

**Vanguard<sup>®</sup>**

# **Independent Governance Committee**

Vanguard Asset Management  
Annual Report for 2021

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# Summary of key points

The Independent Governance Committee's (IGC) remit is solely to examine whether Vanguard clients who have selected investment pathways are getting value for money (VfM) when drawing down their pensions. At the end of 2021, there were just 65 investment pathway clients compared with Vanguard's total UK investor base of more than 400,000.

The Financial Conduct Authority (FCA) has extended reporting requirements for IGCs. To satisfy these 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 clients alone.

We agree with the FCA that value for money (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 value for money is offered by other investment pathways providers. We can report that, in our opinion, Vanguard does offer good value for money. We have not been able to identify another provider who offers better value.

Everybody will be aware of the recent global market dislocation in which equity values have retreated at the same time as bond capital values have fallen ahead of expected increases in interest rates. We reiterate that longer-term performance is more relevant to long-term savings and investment, and we are satisfied with the longer-term performance figures.

Responsible investment is another area of focus and debate with the search on for relevant and reliable metrics to report against. For investment pathways, Vanguard takes a whole-of-market approach and uses engagement with companies as the principal tool to drive change. We have seen no evidence that this stance causes any investor concern, but if there are investment pathway clients who strongly prefer to exclude some companies from their portfolios, Vanguard does offer some "ESG funds" in its self-select range.

I hope you find the report interesting, please send any questions, suggestions or comments via the help section on the website:

<https://www.vanguardinvestor.co.uk/need-help>



**Lawrence Churchill CBE**

IGC Chair



# Main report

## 2.1 Introduction

This is the IGC annual report covering 2021. We have also taken the opportunity to comment on some of the issues that have arisen so far in 2022 where we have deemed them significant and relevant.

There has been a change in the Vanguard members of the committee with Victoria O'Keefe replacing Kate Fulker; Ankul Daga has relocated to the USA but continues to attend IGC meetings. There were no changes made to the three external, independent members. Further details on the background of IGC members can be found in Appendix 1.

## 2.2 Scope of the IGC in relation to Vanguard's products and services

IGCs are a regulatory construct whose primary role is to express an independent view on whether clients are receiving value for money. They were initially focused on workplace pensions (which Vanguard does not offer) but their scope was extended to include investment pathways – a construct created by the FCA in 2020/2021 and offered by Vanguard since Autumn 2020.

Therefore, the product scope of the IGC at Vanguard is narrow, focused exclusively on investment pathways.

The issues which the regulator expects IGCs to comment on is continuously evolving and was extended significantly during 2021, driven predominantly by issues within the workplace pensions market. Specific requirements introduced included:

- Taking into account three key elements of VfM – costs and charges, investment performance and services provided including member communications.
- Assessing and reporting on VfM by comparing with other options on the market.
- Considering whether an alternative would offer better VfM.
- Setting out their assessment of whether VfM is achieved.
- Explaining how they have assessed VfM and keeping relevant evidence for at least six years.

As a consequence, the IGC is required to comment on an extensive range of topics but to cover only a few investors who have chosen investment pathways. It is therefore proportionate that certain general issues (e.g. an investor's understanding of risk) have also been examined by consideration of Vanguard's wider business.

## 2.3 Vanguard's investor characteristics (and our beliefs about them)

All clients entering income drawdown without taking financial advice must be offered four investment pathways among their options. They are asked what they plan to do with their pension savings within the next five years and to choose the investment pathway that best fits their current retirement goal.

Based on the option selected, the investor is offered an investment solution which is designed to help them meet their goal.

- **Option 1:** I have no plans to touch my money – Vanguard Target Retirement Fund.
- **Option 2:** I plan to use my money to buy a guaranteed income (annuity) – Vanguard U.K. Short-Term Investment Grade Bond Index fund
- **Option 3:** I plan to start taking my money as long-term income – Vanguard Target Retirement Fund
- **Option 4:** I plan to take out all my money – Vanguard Sterling Short-Term Money Market fund

At the end of December 2021, there were 65 Vanguard clients using investment pathways. This represented around 5% of Vanguard investors in drawdown. By the end of March 2022, the number had increased to 84.

The IGC is satisfied that the investment pathways were given equal prominence with the other drawdown solutions that Vanguard provides.

Of the four investment pathways, no client has as yet indicated that they plan to buy a guaranteed income within the next five years (Option 2).

At the end of December 2021 there were seven customers using the cash investment pathway (Option 4).

This had risen to 12 by the end of March 2022. We also noticed during the year that some clients typically stay in cash for a short while, which we believe is the correct investment stance. Vanguard writes to clients every six months if they are still investing in this investment pathway.

At the end of December 2021, 22 clients said that they had no intention of drawing down their pension fund savings (Option 1) within the next five years. This rose to 26 by the end of March 2022. In December, 36 thought that they would start to take a long-term income during the next five years. This had risen to 46 at the end of March.

The average fund value for all drawdown clients was £171,000 at the end of March 2022, while for those who have selected investment pathways, the fund values were £178,000 for those not intending to draw down within five years (Option 1), £124,000 for those who are intending to (Option 3) and £41,000 for those holding cash equivalents (Option 4).

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

- Vanguard investors have much larger pension funds than the often-quoted average of £30,000.
- Vanguard investors are confident enough to choose their own investments through the digital platform.
- We believe it is reasonable to infer a higher degree of competence among our investors than the national average.
- There is some evidence to support a belief that more frequent interaction online suggests a higher engagement. Of Vanguard's total investor base around 60% log in monthly.

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 the independent IGC members and felt to be very relevant and of high quality, although we should disclose that some of it was authored by Ankul Daga, one of the IGC members.

Around 4,000 investors access the retirement articles in an average month, with around 8,000 accessing them around the UK's tax year end.

From the mandatory interviews conducted with all drawdown investors

- We noted that 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 clients.
- We are confident that the access to PensionWise (which forms part of our drawdown process) has either been 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, on sustainable withdrawal rates).

## 2.4 How we evaluate value for money

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

- Delivering investment performance measured over a period of years net of all investor-borne charges. Although a naturally backward-facing measure, there is a search on for a forward-facing methodology that might provide some assurance about future returns. We will follow this industry debate with interest (but without great confidence that a solution will be found). The FCA has raised the prospect that using commonly used investment ratios will be helpful. We will experiment with reporting on these.
- Costs and charges. While we believe that investment performance will potentially dwarf the impact of higher costs and charges, we believe that costs and charges have the advantage of certainty and that they are easier for investors to understand and compare.

- Providing good service. This component includes both the array of relevant services that the provider offers and also the quality of delivery of those services. Firm-specific management information should be able to speak to the quality of delivery, by reference to such measures as complaints, net promoter scores, adverse internal audits and interactions with the regulator. The array of relevant services (and their utilisation) may benefit more from an industry benchmarking approach.

The FCA has asked for comparisons with other providers to be included in the VfM appraisal for this year. We believe that this can be done at a high level as there will be differences in data which may make it difficult to compare like with like. 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. The IGC has found it difficult to do like-for-like comparisons due to varying charging structures within the market.

## 2.5 Investment performance

Because of the comparative absence of Vanguard clients from the annuity and cash investment pathways, we concentrate our analysis on the growth funds in which 86% of our investment pathway clients are invested.

The performance of Vanguard's different Target Retirement Funds' (TRF) is set out in Exhibit 1. As of 31 May 2022, all funds had delivered growth over the previous five years (buoyed largely by the performance of their equity holdings) of between 24% and 37% in nominal terms.

### Exhibit 1: Target Retirement Funds' (TRF) performance as at 31 May 2022

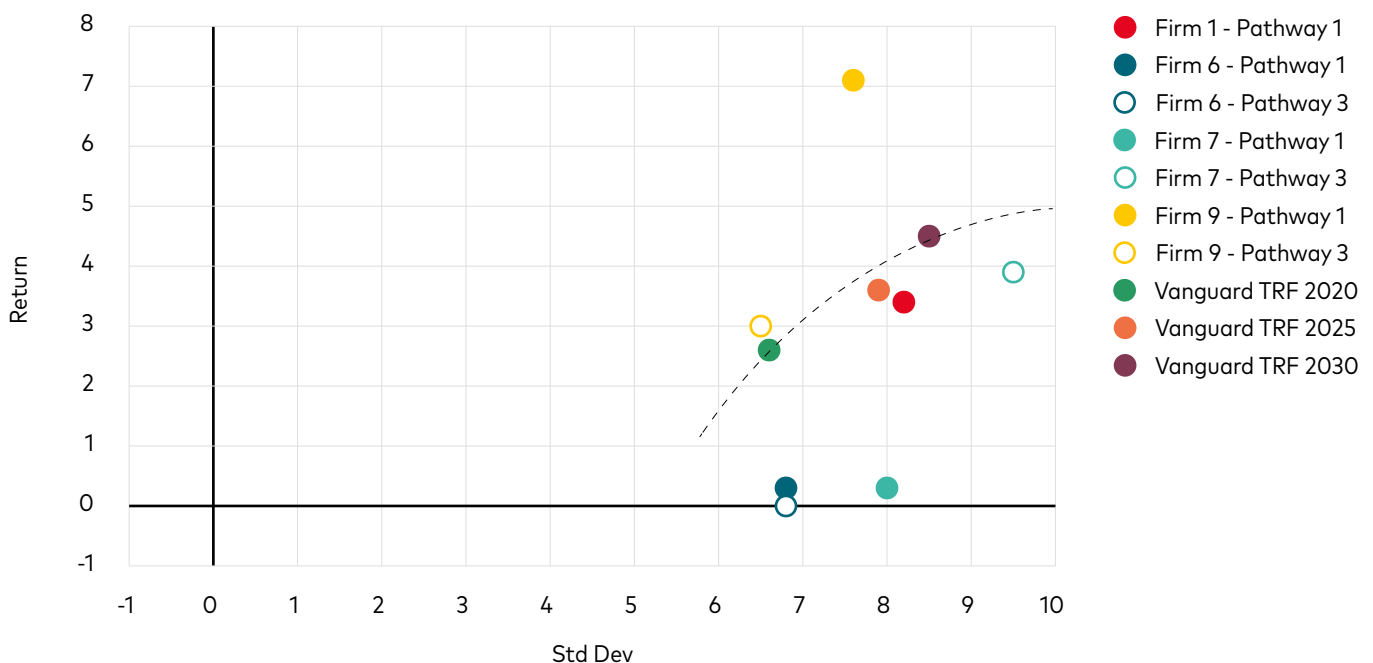
FUND	1 YEAR	3 YEARS	5 YEARS	TOTAL ANNUAL CHARGES
TRF 2020	-1.02%	14.89%	23.86%	0.48%
TRF 2025	-0.80%	17.72%	27.56%	0.46%
TRF 2030	-0.30%	19.42%	29.80%	0.45%
TRF 2035	0.48%	21.45%	32.44%	0.44%
TRF 2040	1.24%	23.42%	34.92%	0.44%
TRF 2045	1.99%	25.49%	37.41%	0.43%
Value of CPI+3% for the period	9.00%	7.29%	6.33%	

Source: Vanguard.

Note: Basis of fund performance NAV to NAV, net of expenses, with gross income reinvested and as at 31 May 2022.

Past performance is not a reliable indicator of future results. CPI as at April 2022. Total annual charges includes ongoing costs as at 31 May 2022, transaction costs as at 30 September 2021, and account fee as at 31 May 2022.

### Exhibit 2: Risks and returns



Source: Morningstar Direct, data as at 30 June 2022.

Note: Time period covers since common inception (1 November 2020) to 30 June 2022. 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.

We also compare against a growth standard of CPI + 3%, and all funds pass this standard over three years and five years. No fund passes the standard over one year, reflecting the market dislocation experienced in the first half of 2022.

We compare the performance of Vanguard's Target Retirement Funds 2020, 2025 and 2030 against competitor multi-asset balance funds in Exhibit 2 (See Appendix 4 for the names of the fund providers).

The competitor data is limited to less than two years and only becomes available starting in November 2020. We anticipate adding more detailed information in this segment over time and mapping it back to each investment pathway. Having said that, we find that our investment pathway represented by Vanguard TRFs have performed in-line with our expectations. In the long term (10+ years), higher risk should be compensated with higher returns. Additionally, as diversified portfolios take additional risk, they are compensated with diminishing marginal 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 18-month history, most competitors have been below the hypothetical efficient frontier. The simple design of Vanguard TRFs is aimed at providing pension investors access to market opportunity at low costs, with transparency and in an easy-to-use single-fund solution.

Importantly, we believe the TRF product design is still suitable to deliver retirement outcomes for the average investment pathway client.

## 2.6 Costs and charges

The charges for the TRF funds are set out in Exhibit 1. The total charges include the investment charges, transaction costs and platform/account fees. All the TRF funds fall within a range of 0.43% to 0.48%, with any difference being caused by higher transaction costs as a result of a higher allocation to fixed interest.

Vanguard clients invested via one of 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) that is paid to Vanguard for managing the fund and covering any 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. It includes dealing costs and taxes. These charges are not paid to Vanguard but are deducted from the fund's price and are reflected in the performance of the fund.

### Account fee:

- The account fee charge is 0.15% per annum of the total value of any account holdings, including cash, up to a maximum annual charge of £375. The account holdings include the value of all of the investor's investments held with Vanguard including any held outside the investment pathways.

With returns on cash negligible in recent years, there has been the risk that investor cash balances could be eroded after charges. To counter this, Vanguard has been reducing or eliminating charges on its Money Market fund in investment pathways option 4.

The breakdown of the charges by type is shown in the following table.

## Charges and transaction costs breakdown

	FUND COST	ACCOUNT FEE	TRANSACTION COST
Target Retirement Fund 2015	0.24%	0.15%	0.10%
Target Retirement Fund 2020	0.24%	0.15%	0.09%
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%	0.02%
Money Market Fund	0.12%	0.15%	0.13%

Source: Vanguard.

Note: Fund costs as at 31 May 2022, transaction costs as at 30 September 2021 and account fee as at 31 May 2022. Past performance is not a reliable indicator of future results.

As part of the value-for-money 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 made available through an employer, the IGC has chosen the providers (see Appendix 4) who currently participate in the MoneyHelper pathways comparison tool and are some of the largest providers of personal pensions including self-invested personal pensions (SIPPs). We have not included any schemes available through employers such as master trusts though we will keep this under review for future reports.

During the year, we made it clear to Vanguard's governing body that we would like the Vanguard investment pathways to also appear on the MoneyHelper investment pathways comparison tool. We are pleased that Vanguard agreed to this IGC request and has submitted the required data to MoneyHelper. We are waiting for them to update the tool.

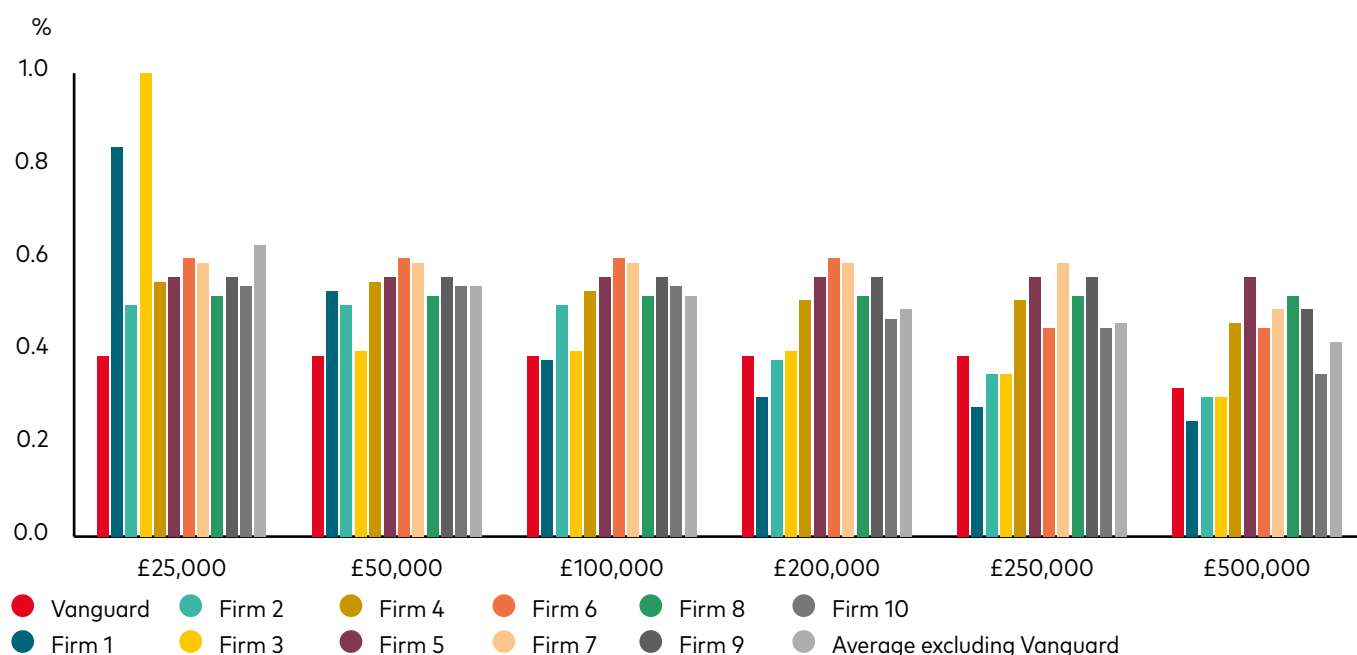
The pension providers we chose to compare ourselves with have a variety of different charging structures, as detailed in Appendix 5.

The tables in Appendix 6 show the costs and charges of Vanguard and these 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 portfolio sizes of less than £100,000.

- At larger portfolio sizes (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) and Vanguard is either the lowest-cost provider or generally within 0.02% to 0.05% (where the comparators do not charge additional trading fees).
- Vanguard costs and charges are well below average – normally between 0.10% and 0.20% lower than the market average.
- For the average amount invested in investment pathways option 1 (approximately £178,000), Vanguard is the lowest-cost provider that doesn't charge trading fees and is within 0.08% of the lowest-cost provider that does charge trading fees.
- For the average amount invested in investment pathways option 3 (approximately £124,000), Vanguard is the lowest-cost provider among those who don't charge additional trading fees and within 0.04% of the lowest-cost provider that does charge trading fees.
- For the average amount invested in investment pathways option 4 (approximately £41,000), Vanguard is the lowest-cost provider.

The histogram below shows the charges for investment pathways option 1 pictorially.





## 2.7 Services

The services offered for investment pathway investors are:

- Website describing the available options.
- Provision of retirement pack.
- Mandatory discussions with a retirement guidance counsellor over two meetings (covering retirement plans, risk appetite, etc), with a handoff to PensionWise.
- A range of educational and analytical articles dealing with discrete aspects of retirement (including cognitive decline and power-of-attorney requirements).
- 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). At the time of publishing, the IGC had reviewed nine months-worth of data. Although the survey was not aimed specifically at investment pathway investors, the IGC recognises that some of the underlying themes are equally relevant to them.

For example:

- Investors value ease and simplicity – e.g., website useability and smooth onboarding experiences.
- Value for money (VfM) beyond fees is a key driver of advocacy and this is especially true during periods of high market volatility, when investors value being kept informed about the latest market conditions.

The IGC has reviewed the complaints data for the totality of our drawdown investors. What we see is a low number of complaints and no complaints so far in respect of investment pathways. Financial transactions are processed promptly and in the event of any delay, the investor suffers no detriment.

During the year the IGC commissioned a service review and comparison with eight other investment pathway providers (see Appendix 4). The comparison showed that Vanguard's offering was similarly competitive with the other providers in areas such as drawdown phone calls, online tools, statement frequency and accessibility.

As an online execution-only digital platform, Vanguard appears to have less well-developed information and systems for gathering investor information than one would expect. Thus, the IGC is less well informed about information relating to investor concerns on topics from their understanding of risk to ESG. The IGC is pleased to note that Vanguard intends to broaden out its monthly surveys to capture more actionable insights on topics such as ESG preferences.

## 2.8 Topical Issues in 2021/2

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

### 2.8.1 Risk understanding and disclosure:

Vanguard uses the Synthetic Risk and Reward Indicator (SRRRI) 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 SRRRI risk rating. The SRRRI system is a standard approved system. In the UK, the Financial Reporting Council (FRC) is currently consulting on using a simplified form of this 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 the Money and Pensions Service (MaPs) may be expanding use of the SRRRI system with inexperienced consumers on their 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 (DC) pensions. This is a very complex decision and research has found that many consumers feel confused and overwhelmed by DC withdrawal decisions. Non-advised consumers were found to want clearer guidance on withdrawal strategies based on real-life scenarios and relatable examples.<sup>1</sup>

There can be significant risks for consumers including paying too much tax or withdrawing so much that they risk exhausting their fund (e.g. through under-estimating their longevity or suffering a sequence of poor investment returns).

During the year the IGC reviewed withdrawal data both for the investors in investment pathways 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 has researched a small sample of investors on high withdrawal rates and with pot sizes of less than £50,000. The research found that 75% had only moved part of their pension invested with Vanguard into drawdown and had other pension funds invested.

As part of their pensions checklist, Vanguard 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.

While this research provides some comfort, the IGC will continue to gather more information.

### 2.8.3 Environmental, social and governance (ESG) and stewardship

Vanguard has traditionally taken a "whole-of-market" approach to its index funds. The IGC hasn't seen conclusive research that indicates that ESG funds perform either better or worse than whole-of-market funds.

## 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 rates which will exhaust their fund in a small number of years or which are not sustainable in the longer term.
£100,000 to £200,000	20% of investors are withdrawing at a higher withdrawal rate of above 10% a year. About 60% of investors are withdrawing at a rate aligned with Vanguard's dynamic spending paper.
£200,000 +	On average investors are withdrawing at a rate aligned to Vanguard's dynamic spending paper with average withdrawal rates of between 4% and 6% a year.

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

ESG concerns have been growing for more than a decade and the concerns have escalated over the last few years. As a result, Vanguard is now taking a more nuanced approach recognising that investors around the world are increasingly interested in ESG issues as they seek to balance their personal values with their financial goals. Vanguard thinks about ESG risks and opportunities in the context of delivering long-term value to investors, recognising that material ESG risks, if left unchecked, can undermine long-term value in the companies that are invested in. Vanguard believes that engagement with companies, or stewardship, is the most powerful long-term approach.

However, Vanguard has also developed products that allow investors to avoid exposure to certain companies that are not aligned with their values or to mitigate certain ESG risks. For example, as at the end of July 2022 Vanguard had launched five new ESG funds since the last annual report was published.

Two of the investment pathway funds are invested in Target Retirement Funds. Currently, these operate as whole-of-market funds and are not tilted based on ESG criteria nor are any companies excluded. Consequently, for any investors with strong ESG concerns (though we do not have any information that there are (m)any), reliance must be placed entirely on the effectiveness of the Stewardship process. Vanguard publishes an annual report on its stewardship activities, which can be accessed [here](#) . FCA rules currently prohibit offering both a whole-of-market and a separate ESG version of TRFs for investment pathways.

#### 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 thinks of vulnerability in one of four ways:

- Health – whether the ability to carry out day-to-day activities is reduced through health conditions or illness.
- Life events – whether someone has been affected by a bereavement, job loss or relationship breakdown.
- Resilience – whether they have a low capacity to withstand financial or emotional shocks.

- Capability – whether a person has low knowledge of, or low confidence in, managing money, or have low levels of literacy or poor digital skills.

FCA guidance<sup>2</sup> explains that to achieve good outcomes for vulnerable investors 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 the investors with characteristics of vulnerability and make improvements where this is not happening.

The IGC listened to several 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 on the system 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 those 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 that sufficient attention continued to be given to measuring and monitoring the outcomes for vulnerable investors to ensure that they experienced outcomes at least as good as non-vulnerable investors.

<sup>2</sup> <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 other industry providers and use reasonable endeavours to compare them. For this year we have referenced publicly available comparisons from Hymans Robertson on investment pathways fund solutions, annual best-buy comparisons from Which?, internal analysis on services and internal analysis of fund performance comparators based on Morningstar data.

The Hymans analysis compares seven retail (including Vanguard) and three workplace propositions. Hymans do not draw any conclusions from the survey but do say there are 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, 86% of Vanguard's investors do.
- Only two firms in the survey had more than 1,000 investors in investment pathways; it is reasonable to assume that these were Workplace schemes.

- For investment pathway Options 1 and 3, the average platform charges were 0.36% whereas Vanguard's are 0.15%. Average investment fees were around 0.50% compared with Vanguard's 0.24%. This survey confirms Vanguard as a low-cost provider.

Consumer magazine Which? has named Vanguard a Which? Recommended Provider for SIPP's for the last four years. See Appendix 4 for the list of firms analysed.

The internal analyses conducted by in-house researchers is referenced above – for services in 2.7, for charges in 2.6 and for investment performance and risk in 2.5 above.

## 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. It has not discovered any other pension provider that provides better value.

# 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. In his executive life, he was chief executive of three insurance groups. As a non-executive he was the inaugural chair of both the Pension Protection Fund and the National Employment Savings Trust, chairman of the Financial Services Compensation Scheme and a member of the Board for Actuarial Standards. He currently chairs Clara Pensions and, until June 2022, the Pensions Policy Institute.



### Anna Eagles

#### 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' pensions and employee benefits consulting experience before becoming a professional trustee. She is passionate about helping improve people's retirement and savings outcomes through better governance, value for money, information and education.



### Dominic Lindley

#### Independent Member

Dominic Lindley 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 advising 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

His responsibilities include research on goal-based investment strategies which inform our target date and 529 products and advice solutions, building enterprise research models and meeting clients to provide Vanguard's perspective on long-term investment implications. In addition to portfolio construction issues, he covers a broad range of investment topics, including multi-asset investing, retirement strategies, passive and active investments and adviser best practices.

He has over 15 years of investment experience across trading, advisory and research functions at some of the most eminent financial institutions. He joined Vanguard from Coutts, the largest wealth manager in UK, where he was the asset allocation director. Prior to that, he has held investment roles with Merrill Lynch and Barclays,

which is complimented with direct experience in trading and relationship management. He earned a Masters from Warwick Business School and is pursuing an M.B.A. at the Wharton School of the University of Pennsylvania. He is a CFA® Charterholder, contributes to the Investment Association's DC Committee and is an active member of Independent Governance Committee for Vanguard's UK investment pathways.



## Victoria O'Keefe

### Senior Manager, Distribution, Vanguard

Victoria has worked in the Investment Management industry for almost 30 years. Victoria is currently a senior manager within Vanguard's UK and European Distribution department and her role is primarily focused on managing change initiatives. During the nine years that Victoria 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, and prior to that she 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 2022/23

1. Continue to monitor investment performance and costs and charges of Vanguard's investment pathway funds
2. Continue to develop information on comparator providers
3. Consider the extent to which more formal benchmarking and industry surveys would improve comparator information
4. Develop more information and insight on Vanguard's pathway customers and their views, in particular
  - Their understanding of risk
  - Their understanding of their rate of withdrawals in relation to their broader financial plans
5. Adapt to guidance and requirements emanating from the FCA, and contribute to the development of best practice among IGCs
  - Their views and concerns on responsible investment and environmental, social and governance factors
  - Their vulnerability
  - Whether Vanguard's communications should be improved

# Appendix 3

## Jargon buster

### **Annuity/annuitise**

Guaranteed income purchased through a life insurance company.

### **Drawdown**

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

### **ESG**

Environmental, social and corporate governance features for investment fund manufacturing.

### **FCA**

Financial Conduct Authority, the UK regulator for UK retail.

### **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 choice.

### **KIID**

Key Investor Information Document - document explaining the key information of an investment fund.

### **Non-advised**

Term used where a consumer has not had financial advice on their transactions and decisions.

### **Pension Wise**

Government free guidance service explaining pension options to consumers. Website: [www.pensionwise.gov.uk](http://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 retirement outcomes).

### **SIPP**

Type of pension where the consumer self-selects their investments and has access to 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 the funds.

### **Target date fund/Target Retirement Fund**

Investment fund which matures at a set date, normally chosen retirement date.

### **Transaction Costs**

Underlying costs incurred when transacting in stocks and equities.

### **Vanguard**

Investment management firm.

### **Vulnerable investor**

Investor who may have a vulnerability through health, life events or scam.

### **Workplace pension schemes**

Employer sponsored pension scheme

# Appendix 4

## Names of comparator firms

AJ Bell

Aviva

Fidelity

Hargreaves Lansdown

Interactive Investor

L&G

Pension Bee

Scottish Widows

Standard Life

Willis Owen

Please note the order of the comparator firms does not correlate with the naming convention and numbering of the firms in this report.

# Appendix 5

## Additional data on costs and charges

Like Vanguard, some investment pathway providers have fund management charges and separate account fees/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 be tiered where once the portfolio reaches a certain size then the fees are reduced on amounts above this size. Two have all-in-one charges and these also 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 pathways investors depend on the investment pathways they have chosen, the total size of their investment portfolio at the start of the period, investment growth and their behaviour in terms of whether they make any trades or other transactions.

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

	PATHWAY 1	PATHWAY 2	PATHWAY 3	PATHWAY 4	ACCOUNT FEE / PLATFORM FEE	NOTES
<b>Firm 1</b>	0.22%	0.07%	0.24%	0.10%	£12.99 a month	£7.99 per trade
<b>Firm 2</b>	0.50%	0.70%	0.95%	0.50%	None	Fee is halved on the amounts invested over £100,000
<b>Firm 3</b>	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%	
<b>Firm 4</b>	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%	
<b>Firm 5</b>	0.31%	0.14%	0.31%	0.14%	0.25%	
<b>Firm 6</b>	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%; £250k to £1 million - 0.20%; £1 million+ 0.20% a year for the first £1 million	
<b>Firm 7</b>	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	
<b>Firm 8</b>	1.02%	1.01%	1.02%	1.01%		Discount Applied 0.3% (Under 25k); 0.5% (Over 25k)
<b>Firm 9</b>	0.31%	0.31%	0.31%	0.31%	0.25% up to £250k; 0.1% between 250k and 500k; 0 above £500k	
<b>Firm 10</b>	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 our comparator firms. It includes the fund management costs and platform/account fees but excludes transaction costs. For those firms charging trading costs separately, we have not attempted to simulate the number of trades or associated transaction costs, so the tables will contain underestimates of the real costs.

### PATHWAY 1

	£25,000	£50,000	£100,000	£200,000	£250,000	£500,000
<b>Vanguard</b>	0.39%	0.39%	0.39%	0.39%	0.39%	0.32%
<b>Firm 1</b>	0.84%	0.53%	0.38%	0.30%	0.28%	0.25%
<b>Firm 2</b>	0.50%	0.50%	0.50%	0.38%	0.35%	0.30%
<b>Firm 3</b>	1.00%	0.40%	0.40%	0.40%	0.35%	0.30%
<b>Firm 4</b>	0.55%	0.55%	0.53%	0.51%	0.51%	0.46%
<b>Firm 5</b>	0.56%	0.56%	0.56%	0.56%	0.56%	0.56%
<b>Firm 6</b>	0.60%	0.60%	0.60%	0.60%	0.45%	0.45%
<b>Firm 7</b>	0.59%	0.59%	0.59%	0.59%	0.59%	0.49%
<b>Firm 8</b>	0.52%	0.52%	0.52%	0.52%	0.52%	0.52%
<b>Firm 9</b>	0.56%	0.56%	0.56%	0.56%	0.56%	0.49%
<b>Firm 10</b>	0.54%	0.54%	0.54%	0.47%	0.45%	0.35%
<b>Average excluding Vanguard</b>	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
<b>Vanguard</b>	0.27%	0.27%	0.27%	0.27%	0.27%	0.20%
<b>Firm 1</b>	0.69%	0.38%	0.23%	0.15%	0.13%	0.10%
<b>Firm 2</b>	0.70%	0.70%	0.70%	0.53%	0.49%	0.42%
<b>Firm 3</b>	1.10%	0.50%	0.50%	0.50%	0.45%	0.40%
<b>Firm 4</b>	0.55%	0.55%	0.53%	0.51%	0.51%	0.46%
<b>Firm 5</b>	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%
<b>Firm 6</b>	0.60%	0.60%	0.60%	0.60%	0.45%	0.45%
<b>Firm 7</b>	0.60%	0.60%	0.60%	0.60%	0.60%	0.50%
<b>Firm 8</b>	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
<b>Firm 9</b>	0.56%	0.56%	0.56%	0.56%	0.56%	0.49%
<b>Firm 10</b>	0.56%	0.56%	0.56%	0.49%	0.47%	0.37%
<b>Average excluding Vanguard</b>	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
<b>Vanguard</b>	0.39%	0.39%	0.39%	0.39%	0.39%	0.32%
<b>Firm 1</b>	0.86%	0.55%	0.40%	0.32%	0.30%	0.27%
<b>Firm 2</b>	0.95%	0.95%	0.95%	0.71%	0.67%	0.57%
<b>Firm 3</b>	1.00%	0.40%	0.40%	0.40%	0.35%	0.30%
<b>Firm 4</b>	0.55%	0.55%	0.53%	0.51%	0.51%	0.46%
<b>Firm 5</b>	0.56%	0.56%	0.56%	0.56%	0.56%	0.56%
<b>Firm 6</b>	0.75%	0.75%	0.75%	0.75%	0.60%	0.60%
<b>Firm 7</b>	0.75%	0.75%	0.75%	0.75%	0.75%	0.65%
<b>Firm 8</b>	0.52%	0.52%	0.52%	0.52%	0.52%	0.52%
<b>Firm 9</b>	0.56%	0.56%	0.56%	0.56%	0.56%	0.49%
<b>Firm 10</b>	0.54%	0.54%	0.54%	0.47%	0.45%	0.35%
<b>Average excluding Vanguard</b>	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
<b>Vanguard</b>	0.27%	0.27%	0.27%	0.27%	0.27%	0.20%
<b>Firm 1</b>	0.72%	0.41%	0.26%	0.18%	0.16%	0.13%
<b>Firm 2</b>	0.50%	0.50%	0.50%	0.38%	0.35%	0.30%
<b>Firm 3</b>	1.00%	0.40%	0.40%	0.40%	0.35%	0.30%
<b>Firm 4</b>	0.55%	0.55%	0.53%	0.51%	0.51%	0.46%
<b>Firm 5</b>	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%
<b>Firm 6</b>	0.50%	0.50%	0.50%	0.50%	0.35%	0.35%
<b>Firm 7</b>	N/A	N/A	N/A	N/A	N/A	N/A
<b>Firm 8</b>	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
<b>Firm 9</b>	0.56%	0.56%	0.56%	0.56%	0.56%	0.49%
<b>Firm 10</b>	0.61%	0.61%	0.61%	0.54%	0.52%	0.42%
<b>Average excluding Vanguard</b>	0.59%	0.49%	0.47%	0.44%	0.41%	0.37%

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