Independent Governance Committee

Vanguard Asset Management
Annual Report for 2023

Contents

Summary of key points

Remit.

The Independent Governance Committee (IGC) has a remit to assess whether pension clients in drawdown at Vanguard are getting value for money (VFM) after selecting one of four 'investment pathways'. During 2023, Vanguard almost doubled the number of clients in investment pathways to 296 out of 4,500 drawdown clients. Vanguard's overall UK investor base is over 500,000.

Conclusion and rationale.

We agree with the UK financial regulators that value for money is primarily determined by investment performance net of charges, the level of charges and the variety and quality of support services offered.

The Financial Conduct Authority (FCA) requires us to examine whether better VFM is offered by any other investment pathways provider. We can report that in our judgement Vanguard offers good value for money and that we have **not** been able to identify another provider who offers better value.

Notable issues during 2023.

1. There was a welcome re-bound in financial markets and, as a result, all Target Retirement Funds showed positive performance over the year and beat inflation. All funds also beat inflation over the last five years.
2. From our investigations into investors' behaviour on withdrawals, we have noticed some inconsistencies between what they said they intended to do when they first chose their Pathway and what they actually did during 2023. We will continue to monitor these behaviours during 2024.
3. The financial regulators made two significant changes during the year. They introduced a new VFM framework covering metrics, standards and disclosures (from which Pathways were excluded) and introduced an overarching Consumer Duty. We have taken these into account when producing our report.

More detail on these and other issues can be found in our main report and the appendices.

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 2023. While we have taken the opportunity to comment on some of the issues that have arisen so far in 2024, 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. 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 value for money; 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 to 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 result, the Vanguard IGC is required to comment on an extensive range of topics for a limited number of 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 2023, there were 296 Vanguard clients using investment pathways (compared with 153 in December 2022). This represented 7% of all Vanguard Personal Pension investors in drawdown (compared to 6% at the end of 2022). 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	100	121
2	0	nil
3	153	120
4	43	48

Source: Vanguard, as at 31 December 2023

Vanguard's drawdown book approximately doubled during 2023, with the distribution of pathway investors following suit.

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

- Vanguard investors have larger pension funds than the Office for National Statistics (ONS) average at age 64 of £107,000.
- 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 77% 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).

There were over 5,000 inquiries to access Vanguard's retirement articles in an average month with around 8,000 accessing them around the UK's tax year-end period.

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 Department for Work and Pensions (DWP)/FCA VFM framework, for example, emphasises the importance of communication materials that enable investors to make good decisions.

We believe that the FCA/DWP decision to report investment growth before charges are deducted is a retrograde step as the growth reported is not that experienced by customers.

We therefore continue to report growth NET of investor borne charges in Exhibit 1 below.

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 small number of clients in the annuity and cash investment pathways, we concentrate our analysis on the growth funds in which 84% of the investment pathway clients analysed were invested.

The performance of Target Retirement Funds (TRF) is set out in Exhibit 1 below. As of 31 December 2023, all the funds shown had delivered growth over the previous five years of between 29% and 48% in nominal terms (before inflation).

We also compare their performance against a growth standard consisting of consumer price inflation (CPI) + 3 percentage points over the long term. We find that the market downturn experienced in 2022 has reduced the rate of real growth and only the longer dated (2040 and 2045) Target Retirement Funds pass this growth standard over five years.

All of the funds have grown by more than inflation, and therefore improved their purchasing power over 5 years.

Exhibit 1: TRF real performance after charges as at 31 December 2023

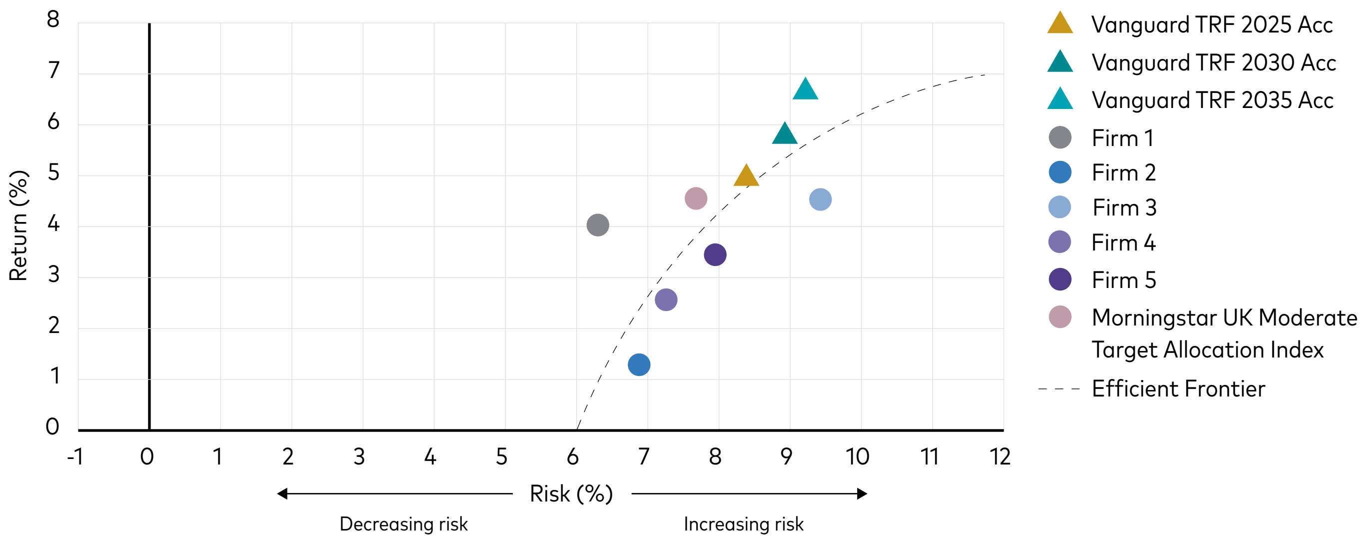
FUND	NO. OF INVESTORS	1 YEAR	3 YEARS	5 YEARS	TOTAL ANNUAL CHARGES*
TRF 2020	**42**	8.99%	6.31%	29.01%	0.46%
TRF 2025	**149**	9.85%	7.82%	33.68%	0.45%
TRF 2030	**43**	10.46%	9.60%	36.82%	0.44%
TRF 2035	**9**	10.87%	11.87%	40.56%	0.44%
TRF 2040	**5**	11.32%	14.17%	44.42%	0.43%
TRF 2045	**1**	11.70%	16.37%	47.84%	0.43%
Value of CPI for the period		7.3%	20.15%	23.37%	N/A
Value of CPI+3% for the period		10.55%	31.19%	42.88%	N/A

Source: Vanguard, as at 31 December 2023
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 2023, cumulative over time period for 3 and 5 years returns. *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 balanced 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.

We find that 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 (which shows the highest expected return for a given level or risk).

Exhibit 2: TRF performance **(October 2020 - March 2024)**



Source: Morningstar calculations as at March 2024.
Note: Time period covers since common inception (1 October 2020) to 31 March 2024. 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.

As Exhibit 2 shows, the TRFs have been performing in line with expectations, staying close to the efficient frontier. Over the 41-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 fund design is still suitable to deliver retirement outcomes for the average investment pathway customer for Pathway 1 and 3.

Investors choosing pathway 1 or 3 are allocated to a TRF fund by an algorithm based on their age and pathway choice and following the logic of a traditional glidepath that reduces equity exposure as one approaches the age at which the investor wants to draw down from the fund. The IGC last looked at this algorithm in 2020 and concluded it met the needs of customers; we will conduct a periodic review again in 2024.

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%-0.46% 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 was set at 0.15% per annum and was 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 pathway 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. From 2020 to February 2022, Vanguard had eliminated charges on its Sterling Short-Term Money Market Fund to maintain the cash balance when returns on cash after charges were negative. As the returns from cash increased following the rise in interest rates, Vanguard began deducting charges again from the fund.

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[1] 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.

Exhibit 3: A breakdown of charges and transaction costs

	ONGOING FUND COSTS	TRANSACTION COSTS	ACCOUNT FEES	TOTAL COSTS
Target Retirement Fund 2020	0.24%	0.07%	0.15%	0.46%
Target Retirement Fund 2025	0.24%	0.06%	0.15%	0.45%
Target Retirement Fund 2030	0.24%	0.05%	0.15%	0.44%
Target Retirement Fund 2035	0.24%	0.05%	0.15%	0.44%
Target Retirement Fund 2040	0.24%	0.04%	0.15%	0.43%
Target Retirement Fund 2045	0.24%	0.04%	0.15%	0.43%
UK Short-Term Investment Grade Bond Fund	0.12%	0.06%	0.15%	0.33%
Sterling Short-Term Money Market Fund	0.12%	0.19%	0.15%	0.46%

Source: Vanguard, as at 31 December 2023.

[1] https://www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/drawdown-investment-pathways

The comparators we have chosen had a variety of different charging structures during 2023, as detailed in Appendix 5.

There have been no changes to the Vanguard charging levels since the last report. Changes to the charging levels for the comparators since our last report have been minor and include:

- One firm had reduced its platform fee for portfolios below a certain size. One firm had increased its minimum platform fee for portfolios below a certain size.
- One firm had reduced the fund management costs for two of the pathways reducing the charges by 0.05% and 0.04%.

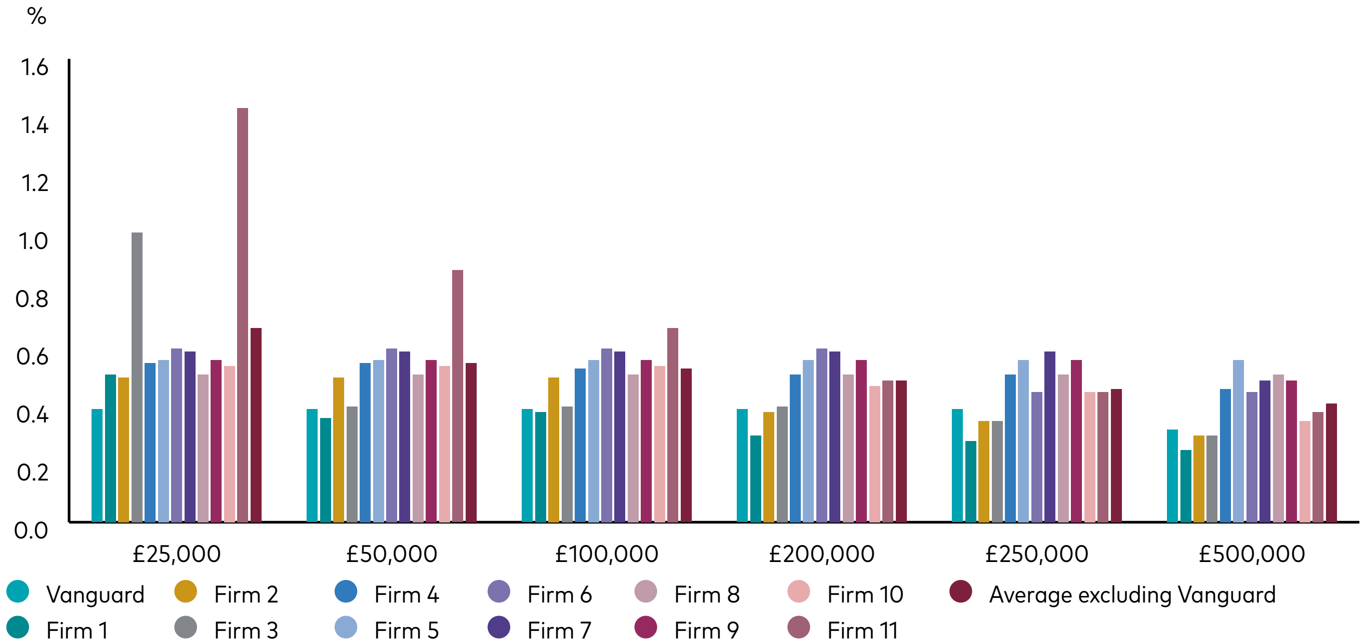
The tables in Appendix 6 show the costs and charges of Vanguard and the comparators for a variety of portfolio sizes. The following broad conclusions can be drawn:

- Vanguard is generally the lowest-cost provider across all investment pathways for portfolios worth less than £100,000 and always the lowest-cost provider where the comparators do not charge additional trading fees.
- 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.
- None of the comparators offer lower costs than Vanguard across all portfolio sizes.
- For the average amount invested in investment pathway option 1 (approximately £121,000), 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 pathway option 3 (approximately £120,000), Vanguard is the lowest-cost provider that does not charge additional trading fees and within 0.03% of the lowest-cost provider that does.
- For the average amount invested in investment pathways option 4 (approximately £48,000), Vanguard is the lowest-cost provider that does not charge additional trading fees and within 0.01% of the lowest-cost provider that does.

Exhibit 4 illustrates the range of charges (excluding transaction costs) reviewed for investment pathway 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.

Exhibit 4: Charges for investment pathways option 1



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 many 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.

Over 2023, multi factor authentication was introduced for all Vanguard customers, including pathway investors, to improve digital security for investors.

As part of Vanguard's Consumer Duty work, the IGC has been kept abreast of the work undertaken to ensure compliance and in particular, work on communications and customer journeys, including evidencing good outcomes for customers and the use of external parties to provide independent review.

The IGC was interested to learn more about the research that Vanguard has undertaken in 2023, supplemented by focus group research (conducted by Boring Money). Whilst this work has been focused on the wider Vanguard UK personal investor client base, it is useful to understand where pathway customers potentially sit in terms of their financial knowledge, broader retirement planning, risk awareness and attitude to financial advice and how these insights align with Vanguard's assumptions on the types of investors using pathways.

Much of the research supports assumptions the IGC have made and referred to in our previous annual reports – for example, the belief that Vanguard pathway investors often have additional pension assets outside of Vanguard and that they are confident enough to choose their own investments through the digital platform. The IGC will monitor how this continues to inform and develop Vanguard's approach to communicating with and supporting pathways investors, including development of income sustainability tools.

Vanguard's broader personal investor business now invites approximately 40,000 investors per month to take part in a relationship tracking survey, measuring net promoter scores (NPS) (up from approximately 20,000 invites previously). Although the survey is not aimed specifically at investment pathway investors, the IGC recognise that some of the underlying themes from the survey results are relevant to pathways investors.

Ease and simplicity of website and onboarding was again recognised as a top priority for investors but Vanguard's reputation and trust in their brand were also cited as a key reason why clients choose them.

The IGC has reviewed complaints data and we 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. Vanguard has service level agreements in place across its platform. As part of its oversight, Vanguard monitors client payment activity for timeliness and accuracy in producing illustrations, processing retirement instructions and making payments to customers. During 2023, Vanguard has confirmed standards for client payment activities across pension administration (which includes investment pathways) have been met for over 98%, achieving a 'green' rating.

During 2024, the IGC will consider Vanguard's sampling and quality monitoring process further as part of its review of the mandatory onboarding calls.

The IGC is pleased to learn that Vanguard now has the capabilities to undertake more targeted assessments of investment pathway customer satisfaction. However, given the relatively small sample size, the IGC will report its assessment only when results become statistically meaningful.

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

2.8 Topical issues in 2023

There are three areas commanding IGC's continuing interest.

2.8.1 Withdrawal rates (both sustainable and sporadic)

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[2]. 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.

In previous years, 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.

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.

During 2023, the IGC received further analysis of withdrawal rates to see if it aligns with the chosen pathways. Here we have seen a mixed picture that indicates that investors do not always behave in a way that is consistent with their chosen pathway.

Those in pathway 4 are withdrawing funds within the first few years, as expected for this pathway journey. The results revealed an intriguing pattern of what seem to be "special purpose" withdrawals for those in pathway 1 and 3. Importantly, 23% of pathway 1 investors (I have no plans to touch my money in the next 5 years) have made at least one withdrawal and some have made significant withdrawals.

Obviously there can be numerous reasons to justify why this might be the case. The working hypothesis is that "life happens" and individual plans change over time. There is no evidence of consumer detriment in these analyses as we simply do not know how much of an investor's assets for retirement Vanguard holds. It has, however, reinforced the IGC's view of the importance of the pathway onboarding experience, in particular the mandatory discussions with a retirement guidance counsellor, as well as the annual statements. The onboarding and annual touchpoint are areas that the IGC intends to review in 2024. The IGC will want to ensure that these processes help pathway investors understand the principles around sustainable withdrawal rates and the potential implications of making regular withdrawals at rates which might not be sustainable in the longer term.

2.8.2 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 expresses its approach to ESG as follows: "Vanguard thinks about environmental, social and governance (ESG) issues in the context of delivering long-term value to investors and helping them meet their objectives. First, Vanguard offers a range of high-quality ESG products (both index and active) that aim to enable clients to meet their financial goals and reflect their personal preferences. Second, Vanguard integrates ESG considerations into the management of actively managed products (whether or not the products target a specific ESG outcome). Third, we engage with the boards and senior management of

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

the companies held in our funds (through our global Investment Stewardship team) to understand how they assess, disclose and oversee material ESG risks."

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 index products that enable investors to avoid or reduce exposure to certain ESG risks. Vanguard also offers active ESG funds that aim to deliver sustainable, long-term growth alongside an emphasis on certain ESG considerations. 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 and 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 note that surveying the Vanguard pathways directly would not result in meaningful results currently given the small sample size; the IGC will consider this further as the pathways customer base increases. 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 or similar for investment pathways.

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.

2.8.3 Vulnerable investors

A vulnerable investor is defined by the FCA 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[3] 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.

Vanguard staff are 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. Four per cent of pathway clients are flagged as vulnerable (numbering eleven in total). In 2020, FCA research found characteristics of vulnerability in 53% of UK adults; while we know that Vanguard customers have some different characteristics, we are keen to reassure ourselves that Vanguard's processes reflect best practice in the identification of vulnerability.

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 once the digital journeys are further optimised. There are particular challenges in ensuring that customers feel able to self-declare vulnerability.

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.

[3] 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 2023, 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 four years, as well as a Which? Recommended Provider for investment platforms for the last five. See Appendix 4 for the list of firms analysed.

As we finalised this report, the Hymans' survey for 2024 was published. We will cover this next year but the headlines confirm Vanguard's position as a low-cost provider and also show investment performance favourably in comparison to other firms in the survey.

3 Conclusion

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

In drawing this conclusion, the IGC acknowledges that longer term fund performance net of all customer-borne charges continues to deliver real returns. Vanguard's cost and charges are also lower than most competitors and we believe that the quality of its services are at least on a par with alternative providers.

Appendix 1

IGC membership

Lawrence Churchill CBE

Independent Chairman

Lawrence has worked in pensions for over 50 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. He is a past Chairman of the Pensions Policy Institute and currently chairs Clara Pensions, a consolidator of Defined Benefit Pension Schemes.

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 Aviva Master Trust board. She is an accredited member of the Association of Professional Pension Trustees. As well as being a trustee, Anna sits on the governance bodies for contract-based pension arrangements (under the FCA's regulatory structure).

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 advisory 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 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 11 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 2024

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 their withdrawal rates in relation to their broader financial plans.
   - Their vulnerability.
   - Their access to relevant Vanguard's communications.
   - Their overall customer satisfaction.
4. Adapt proportionately to the requirements emanating from the DWP/FCA VfM Framework, and contribute to the development of best practice among IGCs.
5. Call sampling and quality monitoring of the mandatory client onboarding calls.

Appendix 3

Jargon buster

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

Asset allocation
Asset allocation is how portfolios are spread across different types of assets (or investments) such as shares and bonds.

DWP
Department for Work and Pensions – is responsible for welfare, pensions and child maintenance policy. As the UK's biggest public service department it administers the State Pension and a range of working age, disability and ill health benefits to around 20 million claimants and customers.

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

Efficient frontier
This is the optimal portfolio that offers the highest expected return for a given level of risk.

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.

Inflation
Inflation measures the change in prices for a basket of goods and services, as measured by the Office for National Statistics.

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

Nominal growth
The increase in the value of the portfolio over the specified time period.

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

ONS
Office for National Statistics – is the UK's largest independent producer of official statistics and its recognised national statistical institute.

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

Real growth
The increase in the value of the portfolio over the specified time period, adjusted for inflation.

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.

Standard deviation
A measure of the amount of variation of portfolio returns in relation to the mean/average.

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 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
Halifax
Interactive Investor
L&G
Pension Bee
Scottish Widows
Standard Life
Willis Owen

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

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

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%	£0 to £50k - £5.99 per month. £50k + - £12.99 a month	£3.99 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%	0.11%	0.14%	0.15%	£0 to £100k – 0.4%; £100k to £250k – 0.25%; £250k+ - 0.1%	
Firm 11	0.31%	0.31%	0.31%	0.31%	£0 to £50k - £100 per year; £50k+ - £180 per year; Flexi-Access Drawdown - £180 per year	

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	0.51%	0.36%	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	0.51%	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	0.54%	0.54%	0.54%	0.47%	0.45%	0.35%
Firm 11	1.43%	0.87%	0.67%	0.49%	0.45%	0.38%
Average excluding Vanguard	0.67%	0.55%	0.53%	0.49%	0.46%	0.41%

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	0.36%	0.21%	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	0.51%	0.51%	0.51%	0.44%	0.42%	0.32%
Firm 11	1.43%	0.87%	0.67%	0.49%	0.45%	0.38%
Average excluding Vanguard	0.66%	0.55%	0.53%	0.48%	0.45%	0.40%

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	0.53%	0.38%	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	0.51%	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	0.54%	0.54%	0.54%	0.47%	0.45%	0.35%
Firm 11	1.43%	0.87%	0.67%	0.49%	0.45%	0.38%
Average excluding Vanguard	0.74%	0.62%	0.60%	0.55%	0.52%	0.47%

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	0.39%	0.24%	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	0.52%	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	0.55%	0.55%	0.55%	0.48%	0.46%	0.36%
Firm 11	1.43%	0.87%	0.67%	0.49%	0.45%	0.38%
Average excluding Vanguard	0.64%	0.51%	0.49%	0.44%	0.41%	0.37%

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