mutual. These are summarised below:

- The GAA has challenged NFU Mutual on the choice of fund for Investment Pathways 2 and 4. This challenge has led NFU Mutual to recommend an alternative, the With-Profits Risk Level 2 Fund, to the Gilt and Corporate Bond fund for these pathways. The GAA understands that this recommendation has not yet been implemented as NFU Mutual is reliant on system changes on one of their administration systems.
- No client satisfaction surveys had been collated by NFU Mutual from its investment pathway customers during 2021. Whilst the GAA appreciates the product only launched recently, the GAA would expect NFU Mutual to seek regular customer feedback once a meaningful number of pathway investors is reached and will look for evidence of this in the 2022 VFM assessment to support demonstration that investment pathways are meeting customers' needs and objectives.

Other areas of improvement include some observations by the GAA, which include:

- The GAA would expect to see continued progress on the integration of ESG financial considerations within the investment options within NFU Mutual, appreciating that this is an evolving area.
- The GAA observes that the costs and charge structure for Investment Pathways 1 and 3 are at the higher end of the range of charges notwithstanding active fund management. The GAA would strongly encourage NFU Mutual to consider if it is able to deliver investment pathways at a lower cost to customers.

Details of the numbers of pathway investors 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. The range of funds offered is relatively small and there are no ethical or green funds within the range. The GAA observes that some areas, such as ESG, are still evolving and the GAA would expect to see ongoing developments in this area, both in line with NFU Mutual's existing implementation plan outlined to the GAA, and to reflect future developments in the wider marketplace.

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

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 A.

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 pathway investor 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 Firm to its pathway investors 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 Code 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 pathway investors 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 A.

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 pathway investors against the investment performance and quality of services provided to pathway investors.

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 pathway investors involves rating the Firm against eight different Features covering Quality of Service, Investment Performance and Strategy, and the Costs and Charges borne by the pathway investors. 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 pathway investors 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 pathway investors, 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 GAAs view of the relative value of the sub-feature to the pathway investors.

The GAA then went on to consider the value represented by the Cost and Charge Levels which pathway investors 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 pathway investors 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 investment pathways 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 pathway investors 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 pathway investors, 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, quality of the administration service including processing of core financial transactions, and costs and charges relative to a suitable comparator group of **pathway investment** providers. Comments on the outcome of these assessments are 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 pathway investment products were determined is set out in Appendix A.

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 characteristics of pathway investors into account, that there is clear rationale for the selection of each fund used to support the investment pathways, evidenced by appropriately defined risk ratings, and consideration of the investment time horizon and age profile of the pathway investors.

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 pathway investors.

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

Whilst policies on ESG financial considerations and non-financial matters are considered separately on page 16, we expect to see evidence of how these matters are taken into account in the design of the investment pathways strategies and in investment decision making.

The Firm's approach

The Firm has carefully considered, taking into account relevance for each Investment Pathway and commercial consideration, its current stable of funds to identify the most appropriate fund for each Investment Pathway.

The current funds for each Investment Pathway are:

- **Investment Pathway 1** (for customers who have no plans to touch their money in the next 5 years) takes into account how the investors can continue accumulating their pension pot through a diversified portfolio asset allocation with a significant weighting in equity-based investments in order to maximise their returns. This is based on the fundamental premise that equities outperform gilts and cash over the long-term. The fund used is Mixed Portfolio 40-85% Shares Fund.
- **Investment Pathway 2** (for customers who plan to use their money to provide a fixed income in the next 5 years) takes into account how the investors can preserve their capital by aligning their investment with annuity rates or risk a mismatch that loses them capital which, in turn, means lower lifetime income is purchased. This is particularly important as there is no defined date on which an annuity will be bought i.e., anything from a few months to 5 years. However, it is assumed that the average customer purchase will be deferred towards the latter end of the initial term. The fund chosen is the Gilt and Corporate Bond.

- **Investment Pathway 3** (for customers who plan to use their money to start taking a flexible income in the next 5 years) takes into account two competing investment objectives. First, to continue 'accumulating' their pension pot through a diversified portfolio asset allocation with around a 50% weighting in equity-based investments to have an opportunity for capital growth. And second, to provide exposure of up to 50% in fixed income and cash in readiness to withdraw some capital to provide a long-term income. The fund chosen is the Mixed Portfolio 20-60% Shares Fund.
- **Investment Pathway 4** (for customers who plan to take all their money as cash in the next 5 years) takes into account the key objective of avoiding the potential risk of a severe fall in the equity markets at the time of withdrawal and secondly, to protect their capital against the risk of inflation eroding its purchasing power. The fund chosen is the Gilt and Corporate Bond.

The GAA conducted an initial assessment of the proposed funds and given the constraints of commerciality considered the proposed funds to be appropriate. However, the GAA challenged the Firm on the use of the Gilt and Corporate Bond Fund for Investment Pathways 2 and 4. This fund has since been recommended to be changed to the With-Profits Risk Level 2 Fund for both Investment Pathways. This recommendation has not yet been implemented as NFU Mutual is reliant on system changes on one of their administration systems.

There is a guide, "Guide to Investment Pathways" for prospective investors who do not pay for investment advice.

There is evidence of evaluations and the GAA will keep this action under review. When determining the funds underlying each of NFU Mutual's four Investment Pathways, their approach is to assess and recommend funds based on an assessment of:

- **Risk Level:** What Risk Level is most suitable for the objective set for the fund and the target customer's needs and characteristics.
- **Fund Suitability:** Of the funds available at the risk level, which, taking into account its investment objective and policy, would be most suitable for the objective set for the fund and the target customer's needs and characteristics.

The latest review was done in March 2022 which identified the recommendation for change to Pathways 2 and 4 as described above.

The Firm's strengths

The funds themselves may use financial derivatives, but only for purposes of efficient portfolio management to reduce risk and cost in the fund, including through hedging (to manage currency exposure) or to generate extra income or growth in line with the risk profile of the fund. All other 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. The fund that may use financial derivatives in this context is the Mixed Portfolio 40-85% Shares Fund used within Pathway 1 for example.

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. The Firm has provided the GAA with the decision matrix for communication with policyholders.

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

All investment pathway fund factsheets along with pricing, investment performance and charges are available online and easily accessed by policyholders. The fund factsheets state the investment objectives, 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 challenge

The GAA has challenged NFU Mutual on the choice of fund for Investment Pathways 2 and 4. This challenge has led NFU Mutual to review these funds and recommend changing them to the With-Profits Risk Level 2 Fund. The GAA understands that this recommendation has not yet been implemented as NFU Mutual are reliant on system changes on one of their administration systems.

GAA observations

The GAA would expect to see continued progress on the integration of ESG financial considerations within the investment options within NFU Mutual, appreciating that this is an evolving area.

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 pathway investors' attitudes to risk.

The Firm's approach

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.

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 Firm's strengths

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.

The Firm has demonstrated that it considers the suitability of funds on a regular basis. This is demonstrated by the Firm's decision to replace the fund for Investment Pathways 2 and 4, following a challenge from the GAA.

Net investment performance

The net investment performance of the investment pathways' strategies and, where available, the performance of the benchmarks against which those funds are measured by the Asset Manager are set out in the following table for the 2021 full calendar-year period.

Investment returns for Investment Pathways 1 and 3 were either ahead of or in line with the benchmark for the 1, 3 and 5 year periods. The GAA is focusing on performance in 2021 as the year of assessment and use this as our primary reference point, but it does also consider the larger time-scale in our overall understanding of the investment performance framework. Investment Pathways 2 and 4 were fourth quartile for the Gilt and Corporate Bond Fund due to a difference in the fund make up versus the sector.

Investment Pathway	Net Investment Performance	Benchmark
Investment Pathway 1	13.29%	10.67%
Investment Pathway 2	-0.87%	-4.15%
Investment Pathway 3	8.75%	7.09%
Investment Pathway 4	-0.87%	-4.15%

Comparator results

We have assessed how the net investment performance provided to the Firm's pathway investors compares to other suitable comparators for the comparison of investment performance. The GAA has faced some challenges in identifying suitable comparators for the comparison of investment performance since different firms have adopted different pathway investment solutions with significantly different levels of risk exposure. In addition, the risk and return performance relates to different periods depending on when the Firm launched investment pathways. The comparison of risk adjusted net investment returns has therefore been limited this year and we have therefore focused on whether the return has been below, broadly in line or ahead of an appropriate benchmark taking into account the nature and risk profile of the investment pathway solution.

Investment Pathway	Investment Performance
Investment Pathway 1	Performance **exceeding** benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data
Investment Pathway 2	Performance **exceeding** its own benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data. However please note that NFU Mutual's internal peer group comparison has placed Pathway 2 in the 4th quartile for 4 consecutive quarters in 2021 and hence from this perspective it is below average.
Investment Pathway 3	Performance **exceeding** benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data
Investment Pathway 4	Performance **exceeding** its own benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data. However please note that NFU Mutual's internal peer group comparison has placed Pathway 4 in the 4th quartile for 4 consecutive quarter in 2021 and hence from this perspective it is below average.

Areas for improvement

GAA challenge

As mentioned under section 1, the GAA has challenged NFU Mutual to review the funds used (specifically for pathways 2 and 4). This challenge has led NFU Mutual to recommend changing them to the With Profits Risk Level 2 Fund since they were launched after Investment Pathways were initially developed. Part of this review was to make sure that the funds remain appropriate in terms of the time horizon expected from them by the pathway investors, and the expectation is for higher equity performance for the With Profits fund in return for a slightly higher charge.

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 pathway investors' characteristics, needs and objectives.

We would expect to see a comprehensive suite of communications in place suitable for pathway investors, and which enable them to choose the relevant investment pathway.

In a high quality communication service offering we would expect a substantial online offering, with a range of online support materials such as online drawdown modellers 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 pathway investors to be able to switch investment pathways online and to have support and financial guidance available if they wish to leave or switch from their current investment pathway. In particular, we would expect there to be appropriate risk warnings built into the process.

We would expect the provider to ensure there is clear signposting to pathway investors on where they can obtain additional guidance and advice on their drawdown and retirement options.

The Firm's approach

The GAA has reviewed the 'Income drawdown guide', 'A guide to investment pathways', 'Annual pension statements', section of the NFU Mutual website that offers further information and scripts and guidance notes for team members. The journey for customers is clearly thought through and has been assessed as part of the value for money assessment for 2021.

Policyholders have online access to information such as fund factsheets, fund guides, GAA reports, fund performance and charges.

There are no NFU Mutual sponsored individual case studies or calculators. Instead, investors are directed to independent government sponsored web sites such as MoneyHelper, Money Advice Service, Pension Tracing Service and the State Pension Calculator. In addition, they are encouraged to make use of the NFU Mutual Financial Planning Service which is well signposted on the website.

Policyholders are able to contact NFU Mutual by letter, email, online and freephone telephone. Details of how to do so are clearly signposted on the website. There are no online switching functions currently and these are usually done in writing or over the telephone.

The Firm's strengths

The Firm provides investors with guides and links to independent sources of information. It also has an advised service should this be required but at an additional charge.

The communication document only references a website and telephone number. There is a customer contact team who will be able to help customers with regard to the pathway options and either provide or steer customers to material they need to make an informed decision.

Comparator results

We have assessed how the communication materials provided to the Firm's pathway investors compare to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's pathway investors over 2021 were average when considered alongside other firms providing Investment Pathways.

Areas for improvement

The GAA did not identify any specific areas for improvement.

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 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 GAA was provided with the papers for the Financial Services Proposition Governance Forum, which meets every month to discuss fund performance (quarterly in depth), risk and current issues relating to the options available to investors.

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 pathway investors 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 drawdown payments, 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 vs. the 97% target level. 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 on core financial transactions during lockdown.

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 core transaction processing, provided to the Firm's pathway investors compare to other sufficiently similar investment pathway arrangements.

This assessment identified that the administration services provided to the Firm's pathway investors 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 investment pathways are reviewed at least annually, with new funds or services being developed taking into account pathway investors' characteristics, needs and objectives.

We are looking for evidence of regular, proactive engagement with pathway investors 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 investors. The Investment Pathways fund characteristics along with aims and objectives, performance and risk, fees, and relevance for investors are reviewed regularly and updated where required.

This process has resulted in the recommendation to amend the investment pathway solution for Investment Pathways 2 and 4 and the outsourcing of some overseas assets to third-party managers.

The Firm's strengths

NNFU Mutual was able to demonstrate that the funds are under continuous review. Recent changes have been made with a view to improving the outcome for investors. The GAA has reviewed Investment Committee minutes and both investment and product 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.

The GAA notes that there has been limited feedback from investors, however, the Firm is proactive in communicating with investors, seeking their opinion.

Areas for improvement

GAA challenge

No client satisfaction surveys had been collated by NFU Mutual from its investment pathway customers during 2021. Whilst the GAA appreciates the product only launched recently, the GAA would expect NFU Mutual to seek regular customer feedback and will look for evidence of this in the 2022 VFM assessment to support demonstration that investment pathways is meeting customers' needs and objectives.

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 pathway investors over the year. This included assessing:

- The fund annual management charges, administration charges and transaction costs being borne by pathway investors.
- Any other charges being paid by pathway investors to manage, access and invest their drawdown funds.
- 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 pathway investors.

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

The Firm's approach

The GAA was provided with comprehensive details of pathway investor charges including transaction costs calculated on the DC workplace methodology.

The GAA was provided with evidence of a robust governance framework for reviewing costs and charges, including transaction costs.

We observed a range of charges across the investment pathways offered.

Ongoing charges for the Firm's Investment Pathways are as follows:

Investment Pathway	Charge Applied
Investment Pathway 1	0.90%
Investment Pathway 2	0.55%
Investment Pathway 3	0.89%
Investment Pathway 4	0.55%

Transaction charges were:

Investment Pathway	Charge Applied
Investment Pathway 1	0.01%
Investment Pathway 2	0.00%
Investment Pathway 3	0.01%
Investment Pathway 4	0.00%

Other additional charges for managing the Investment Pathways were:

Investment Pathway	Charge Applied
Investment Pathway 1	0.15%
Investment Pathway 2	0.05%
Investment Pathway 3	0.16%
Investment Pathway 4	0.05%

The GAA rating reflects the charges applied for the investment pathways made available by the Firm, and we believe that the Firm offers appropriate charges to pathway investors. The GAA considers the charges to be moderately high.

Comparator results

We have assessed the overall cost and charge levels payable by the Firm's pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider and each investment pathway solution.

This assessment identified that the overall cost and charge levels paid by the Firm's pathway investors over 2021 were overall close to the median, with Investment Pathways 2 and 4 below average, and Investment Pathways 1 and 3 above average.

Areas for improvement

GAA observations

The GAA observes that the costs and charge structure for Investment Pathways 1 and 3 are at the higher end of the range of charges, notwithstanding active fund management. The GAA would strongly encourage NFU Mutual to consider if it is able to deliver investment pathways at a lower cost to customers.
In addition, the GAA notes that the fund for Investment Pathways 2 and 4 has been recommended to be changed to the With-Profits Risk Level 2 Fund and this is likely to result in higher charges in return for the expectation of higher equity returns. This should be made clear to investors when the change is implemented.

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 pathway investors' 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 pathway investors.

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 3, 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 Institutional Shareholder Services (ISS), although the Firm 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.

The Firm’s strengths

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.

Areas for improvement

GAA observations

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

Appendix A: 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 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 pathway investors of the Firm.

Comparison of net investment performance

We have assessed how the net investment performance provided to the Firm's pathway investors compares to other suitable comparators for the comparison of investment performance. The GAA has faced some challenges in identifying suitable comparators for the comparison of investment performance since different firms have adopted different pathway investment solutions with significantly different levels of risk exposure. In addition, the risk and return performance relates to different periods depending on when the Firm launched investment pathways. The comparison of risk adjusted net investment returns has therefore been limited this year and we have therefore focused on whether the return has been below, broadly in line or ahead of an appropriate benchmark taking into account the nature and risk profile of the investment pathway solution:

Investment Pathway	Investment Performance
Investment Pathway 1	Performance **exceeding** benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data.
Investment Pathway 2	Performance **exceeding** its own benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data. However please note that NFU Mutual's internal peer group comparison has placed Pathway 2 in the 4th quartile for 4 consecutive quarters in 2021 and hence from this perspective it is below average.
Investment Pathway 3	Performance **exceeding** benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data.
Investment Pathway 4	Performance **exceeding** its own benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data. However please note that NFU Mutual's internal peer group comparison has placed Pathway 4 in the 4th quartile for 4 consecutive quarters in 2021 and hence from this perspective it is below average.

Comparison of communication provided to pathway investors

We have assessed how the communication materials provided to the Firm's pathway investors compare to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's pathway investors over 2021 were average when considered alongside other firms providing Investment Pathways.

Comparison of administration services

We have assessed how the quality and timeliness of the administration services, including core transaction processing, provided to the Firm's pathway investors compare to other sufficiently similar investment pathway arrangements.

This assessment identified that the administration services provided to the Firm's pathway investors 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 pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider and each investment pathway solution.

This assessment identified that the overall cost and charge levels paid by the Firm's pathway investors over 2021 were overall close to the median, with Investment Pathways 2 and 4 below average, and Investment Pathways 1 and 3 above average.

Appendix B: 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, 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 pathway investments.

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 investment decision process, and evidence of a coherent ESG policy and strategy that is implemented consistently.

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.

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	10/05/22
Discuss provisional scoring	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 pathway investors' representation

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

- The role of the GAA and the opportunity for pathway investors to make representations direct to the GAA has been and will continue to be communicated to pathway investors via NFU Mutual's website at **www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement**

- 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 pathway investor or group of pathway investors. Where NFU Mutual determines that a communication from a pathway investor 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 pathway investors can make representation to the GAA direct. NFU Mutual will include details of this contact e-mail address on their website at **www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement**

Appendix C: 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 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 D: 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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