Vanguard

Independent Governance Committee

Vanguard Asset Management
Annual Report for 2022

Contents

1 Summary of key points 03

2 Main report 04

2.1 Introduction 04

2.2 Scope of the Independent Governance Committee 04

2.3 Vanguard's investor characteristics 04

2.4 How we evaluate value for money 05

2.5 Investment performance 06

2.6 Costs and charges 07

2.7 Services 08

2.8 Topical issues 09

2.9 Other market surveys 12

3 Conclusion 12

Summary of key points

The Independent Governance Committee's (IGC) remit is to assess whether pension clients in drawdown at Vanguard are getting Value for Money (VFM) after selecting one of four 'investment pathways'. At the end of 2022, Vanguard had 156 investment pathway clients compared with its overall UK investor base at the time of over 400,000.

The most prominent feature of 2022 was that it was the worst year for investment since the global financial crisis of 2007-08, and on some measures the worst for a hundred years. The simultaneous reduction in the value of both shares and bonds caused stress to many investment strategies, including some of Vanguard's, prompting clients to increasingly contact the firm to express their concern at the short-term performance of their investments. In their communications, Vanguard reminded clients that their funds were built for long term performance. The IGC agrees that longer-term performance is more relevant to long-term savings and investment. While we note the reduction in returns over one and three years, we remain satisfied with the longer-term fund performance figures.

At the same time, inflation in the UK rose to a 41-year high, potentially increasing the amount of money clients needed to withdraw from their pensions to maintain their standards of living in retirement.

To satisfy the Financial Conduct Authority's (FCA) reporting requirements in a proportional way, we have used information drawn from Vanguard's wider investor base where information is not readily available or statistically significant for investment pathway investors alone. On 30 January 2023, the Department for Work and Pensions (DWP) and FCA issued a wide-ranging consultation on VFM but excluded investment pathways from its scope. This year's IGC report steers a path between acknowledging the potential direction of travel for workplace pensions and avoiding disproportionate work and expense.

We agree with the DWP and FCA that VFM is primarily determined by investment performance net of charges, the level of charges, and the variety and quality of support services offered.

The FCA require us to examine whether better VFM is offered by any other investment pathways provider. We can report that in our opinion Vanguard does offer good value for money and that we have **not** been able to identify another provider who offers better value.

I hope you find the report interesting and welcome feedback on it via the help section on the website: https://www.vanguardinvestor.co.uk/need-help

Lawrence Churchill

Lawrence Churchill CBE

IGC Chair

Main report

2.1 Introduction

This is the IGC annual report covering 2022. While we have taken the opportunity to comment on some of the issues that have arisen so far in 2023, we have presented data to the year end in the belief that this will make comparisons with other IGC reports easier.

There were no changes to the composition of the IGC during the year but we did undertake an effectiveness review during the year and, while satisfied overall, found a few improvements we could make to our processes. Further details on the backgrounds of individual IGC members can be found in Appendix 1.

2.2 Scope of IGC in relation to Vanguard products and services

IGCs are a regulatory construct whose primary role is to express an independent view on whether customers are receiving VFM; they were initially focused on workplace pensions (which Vanguard does not offer) but had their scope extended to include investment pathways, which Vanguard has offered its personal pension clients since Autumn 2020. Therefore, the product scope of the IGC at Vanguard is narrow.

The issues which the regulator expects IGCs to comment on are continuously evolving and have been extended in recent years, driven predominantly by issues within the workplace pensions market. IGCs are required to:

- Take into account all three key elements of VFM; costs and charges, investment performance, services provided including member communications.
- Assess and report on VFM through comparisons with other options on the market.
- Consider whether an alternative would offer better VFM.
- Assess whether VFM is being achieved.
- Explain how VFM has been assessed and keep relevant evidence for at least six years

As a consequence, the Vanguard IGC is required to comment on an extensive range of topics and yet cover only a few investors who have chosen investment pathways. It is reasonable, therefore, to examine certain general issues (e.g. an investor's understanding of risk) by referring to Vanguard's wider business.

2.3 Vanguard investor characteristics (and our beliefs about them)

All pension clients entering income drawdown without taking financial advice must be offered four choices – or investment pathways – among their options. Once they indicate that they want to invest in one of these investment pathway funds, they are asked what they plan to do in the next five years with the money in their pension account.

Specifically, they are asked to choose which of the following options best aligns with their retirement goal:

- **Option 1:** I have no plans to touch my money in the next 5 years.
- **Option 2:** I plan to use my money to set up a guaranteed income (annuity) within the next 5 years.
- **Option 3:** I plan to start taking my money as a long-term income within the next 5 years.
- **Option 4:** I plan to take out all my money within the next 5 years.

The investor is then offered an investment solution that is designed to help them meet their chosen goal. The IGC is satisfied that the investment solutions provided by Vanguard are appropriate.

At the end of December 2022, there were 156 Vanguard clients using investment pathways (compared with 65 in December 2021). This represented 6% of all Vanguard Personal Pension investors in drawdown. The IGC is satisfied that the investment pathways are given equal prominence with other drawdown solutions.

Investment pathways chosen by clients

PATHWAY	NO. OF CUSTOMERS	AVERAGE FUND VALUE (£'000S)
1	48	144
2	0	nil
3	87	127
4	21	46

Source: Vanguard, as at 31 December 2022

IGC agrees that the following beliefs held by Vanguard are reasonable:

- Vanguard investors have much larger pension funds than the often-quoted industry average of £30,000.
- Vanguard investors are confident enough to choose their own investments through the digital platform.
- Vanguard investors have a higher degree of competence than the national average.
- More frequent interaction also suggests a higher degree of engagement, with 60% of Vanguard's total investor base logging on each month.

We, therefore, believe that there is a greater chance of Vanguard investors accessing and understanding the financial planning literature produced by Vanguard. This literature has been reviewed by independent IGC members and felt to be very relevant and of high quality (Disclosure: some of the literature was authored by Ankul Daga, one of the IGC members).

Over 5,000 investors access Vanguard's retirement articles in an average month with around 6,500 accessing them around the UK's tax year-end period. Vanguard proactively also sent out literature to reassure investors during times of market stress.

From the mandatory interviews conducted with all pension investors in drawdown:

- Unprompted awareness of environmental, social and governance (ESG) issues was low. While we recommend that Vanguard does further research on prompted awareness, the IGC infers that there is no evidence to show that ESG is a major concern for investment pathway customers.
- We are confident that access to the government-backed service Pension Wise (which forms part of our drawdown process) was either taken up or deliberately declined.
- It is reasonable to infer that Vanguard does not hold all the pension assets of its investors, so it is difficult for the IGC to comment sensibly on whether any observed behaviour is in line with the investors' financial interests (for example, when it comes to sustainable withdrawal rates).

2.4 How we evaluate VFM

The IGC agrees with the FCA and The Pensions Regulator (TPR) that the three key elements of VFM are:

- Delivered investment performance measured over a period of years, net of all investor-borne charges.
- Costs and charges, which have the advantage of certainty and are easier for investors to understand and compare, even if potentially dwarfed by investment performance.
- The array of services offered and the quality of delivery of those services. The DWP/FCA consultation, for example, emphasises the importance of communication materials that enable investors to make good decisions.

The FCA has asked for comparisons with other providers to be included in the VFM appraisal. We believe that this can be done at a high level as there will be differences in data that make like-for-like comparisons difficult. Any industry or trade surveys may use different data or weigh data elements differently. While our comparisons have been done with care and diligence, they have not been independently audited and may contain errors, miscalculations or misinterpretations, particularly where data has been sourced externally.

2.5 Investment Performance

Because of the comparative absence of clients from the annuity and cash investment pathways, we concentrate our analysis on the growth funds in which 87% of the investment pathway clients analysed were invested.

The performance of Target Retirement Funds (TRF) is set out in Exhibit 1 below. As of the 31st December 2022, all the funds shown had delivered growth over the previous five years (reflecting their equity-backing ratio) of between 15% and 27% in nominal terms. All the funds were negative over one year, reflecting the severe market dislocation experienced during 2022.

We also compare their performance against a growth standard consisting of consumer price inflation (CPI) + 3%. All the funds comfortably passed this standard over five years.

Exhibit 1: TRF performance as at 31 December 2022

FUND	1 YEAR	3 YEARS	5 YEARS	TOTAL ANNUAL CHARGES*
TRF 2020	-9.50%	4.07%	15.14%	0.47%
TRF 2025	-10.27%	5.41%	17.77%	0.46%
TRF 2030	-10.25%	6.67%	19.59%	0.45%
TRF 2035	-9.66%	8.50%	22.13%	0.44%
TRF 2040	-9.13%	10.23%	24.45%	0.44%
TRF 2045	-8.60%	12.11%	26.94%	0.43%
Value of CPI+3% for the period	12.05%	7.16%	6.35%	N/A

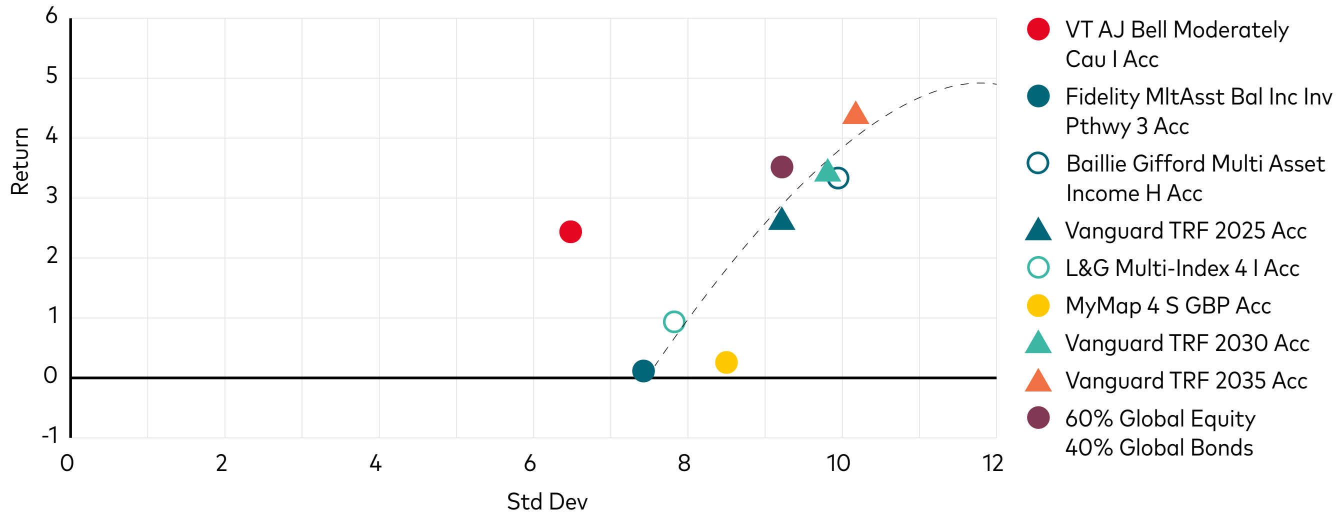
Source: Vanguard, as at 31 December 2022
Note: Basis of fund performance NAV to NAV, net of expenses, with gross income reinvested. Past performance is not a reliable indicator of future results. CPI sourced from ONS and as at 31 December 2022, average over time period. *For a breakdown of total annual charges see 2.6 Costs and charges.

In Exhibit 2, we compare the performance of Vanguard's Target Retirement Funds 2025, 2030 and 2035 against competitor multi-asset balance funds (see Appendix 4 for the names of the different providers of these funds). Some competitor data is limited to less than three years and is only available from October 2020. However, we aim to add richer information in this segment over time and to map it back to each investment pathway.

What we find is that Vanguard's investment pathways, as represented by Vanguard's TRFs, have performed in line with our expectations. In the long term (10+ years), higher risk should be compensated with higher returns. Additionally, if diversified portfolios take excess risk, they are compensated with diminishing returns, which is often illustrated by the efficient frontier.

As Exhibit 2 shows, our TRFs have been performing in line with expectations, staying close to the efficient frontier. Over the 29-month period under review, most competitors were below the hypothetical efficient frontier. The simple design of Vanguard TRFs aims to provide pension investors with the opportunity to access equity and bond markets at low cost, in a transparent and simple single-fund solution. Importantly, we believe the target retirement plan design is still suitable to deliver retirement outcomes for the average investment pathway customer.

Exhibit 2: TRF performance (October 2020 - February 2023)



Source: Morningstar Direct, data as at 28 February 2023.
Note: Time period covers since common inception (1 October 2020) to 28 February 2023. Returns were before deducting platform/account fees. All TRF returns are for accumulation share classes. Past performance is not a reliable indicator of future results.

2.6 Costs and charges

The charges for the TRF funds are shown in Exhibit 3 and include investment charges, transaction costs and platform/account fees. The total charges fall within a 0.43%-0.48% range. Any differences are the result of higher allocations to fixed income assets, resulting in higher transaction costs.

Vanguard clients invested in the investment pathways pay two main costs: fund management costs and an account fee.

Fund management costs:

- Ongoing costs: This includes the ongoing charges figure (OCF), which is paid to Vanguard for managing the fund and associated costs. These fees are deducted from the price of the fund.

- Transaction costs: These are the charges incurred within the fund for buying and selling the underlying investments. They include dealing costs and taxes. These charges are not paid to Vanguard but are deducted from the fund's price and reflected in the performance of the fund.

Account fee:

- This is set at 0.15% per annum and is calculated based on the total value of account holdings, including cash, but capped at a maximum £375. The account holdings include the value of any investments held outside the investment pathways.

Also shown in Exhibit 3 are the fund costs associated with investment pathways option 4, where the aim is to preserve the value of capital because a client has indicated their intention to withdraw all their money within five years. It should be noted that Vanguard eliminated charges on its Sterling Short-Term Money Market Fund from 2020 to February 2022 to maintain the cash balance, when returns on cash after charges were negative early in the period.

As part of its VFM assessment, the IGC is required to compare the Vanguard offering with a small number of alternative options available on the market. As Vanguard is marketed directly to consumers rather than being available through an employer, the IGC has chosen providers who participate in the MoneyHelper Pathway Comparison Tool and the largest providers of personal pensions, including self-invested personal pensions or SIPPs (see Appendix 4). We have not included schemes available through employers such as Master Trusts but will keep this under review for future reports.

We have previously made it clear to Vanguard's governing body that the IGC would like the Vanguard investment pathways to appear on the MoneyHelper Investment Pathway Comparison Tool. We are pleased that Vanguard agreed to this request and now has a presence on the tool.

The comparators we have chosen had a variety of different charging structures during 2022, as detailed in Appendix 5.

The tables in Appendix 6 show the costs and charges of Vanguard and the comparators for a variety of portfolio sizes. The following broad conclusions can be drawn:

- Vanguard is generally the lowest-cost provider across all investment pathways for portfolios worth less than £100,000.

- Above £250,000, Vanguard's total costs are normally within 0.05% to 0.07% of the lowest-cost provider, where the comparator charges additional trading fees. Where comparators do not charge additional trading fees, Vanguard is either the lowest-cost provider or generally within 0.02% to 0.05% of it.

- Vanguard costs and charges are well below average – normally between 0.10% and 0.20% lower than the market average.

Exhibit 3: A breakdown of charges and transaction costs

	ONGOING FUND COSTS	ACCOUNT FEES	TRANSACTION COSTS
Target Retirement Fund 2015	0.24%	0.15%	0.09%
Target Retirement Fund 2020	0.24%	0.15%	0.08%
Target Retirement Fund 2025	0.24%	0.15%	0.07%
Target Retirement Fund 2030	0.24%	0.15%	0.06%
Target Retirement Fund 2035	0.24%	0.15%	0.05%
Target Retirement Fund 2040	0.24%	0.15%	0.05%
Target Retirement Fund 2045	0.24%	0.15%	0.04%
UK Short-Term Investment Grade Bond Fund	0.12%	0.15%	0.05%
Sterling Short-Term Money Market Fund	0.12%	0.15%	0.14%

Source: Vanguard, as at 31 December 2022.

- For the average amount invested in investment pathways option 1 (approximately £144,000), Vanguard is the lowest-cost provider that does not charge additional trading fees and within 0.06% of the lowest-cost provider that does.

- For the average amount invested in investment pathways option 3 (approximately £127,000), Vanguard is the lowest-cost provider that does not charge additional trading fees and within 0.03% the lowest-cost provider that does.

- For the average amount invested in investment pathways option 4 (approximately £46,000), Vanguard is the lowest-cost provider.

Exhibit 4 illustrates the range of charges reviewed for investment pathways option 1.

The comparator analysis produced by actuarial firm Hymans Robertson (referred to in Section 2.9 below) shows Vanguard to be the lowest-cost firm.

2.7 Services

The services offered for investment pathway investors are:

- An online description of the available options.

- The provision of retirement pack.

- Two mandatory meetings with a retirement guidance counsellor (covers retirement plans, risk appetite etc), with a hand-off to Pension Wise.

- A range of educational articles dealing with discrete aspects of retirement (including cognitive decline and power of attorney).

- Retirement income calculators.

- Vulnerable investor protocols, including protection against scams.

- Pension payment services.

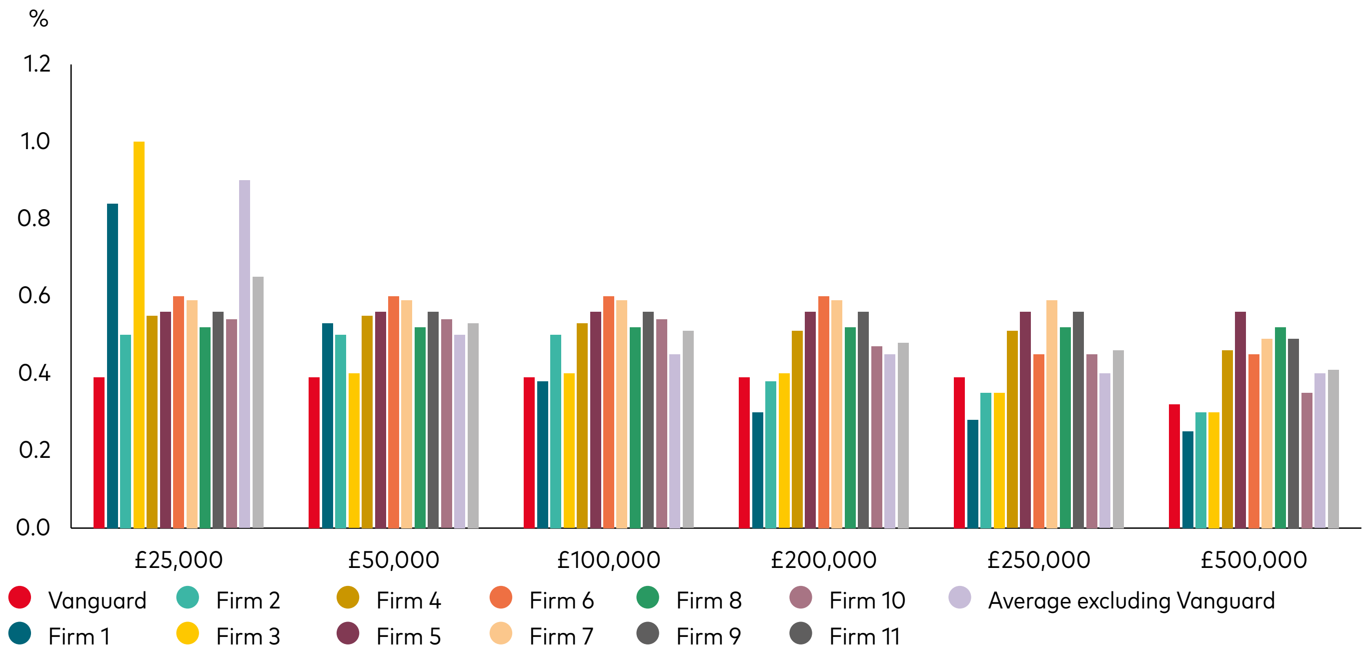
- Clear and high-quality communications.

Vanguard's broader personal investor business invites approximately 20,000 investors per month to take part in a relationship tracking survey, measuring net promoter scores (NPS). Although the survey is not aimed specifically at investment pathway investors, the IGC recognises that some of the underlying themes from the survey results are relevant to them. For example:

- Investors value ease and simplicity – e.g., website useability and the quality of the onboarding experience.

- VFM beyond fees is a key driver of advocacy and this is especially true in periods of market volatility, where investors value more information and messaging on current market conditions.

Exhibit 4: Charges for investment pathways option 1



We also have specific client feedback on the mandatory retirement consultant service with a 98% customer satisfaction.

The IGC have reviewed the complaints data and can confirm that there have been no complaints so far in respect of investment pathways. Financial transactions are processed promptly and the investor suffers no detriment in the event of any delay.

The IGC are pleased to learn that Vanguard now has the capabilities to undertake more targeted assessments of investment pathway customer satisfaction. This will be undertaken in 2023.

2.8 Topical issues in 2021-22

There are four areas commanding IGC's continuing interest, which seem likely to become perennial issues.

2.8.1 RISK understanding and disclosure:

Vanguard uses the synthetic risk and reward indicator (SRRI) methodology to assign risk ratings to its funds. The methodology was developed in 2009 by a technical sub-group of the EU Committee of European Securities Regulators for use by UCITS funds in the key investor information document (KIID). It is based on the funds' volatility over the previous five years and assigns the funds to one of seven categories as an indicator of relative risk.

However, Vanguard's own KIIDs also disclose the risks that were not taken into account in deciding the SRRI risk rating. The SRRI system is a standard approved system and in the UK the Financial Reporting Council (FRC) consulted in 2022 on using a simplified form of the system to support estimated retirement income in the data standards for dashboards. Notwithstanding the familiarity of relatively expert investors with the system, in our report last year the IGC highlighted a potential risk for less expert consumers executing on a digital platform that they might not fully understand the risk information being provided. One year on, our concern remains, although it is a positive development that the FRC and Money and Pensions Service (MaPS) may be expanding use of the SRRI system with inexpert consumers on the planned Pensions Dashboard.

2.8.2 Withdrawal rates

A key decision investors face is the rate at which they will withdraw money from their defined contribution pension. This is a very complex decision and research has found that many consumers feel confused and overwhelmed by such withdrawal decisions.

Non-advised clients were found to want clearer guidance on withdrawal strategies based on real-life scenarios and relatable examples[1]. Vanguard's own assessment of flexible drawdown strategies can be found here.

Significant risks for consumers include paying too much tax or withdrawing too much money too quickly so they are left reliant on just the state pension (e.g. because they underestimate their life expectancy). High withdrawal rates during periods of poor investment performance can be a particular danger.

During the year, the IGC reviewed withdrawal data both for investors who had gone down an investment pathway and for the wider population of Vanguard investors. The withdrawal rates reported are not out of line with the market-wide rates reported by the FCA.

Vanguard investors – withdrawal rates by pot size

POT SIZE	OBSERVATIONS
£0 to £50,000	High rates of withdrawal due to lower account balances, with many withdrawing at a rate that will exhaust their fund in a small number of years or are not sustainable in the longer-term.
£100,000 to £200,000	20% of investors are withdrawing at a high withdrawal rate of more than 10% a year. About 60% are withdrawing at a rate that aligns with Vanguard's dynamic spending paper.
£200,000 +	On average, investors are withdrawing at a rate aligned with Vanguard's dynamic spending paper with average withdrawal rates of between 4% to 6% a year.

1 https://www.birmingham.ac.uk/documents/college-social-sciences/social-policy/chasm/2022/pension-decision-making-in-the-new-retirement-landscape.pdf

Vanguard has researched a small sample of investors with high withdrawal rates and pot sizes of less than £50,000. The research found that 75% had only moved part of their pension into drawdown and had other pension funds invested. As part of the Pensions Checklist, investors are required to provide a Yes or No answer to the question "Do you expect your pension pot to provide you with an income for life?". All of the small sample answered "No", confirming that they did not expect their pension to provide an income for life.

In the spring of 2023, we followed up on some apparent outliers to better understand the individual circumstances of the client. We found that several customers were optimising their tax allowances.

2.8.3 Environmental, social and governance (ESG) matters and investment stewardship

Responsible investment is an ongoing area of mainstream focus and debate with a search for relevant and reliable metrics to report against. It is an area where proportionality is needed, noting the current small number of pathway investors versus Vanguard's global investor base.

Vanguard considers ESG risks and opportunities in the context of delivering long-term value to investors, recognising that material ESG risks, if left unchecked, can undermine the long-term value of the portfolio companies that their funds are invested in. Vanguard incorporates financially material ESG considerations across investment styles and asset classes, whilst also offering ESG products that enable investors to avoid or reduce investment exposure to certain business activities that are not aligned with their ESG-related preferences. Vanguard believes that engagement with companies, via investment stewardship, can safeguard and promote the interests of long-term investors.

The IGC is comfortable that Vanguard's investment stewardship and engagement philosophy is of good quality and endeavours to balance investor value with good governance and ethical considerations. Vanguard has also published its region-specific proxy-voting policies and publishes an annual and semi-annual report on its investment stewardship activities, which can be accessed here.

As mentioned above, in addition to the investment stewardship and engagement programme, Vanguard does offer ESG products that enable investors to avoid or reduce exposure to certain companies that are not aligned with their ESG-related preferences. These products do not form part of the current investment pathway funds offered but are available to those wishing to 'self-select' their fund choice.

The IGC has not received any feedback from Vanguard's pathway customers that Vanguard's stewardship & engagement approach or ESG fund offering is of concern to them, and this is echoed in the research undertaken with Vanguard's broader personal investor client base. The IGC also has not seen conclusive research that indicates that ESG funds perform either better or worse than whole of market funds.

That said, the FCA rules currently prohibit offering both a whole of market and a separate ESG version of TRFs for investment pathways. The IGC would welcome it if the FCA considered allowing both ESG and non-ESG versions of investment pathways so that customers wishing to benefit from a default pathway approach can still make their own choice regarding ESG preferences.

In its reporting, Vanguard has provided quantitative and qualitative disclosures on its proxy voting record of its internally managed equity funds. Vanguard maintains that it evaluates each proxy ballot item on a case-by-case basis and in line with its funds' proxy voting policies. Over 2022, it noted an increased volume of shareholder proposals focused on environmental or social policy issues that lacked clear links to material risks to shareholder value. As such, and in line with the funds' proxy voting policies, Vanguard funds did not support such proposals. Vanguard also does not vote in lockstep with recommendations from proxy advisers (such as Institutional Shareholder Services or Glass Lewis) when voting on behalf of the funds. The IGC is content that Vanguard has implemented proxy voting and stewardship in line with the funds' stated policies.

In 2022, Vanguard made the highly publicised decision to withdraw from the Net Zero Asset Managers initiative (NZAM). Vanguard communicated that this decision was to enable them to have a clearer voice on the applicability of net zero approaches to the broadly diversified index funds favoured by many Vanguard investors. Vanguard maintains that their withdrawal from NZAM does not impact their commitment to helping their investors navigate the risks that climate change can pose to long-term returns.

The IGC will continue to monitor the adequacy and quality of Vanguard's policy in relation to ESG financial considerations and the adequacy and quality of their stewardship policy.

2.8.4 Vulnerable investors

A vulnerable investor is defined as "Someone who, due to their personal circumstances, is especially vulnerable to detriment, particularly where a firm is not acting with appropriate levels of care". In line with FCA guidance, Vanguard had divided vulnerability into four categories:

- Health: where the ability to carry out day-to-day activities is reduced through health conditions or illness.
- Life events: where someone may have been impacted by something upsetting in their lives such as a bereavement, job loss or relationship breakdown.
- Resilience: whether someone has a low ability to withstand financial or emotional shocks.
- Capability: where someone has a low knowledge of financial matters or low confidence in managing money (financial capability), or a low capability in other relevant areas such as literacy or digital skills.

To achieve good outcomes for vulnerable investors, FCA guidance[2] says firms should:

- Understand the needs of their target markets/ investor base.
- Ensure their staff have the right skills and capabilities to recognise and respond to the needs of vulnerable investors.
- Respond to investor needs throughout product design, flexible investor service provision and communications.
- Monitor and assess whether they are meeting and responding to the needs of investors deemed vulnerable and make improvements where this is not happening.

The IGC had presentations during the year on Vanguard's approach to vulnerable investors and the changes made due to the introduction of the FCA's new guidance. Vanguard staff were encouraged to look out for indicators of vulnerability and, where appropriate, record it so that investors could be provided with appropriate support. The Vanguard Vulnerable Client Group met monthly to discuss case studies identified, stress-test the policy and identify improvements.

The IGC had no material concerns about the Vanguard approach to vulnerable investors but suggested that the vulnerability framework could be updated to include greater reference to those potentially vulnerable to pension scams and new categories of vulnerability, such as people who had inherited drawdown accounts.

With the introduction of the new FCA guidance, the IGC encouraged Vanguard to conduct additional work to be at the forefront of understanding how vulnerability could be identified and managed on a digital platform and take learnings from the consumer credit sector.

Finally, the IGC highlighted that going forward it was important sufficient attention continued to be given to measuring and monitoring outcomes for vulnerable investors, to ensure they experienced outcomes at least as good as non-vulnerable investors.

[2] https://www.fca.org.uk/publication/finalised-guidance/fg21-1.pdf

2.9 Other industry surveys and market comparisons

The IGC is required to select a small number of industry comparators and use reasonable endeavours to compare them. For 2022, we have referenced publicly available comparisons from Hymans Robertson on investment-pathway fund solutions, annual 'Best Buy' comparisons by Which?, and internal analysis of comparable services and fund performance (using data from Morningstar).

The Hymans analysis compares seven retail (including Vanguard) and three workplace propositions. Hymans do not draw any conclusions from the survey but do highlight some interesting patterns in the results. The IGC notes that:

- Whereas 13% of the total investors in the survey had more than £100,000 in their fund, in the case of Vanguard it was 86%.
- Only two of the firms surveyed had more than 1,000 investors currently within an investment pathway. It is reasonable to assume that these were workplace schemes.
- For investment pathways option 1 and 3, the platform charges were on average 0.36% compared with Vanguard's 0.15%.
- The average investment fees were around 0.50% compared with Vanguard's 0.24%.

As such, the Hymans survey confirms Vanguard as a low-cost provider. In addition, consumer champion Which? has named Vanguard a Which? Recommended Provider for SIPPs for the last three years, as well as a Which? Recommended Provider for investment platforms for the last four. See Appendix 4 for the list of firms analysed.

3 Conclusion

Based on the data and analysis in this report, the IGC concludes that Vanguard is offering good VFM to its investment pathway investors. We have not discovered any other provider offering better value.

In drawing this conclusion, the IGC acknowledges the stressed market conditions experienced during the year, which affected all index-fund asset managers. However, longer term performance continues to deliver real returns. Vanguard's cost and charges are also lower than most competitors while the quality of their services are at least on a par. Indeed, communications sent to clients about the challenges they may face when investing in difficult conditions resonated well and may have prevented many from making poor decisions and locking in losses.

Appendix 1

IGC membership

Lawrence Churchill CBE

Independent Chairman

Lawrence has worked in pensions for over 40 years to try to make the system work well for consumers as well as providers. He was CEO of three insurance groups and, as a non-executive, he was the inaugural chair of both the Pension Protection Fund and National Employment Savings Trust, chair of the Financial Services Compensation Scheme and a member of the Board for Actuarial Standards.

Anna Eagles

Director, Law Debenture

Anna is an experienced professional trustee at Law Debenture and represents Law Debenture on a number of boards and committees, including the Smart Pension Master Trust board. She is an accredited member of the Association of Professional Pension Trustees.

Anna is also a qualified actuary, with over 20 years of consulting experience in pensions and employee benefits. She is passionate about helping improve people's retirements and savings outcomes through better governance, value for money, information, and education.

Dominic Lindley

Independent Member

Dominic is an independent consultant specialising in pensions, financial services and consumer protection. He has worked for the Financial Services Consumer Panel, Which? And New City Agenda, delivering improvements for consumers, including a cap on pension charges and stronger protection against payment scams.

Following the introduction of pension freedoms he has written several reports on how consumers can be helped and supported to make better decisions when accessing their pensions. He is a member of the steering group appointed by the government-sponsored Money and Pensions Service (MaPS) to advise on the development of pension dashboards – online tools that will enable consumers to find and view their pensions information.

Ankul Daga

Senior Manager & Investment Strategist, Vanguard

Ankul's responsibilities include research on goals-based investment strategies, building enterprise research models and meeting clients to provide a Vanguard perspective on long term investment implications. He covers a broad range of topics, including portfolio construction, multi-asset investing, retirement strategies, passive and active investing and adviser best practices.

He has over 15 years of Investment experience across trading, advisory and research functions. He joined Vanguard from Coutts, where he was asset allocation director. Prior to that, he has held investment roles with Merrill Lynch and Barclays. He earned an MSc in Financial Mathematics from Warwick Business School and is pursuing an MBA at the Wharton School of the University of Pennsylvania. He is also a CFA® Charterholder and contributes to the Investment Association's DC Committee.

Victoria O'Keefe

Senior Manager, Distribution, Vanguard

Victoria has worked in the investment management industry for almost 30 years. She is currently a senior manager within Vanguard's UK and European distribution department where her role is primarily focused on managing change initiatives. During the nine years she has been at Vanguard she has managed the European client service team and participated in several service and sales enablement projects.

Prior to joining Vanguard, Victoria spent 13 years at Schroders Investment Management within their UK institutional client business. She also worked for Coutts & Co as an investment officer. Victoria holds the Chartered Institute of Bankers Certificate in Offshore Trust & Company Administration, the Investment Advice Certificate and the Investment Management Certificate.

Appendix 2

Workplan for 2023

1. Continue to monitor the investment performance and the costs & charges of Vanguard's investment pathway funds.
2. Continue to develop information on comparator providers.
3. Develop more information and insight on Vanguard's pathway customers and their views, in particular:
    - Their understanding of risk.
    - Their understanding of their withdrawal rates in relation to their broader financial plans.
    - Their views and concerns on responsible investment and ESG factors.
    - Their vulnerability.
    - Their access to relevant Vanguard's communications.
    - Their overall customer satisfaction.
4. Adapt to the guidance and requirements emanating from the DWP/FCA consultation, and contribute to the development of best practice among IGCs.

Appendix 3

Jargon buster

Annuity
Product providing guaranteed income that is purchased through a life insurance company.

Annuitise
To convert an investment into a product providing guaranteed income.

Drawdown
The process of taking income from your pension pot while it remains invested.

ESG
Environmental, social and (corporate) governance.

FCA
Financial Conduct Authority – the UK regulator for financial services.

IGC
Independent Governance Committee – independent professionals assigned to assess Value for Money on Investment Pathways.

Investment pathways
Pre-defined single-investment funds for specific retirement choices.

KIID
Key investor information document – mandatory factsheet with key information of an investment fund.

Non-advised
Term used where a client has not received financial advice on their investment transactions and decisions.

Pension Wise
Free government explaining pension options to consumers. Website: www.pensionwise.gov.uk

Sequencing risk
The risk that the timing of withdrawals from a retirement account will damage an investor's overall return (and, therefore, their retirement outcomes).

SIPP
Self-invested personal pension – a type of pension that enables an individual to self-select their investments and generally offers them a wider range of choice and flexibility.

SRRI
Systemic risk and reward indicator – used to indicate the level of risk on an investment fund.

Stewardship
Relates to the management and oversight of investment funds.

Target date fund/Target Retirement Fund
A type of investment fund that de-risks over time by the altering its asset allocation based around a set date, normally a chosen retirement date.

Transaction costs
Underlying costs incurred when transacting in shares and bonds.

Vulnerable investor
Investor who may have a vulnerability through health, life events or as a victim of a scam.

Workplace pension schemes
Employer-sponsored pension schemes.

Appendix 4

Comparator details

The firms included in the cost & charges comparison are:

AJ Bell
Aviva
Fidelity
Hargreaves Lansdown
Interactive Investor
L&G
Pension Bee
Scottish Widows
Standard Life
Willis Owen

The firms included in the Which? 'Best Buy' analysis are:

AJ Bell Youinvest
Barclays Smart Investor
Fidelity
Halifax Share Dealing
Hargreaves Lansdown
Interactive Investor
Standard Life
Vanguard
Aegon
Moneybox

Of these, Which? awarded Recommended Provider status to Vanguard, AJ Bell, Fidelity and Interactive Investor.

Appendix 5

Additional data on costs and charges

Like Vanguard, some investment pathway providers have fund management charges and separate account/platform fees. The account or platform fees can vary by the size of the investments held with the provider. The account or platform fees can also be tiered so that once a portfolio reaches a certain size, the fees are reduced on amounts above this size.

Two providers have all-in-one charges and both offer discounts on charges once the total amount invested gets to a certain size. Some of the comparators also have additional charges such as charges for trading funds or charges if the entire pension fund is withdrawn within 12 months. Therefore, the total charges incurred by investment pathway investors can depend on the investment pathways they choose, the total size of their investment portfolio at the start of the period, the degree of investment growth and their behaviour in terms of whether they make any trades or other transactions.

The charges for investing in the investment pathway funds on other digital platforms are set out in the table below.

	PATHWAY 1	PATHWAY 2	PATHWAY 3	PATHWAY 4	ACCOUNT / PLATFORM FEE	NOTES
Firm 1	0.22%	0.07%	0.24%	0.10%	£12.99 a month	£7.99 per trade
Firm 2	0.50%	0.70%	0.95%	0.50%	None	Fee is halved on the amounts invested over £100,000
Firm 3	0.10%	0.20%	0.10%	0.10%	£0 to £30k – 0.9%; £30k to £50k – 0.40%, £50k to £250k – 0.30%; £250k to £500k 0.25%; £500k to £1 million 0.20%; £1m+ - 0.10%	
Firm 4	0.15%	0.15%	0.15%	0.15%	£0 to £50k – 0.40%; Next £200k – 0.35%; Next £250k – 0.25%; Amounts above £500k – 0.00%	
Firm 5	0.31%	0.14%	0.31%	0.14%	0.25%	
Firm 6	0.25%	0.25%	0.40%	0.15%	Less than £7.5k – 0.35% if you have a regular savings plan or £45 if you don't; £7.5k to £250k – 0.35%; £25k to £1 million – 0.20%; £1 million+ 0.20% a year for the first £1 million	
Firm 7	0.14%	0.15%	0.30%	No explicit charges	£0 to £250k – 0.45%; £250k to £1 million – 0.25%; £1m - £2m – 0.10%; Value over £2 million – No charge	
Firm 8	1.02%	1.01%	1.02%	1.01%		Discount Applied 0.3% (Under 25k); 0.5% (Over 25k)
Firm 9	0.31%	0.31%	0.31%	0.31%	0.25% up to £250k; 0.1% between 250k and 500k; 0 above £500k	
Firm 10	0.14%	0.16%	0.14%	0.21%	£0 to £100k – 0.4%; £100k to £250k – 0.25%; £250k+ - 0.1%	

Appendix 6

Data tables comparing (most) costs

The tables below compare our estimate of most costs from the charging structures used by comparator firms. For firms that charge trading costs separately, we have not attempted to simulate the number of trades or associated transaction costs, which means the tables will contain underestimates of their real costs.

PATHWAY 1

	£25,000	£50,000	£100,000	£200,000	£250,000	£500,000
Vanguard	0.39%	0.39%	0.39%	0.39%	0.39%	0.32%
Firm 1	0.84%	0.53%	0.38%	0.30%	0.28%	0.25%
Firm 2	0.50%	0.50%	0.50%	0.38%	0.35%	0.30%
Firm 3	1.00%	0.40%	0.40%	0.40%	0.35%	0.30%
Firm 4	0.55%	0.55%	0.53%	0.51%	0.51%	0.46%
Firm 5	0.56%	0.56%	0.56%	0.56%	0.56%	0.56%
Firm 6	0.60%	0.60%	0.60%	0.60%	0.45%	0.45%
Firm 7	0.59%	0.59%	0.59%	0.59%	0.59%	0.49%
Firm 8	0.52%	0.52%	0.52%	0.52%	0.52%	0.52%
Firm 9	0.56%	0.56%	0.56%	0.56%	0.56%	0.49%
Firm 10	0.54%	0.54%	0.54%	0.47%	0.45%	0.35%
Average excluding Vanguard	0.63%	0.54%	0.52%	0.49%	0.46%	0.42%

PATHWAY 2

	£25,000	£50,000	£100,000	£200,000	£250,000	£500,000
Vanguard	0.27%	0.27%	0.27%	0.27%	0.27%	0.20%
Firm 1	0.69%	0.38%	0.23%	0.15%	0.13%	0.10%
Firm 2	0.70%	0.70%	0.70%	0.53%	0.49%	0.42%
Firm 3	1.10%	0.50%	0.50%	0.50%	0.45%	0.40%
Firm 4	0.55%	0.55%	0.53%	0.51%	0.51%	0.46%
Firm 5	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%
Firm 6	0.60%	0.60%	0.60%	0.60%	0.45%	0.45%
Firm 7	0.60%	0.60%	0.60%	0.60%	0.60%	0.50%
Firm 8	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
Firm 9	0.56%	0.56%	0.56%	0.56%	0.56%	0.49%
Firm 10	0.56%	0.56%	0.56%	0.49%	0.47%	0.37%
Average excluding Vanguard	0.63%	0.54%	0.52%	0.48%	0.46%	0.41%

PATHWAY 3

	£25,000	£50,000	£100,000	£200,000	£250,000	£500,000
Vanguard	0.39%	0.39%	0.39%	0.39%	0.39%	0.32%
Firm 1	0.86%	0.55%	0.40%	0.32%	0.30%	0.27%
Firm 2	0.95%	0.95%	0.95%	0.71%	0.67%	0.57%
Firm 3	1.00%	0.40%	0.40%	0.40%	0.35%	0.30%
Firm 4	0.55%	0.55%	0.53%	0.51%	0.51%	0.46%
Firm 5	0.56%	0.56%	0.56%	0.56%	0.56%	0.56%
Firm 6	0.75%	0.75%	0.75%	0.75%	0.60%	0.60%
Firm 7	0.75%	0.75%	0.75%	0.75%	0.75%	0.65%
Firm 8	0.52%	0.52%	0.52%	0.52%	0.52%	0.52%
Firm 9	0.56%	0.56%	0.56%	0.56%	0.56%	0.49%
Firm 10	0.54%	0.54%	0.54%	0.47%	0.45%	0.35%
Average excluding Vanguard	0.70%	0.61%	0.60%	0.55%	0.53%	0.48%

PATHWAY 4

	£25,000	£50,000	£100,000	£200,000	£250,000	£500,000
Vanguard	0.27%	0.27%	0.27%	0.27%	0.27%	0.20%
Firm 1	0.72%	0.41%	0.26%	0.18%	0.16%	0.13%
Firm 2	0.50%	0.50%	0.50%	0.38%	0.35%	0.30%
Firm 3	1.00%	0.40%	0.40%	0.40%	0.35%	0.30%
Firm 4	0.55%	0.55%	0.53%	0.51%	0.51%	0.46%
Firm 5	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%
Firm 6	0.50%	0.50%	0.50%	0.50%	0.35%	0.35%
Firm 7	N/A	N/A	N/A	N/A	N/A	N/A
Firm 8	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
Firm 9	0.56%	0.56%	0.56%	0.56%	0.56%	0.49%
Firm 10	0.61%	0.61%	0.61%	0.54%	0.52%	0.42%
Average excluding Vanguard	0.59%	0.49%	0.47%	0.44%	0.41%	0.37%