



ZEDRA

DO MORE. ACHIEVE MORE.

Chair's annual report

NFU Mutual Investment Pathways

- | Year ended 31 December 2022
- | The ZEDRA Governance Advisory Arrangement (GAA)

September
2023



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') for the Firm 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 second annual report on Investment Pathways policies provided by the Firm. Investment Pathways were launched by the Firm in January 2021 and are open to their customers with an NFU Mutual My Investments Select Pension Plan who are 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 this product only; there is a separate Chair's Annual Report which covers the accumulation phase of their workplace personal pension plans.

As Chair of the GAA for this Firm, 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 ('VfM') delivered to pathway investors over the period 1 January 2022 to 31 December 2022. 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 7.

A COLOUR CODED SUMMARY OF THE GAA ASSESSMENT

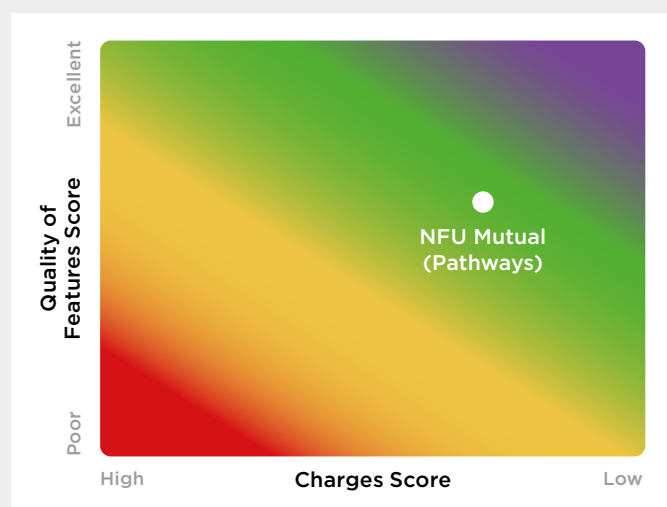
	Weighting toward VfM assessment*	Investment Pathways
1. Product strategy design and investment objectives	13%	●
2. Investment performance and risk	13%	●
3. Communication	20%	●
4. Firm governance	3%	●
5. Financial security	7%	●
6. Administration and operations	7%	●
7. Engagement and innovation	3%	●
8.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

* May not add to 100% due to rounding

Quality and investment features (1-7) ● Excellent ● Good ● Satisfactory ● Poor	Cost and charge levels (8) ● Low ● Moderately Low ● Moderately High ● High
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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 Quality of Service and Investment Features combined (i.e., 1 to 7 in the table above) representing two-thirds of the overall score and the Cost and Charge Level (i.e. 8 in the table above) representing 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 Investment Pathways, which are available to policyholders with a My Investments Select Pension Plan provide **good** Value for Money.

Overall, the GAA has challenged the Firm on the following:

Product strategy design and investment objectives as well as investment performance and risk:

The GAA had previously challenged the Firm to review the choice of fund for Investment Pathways 2 and 4. This challenge has led the Firm to review these funds and recommend changing them to the With-Profits Risk Level 2 during 2022. The GAA understands that this recommendation will be implemented on 11 September 2023 following an assessment of how the change impacts existing customer.

Last year the GAA had challenged the Firm to seek regular customer feedback to demonstrate that Investment Pathways are meeting customers' needs and objectives. Although the Firm did not carry out any client satisfaction surveys during the current assessment period, they have confirmed that since launching the My Investments Platform, 27.8% of customers (46% of Select Pension customers) have completed signing up to the portal, with the highest sign-up rate being 46% among 30-39 year olds. The GAA understands that there are increasing sign ups from new customers (non-migrated) with 63% in November 2022, highlighting customers are slowly seeing the benefit of the My Investments portal. Further communication on the benefits of signing up and utilising the portal has already been recommended to drive adoption, for all customers, and operational efficiencies as part of the Select Investment Plan Review. These are already being put into action through annual statements and customer interactions.

Last year, the GAA did not raise any formal concern with the Firm.

In our previous report we identified, as observations, that further improvements could be made in a few areas and are pleased to be able to report that the Firm has made progress in addressing the points we raised last year, which were as follows:

Product strategy design and investment objectives:

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.

Cost and charge levels:

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.

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 well implemented, but given this is an evolving area, the GAA would like to see continued developments in this area.

The FCA introduced new requirements last year requiring 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 that 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.

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

Details of the numbers of pathway investors and their funds were supplied to ZEDRA for the assessment and are summarised in Appendix E.

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

Payam Kazemian

Chair of the ZEDRA Governance Advisory Arrangement for
NFU Mutual's Investment Pathways

September 2023



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:

Martin Ansell, GAA Manager, Marketing Department, NFU Mutual,
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.

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 and to undertake comparisons of the Firm's product against a suitable comparator group of providers for certain Quality of Service and Investment Features and Cost and Charges.

| 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 (the 'Quality of Service and Investment Features'), 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 and Investment Features have been determined based directly on the FCA 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 and Investment Features considered have 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 and 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 outline what the GAA would expect to see 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 pathway investors.

The GAA will then 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 any 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 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 communication, 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 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 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 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 [pathway 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 26, 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 of the four Investment Pathways are:

- Investment Pathway 1** – This is for customers who have no plans to touch their money in the next 5 years and had 300 customers with assets totalling £7.3m at the year end. This Pathway 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 the Mixed Portfolio 40-85% shares.
- Investment Pathway 2** – This is for customers who plan to use their money to provide a guaranteed income ([annuity](#)) within the next 5 years and had 45 customers with assets totalling £369k at the year end. This Pathway 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 – This is for customers who plan to start taking their money as a long-term income within the next 5 years and had 244 customers with assets totalling £4m at the year end. This Pathway 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.

Investment Pathway 4 – This is for customers who plan to take out all their money as cash in the next 5 years and had 15 customers with assets totalling £877k at the year end. This Pathway 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.

In the previous year’s assessment, the GAA challenged the Firm on the use of the Gilt and Corporate Bond Fund for Investment Pathways 2 and 4. This fund was recommended to be changed to the With-Profits risk level 2 fund for both Investment Pathways.

The Firm confirmed that changes for Investment Pathways 2 and 4 are planned for 11 September 2023 with new customer solutions implemented first. An assessment of how the change impacts existing customers is underway to ensure good outcomes when the change is made.

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 the Firm’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

Investment strategy and performance is regularly reviewed by the Executive Investment 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 with an emphasis on customer outcomes.

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.

The Firm's ESG policy and actions taken are reviewed annually, with the 2022 report provided to the GAA. The Firm takes an integrated approach to investing across all its funds, incorporating ESG considerations directly into their investment process to target long-term growth and sustainability with a focus on engagement. The Firm has set a target to deliver 50% emissions reduction in equity and corporate bond portfolios by 2030 and to achieve net zero by 2050. The Firm is now a signatory of both the UN PRI and the UK Stewardship Code.

The GAA received a copy of NFU Mutual's Unit Manager ('MUMCO') Investment ESG Committee update and report which outlined the integration of ESG within the portfolio construction as well as Fund Manager selection. This includes their RAG rating for internal and external funds as well as their ESGSG (ESG Steering Group) focus on the matter. Full response to the ESG data request was provided with more detailed explanation of their ESG framework as well as their Stewardship, Social and Governance factors.

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 previously challenged the Firm on the choice of fund for Investment Pathways 2 and 4. This challenge has led the Firm to review these funds and recommend changing them to the With-Profits Risk Level 2.

The GAA understands that this recommendation will be implemented on 11 September 2023 following an assessment of how the change impacts existing customers.



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

The Firm has a clear process for reviewing performance which is driven by in-house committees at quarterly meetings. Meeting minutes were provided to the GAA for the March and December 2022 meetings. The Executive Investment 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. If performance is in the lowest quartile for 3 quarters in a row, then a review is instigated with actions taken as appropriate.

The Firm's strengths

The Firm 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.

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.

Investment returns for Investment Pathways 2 and 4 were ahead of the benchmark for the 1, 3 and 5

year periods. The GAA is focusing on performance in 2022 as the year of assessment and uses this as our primary reference point, but it does also consider the longer timescale 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	-7.40%	-10.00%
Investment Pathway 2	-17.80%	-21.00%
Investment Pathway 3	-9.70%	-9.50%
Investment Pathway 4	-17.80%	-21.00%

Comparator results

We have assessed how the [net investment performance](#) provided to the Firm's pathway investors compares to other sufficiently similar investment pathways 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 when considered against the fund benchmark for the Firm's pathway investors over 2022 and relative to the comparator group for each investment pathway solution is as set out in the table below.

Investment Pathway	Investment Performance
Investment Pathway 1	Performance exceeded benchmark for the year, and was slightly above average when compared with that expected of a similar investment solution, noting limitations of comparator data.
Investment Pathway 2	Performance exceeded benchmark for the year, and was average when compared with that expected of a similar investment solution, noting limitations of comparator data.
Investment Pathway 3	Performance was slightly behind benchmark for the year, and was average when compared with that expected of a similar investment solution, noting limitations of comparator data.
Investment Pathway 4	Performance exceeded benchmark for the year, but was significantly below average when compared with that expected of a similar investment solution, noting limitations of comparator data.

Areas for improvement

GAA challenge

As mentioned under section 1, the GAA previously challenged the Firm on the choice of fund for Investment Pathways 2 and 4. This challenge has led the Firm to review these funds and recommend changing them to the With-Profits Risk Level 2.

The GAA understands that this recommendation will be implemented on 11 September 2023 following an assessment of how the change impacts existing customers.

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 pathways.

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 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 documents and guides provided by the Firm namely the 'Income drawdown guide', 'A guide to investment pathways' and the 'Annual pension statements'. The GAA has also reviewed the section of the Firm's website which offers further information, 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 2022.

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

Although the Firm does not offer individual case studies or calculators, policyholders are directed to independent government sponsored websites such as MoneyHelper, Money Advice Service, Pension Tracing Service and the State Pension calculator. In addition, they are encouraged to make use of the Firm's Financial Planning Service which is well signposted on the website.

Policyholders are able to contact the Firm 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 as these are 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 2022 were average relative to the comparator group.

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 where, for example, Terms of Reference are provided for key committees, reviewed on a regular basis, with clearly defined scope. We would expect to see evidence of the key committees operating during the year with minutes or meeting packs demonstrating that the key scope elements of the committee remit have been adequately covered.

There should be a transparent and documented process for appointing and monitoring service providers, with evidence of regular reviews being undertaken and changes being made as required.

The Firm's approach

The Firm 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 monitoring IT systems for vulnerabilities and risk assessments of IT applications. Also, processes are in place for checks on various risks and performance on administration as evidenced by actions taken to improve SLAs throughout 2022.

The Firm's strengths

The Firm 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 Form, 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

The Firm 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 2022, the Firm experienced a loss of £1,049m (2021: £182m profit) with total funds under management of £19.2bn (2021: £22.2bn). The core General Insurance business delivered an underwriting loss of £167m (2021: £89m loss) which reflected a challenging year due to the economic effects of the geo-political landscape, with high levels of inflation and difficult market conditions leading to significant reductions in business, consumer, and investor confidence.

Despite the increased loss, the Firm's Solvency II coverage ratio improved to 218% (2021: 204%).

The Firm's strengths

The Firm 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. An example customer story, in which a family of 4 with their own business requested a pension transfer for each of their policies, was presented to the GAA at the site visit and the Firm demonstrated their robust transfer process.

Policyholders requesting a transfer are sent the FCA pensions scam leaflet along with transfer forms.

At the transfer payment request stage, initial checks on the receiving scheme and administrators are undertaken in accordance with the Firm's internal process guide. If there are any issues or concerns identified, the case is then referred to the senior team members for further checks and, if required, escalated to the management team.

In suspicious circumstances the transfer can be referred to the Financial Crime Unit and Legal Department. However, if a policyholder insists on a transfer, the Firm asks the policyholder to sign confirmation that all checks and warnings had been received.

However, regulatory changes at the end of 2021 have introduced powers for the Firm to refuse a transfer, where red flags have been identified and they have sufficient reason to suspect the customer is being scammed, following the full process of checks.

Regular training is provided to the Money Out team on dealing with pension transfer scams and pension transfer liberation.

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 processing 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 any external crisis.

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.

Regular phishing tests and penetration testing are carried out by the Firm's IT department and external companies with evidence of the phishing result provided to the GAA.

A customer service report was presented to the GAA at the site visit showing great results for 2022 across the call centre, payments and servicing teams. The call centre, who manage the customer line, answered 45,265 calls out of a total of 45,933 calls received during the year meeting their target of 98%. Similarly, targets for policy servicing, quality and payments (money out) were also met.

During the year, the Firm introduced a new hybrid working policy where staff had the flexibility of choosing to work from home for up to 3 days a week with the remaining days working from the office. This flexibility was well received from the staff.

By retaining administration in-house, the Firm is able to react quickly and decisively to emerging issues.

The Firm's strengths

The administration practices at the Firm are run to tight standards. Payments out are processed on a 5-day target with a target of 95%. For the year, 99% of payments were processed within target.

Policy servicing achieved 97% completion on a 5-day target and almost 100% against the 10-day target.

The Firm was able to evidence a high adherence to administration service standards throughout the year.

The Firm has a comprehensive business continuity plan in place relating to Financial Services Operations and evidence of business continuity being maintained throughout the year was provided to the GAA.

The Firm was also able to evidence a very low level of incidence of complaints (6 received in 2022 and 2021) 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 (2 in 2022 against 5 in 2021).

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 2022 were average relative to the comparator group.

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 product is reviewed regularly, with new products 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 which is due to be implemented on 11 September 2023.

The Firm's strengths

The Firm 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 the Investment Committee minutes and both investment and product reviews. The Firm has demonstrated that its offering is reviewed on a rolling three-year basis with changes made where required.

The Firm 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.

Improvements since last year

Since the last assessment, the content available to policyholders on the Select Pension Plan within the My Investment platform has developed and improved with the introduction of the direct form top ups, with new business due to be added early in 2023. There is readily available printed and web content for customers opting to go into non-advised drawdown. However, more work is required with the support of customer experience, digital, marketing and propositions teams to further determine the ultimate customer experience online – including content and experience.

Last year the GAA had challenged the Firm to seek regular customer feedback to demonstrate that Investment Pathways are meeting customers' needs and objectives. Although the Firm did not carry out any client satisfaction surveys during the current assessment period, they have confirmed that since launching the My Investments Platform, 27.8% of customers (46% of Select Pension customers) have completed

signing up to the portal, with the highest sign-up rate being 46% among 30-39 year olds. The GAA understands that there are increasing sign ups from new customers (non-migrated) with 63% in November 2022, highlighting customers are slowly seeing the benefit of the My Investments portal. Further communication on the benefits of signing up and utilising the portal has already been recommended to drive adoption, for all customers, and operational efficiencies as part of the Select Investment Plan Review. These are already being put into action through annual statements and customer interactions.

There is an ongoing project to contact customers to encourage completion of sign up, with those who do not respond reverting to receiving their communications via paper. In December 2022, 1,031 have had their portal access changed to receiving paper communications after 1,131 were prompted to complete sign up. Further exercises will continue to ensure customers can receive regular communications through the online portal or post.

Areas for improvement

The GAA did not identify any specific areas for improvement.

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; and
- | 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 with the average charge applied being as follows:

Investment Pathway 1	1.35%
Investment Pathway 2	1.00%
Investment Pathway 3	1.34%
Investment Pathway 4	1.00%

Transaction charges were:

Investment Pathway 1	0.04%
Investment Pathway 2	0.00%
Investment Pathway 3	0.01%
Investment Pathway 4	0.00%

There are no additional charges.

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 low for the actively managed Investment Pathway funds.

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 level paid by the Firm's pathway investors over 2022 were average relative to the comparator group.

Areas for improvement

The GAA did not identify any specific areas for improvement.

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 and stewardship. The GAA will consider 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 9 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

The Firm 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, the Firm 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 Firm has a group wide Responsible Business Strategy which sets out their ambitions across four main categories. There is a Groupwide ESG Steering Group (ESGSG) which will report annually to Board.

Following the Firm's approved ESG Framework, which is made up of a variety of priority topics under each pillar: Environmental, Social and Governance, the purpose of the ESGSG is to evaluate and recommend the ambitions level for each topic area.

The responsibility of the ESGSG is to track how the company is performing on our ESG priorities against external factors, whilst monitoring and measuring risks and opportunities.

Areas for improvement

GAA observations

Although the Firm has made progress in its approach to ESG, it is still an evolving area, and the GAA would expect to see continued developments in this area.

Appendix A: Comparison report

The FCA requires 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 of 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.

ZEDRA'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 to carry out the required comparisons 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 of 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 sufficiently similar investment pathways 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 when considered against the fund benchmark for the Firm's pathway investors over 2022 and relative to the comparator group for each investment pathway solution is as set out in the table below.

Investment Pathway	Investment Performance
Investment Pathway 1	Performance exceeded benchmark for the year, and was slightly above average when compared with that expected of a similar investment solution, noting limitations of comparator data.
Investment Pathway 2	Performance exceeded benchmark for the year, and was average when compared with that expected of a similar investment solution, noting limitations of comparator data.
Investment Pathway 3	Performance was slightly behind benchmark for the year, and was average when compared with that expected of a similar investment solution, noting limitations of comparator data.
Investment Pathway 4	Performance exceeded benchmark for the year, but was significantly below average when compared with that expected of a similar investment solution, noting limitations of comparator data.

Comparison of communication provided to pathway investors

We have assessed how the communication materials provided to the Firm's [pathway investors](#) compares 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 2022 were average relative to the comparator group.

Comparison of administration services

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

This assessment identified that the administration services provided to the Firm's pathway investors over 2022 were average relative to the comparator group.

Comparison of costs and charges

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

| [Annual management 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.

This assessment identified that the overall cost and charge level paid by the Firm's pathway investors over 2022 were average relative to the comparator group.

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 early 2023.

Members of the GAA had a meeting with representatives of the Firm to kick off the Value for Money assessment process for the 2022 calendar year and to discuss and agree timescales.

Members of the GAA had a meeting with representatives of the Firm 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 this meeting was virtual.

Members of the GAA had a meeting with representatives of the Firm to discuss the GAA's provisional scoring of Value for Money of the in-scope [pathway investments](#).

As part of the Value for Money assessment process, the Firm 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 the Firm'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 our Value for Money assessment framework and scoring methodology to ensure this continued to be applied consistently. Whilst the Value for Money assessment framework itself remains largely unchanged from the previous year, significant work has taken place reviewing and developing the data request and the approach for Firms to provide information in response to the data request, to make the process more efficient.

The GAA documents all formal meetings with the Firm and maintains a log which captures any concerns raised by the GAA the Firm, whether informally or as formal escalations.

The key dates are:

Item	Date
Issue data request	17/02/23
Kick off meeting	07/03/23
Site visit	18/04/23
GAA panel review meeting	24/05/23
Discuss provisional scoring	14/06/23
Scoring meeting with the Firm	16/06/23

Concerns raised, and challenges made with the Provider by the GAA and their response

The GAA has not raised any concerns with the Firm 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 the Firm's website at www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement
- | The Firm will receive and filter all pathway investor 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 the Firm determine 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. The Firm 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 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. More information on ZEDRA can be found at as www.zedra.com/GAA/

The members of the ZEDRA 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. The majority of ZEDRA Governance Ltd’s Client Directors act as representatives of ZEDRA Governance Ltd on the GAA.

The Board of ZEDRA Governance Ltd has also appointed Dean Wetton, acting on behalf of Dean Wetton Advisory UK Ltd, to the GAA. Dean Wetton and Dean Wetton Advisory UK Ltd are independent of ZEDRA.

The Board of ZEDRA Governance Ltd has appointed either a specific named Client Director of ZEDRA Governance Ltd or Dean Wetton of Dean Wetton Advisory Ltd to act in the capacity of Chair of the GAA in respect of each Firm.

More information on each of ZEDRA’s Client Directors, their experience and qualifications can be found at www.zedra.com/people

Information on Dean’s experience and qualifications can be found at <https://deanwettonadvisory.com/our-team/>

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.

Relevant Scheme

A personal pension scheme or stakeholder pension scheme for which direct payment arrangements are, or have been, in place, and under which contributions have been paid for two or more employees of the same employer.

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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