



INTELLIGENTMONEY

**Governance Advisory Arrangement (GAA)**  
Chair's annual report covering the 2021 calendar year

## Introducing the Chair's Annual Report

Welcome to the annual report of the Intelligent Money (IM) Governance Advisory Arrangement (GAA). In this report we set out our independent assessment on whether QWPS members received value for money (VfM) from IM's workplace pension plans during 2021.

It was a milestone year as IM's QWPS default solution, which is where around 95% of members' savings are invested, completed five full years of live returns. It is still a relatively new product compared to many other pension plans on the wider market, but this is an important benchmark in terms of assessing the performance of an investment portfolio aimed at long-term savers.



*GAA Chair Peter Shelton*

More significantly, in September 2021 IM completed the transfer of its default portfolios to its new dedicated fund manager, P1 Investment Management Ltd (P1). This was a key step towards addressing concerns we have previously raised about how QWPS portfolios were being managed by Quilter Cheviot (QC), though the impact in terms of our VfM assessment will be covered in future reports.

Assessing value for money remains a challenge as each member may have different perspectives and experiences, influenced by individual circumstances, retirement objectives and the wider market context. In its simplest terms, we believe good value for money is about maximising the income you have when you retire.

Guided by FCA regulatory requirements, we have decided to evaluate VfM based on four key criteria:

- Whether **investment strategies** are suitable and executed in the interests of members
- Whether **costs and charges** borne by members are fair and competitive in the market
- Whether IM's **levels of service** and **member communications** are fit for purpose
- Whether pension savings are **financially secure** and protected against **cyber threats**.

**Our overall view is that IM continued to offer reasonable to good value for money in 2021. However, there are several areas where we think more work is required to help deliver better retirement outcomes for members.**

You can read our summary VfM assessment [below](#), followed by our full evaluation of each core criteria. Ultimately, our aim is to help you feel confident that your workplace pension scheme is working in your best interests. If you are enrolled in a workplace pension with IM, we encourage you to read this report and take an active interest in how your pension savings are being managed.

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## Value for Money - Summary Assessment

### Key View

We have given IM an ‘amber-green’ VfM rating for 2021, the same overall score as in our previous report. This reflects our broad view that IM offers most QWPS members reasonable-to-good value for money. While IM has responded to previous GAA challenges and made progress in some key areas, for the most part they had not yet been fully resolved during the period under review. Amber ratings point to issues that still require work and will be a key focus for the GAA in the year ahead. However, even where we have assigned a light-green rating, we believe there is room for improvement and will continue to push IM to deliver better value for money for its QWPS members.

Value for money framework components	2020	2021
Investment Design & Performance		
Costs & Charges		
Quality of Service & Client Communications		
Financial Strength & Cyber Security		
<b>Overall VfM Assessment</b>		

### VfM assessment ratings key

-  IM is meeting or surpassing GAA expectations and compares favourably to alternative options on the market (where comparison is possible).
-  The GAA found no material issues and IM is broadly meeting expectations, though there may still be room for improvement.
-  There are specific points that may affect some members or relate to emerging issues and are being addressed by IM.
-  There are material concerns about performance that the GAA has raised with IM and should be addressed urgently.
-  The GAA has identified serious issues that affect retirement outcomes for all members but have not been addressed.

## VfM Components - Summary

Our amber rating for **investment design & performance** in 2021 is the same as in 2020. The key event of the year was the transfer of IM's QWPS default solution to a new dedicated fund manager (P1), which was completed in September 2021. This was an important step in addressing our concerns over scheme governance and oversight under the previous investment manager, and we will evaluate the impact on our VfM ratings in future reports. Default portfolio returns underperformed relative to benchmarks and market comparators, so we are pleased that IM began a review of its core default investment strategies and objectives in July 2022. We cited this as a key priority in our last annual report and we will report on the outcome in more detail next year.

We maintain a light-green rating for IM's **cost & charges** (including transaction costs), which we consider to be clear and reasonable in the current marketplace. We have challenged IM to review its fees and combination charging structure. This should include a consideration of whether the initial charge on pension contributions is still appropriate for different cohorts of members. This has not yet occurred due to delays in other projects, though IM has committed to conduct a review over the coming year. As such, this will remain a key focus for the GAA.

We have given IM an 'amber-green' rating for **quality of services & communications** in 2021, slightly worse than the light-green rating in 2020. While we do not have any specific reason to believe that there was a deterioration in the services provided by IM in the period under review, our ability to objectively measure and benchmark standards remains limited due to a lack of data reporting and benchmarking. We acknowledge this as an area of weakness in our VfM assessment and will continue to work with IM to find a satisfactory solution. The rating change also reflects our view that IM could do more to improve its member communications, an area in which we believe IM risks lagging behind other providers in the market.

The 'dark green' rating for **financial and cyber security** implies that we have no material concerns about IM's financial strength or the systems it has in place to protect member savings and data.

The GAA has a duty to assess separately the VfM of the **investment pathways** offered by IM to non-advised QWPS members that enter drawdown. In February 2021 IM launched four default pathway solutions for members based on what they would like to do with their money. We believe these are reasonable default options and compliant with regulatory requirements. However, as no QWPS members had accessed a pathway solution during the review period, we still feel unable to conduct a full VfM assessment at this stage. We have therefore not assigned a VfM rating for IM's pathway solutions in this report.

IM only began offering QWPS products in 2016 and the relatively small average size of member pension pots limits drawdown options at retirement. Over time, we expect the pension pots of QWPS members will grow and more will access the investment pathway solutions upon reaching retirement. We will expand our VfM assessment as we gather information on how QWPS members begin to use pathway solutions and how these compare to those offered by other pension providers.

### 3. Investment Design & Performance






#### Why is this important?

#### VfM rating

Most QWPS members do not make active choices about how their pension savings are invested, so it is important that the design, management, and oversight of the default solution supports good retirement outcomes. Members should also have the option to select alternative investment strategies with different long-term objectives.



#### What we are looking for

- Is the design of the default QWPS scheme appropriate for members at different stages of their pension savings journey? 
- Are QWPS investments managed effectively, with strategies regularly reviewed and actions taken promptly when required? 
- Is the default investment scheme performing in line with its stated objectives and benchmarks? 
- Do members have a good range of alternative investment strategies to choose from? 
- Are responsible investing principles integrated into portfolio design, and do members have access to ESG-focused funds? 

#### GAA observations

We are pleased that the switch to a new dedicated fund manager was completed in September 2021. We believe this will be positive for the governance and oversight of IM’s QWPS schemes, though this will be monitored in future VfM assessments. As requested by the GAA, IM and new fund manager P1 began a comprehensive review of the IM Default and Optimum Portfolio investment mandates in July 2022. IM has not incorporated ESG factors into the default investment solution due to its concerns over costs, though QWPS members have the option of investing in an ESG-focused sustainable portfolio.

#### GAA priorities for 2022/2023

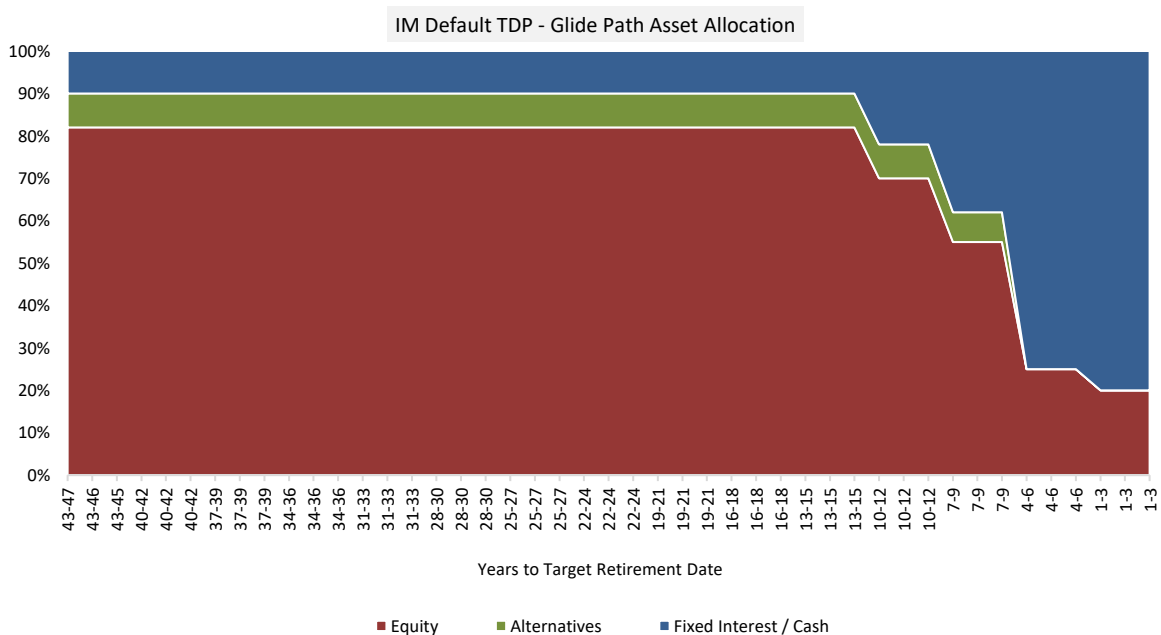
- Monitor the outcome of the investment strategy review and ensure any changes are implemented with members’ best interests in mind.
- Work with IM and P1 to enhance reporting of risk-adjusted portfolio returns in line with latest regulatory guidance.
- Work with IM to improve the way in which portfolio objectives and returns are communicated to members.

## IM Default Strategy – Design & Objectives

We believe the design of IM’s default investment strategy is appropriate for the majority of IM’s QWPS members who prefer not to actively engage with their pensions. We are pleased that IM and incoming fund manager P1 are undertaking a review of this strategy in 2022, which we considered necessary given concerns raised about the previous investment manager QC. Following challenges by the GAA, IM is also taking steps to improve the transparency and communication of the portfolio’s stated objectives at all stages of the retirement journey.

The IM default portfolio is where members’ savings are automatically invested when registered to IM’s workplace pension scheme. As of end-2021, more than 95% of QWPS members remained invested in this default option.

The default option is a target-dated portfolio (TDP), which automatically manages down risk as members approach retirement. In practice, this means that savings will mainly be invested in equities during the ‘growth phase’, which lasts until 12 years before the target retirement date. At this point savings will gradually be moved into in lower-risk assets (e.g. cash and gilts) so that pension pots are less exposed to market volatility in the run up to retirement. This automatic de-risking process is common in the default solutions offered by other workplace pension providers.



The portfolio is designed to offer a low-cost, low-maintenance solution for members that are not comfortable or interested in actively engaging with their workplace pension. In 2021 it had the stated objective of achieving returns of CPI+4% over the long term, though this only applies to members in the ‘growth phase’ of the glide path. IM has said it is in the process of updating its factsheets to make the portfolio objectives clear to members at all stages of the pensions journey.

In July 2022, IM and P1 began a comprehensive review of the core investment mandates underpinning the QWPS default solution and the IM Optimum Portfolio range. This had been requested by the GAA in previous years, and we are pleased that it is being undertaken after some delays.

We believed a review was appropriate in 2022 given the recent change in fund manager and because at end-2021 all portfolios had at least five full years of performance data that could be analysed. We recommended that the review consider whether the default solution's stated objectives, strategic asset allocation, and the chosen glide path for de-risking are still appropriate, in the context of recent portfolio performance.

We also queried whether the current benchmarks being used to measure performance remained appropriate. On this matter, we highlighted a divergence in asset allocation between the IM Default Cautious portfolio (the lowest-risk portfolio) and the Bloomberg Barclays Sterling Gilt 1-5 years benchmark that was adopted in September 2021 following the change in investment manager (the previous benchmark was a custom Quilter Cheviot index that was no longer available).

We will monitor the outcome of this review and ensure that IM considers market conditions and takes appropriate measures to protect members' best interest when implementing any changes to portfolios.



## IM Default Strategy – Governance

**We believe the change in fund manager for IM’s default solution in September 2021 will be positive for scheme governance and oversight over time. The amber rating reflects our view that previous concerns are being addressed, but that more time is needed to assess the impact on value for money. We are pleased that IM and new fund manager P1 are conducting a review of the default investment mandate to see if it remains appropriate for QWPS members. We will monitor the outcome of this review and any changes to portfolio design that result from it over the coming year.**

In September 2021, IM transferred the investment mandate for its QWPS default portfolios to P1 Investment Management Ltd (P1). This was an important milestone given problems with data provision and communications that the GAA and IM experienced with previous dedicated fund manager Quilter Cheviot (QC), as highlighted in previous annual reports.

In our view, IM’s deteriorating relationship with QC weakened the management and oversight of the default solution. We were concerned about a lack of transparency over the processes for monitoring portfolio performance and reviewing investment strategies, which could have a negative impact on long-term returns and member retirement outcomes. IM acknowledged and shared some of these concerns, which it said were a driving force behind the decision to transfer the default portfolios to P1. The move took longer than we would have liked, but we were pleased to see it completed in September 2021.

We already have evidence of improved transparency and communications from P1, which has also managed IM’s range of alternative Optimum Portfolios since mid-2020. Portfolios are rebalanced on a quarterly basis, with P1 providing detailed updates on performance (versus benchmarks) and market conditions when proposing any adjustments to fund selection or asset allocation. A GAA representative joins the quarterly Investment Committee Meetings (ICM) held by P1 and IM and raises questions or concerns as required.

While this change is encouraging, the amber rating for this component reflects the limited time during the review period that P1 was managing the default portfolios. We will continue to monitor overall governance of the QWPS default proposition, in particular assessing robustness during the more challenging market conditions seen in 2022 to date.

## IM Default Strategy – Investment Performance

The default portfolios have underperformed their relevant benchmarks at different stages of the glide path over a five-year period. We acknowledge that past performance is not an indicator of future returns and that most retirement outcomes will be determined by a longer-term investment horizon than the data currently available. However, persistent underperformance would be a concern as this affects retirement outcomes. We will closely monitor ongoing performance at all stages of the default glide path following the review of core investment strategies in 2022.

Measuring historic portfolio performance is only partially useful in a VfM assessment, particularly as pensions are long-term investments and IM's default portfolios only have live data from 2017. However, as investment returns have a big influence on how much a pension pot grows over time, they remain an important consideration for the GAA.

If you are a QWPS member invested in IM's Default Portfolios, the returns you experience will depend on how far you are from your planned retirement date:

- **Defensive Phase:** If you are **targeting retirement within 3 years**, your savings will be invested in the lowest risk strategy to protect accumulated wealth from market volatility.
- **Transition Phase:** Between **12 and 3 years to your target retirement date** your pension savings will automatically be moved into more conservative (lower-risk) portfolios at 3-year intervals.
- **Growth Phase:** If you are still **more than 12 years from planned retirement date** you will be invested in a portfolio that seeks to maximise capital returns over a long-term horizon.

	2017	2018	2019	2020	2021	5-year cumulative	5-year annualised
<b>IM Default TDP Cautious (0-3 years to retirement)</b>	<b>3.9</b>	<b>-2.5</b>	<b>8.1</b>	<b>3.8</b>	<b>-0.6</b>	<b>12.9</b>	<b>2.5</b>
Benchmark – Bloomberg Barclays Sterling Gilt 1-5 years	-0.2	0.4	1.2	1.9	-1.9	1.3	0.3
NEST 2022 Retirement Fund	-	-	10.1	3.8	3.9	-	4.4
<b>IM Default TDP Conservative (4-6 years to retirement)</b>	<b>5.5</b>	<b>-1.6</b>	<b>8.0</b>	<b>4.8</b>	<b>7.1</b>	<b>25.8</b>	<b>4.7</b>
Benchmark – MSCI PIMFA Conservative/ Bloomberg Barclays Sterling Gilt 1-5 years 60%/40%	4.4	-1.9	8.2	2.6	3.1	17.2	3.2
NEST 2024 Retirement Fund	-	-	12.0	5.4	6.1	-	5.5
<b>IM Default TDP Income (7-9 years to retirement)</b>	<b>6.8</b>	<b>-4.0</b>	<b>12.1</b>	<b>1.4</b>	<b>11.5</b>	<b>29.8</b>	<b>5.4</b>
Benchmark – MSCI PIMFA Private Investor Income	9.2	-4.6	15.2	1.9	10.4	35.0	6.2
NEST 2027 Retirement Fund	-	-	14.8	6.6	9.4	-	7.1
<b>IM Default TDP Balanced (10-12 years to retirement)</b>	<b>7.4</b>	<b>-5.4</b>	<b>15.1</b>	<b>2.3</b>	<b>13.4</b>	<b>35.7</b>	<b>6.3</b>
Benchmark – MSCI PIMFA Private Investor Balanced	9.9	-4.7	16.2	2.0	12.5	39.7	6.9
NEST 2030 Retirement Fund	-	-	17.0	7.7	12.7	-	8.3
<b>IM Default TDP Growth (13+ years to retirement)</b>	<b>8.5</b>	<b>-6.0</b>	<b>18.1</b>	<b>1.1</b>	<b>16.2</b>	<b>41.5</b>	<b>7.2</b>
Benchmark - MSCI PIMFA Private Investor Growth	11.4	-5.5	18.2	2.2	15.9	47.5	8.1
NEST 2058 Retirement Fund	-	-	16.9	8.2	14.3	-	8.6
<b>UK CPI+4%</b>	<b>6.9</b>	<b>6.1</b>	<b>5.3</b>	<b>4.7</b>	<b>9.4</b>	<b>36.9</b>	<b>6.5</b>

\*Source: P1, NEST, FE Analytics. Note: IM portfolio data is net of all third-party fees but not IM management fees. NEST retirement fund data is total return net of all charges; benchmark data is 'gross' of any charges. Your pension returns may vary from those represented in the table above.

The GAA recognises that past performance is not an indication of future value for money and is also cognizant of the need to maintain a long-term perspective on pension investments. Over the five years to end-2021 the default portfolios at the higher risk stages of the glide path have modestly underperformed their respective benchmarks, implying that younger savers have not been receiving the expected annual returns to date.

Five-year net returns also lagged those achieved by comparable NEST retirement funds. We chose NEST as a peer benchmark due to its broadly similar default portfolio design, objectives and charging structures. However, this should not be considered a truly fair comparison given NEST's different ownership status and financial context.

## Self-Select Investment Strategies – IM Optimum Portfolios

We believe the range of self-selected portfolios is satisfactory, giving QWPS members a choice over the level of engagement and risk they are most comfortable with. Only a small number of members have opted to move savings from the default strategy to the IM Optimum Portfolio suite.

Since 2018, QWPS members have had access to IM’s range of Optimum Portfolios, though only a small number have opted to move savings out of the default strategy. These provide the opportunity to tailor investment strategies to fit different needs, risk tolerance and retirement goals (see Appendix B for more information on each strategy). In 2021, IM also launched a new, ESG-focused Optimum Sustainable Portfolio (see below section on ‘Responsible Investing’ for more information).

Risk-Rated Optimum Portfolios	Optimum Target-Dated Portfolios
IM Optimum Defensive	IM Optimum Growth for Withdrawal (de-risk to IM Optimum Defensive at retirement)
IM Optimum Cautious	
IM Optimum Income	IM Optimum Growth for Income (de-risk to IM Optimum Income at retirement)
IM Optimum Global Growth & Income	
IM Optimum Global Growth	

The two risk-managed IM Optimum TDPs will always mirror one of the risk-rated portfolios, with the glide path determining which this is according to how far you are from retirement. The IM Optimum Growth for Withdrawal portfolio will automatically de-risk to mirror the IM Optimum Defensive (lowest risk) at the point of retirement, while the IM Optimum Growth for Income will de-risk to mirror the IM Optimum Income portfolio (balanced risk).

The Optimum Portfolios have been managed by P1 since mid-2020, with the discretionary mandate renewed annually. At quarterly ICMs, P1 and IM discuss the market outlook and agree on any changes to strategic asset allocation (SAA) to keep the risk-rated portfolios aligned with their respective long-term objectives. The Optimum Portfolios are actively managed under an agreement to maintain a tactical asset allocation within 10% of the mandate’s SAA under normal circumstances. A GAA representative is present at these quarterly meetings and is able to raise any concerns or questions with IM and P1.

In recent years, returns from the IM Optimum Portfolios have largely outperformed the default portfolios with similar risk-reward profiles. However, investing in the IM Optimum Portfolios also incurs higher management charges (see ‘costs & charges’ below), which will affect the overall outcome at retirement. The table on the following page shows the five-year net performance of the range of Optimum Portfolios against their respective benchmarks.

	2017	2018	2019	2020	2021	5-year cumulative	5-year annualised
<b>IM Optimum Defensive</b>	<b>3.2</b>	<b>-0.8</b>	<b>8.1</b>	<b>5.7</b>	<b>-0.0</b>	<b>17.1</b>	<b>3.2</b>
MSCI PIMFA Conservative/ Bloomberg Barclays Sterling Gilt 1-5 years 60%/40%	4.4	-1.9	8.2	2.6	3.1	17.2	3.2
<b>IM Optimum Cautious</b>	<b>4.3</b>	<b>-1.6</b>	<b>9.3</b>	<b>7.9</b>	<b>7.3</b>	<b>29.8</b>	<b>5.4</b>
MSCI PIMFA Private Investor Conservative	7.5	-3.4	12.9	3.0	6.5	28.4	5.1
<b>IM Optimum Income</b>	<b>8.5</b>	<b>-4.4</b>	<b>14.8</b>	<b>2.4</b>	<b>11.0</b>	<b>35.2</b>	<b>6.2</b>
MSCI PIMFA Private Investor Income	9.2	-4.6	15.2	1.9	10.4	35.0	6.2
<b>IM Optimum Global Growth &amp; Income</b>	<b>10.6</b>	<b>-5.3</b>	<b>17.8</b>	<b>0.6</b>	<b>13.2</b>	<b>40.6</b>	<b>7.1</b>
Benchmark – MSCI PIMFA Private Investor Balanced	9.9	-4.7	16.2	2.0	12.5	39.7	6.9
<b>IM Optimum Global Growth</b>	<b>12.2</b>	<b>-6.1</b>	<b>19.8</b>	<b>0.9</b>	<b>15.5</b>	<b>47.1</b>	<b>8.0</b>
Benchmark - MSCI PIMFA Private Investor Growth	11.4	-5.5	18.2	2.2	15.9	47.5	8.1

*\*Source: P1, IM. Note: IM portfolio data is reported net of all third-party fees but does not include IM management fees; benchmark data is 'gross' of any charges. Some benchmarks were changed when the discretionary management of the Optimum portfolio range was taken on by P1 in July 2020. The returns on your personal pension plan may vary from those detailed here.*

## Responsible Investing – ESG Options

We are pleased that a specialist ESG-focused investment portfolio, IM Optimum Sustainable, was made available to QWPS members in 2021. We will continue to encourage IM to further integrate ESG principles into wider investment decision-making over the longer term as we think this is the broad direction the market is heading in.

IM launched a new ‘IM Optimum Sustainable’ portfolio in 2021, managed by P1 Investment Management and available to all QWPS members. The new portfolio broadly aligns with the risk profile of the ‘IM Optimum Global Growth & Income’ portfolio (balanced risk), with the underlying holdings mostly passive ESG products. The portfolio’s ESG credentials are calculated using Morningstar ESG fund ratings and tracked by P1 at quarterly ICMs.

IM has confirmed that the annual charge for the new portfolio will be the same as the other Optimum Portfolios available to QWPS members. P1 has stated that it will seek to take advantage of opportunities to reduce underlying costs or upgrade the portfolio’s ESG rating where feasible within the current mandate.

As a newer portfolio, we only have access to three years of performance data for the Optimum Sustainable portfolio (see table below). During this period the portfolio has outperformed its benchmark, in part due to significantly higher returns in 2020. We will continue to monitor performance over a longer time frame and ensure that IM regularly reviews the underlying strategy and design of the portfolio.

	2019	2020	2021	3-year cumulative	3-year annualised
<b>IM Optimum Sustainable</b>	<b>18.2</b>	<b>11.1</b>	<b>9.4</b>	<b>43.5</b>	<b>12.8</b>
Benchmark – MSCI PIMFA Private Investor Balanced	16.2	2.0	12.5	33.3	10.1

*Source: P1, IM. Note: IM portfolio data is reported net of all third-party fees but does not include IM management fees; benchmark data is ‘gross’ of any charges. The returns on your personal pension plan may vary from those detailed here.*

In 2021 we helped IM issue a survey of members, which included questions aimed at gauging interest in ESG investment principles. We have reviewed the responses and may refer to them in future discussions with IM, but due to the limited number of completed surveys we do not believe we can draw any clear VfM conclusions on this matter.

## 4. Costs & Charges

Why is this important?	VfM rating
<p>The costs and charges associated with managing your pension plan have a significant impact on how much your savings pot will grow through to retirement. To deliver good value for money, charges should be reasonable for the services provided and compared to other similar providers in the market.</p>	
What we are looking for	
<ul style="list-style-type: none"> <li>• Are the charges borne by members appropriate and fair given the services provided?</li> <li>• Do charges &amp; costs applied adversely affect any particular cohort(s) of QWPS members?</li> <li>• Are transaction costs reasonable and how do they compare to those of similar funds/portfolios in the market?</li> </ul>	  
GAA observations	
<p>Our 'light green' rating for 2021 is unchanged from the previous years and reflects our ongoing view that IM's costs and charges are currently transparent and reasonable compared to the wider market. However, we still believe that a review of the current charging structure is warranted. This is due to concerns that the contribution charge may disproportionately affect those with a shorter investment horizon, including those that begin saving close to their retirement date. We will also monitor whether the broad investment strategy of reducing underlying fund costs could eventually lead to lower charges for QWPS members.</p>	
GAA priorities for 2022/2023	
<ul style="list-style-type: none"> <li>• Follow up on IM's commitment to undertake a formal review of its fees and charging structure to determine whether applying an initial charge on contributions remains appropriate for members and competitive in the market.</li> <li>• Work with new dedicated investment manager P1 to ensure a correct and detailed disclosure of transaction costs across the full range of default and Optimum portfolios, with an emphasis on presenting this data in a way that is useful to QWPS members.</li> </ul>	

## IM pension charges

We believe IM’s default charges are reasonable for its QWPS service and compared to current market averages. However, these charges should be regularly reviewed in the context of a broad industry trend towards lower fees. Following a challenge from the GAA, IM has committed to conducting a review of its combination charging structure. This is expected in late-2022, and we will follow this up with IM and report further on the matter in our next annual report.

IM confirmed that its QWPS charges are the same across different employers, so we have conducted a single VfM assessment of costs and charges that apply to scheme members.

### QWPS Default

IM applies two types of charges to its default QWPS plans:

- **A single annual management charge (AMC) of 0.5%** on the total value of a member’s fund each year. This includes all the third-party fees for managing investments, operating and administrative costs, and underlying fund charges.
- **A one-off initial charge of 1.8%** on all contributions members make into their pension plans.

This combination charging structure is compliant with the existing charging cap regulations, though is relatively uncommon among workplace pension providers today: according to the Department of Work and Pensions (DWP)’s [Pension Charges Survey 2020](#), only two out of twenty providers involved in the survey applied contribution charges. NEST is one provider with the same charging structure, also applying a 1.8% contribution charge but with a lower AMC of 0.30%.

According to calculations made by the DWP, under this fee structure the equivalent total average annual charge in IM’s default scheme stands at 0.66-0.72%, below the 0.75% charge cap. The actual equivalent figure will depend on the size of each member’s contributions relative to their overall pension pot. The table below compares IM charges with NEST and industry averages as per the DWP’s Pension Charges Survey 2020.

Default investment scheme annual charges	2021
Workplace pension defaults scheme annual charge cap	0.75%
Intelligent Money – AMC/equivalent single annual fee inc. contribution charges*	0.50%/0.68%**
NEST - AMC/equivalent single annual fee inc. contribution charges*	0.30%/0.48%**
<b>DWP Pension Charges Survey 2020</b>	
Average annual charge for qualifying contract-based workplace pension schemes	0.50%
% of total scheme members paying annual ongoing charges of 0.51-0.75%	47

Source: IM, NEST, DWP. \*Contribution charge = 1.8%. \*\*Illustrative example based on annual contributions of £1,000 and total pension pot of £10,000; the actual figure will depend on your unique circumstances.



IM's ongoing AMC is in line with the market average, but overall annual fees charges borne by active members are higher when the effects of contribution charges are included (members not making ongoing contributions to their pension plan will not be affected by this). The DWP survey notes that in 2020, nearly half of all qualifying contract-based workplace pension scheme members were paying annual charges between 0.51% and 0.75%. As such, we believe IM's charges are reasonable relative to the wider market.

### IM Optimum Portfolios

IM's Optimum Portfolios (including IM Optimum Sustainable) carry the same 1.8% contribution charge but a higher maximum AMC of 0.87%. This reflects more active management of the portfolios and higher administrative costs but provides members with more choice over their investments and greater flexibility at retirement. The fee remains all-inclusive, and IM says it automatically adjusts its own management fees to ensure members are not charged more than 0.87% (for example, it will lower management fees to compensate for a rise in underlying fund charges).

As per the DWP Pension Charges survey 2020, the average annual charge for workplace pension schemes that do not fall under charge cap requirements stood at 0.53%, down from 0.73% in 2016. The report also showed that 88% of members of these non-qualifying schemes were now paying less than the 0.75% charge cap, implying that IM Optimum fees are now at the higher end of the market.

Against this backdrop, the GAA intends to continue consultations with IM to see whether any cost savings from the change in investment manager and platform can be passed to QWPS members via lower charges. However, to benefit QWPS members we believe that any cost savings should not compromise service quality or financial security.

### Charging structure review

In our previous annual report, we highlighted our intention to urge IM to review its charging structure, and in particular assess whether the initial 1.8% contribution charge remained appropriate and competitive. IM has responded that it continues to prefer its existing charging structure as the QWPS service is still relatively new and total assets under management low, meaning a single annual charge would potentially undermine its ability to cover costs and maintain the expected level of service.

However, IM said it would commit to a written comprehensive review of its fees and charging structure that would include consideration of alternative options. We believe the review should include an assessment of whether contribution charges may disproportionately impact some cohorts of members or discourage members from making additional contributions to their pension pots.

#### Disclosure of costs & charges

We are required by the FCA to include more detailed information about the costs and charges applied to QWPS member pension schemes, including illustrative examples of how they can affect savings over time. Please see [Appendix D](#) for full information.

## Transaction costs

We believe transaction costs as of end-2021 were reasonable across the Default and Optimum range of portfolios. We note challenges in arriving at a wholly reliable estimate for transaction costs of the IM default portfolio over 2021 due to the change in investment manager in September. We have been working with new fund manager P1 to ensure that transaction costs are calculated accurately and timely in line with FCA requirements for future disclosures.

Transaction costs are incurred during the buying and selling of investments – they are not charged to members directly but do impact the net investment returns of each portfolio.

- **Explicit transaction costs** are the direct costs of trading and include brokerage or custodian fees, stamp duty and other relevant taxes.
- **Implicit transaction costs** include the bid/ask spread and the difference between the quoted mid-price of an instrument and the price paid (slippage cost).




P1 provided estimates of transaction costs incurred during 2021 (see table below). However, for the default portfolios this only includes data from Q4 after P1 took on the investment mandate in September. The GAA was unable to obtain the relevant information from previous investment manager QC, so the estimated implicit transaction costs data for the default portfolios may therefore not reflect what would typically be expected for a full calendar year. This is a one-off issue related to the transfer of portfolios to a new fund manager and we do not expect any problems in obtaining full transaction cost data from P1 in the future.

	Ex ante fund transaction costs (weighted sum)	Estimated implicit transaction costs*	Consolidated portfolio transaction costs
IM Default Cautious	0.000%	0.000%	0.000%
IM Default Conservative	0.000%	0.010%	0.010%
IM Default Income	0.002%	0.002%	0.005%
IM Default Balanced	0.005%	0.002%	0.007%
IM Default Growth	0.008%	0.002%	0.010%
IM Optimum Defensive	0.000%	0.026%	0.026%
IM Optimum Cautious	0.009%	0.007%	0.016%
IM Optimum Income	0.017%	0.014%	0.031%
IM Optimum Growth & Income	0.021%	0.017%	0.038%
IM Optimum Global Growth	0.023%	0.007%	0.030%

Source: P1, Asset Intelligence.

\*Implicit transaction costs for IM default portfolios only include data from Q4 2021. Optimum Portfolio data covers the period 01/01/2021-31/12/2021.

## 5. Client Service & Communications

Why is this important?	VfM rating
<p>QWPS members should receive a high standard of client service from their pension provider. This includes accurate and timely administration of pension investments, adequate client support and protection for vulnerable members. Communications should be timely and ‘fit for purpose’ – that is, help members make more informed decisions that may lead to better retirement outcomes.</p>	
What we are looking for	
<ul style="list-style-type: none"> <li>• Are core financial transactions (e.g. transfers, benefit payments) processed promptly and accurately?</li> <li>• Does IM offer adequate support for members when making decisions, including vulnerable groups?</li> <li>• Are communications fit for purpose and do they take into account the needs of different members?</li> <li>• What is being done, if anything, to encourage members to actively engage with their pensions?</li> </ul>	   
GAA observations	
<p>We have given IM an ‘amber-green’ rating for quality of services &amp; communications in 2021, slightly below the light-green rating in 2020. This does not imply that there has been a material deterioration in the quality of services provided by IM over the period under review but rather reflects an ongoing absence of metrics and benchmarks against which performance and standards can be objectively measured. We are pleased that IM is giving QWPS access to more information about their pension savings via the online portal and promoting digital communication channels. However, we also believe IM could do more to improve the quality and range of its member communications, especially when it comes to providing tailored guidance and support for members at different stages of the retirement journey. We believe IM is at risk of lagging behind other workplace pension providers in addressing this matter and it will be a key focus for the GAA next year.</p>	
GAA priorities for 2022/2023	
<ul style="list-style-type: none"> <li>• Recommend IM introduce some basic metrics and benchmarks against which service quality levels and the effectiveness of communications can be measured.</li> <li>• Consider how IM can enhance its member-specific digital communications, while ensuring that vulnerable members have alternative ways to receive communications.</li> <li>• Review whether the transfer to an in-house investment platform provided by Seccl has had an impact on administration processes and customer service.</li> </ul>	

## Scheme Administration

**Based on the information available, we believe that IM provides a satisfactory service to QWPS members. The GAA has continued to seek more detailed information about the service levels provided by IM to gain a clearer picture of the experiences QWPS members have, though our assessment is limited by a lack of formal benchmarking and data reporting. This is an area in which we believe both IM and the GAA should make improvements over the coming year. We will also consider how IM can further enhance support for different groups of vulnerable members.**

Our ability to accurately assess the quality of the administrative services offered by IM remains limited by a lack of data that is relevant to QWPS members. IM has shared its company-wide service level agreements (SLA) targets for completing core financial transactions and other administrative tasks. IM reports that management reviews these SLAs on a weekly basis but that this is not formally documented and performance is not currently measured against any metrics or benchmarks. IM has confirmed that it had not received any formal complaints from QWPS clients, either directly or via the Financial Ombudsman Service, since inception.

The auto-enrolment process for IM's QWPS schemes is managed remotely by AutoEnroll.Me (AEM), including all aspects of staging, record-keeping, and payroll upload support. During 2021 IM reported a limited number of issues with incomplete enrolment data provided by AEM, which in some cases caused delays to member investments. IM said it has taken action to communicate with AEM and review processes to improve the accuracy and speed of these core financial transactions.

Alongside the change in dedicated fund manager in September 2021, QWPS pension assets were also transferred to IM's own investment platform, powered by Secl. IM has stated that it expects this will enhance the accuracy of its administrative processes as well as lower costs, while improving the quality of performance data that it can provide for members (including member-specific performance data and information about charges). This has been an area of focus for the GAA and going forward we will seek information on member experiences since the new platform was launched. In our next report we will assess what impact, if any, this has had on value for money.

When dealing with vulnerable members – such as those affected by serious illness or financial hardship – IM staff are asked to escalate to their line manager who will ensure the client case is made a priority. IM says these clients receive additional support as required, involving senior management where necessary.

## Member Communications

**IM continues to encourage digital communications with QWPS members, and we are pleased to see more members use the online portal to access information about their pension plan. We are satisfied that safeguards are in place to ensure vulnerable members and those without reliable internet access will continue to receive communications. We believe IM could be more proactive in providing guidance and financial education support to members of different ages, and particularly those approaching retirement when they must prepare to make important decisions about their pension. Ideally, we would also like to see IM set up internal processes to track the impact of its communications on member decision-making, which is ultimately what is most likely to impact retirement outcomes. We acknowledge that the benefits of any new communications material must be weighed up against any additional costs.**

The GAA has reviewed regular client communications sent to QWPS members, including introduction letters, a Member's Pack with detailed information on the QWPS, pre-retirement illustrations and an annual benefits statement. The IM website also includes a library of downloadable informative guides, key terms and conditions and portfolio fact sheets. IM communicates with members via different channels – it is encouraging the use of email and other digital communications as part of a drive to go 'paperless', though maintains an option of postal contact for those that have difficulties accessing the internet.

Compared to other workplace pension providers, there are some gaps in the range of communications IM has with its QWPS members. These include 'nudge' communications, financial education tools and materials, and signposting members to freely available guidance about pension options before making decisions (e.g. Pension Wise or MoneyHelper). We believe work could also be done to make the QWPS section of the IM website more accessible and informative. In general, IM communications are not tailored to account for the specific needs of members at different stages of their retirement journey.

The GAA has been consulting with IM over the enhanced provision of member-specific portfolio performance reporting via the online client portal. As part of its switch to a new in-house investment platform in September 2021, IM has said that it would have a greater capacity to offer individual performance figures for members portfolios, including book cost and a modified Dietz performance figure. IM is also in the process of reviewing the information contained in its portfolio factsheets, including providing separate factsheets for each stage of the default strategy 'derisking' phase so that all QWPS members will have access to information that is most relevant to them at any point in time.

This is an ongoing area of interest, and the GAA will work with IM to determine what additional information would be useful for members in terms of understanding their pension plan and supporting better decision-making. We will also continue to urge IM to establish processes to measure the impact of any communications campaigns on member decisions and behaviour, and to use this information to continuously improve its messaging.

## Member Engagement

**Low engagement of savers with their workplace pension plans remains an industry-wide concern. IM is continuing to encourage members to use the online client portal, which should facilitate active engagement and help them make informed decisions about their pension plan. Measuring engagement levels remains challenging, and we will continue to work with IM to find ways to set reasonable standards or targets to benchmark against.**






Addressing limited member engagement with pensions remains an industry-wide challenge. At IM, more than 95% of QWPS members remain in the default investment option that they are automatically enrolled in. Other research suggests most QWPS members have very limited engagement with their pension plan at IM. This should not be considered a negative outcome in itself, in value for money terms. From the GAA's perspective, we are interested in what steps IM is taking to give members the relevant information, support, and tools to enable them to make better decisions and ensure that their pension plan remains in line with their own retirement needs and goals.

We believe it is positive that IM is encouraging more members to register for and use the online portal, where they can:

- Access important documents related to their plan.
- View plan value and performance.
- Switch between investment options.
- Manage where regular contributions are invested.
- Transfer plans from other pension providers and track the progress of the transfer(s).
- Apply for benefits (over 55's only)
- Update and manage personal details including name (proof by marriage certificate or deed poll required), address, email address and telephone number.

IM says it has been sending regular e-mail reminders to members who have not yet registered. In 2021, IM also sent out an information booklet informing members of its recent pledge to go 'paperless' and providing instructions on how members can register for the online portal.

## 6. Financial Strength & Cyber Security

Why is this important?	VfM rating
<p>The security of pension savings and personal data is vitally important for all QWPS members.</p>	
What we are looking for	
<ul style="list-style-type: none"> <li>• Are QWPS member savings safe with IM?</li> <li>• Do QWPS members have adequate protection from data theft/fraud/scams?</li> <li>• Are IT/cyber security policies appropriate and regularly updated to protect against the latest threats?</li> <li>• Are core operational procedures safeguarded and secure even in adverse scenarios?</li> </ul>	   
GAA observations	
<p>We remain satisfied that QWPS member savings and private data are secure with IM. The company continues to invest in IT security systems and update protection against cyber attacks. We also have no current concerns about IM's financial strength, with robust systems and controls in place to safeguard client money.</p>	
GAA priorities for 2022/2023	
<ul style="list-style-type: none"> <li>• We will continue to monitor IM's financial strength and cyber security policies, though as we have no material concerns this is unlikely to be a primary focus for the GAA in 2022/2023.</li> </ul>	

## Financial Strength



**The GAA has no material concerns with IM's current financial strength or the current policies in place to safeguard member savings.**

IM was established in 2002 and manages more than £2.5bn in client assets. It is 100% owned by its directors and senior management with no outside shareholders or investors. The company has no debt/loans and is free from private equity investor influence. IM has met the latest capital adequacy requirements – with its Tier 1 capital alone - for SIPP providers since they came into force in 2016.

All client assets are held in a trust by Intelligent Money Trustees Limited, and therefore remain completely ring-fenced from IM itself. Client money is also held in individually segregated bank accounts. Each client's cash bank holding is reconciled in its own sub account within a ring-fenced client money account.



## Cyber Security & Data Protection

**We believe IM continues to offer robust cyber security and data protection to its QWPS members.**

IM has provided the GAA with details of its IT security systems and policies, including data protection and controls against cyberattacks. The company has its own in-house team of software developers to keep its IT systems updated and secure. The GAA has been given reports of the latest upgrades to the security environment.

During the Covid-19 pandemic, IM also shared its latest Due Diligence pack and Crisis Management Plan, which together outline the security and controls in place to protect against evolving cyber threats, as well as protocols in case the company is affected by a major incident (e.g. a 'Disaster Recovery Plan'). IM CEO Julian Penniston-Hill is responsible for assessing the risks the firm faces and advising the governing body of them.

IM assures that its data protection policies are compliant with GDPR and the UK data protection legislation. External auditors are used to ensure that the systems and controls in place are appropriate, effective, and compliant with regulations. IM also provides the GAA with periodic updates about how members are protected against pension fraud/scams. In 2021, IM is upgraded the security on members' online access with the implementation of 2-factor-authentication (2FA) via SMS for all accounts. This year, IM said that it is implementing mandatory email based 2FA for Intelligent Money admin users to access IMAP.

## 7. Retirement Pathways

In February 2021, IM launched retirement pathway solutions for new or existing members entering drawdown. This was in line with the FCA’s requirement for pension providers to offer non-advised members a range of investment solutions based on what they plan to do with their pension savings in the coming five years. The goal is to help members choose an investment option that best suits their financial needs and objectives.

The table below shows the four pathway solutions that IM now offers its members. Note that these are the default suggestions based on which drawdown option is chosen – members can review this selection and choose an alternative investment option or leave their investments as they are (if applicable).

Drawdown Options	IM Pathway Solution	Level Of Risk
I have no plans to touch my money in the next 5 years	IM Optimum Global Growth & Income	Medium-High
I plan to use my money to set up a guaranteed income (annuity) within the next 5 years	IM Optimum Growth for Withdrawal Strategy	Medium-Low to Low (decreasing over time)
I plan to start taking my money as a long-term income within the next 5 years	IM Optimum Growth for Income Strategy	Medium To Medium-Low (decreasing over time)
I plan to take out all my money within the next 5 years	IM Optimum Defensive	Low

During the reporting period, the GAA worked with IM on the design of the pathway solutions and how they would be communicated to members. IM also shared examples of how these options would be presented to members using the online client portal.

The GAA is expected to assess the value for money offered by IM’s pathway solutions. However, IM confirmed that as of end-2021 no QWPS member had accessed the pathway options and as such we were unable to complete a meaningful VfM assessment at this stage. Take up is likely to be limited in the near future as IM’s QWPS service is new and member pots are still relatively small, making it more likely that people will withdraw all of their savings on reaching retirement. We will continue to seek information on real member experiences and review best practices in the market to help up determine where IM’s investment pathways offer good value for money relative to alternatives.

## 8. ESG Policy

The GAA also has a duty to review IM's policies on environmental, social and governance (ESG) issues, non-financial concerns and stewardship relating to its QWPS investments. Where no such policy is in place, we must report on IM's reasons for this.

In line with our requirements, the GAA has challenged IM to outline what steps it is taking to integrate ESG and non-financial considerations into all of its QWPS investment decision-making, including the default strategy. We include IM's written response in full below:

*"Due to the associated increase in cost (as a result of the higher average fund charges of ESG focused funds), Intelligent Money does not actively take into consideration ESG criteria for the Default and Optimum range of investments.*

*"That said, in a scenario where there are two funds with the same cost base, similar asset allocation and performance history, our policy would be to opt for the more ESG-focused option.*

*"We do currently offer an ESG focused portfolio, IM Optimum Sustainable, to allow members who wish to invest with an ESG focus the option to do so.*

*"Charges for ESG focused funds are steadily decreasing and as they come down in line with the charges on non-ESG focused funds, we will expect to find that a higher proportion of these funds are included in our portfolios."*

Our belief remains that ESG factors are important in workplace pension plans amid growing public interest in responsible investment and a new regulatory focus on protecting investments from ESG-related risks such as climate change. Therefore, while we accept that there are potential cost implications of incorporating ESG and other non-financial matters into an investment strategy, we will continue to encourage IM to consider how these factors could impact QWPS members' long-term investment returns when reviewing the design of its Default and Optimum range of portfolios. As IM uses an external fund manager it does not have an internal stewardship policy.

In 2021 IM also shared a new policy document outlining the need to embed ESG values within "all company policies in relation to human resources, client management and the business model as a whole." This was an encouraging step, but we will seek more details about how IM aims to achieve this integration of ESG values and monitor progress on this front.

## GAA Activities & Priorities

### Latest GAA updates & activities

These are some of the key things we have been doing over the last year.

- We challenged IM to conduct a comprehensive review of the core investment strategies and objectives that underpin the QWPS target-dated Default Portfolios and the range of IM Optimum Portfolios that QWPS members can choose to invest their savings in. This review began in July 2022 so we will report on it further in next year's report.
- We worked with IM's new dedicated investment manager P1 to put in place a new process for monitoring and reporting transaction costs across all portfolios available to QWPS members. This will come into full effect in the 2022 calendar year.
- We continued to hold formal quarterly meetings with IM to review different aspects of our VfM assessment, consider future actions, and raise any concerns we have with the products or services offered by IM. These meetings complement informal correspondence that is ongoing throughout the year. A GAA representative also attends quarterly investment committee meetings (ICM) held by IM and P1, contributing questions and raising concerns where relevant.
- We prepared a survey for QWPS members that was open over several months in 2021 and 2022. The goal was to gain more insight into QWPS member experiences, needs and expectations. However, a very limited number of responses means we are unable to draw any meaningful conclusions about overall member views and experiences. We will use any relevant information that can help us improve how we assess value for money.

## GAA priorities for 2022/2023

We have identified the key areas where we will spend our time over the coming year as we continue to push IM to improve members' experiences and outcomes. Our focus will primarily be on the following issues:

- Monitoring the implementation of changes to QWPS default portfolios following IM's review of its core investment strategies, ensuring that any adjustments are carried out in the best interests of QWPS members.
- Following up on IM's commitment to review its QWPS current charging structure, in particular whether an initial charge on contributions to pension plans remains appropriate for all members.
- Seeking information about whether the transfer of QWPS portfolios to a new in-house investment platform, which was completed in September 2021, has improved the quality of administrative services. This includes how core financial transactions are processed and the way in which portfolio performance is reported to members.
- Pushing IM to review how it communicates with QWPS members, incorporating best practices from across the industry and with an emphasis on ensuring members have the necessary information and support to make good decisions about their retirement savings.
- Assessing real-life client behaviour and wider market dynamics to build out our VfM assessment of the newly-introduced retirement pathway solutions offered to drawdown investors.
- Confirming the appointment of a new GAA chair and reviewing our own methodology and VfM framework in line with latest regulatory updates and industry best practices.

## Appendix A: What is the GAA?

### GAA Credentials & Independence

The GAA Independent Committee is chaired by Peter Shelton and comprises a team of experienced financial services professionals at Asset Intelligence Research, an independent consultancy that provides investment research and portfolio management solutions to financial advice firms across the UK. All GAA members act entirely independent of IM and can draw on broad expertise and experience to support the interests of QWPS members. Where appropriate, the GAA also seeks input from relevant external specialists.

### GAA Duties

The GAA's duties include the following core duties:

- to act solely in the interests of QWPS members and pathway investors;
- to assess the value for money (VfM) received by QWPS members and pathway investors on an ongoing basis. This involves weighing up the quality of the scheme/pathway solutions and the benefits and services it provides against the costs to scheme members/pathway investors (see below);
- to review IM's policies (if any) in relation to Environment, Social and Governance (ESG) factors, non-financial concerns, and stewardship;
- to raise concerns with IM where the GAA is not satisfied with value for money and escalate these concerns as appropriate if they are not addressed;
- to produce an annual report detailing the GAA's activities and findings.

The requirement to evaluate VfM includes as a minimum an assessment of:

- Whether IM's default investment strategies are designed and executed in members' interests, with a clear statement of aims and objectives;
- Whether IM regularly reviews the characteristics and net performance of all investment strategies to ensure they align with members' interests;
- Whether core scheme financial transactions are processed promptly and accurately;
- The costs and charges borne by IM's QWPS members;
- The direct and indirect costs incurred as a result of managing and investing pension savings, including transaction costs;
- Whether the communications to QWPS members are fit for purpose and properly take into account the relevant members' characteristics, needs and objectives.
- How IM's QWPS service compares to other options available on the market, where the relevant information is publicly available.

## Appendix B: IM's QWPS Portfolios

### IM's Default QWPS

This portfolio targets returns of CPI plus 4% over the long term to achieve a lump sum for withdrawal or annuity purchase at each member's chosen retirement date. The risk-adjusted portfolio reduces volatility as retirement approaches by cutting exposure to equities in favour of gilts and cash. The default portfolio uses passive underlying investments to keep costs low.

If you are a member of IM's Default TDP, most of your savings (80%+) will be invested in equities until 12 years before your target retirement date. After this you will see a gradual shift towards low-risk assets like cash or bonds until they represent around 80% of the portfolio at the time of retirement. The 'glide path', determined by IM, seeks to maintain an optimal risk/reward balance throughout the journey to retirement.

### IM Optimum QWPS self-select options

**IM Optimum Growth for Withdrawal Strategy:** This portfolio manages risk, asset allocation and underlying investments to provide growth in excess of global markets and achieve a lump sum for withdrawal at each client's chosen retirement dates. Risk is automatically managed down as members approach retirement, but unlike the default option investment managers may make tactical changes to asset allocation to respond to changing market conditions.

**IM Optimum Growth for Income Strategy:** This portfolio operates in a similar way to the IM Optimum Growth for Withdrawal Strategy, but instead of bringing risk down to a very defensive level as the target date approaches it is instead managed into a balanced investment portfolio designed to provide the optimum level of return in retirement. This is ideal for people wanting risk-appropriate growth during the accumulation phase and a balanced portfolio to draw down after retirement.

**Defined-Risk Optimum Portfolios:** These are five core investment strategies and asset allocations used along different stages of the TDP glide paths. They range from the most adventurous 'global growth' strategy (mainly global equities) for members seeking higher returns to the most defensive option (mainly bonds and cash) designed for those seeking to reduce risk in the final years before retirement. At inception, the long-term strategic asset allocations of these five portfolios were based on the WMA/PIMFA framework and managed on this basis by QC until June 2020, when the discretionary mandate was passed to P1 Investment Management.

**Optimum Sustainable:** In 2021, IM added an ESG-focused 'IM Optimum Sustainable' portfolio to its defined-risk Optimum range. The portfolio will broadly align with the risk profile and overall asset allocation of the "IM Optimum Growth & Income" portfolio. The underlying holdings will be selected from passive ESG-focused products with the inclusion of the TM P1 Sustainable World fund.

## Appendix C: Our Value for Money Framework

### Investment Design & Performance (40% weighting in VfM rating)

- The default investment strategy should be designed to deliver good outcomes for members that don't make active decisions about their pension savings.
- Default portfolios performance should be reviewed regularly and action taken if needed.
- The strategic objective and risk management of the default scheme should be clearly defined and communicated to QWPS members.
- Members should have access to alternative, self-select funds that suit a range of risk-reward profiles and financial objectives.
- Environmental, Social and, Governance (ESG) considerations should be integrated into QWPS investment strategies where this is not detrimental to portfolio net returns.
- Investment pathways should provide non-advised members with good value for money outcomes during drawdown.

### Costs & Charges (40% weighting)

- The charges borne by members should be fair relative to the services and benefits provided.
- Charges should be reasonable compared to other similar pension providers.
- Transaction costs should be clearly reported and remain in line with wider market trends.
- Members should be clear about the charges they face and the impact these may have on their retirement outcome.

### Client Service & Communications (15% weighting)

- The administration of QWPS core financial transactions should be prompt and accurate.
- Members should receive adequate support, particularly those in a vulnerable position.
- Communications should be 'fit for purpose', meaning they are clear, informative and easily accessible to all members.
- Communications should take into account the characteristics, needs and objectives of members with different profiles and/or at different stages of the retirement journey.
- Reasonable efforts should be made to encourage members to engage with their pension plan, particularly ahead of important decisions (e.g. when approaching retirement).

### Financial Strength & Cyber Security (5% weighting)

- Member savings should be financially secure and private data well protected.
- IT systems should have robust tools for defending against fraud and other cyber threats.



## Appendix D: Disclosure of Costs & Charges

### Ongoing Costs & Charges Breakdown

Updated FCA rules state that we must publish a more detailed breakdown of the costs and charges applied to QWPS members. For this year, we are required to provide data for IM's default schemes, and this requirement will expand to cover all QWPS investment options next year.

IM charges a headline 0.5% AMC for all its default portfolios, which includes all administrative and service costs, the fees of its dedicated investment manager at end-2021, P1, and the ongoing charges associated with the underlying funds in each portfolio. Transaction costs are not charged directly to members but do have an impact on the portfolio's net returns.

The table below shows the breakdown of these charges, including the additional impact of the transaction costs, for the range of IM Default and Optimum portfolios available to QWPS members as at end-2021.

	IM Annual Management Charge (%)			Transaction costs (%)	Total costs & charges (%)
	P1 management fee	Underlying fund charges	Max. annual charge*		
IM Default Cautious	0.10%	0.08%	0.50%	0.000%	0.500%
IM Default Conservative	0.10%	0.07%	0.50%	0.010%	0.510%
IM Default Income	0.10%	0.10%	0.50%	0.005%	0.505%
IM Default Balanced	0.10%	0.09%	0.50%	0.007%	0.507%
IM Default Growth	0.10%	0.08%	0.50%	0.010%	0.510%
IM Optimum Defensive	0.10%	0.11%	0.87%	0.026%	0.873%
IM Optimum Cautious	0.10%	0.10%	0.87%	0.016%	0.872%
IM Optimum Income	0.10%	0.11%	0.87%	0.031%	0.873%
IM Optimum Growth & Income	0.10%	0.11%	0.87%	0.038%	0.874%
IM Optimum Global Growth	0.10%	0.11%	0.87%	0.030%	0.873%

Source: IM, P1. \*IM adjusts its own management fees to ensure no member pays more than the maximum annual charge. Note: this table shows ongoing charges only and does not include the one-off charge of 1.8% on all contributions. Charges shown as % of portfolio value.

## Effects of costs & charges on average member pension savings

As per FCA requirements, we have included illustrations of how IM's costs and charges may affect the pension pot of a QWPS member invested in IM's default portfolios. This is intended to demonstrate the effects of fees on pension savings over time and does not reflect the individual circumstances of each member's plan.

### How do we make the calculations?

The gross value of the pension pot shows how savings would grow over time in IM's default arrangement if there were no charges associated with managing the pension plan. It includes the sum of ongoing contributions plus compound investment returns, adjusted for the effects of inflation.

To calculate the net value after costs and charges we:

- Deduct the 1.8% initial charge on all monthly contributions.
- Deduct the 0.5% annual management charge (AMC) from these adjusted returns.

To create these illustrations we've aggregated real-life QWPS member data from IM to make more realistic approximations about initial savings pots and annual contributions.

### Example 1 – 27-year-old member (40 years from retirement) with a starting pot of £1,530 and fixed annual contributions (including tax relief and employer contributions) of £575

Years saving into pension plan	Pension plan gross value before all costs & charges	Pension plan net value after all costs & charges
1	£2,190	£2,150
3	£3,430	£3,360
5	£4,680	£4,570
10	£7,890	£7,610
15	£11,300	£10,700
20	£14,800	£13,900
25	£18,700	£17,200
30	£22,900	£20,600
35	£27,500	£24,300
40 (at retirement)	£32,600	£28,300

### Notes on the illustration:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Inflation is assumed to remain constant at 2.5% a year (an estimated long-term average).
3. Investment growth is assumed to average 5.2% per year (2.7% when accounting for inflation). This factors in gradually lower expected returns during the 'de-risking' phase before retirement.
4. **All values shown are estimates and not guaranteed. The real values experienced by members may be higher or lower than these projections.**

**Example 2 – 52-year-old member (15 years from retirement) with a starting pot of £2,830 and fixed annual contributions (including tax relief and employer contributions) of £880**

Years saving into pension plan	Pension plan gross value before all costs & charges	Pension plan net value after all costs & charges
1	£3,820	£3,750
2	£4,730	£4,640
3	£5,630	£5,510
4	£6,530	£6,380
5	£7,420	£7,230
10	£11,800	£11,300
15 (at retirement)	£16,000	£15,200

**Notes on the illustration:**

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Inflation is assumed to remain constant at 2.5% a year (an estimated long-term average)
3. Investment growth is assumed to average 4.0% per year (1.5% when accounting for the effects of inflation). This factors in gradually lower expected returns during the 'de-risking' phase before retirement.
4. **All values shown are estimates and not guaranteed. The real values experienced by members may be higher or lower than these projections.**