



ZEDRA

DO MORE. ACHIEVE MORE.

# Chair's annual report

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## NFU Mutual Investment Pathways

- | Year ended 31 December 2023
- | The ZEDRA Governance Advisory Arrangement (GAA)

September  
2024



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## Executive summary

**This report on the Investment Pathways policies provided by NFU Mutual (“the Firm”), has been prepared by the Chair of the ZEDRA Governance Advisory Arrangement (“the GAA”) for pathway investors. It sets out our independent assessment of the value delivered to pathway investors and our view of the adequacy and quality of the Firm’s policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship.**

Further background on the activity of the GAA and details of the credentials of the GAA can be found in Appendices B and C respectively. The GAA works under an agreed Terms of Reference, the latest version of which is dated 14 April 2022 and is publicly available (see Appendix C).

This third annual report covers Investment Pathways i.e. the [decumulation](#) phase of the products only; there is a separate Chair’s Annual Report which covers the accumulation phase of the workplace personal pension plans.

As Chair of the GAA for this Firm, I am pleased to deliver this value assessment of the Firm’s Investment Pathways. The GAA has conducted a rigorous assessment of the Value for Money (“VfM”) delivered to [pathway investors](#) over the period 1 January 2023 to 31 December 2023. The GAA has developed a Framework to assess Value for Money which balances the quality of services and investment performance provided to pathway investors against what they pay for those services and investment performance. Further details are set out on page 6.

### A COLOUR CODED SUMMARY OF THE GAA ASSESSMENT

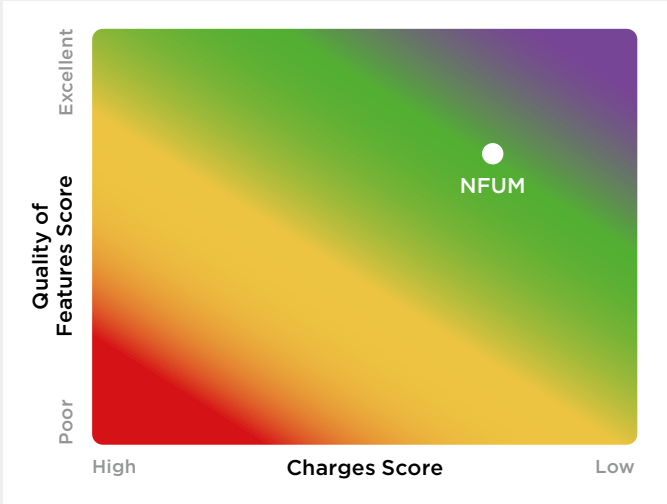
	Weighting toward VfM assessment*	Investment Pathways
1. Product strategy design and investment objectives	13%	●
2. Investment performance and risk	13%	●
3. Communication	20%	●
4. Firm governance	3%	●
5. Security of policyholder benefits	7%	●
6. Administration and operations	7%	●
7. Engagement, innovation and improvements for policyholder experience	3%	●
8. Cost and charge levels	33%	●
<b>Overall Value for Money assessment</b>	<b>100%</b>	<b>●</b>

\* May not add to 100% due to rounding

<p><b>Quality of service and investment features (1-7)</b></p> <p>● Excellent ● Good ● Satisfactory ● Poor</p>	<p><b>Cost and charge levels (8)</b></p> <p>● Low ● Moderately Low ● Moderately High ● High</p>
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How we determine our Value for Money rating is set out on page 6 of this report. The overall Value for Money is visually represented by the heatmap below.

### VALUE FOR MONEY SCORING



**Our conclusion is that the Firm's Investment Pathways, which are available to policyholders with a My Investments Select Pension Plan, provide **good** value for money.**

Overall, there are no specific areas identified where the GAA has challenged the Firm to make improvements, however, the GAA has made a number of observations as follows:

- Investment performance and risk:** The GAA has noted that the one-year **net investment performance** of Investment Pathway 4 is below average when compared against the comparator group. Therefore, the GAA would like the Firm to monitor its performance to identify if this is a longer-term concern compared to similar comparable offerings.
- Administration and operations:** The firm did not meet their overall averaged SLA targets and cited a challenging year with significant uplift in work volumes along with market volatility as the reasons. However, although 3- and 5-day SLAs were missed, the teams did an incredible job to manage customer expectations. The GAA received evidence to show team changes and the allocation of more resourcing into the administration team to mitigate any temporary issues that caused SLA delays in 2023. The firm will be implementing further changes in 2024 and the GAA would like to see improved performance against SLAs with targets met for next year.

Last year the GAA had challenged the Firm to review the choice of fund for Investment Pathways 2 and 4. The GAA is pleased to be able to report that the Firm implemented the recommendations from the Firm's review to switch these to the

NFU Mutual With-Profits (Risk Level 2) PN Series D1 fund on 11 September 2023 following an assessment of how the change impacts existing customers. A review for pathways 1 and 3 is planned for 2024.

We also concluded that the Firm's policies in relation to **Environmental, Social and Governance (ESG)** risks, non-financial considerations and stewardship were well implemented but further work is needed to properly embed them into business processes.

The FCA requires a comparison of your investment pathways product with other similar options available in the market. If an alternative scheme appears to offer better value, we must inform the pension provider. I can confirm that we have not considered it necessary to make this notification this year. Our view on each feature that we are required to make a comparison on is included in the relevant section of the report. Details of how we selected the comparator group is set out in Appendix A.

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

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

## Payam Kazemian

Governance Advisory Arrangement for NFU Mutual's Pathways

September 2024



**If you are a pathway investor and have any questions, require any further information, or wish to make any representation to the GAA you should contact:**

Martin Ansell, GAA Manager, Marketing Department, NFU Mutual  
Tiddington Road, Stratford-upon-Avon, Warwickshire, CV37 7BJ

Alternatively, you can contact the GAA directly at [ZGL.gaacontact@zedra.com](mailto:ZGL.gaacontact@zedra.com)



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# Overview of the value assessment

**The GAA has assessed the Value for Money delivered by the Firm to its pathway investors by looking at costs versus investment and service benefits. More detail about how we have done this is set out below.**

## Our approach

The GAA believes that value for money is subjective and will mean different things to different people over time, depending on what they consider important at that time.

What is clear is that it is always a balance of cost versus investment and service benefits. Our fundamental approach has therefore been to compare all the costs paid by [pathway investors](#) against the investment performance and quality of services provided to pathway investors.

The key steps for the GAA in carrying out the Value for Money assessment are:

- | Issuing a comprehensive data request to the Firm, requesting information and evidence across a wide range of quality features, including [net investment performance](#), as well as full information on all costs and charges, including [transaction costs](#).
- | Attending a number of formal meetings with representatives of the Firm to interrogate the data provided and to enable the GAA to question or challenge on any areas of concern. All such meetings have been documented by formal minutes and a log is also maintained containing details of any challenges raised, whether informally or through formal escalation.

- | Once the Firm has provided all the information and evidence requested, the GAA has met to discuss and agree provisional Value for Money scoring using the Framework developed by the GAA and to undertake comparisons of the Firm's product against a suitable comparator group of providers for certain Quality of Service and Investment Features and Cost and Charges.

- | The provisional Value for Money score, including a full breakdown, has then been shared and discussed with the Firm.

The Framework developed by the GAA to assess overall Value for Money for pathway investors involves rating the Firm against eight different features covering Quality of Service, Investment Performance and Strategy (the "Quality of Service and Investment Features"), and the Costs and Charges borne by the pathway investors. This assessment is undertaken relative to the GAA's view of good practice.

The Quality of Service and Investment Features have been determined based directly on the FCA requirements for assessing ongoing Value for Money set out in [COBS 19.5.5](#), including services relating to communications with pathway investors and processing of [core financial transactions](#). The assessment also includes other aspects the GAA considers important based on our experience of conducting Value for Money assessments over many years, such as the Firm's governance structure, the financial security for pathway investors, the Firm's approach to engagement, innovation and service improvement and a wider overview of the administration quality and processes.

Within each of the Quality of Service and Investment Features are several sub-features. These sub-features are each scored using a numeric scoring system. Scoring is aided by means of score descriptors, developed for each sub-feature, ensuring the GAA adopts a consistent approach to scoring across clients, each outlining what the GAA would expect to see to achieve the relevant numeric score. The scores for each sub-feature are then aggregated to the feature level based on our view of the relative value of the sub-feature to the pathway investors ranging from Poor to Excellent.

The GAA will then consider the value represented by the cost and charge levels which pathway investors bear. The assessment of cost and charge levels is primarily driven by the level of ongoing charges for investment management, administration, and any platform fees. The GAA also considers the underlying transaction costs incurred by the funds invested in and how they are controlled, and any additional costs the pathway investors have to pay in managing their policies. The costs and charges are also rated on a scale from Low to High. This rating takes into account information available to the GAA on general levels of costs and charges for Investment Pathways providers in the marketplace.

The scores for each feature are then combined using the weightings set out in the table in the Executive Summary to determine an Overall Value for Money rating. The weightings used are based on the GAA's views of the relative importance to the pathway investors of each feature. The weightings are tilted towards the features which have been identified in the regulations relevant to forming this assessment of value. Where possible, we have taken into account the likely needs and expectations of this group of pathway investors.

In the sections on the following pages, we have described the Firm's approach to delivering each of the features, and the rating the GAA has awarded, together with any areas for improvement we have identified.

In addition, there is a section setting out the GAA's views on the adequacy and quality of the Firm's policies on ESG financial considerations, non-financial considerations, and stewardship. Whilst this is a largely qualitative assessment the GAA has considered the Firm's policies in comparison to others the GAA has knowledge of.

A comparative assessment of the Firm's Investment Pathways product has also been made of the net investment performance, quality of communication, quality of the administration service including processing of core financial transactions, and costs and charges relative to a suitable comparator group of pathway investment providers. Comments on the outcome of these assessments is included in the sections for the relevant features. We have also considered whether, overall, an alternative provider would offer better Value for Money so that we can inform the Firm if we believe this to be the case. Details of how the comparator providers and pathway investment products were determined is set out in Appendix A.



# 1. Product strategy design and investment objectives

**Value score:**  Excellent  Good  Satisfactory  Poor

## What are we looking for?

We expect to see an investment strategy that is designed and managed taking the characteristics of [pathway investors](#) into account, that there is clear rationale for the selection of each fund used to support the investment pathways, evidenced by appropriately defined risk ratings, and consideration of the investment time horizon and age profile of the pathway investors.

We want to see that all investment options have clear statements of aims and objectives – in particular that as well as qualitative objectives, there are quantitative objectives in place, that investment performance outcomes can objectively be measured against. Ideally, we would like to see evidence that these objectives link back to the needs of pathway investors.

We are also looking for evidence of a robust ongoing review process for the [pathway investment](#) options, and evidence that the Firm has taken steps to implement changes to the investment options, where appropriate, to ensure alignment with pathway investors' interests.

Whilst policies on [ESG](#) financial considerations and non-financial matters are considered separately on page 25, we expect to see evidence of how these matters are taken into account in the design of the investment pathways strategies and in investment decision-making.

## The Firm's approach

The Firm has carefully considered, taking into account relevance for each Investment Pathway and commercial consideration, its current stable of funds to identify the most appropriate fund for each Investment Pathway.

The current funds for each of the four Investment Pathways are:

**Investment Pathway 1** – This is for customers who have no plans to touch their money in the next 5 years and had 131 customers with assets totalling £9.0m at the year end. This Pathway takes into account how the investors can continue accumulating their pension pot through a diversified portfolio asset allocation with a significant weighting in equity-based investments in order to maximise their returns. This is based on the fundamental premise that equities outperform gilts and cash over the long-term. The fund used is Mixed Portfolio 40-85% shares.

**Investment Pathway 2** – This is for customers who plan to use their money to provide a guaranteed income ([annuity](#)) within the next 5 years and had 9 customers with assets totalling £316k at the year end. This Pathway takes into account how the investors can preserve their capital by aligning their investment with annuity rates or risk a mismatch that loses them capital which, in turn, means lower lifetime income is purchased.

This is particularly important as there is no defined date on which an annuity will be bought i.e., anything from a few months to 5 years. However, it is assumed that the average customer purchase will be deferred towards the latter end of the initial term. The fund chosen is the NFU Mutual With-Profits (Risk Level 2) PN Series D1.

Investment Pathway 3 – This is for customers who plan to start taking their money as a long-term income within the next 5 years and had 86 customers with assets totalling £5.4m at the year end. This Pathway takes into account two competing investment objectives. First, to continue ‘accumulating’ their pension pot through a diversified portfolio asset allocation with around a 50% weighting in equity-based investments to have an opportunity for capital growth. And second, to provide exposure of up to 50% in fixed income and cash in readiness to withdraw some capital to provide a long-term income. The fund chosen is the Mixed Portfolio 20-60% Shares.

Investment Pathway 4. This is for customers who plan to take out all their money as cash in the next 5 years and had 62 customers with assets totalling £1.5m at the year end. This Pathway takes into account the key objective of avoiding the potential risk of a severe fall in the equity markets at the time of withdrawal and secondly, to protect their capital against the risk of inflation eroding its purchasing power. The fund chosen is the NFU Mutual With-Profits (Risk Level 2) PN Series D1.

In the previous year’s assessment, the GAA challenged the Firm on the use of the Gilt and Corporate Bond Fund for Investment Pathways 2 and 4. This fund was recommended to be changed to the NFU Mutual With-Profits (Risk Level 2) PN Series D1 fund for both Investment Pathways.

The latest review was done in April 2022 which identified the recommendation for change to Pathways 2 and 4; this was followed by a subsequent review on 29 June 2023 to assess and ensure good customer outcomes when the changes were made. The Firm confirmed that changes for Investment Pathways 2 and 4 were implemented on 11 September 2023.

There is a guide, “Guide to Investment Pathways”, for prospective investors who do not pay for investment advice.

There is evidence of evaluations, and the GAA will keep this action under review. When determining the funds underlying each of the Firm’s four Investment Pathways, their approach is to assess and recommend funds based on an assessment of:

- | **Risk level:** What Risk Level is most suitable for the objective set for the fund and the target customer’s needs and characteristics.
- | **Fund suitability:** Of the funds available at the risk level, which, taking into account its investment objective and policy, would be most suitable for the objective set for the fund and the target customer’s needs and characteristics.

## The Firm’s strengths

Investment performance is regularly reviewed by the Financial Services Management Committee and there is a quarterly presentation to the main Board. The range of funds available is regularly reviewed by the Financial Services Proposition Governance Forum.

These processes, in the opinion of the GAA, separate the various functions and deliver a rigorous process with regards to investment matters. All funds offered to policyholders are actively managed as the Firm believes this adds value to policyholders as compared to taking the passive or index-tracking approach.

The funds offered to policyholders are regularly reviewed. The Firm has provided the GAA with the decision matrix for communication with policyholders.

The Firm’s ESG policy and actions taken are reviewed annually, with the 2023 report provided to the GAA. The Firm takes an integrated approach to investing across all its funds, incorporating ESG considerations directly into the investment process to target long-term growth and sustainability with a focus on engagement. The Firm has set a target to deliver 50% emissions reduction in equity and corporate bond portfolios by 2030 and to achieve net zero by 2050. The Firm is now signatories of the UN PRI and also the UK Stewardship Code. Managing carbon is a key principle across their property investment portfolios having achieved a carbon emission reduction by 30% since 2019.

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

All investment pathway fund factsheets along with pricing, investment performance and charges are available online and easily accessed by policyholders. The fund factsheets state the investment objectives, provide risk ratings on a scale of 1 to 6, have a crown rating of up to 5 crowns and provide a clear breakdown of asset allocation.

## Improvements since last year

The GAA previously challenged the Firm on the choice of fund for Investment Pathways 2 and 4. This challenge has led the Firm to review these funds and recommend changing them to the NFU Mutual With-Profits (Risk Level 2) PN Series D1. The GAA understands that the changes were implemented on 11 September 2023 following an assessment that was conducted of how the change impacts existing customers, with review for pathways 1 and 3 scheduled for review in 2024.

## Areas for improvement

The GAA did not identify any specific areas for improvement.



## 2. Investment performance and risk

**Value score:**  Excellent  Good  Satisfactory  Poor

### What are we looking for?

We would expect to see a robust governance framework under which investment performance is monitored on a regular basis. Performance should be measured against investment objectives, including against a measurable and stated benchmark. Performance should be net of fees. In addition to the stated benchmark comparison risk adjusted returns should also be considered.

Where there are any concerns over investment performance, we expect to see evidence of appropriate action being taken, which may include engagement with investment managers and/or implementing changes to fund options. We also expect to see evidence

### The Firm's approach

The Firm has a clear process for reviewing performance which is driven by in-house committees at quarterly meetings. Meeting minutes were provided to the GAA for the 2023 meetings. The Executive Investment Committee reviews performance regularly and presentations are made to the main Board on a quarterly basis.

Performance is reviewed for both strategic asset

allocation and stock selection. Performance is reviewed against the benchmark and by quartile to ensure good outcomes for policyholders. If performance is in the lowest quartile for 3 quarters in a row, then a review is instigated with actions taken as appropriate.

### The Firm's strengths

The Firm has demonstrated that there is a robust governance framework in place and has provided clear evidence of the monitoring undertaken during the year. Investment Committee minutes highlight that investment performance is reviewed for both internally and externally managed funds. This is alongside fund strategies and positioning.

### Improvements since last year

Last year, as mentioned under section 1, the GAA previously challenged the Firm on the choice of fund for Investment Pathways 2 and 4. This challenge has led the Firm to review these funds and recommend changing them to the NFU Mutual With-Profits (Risk Level 2) PN Series D1.

Following an assessment of how the change impacted existing customers, the GAA understands that this recommendation was implemented on 11 September 2023.

## Net Investment Performance

The [net investment performance](#) of the investment pathways strategies over 12 months to 31 December 2023 and, where available, the performance of the benchmarks against which those funds are measured by the Asset Manager are set out in the following table.

Investment Pathway	Net Investment Performance	Benchmark
1	8.7%	8.1%
2	2.3%	Not applicable*
3	8.3%	6.8%
4	2.3%	Not applicable*

\* The underlying fund for Pathway 2 and 4 is a With-Profit fund (NFU Mutual With-Profits (Risk Level 2) PN Series D1) and hence it has no performance comparator as no relevant peer group or index.

## Comparator results

We have assessed how the net investment performance provided to the Firm's [pathway investors](#) compares to other sufficiently similar investment pathways arrangements. This takes account of both the nature of the provider and the performance of the investments being offered relative to an appropriate benchmark.

This assessment identified that the one-year net investment performance over 2023 when considered against the comparator group for each investment pathway solution is as set out in the table below.

Investment Pathway	
1	<b>Average</b>
2	<b>Average</b>
3	<b>Average</b>
4	<b>Below average</b>

## Areas for improvement

### GAA observations

The GAA has noted that the one-year net investment performance of Investment Pathway 4 is below average when compared against the comparator group. Therefore, the GAA would like the Firm to monitor its performance to identify if this is a longer-term concern compared to similar comparable offerings.

## 3. Communication

**Value score:**

Excellent

Good

Satisfactory

Poor

### What are we looking for?

As a minimum we expect communications to be fit for purpose, clear and engaging and to be tailored to take into account [pathway investors'](#) characteristics, needs and objectives.

We would expect to see a comprehensive suite of communications in place suitable for pathway investors, and which enable them to choose the relevant investment pathways.

In a high quality communication service offering we would expect a substantial online offering, with a range of online support materials such as online drawdown modellers to enable personalised calculations with various selectable options. We would expect telephone support to be available, with good evidence of telephone scripts, call monitoring and staff training.

Additionally, we would expect pathway investors to be able to switch investment pathways online and to have support available if they wish to leave or switch from their current investment pathway. In particular, we would expect there to be appropriate risk warnings built into the process.

We would expect the provider to ensure there is clear signposting to pathway investors on where they can obtain additional guidance and advice on their drawdown and retirement options.

### The Firm's approach

The GAA has reviewed the documents and guides provided by the Firm namely the 'Income drawdown guide', 'A guide to investment pathways' and the 'Annual pension statements'. The GAA has also reviewed the section of the Firm's website which offers further information, scripts, and guidance notes for team members. The journey for customers is clearly thought through and has been assessed as part of the value for money assessment for 2023.

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

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

Policyholders are able to contact the Firm by letter, email, online and freephone telephone. Details of how to do so are clearly signposted on the website. There are no online switching functions currently as these are done in writing or over the telephone.

## The Firm's strengths

The Firm provides investors with guides and links to independent sources of information. It also has an advised service should this be required at an additional charge.

The communication document references a website and telephone number. There is a customer contact team who will be able to help customers with regard to the Pathway options and either provide or steer customers to material they need to make an informed decision.

## Comparator results

We have assessed how the communication materials provided to the Firm's pathway investors compare to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's policyholders over 2023 were average relative to the comparator group.

## Areas for improvement

The GAA did not identify any specific areas for improvement.

## 4. Firm governance

**Value score:**

Excellent

Good

Satisfactory

Poor

### What are we looking for?

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

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

### The Firm's approach

The Firm has a clear process for appointing and monitoring performance of investment managers, both internal and external. Investment Committee minutes provide a clear indication of the process. The GAA notes that there is a robust process for managing risk and assessing investment performance.

There is also a robust process for continually monitoring IT systems for vulnerabilities and risk assessments of IT applications. Also, processes are in place for checks on various risks and performance on administration.

The Firm has provided the Terms of Reference for the Executive Investment Committee (EIC), Financial Services Management Committee (FSMC) and Financial Services Propositions Governance Forum (FSPGF). The EIC is responsible for appointing and monitoring performance of investment managers with performance monitored on an ongoing basis. Discussions and actions taken are recorded in the minutes.

The FSPGF meets every month to discuss fund performance (quarterly in depth), risk and current issues relating to the options available to policyholders.

### The Firm's strengths

The Firm has a clear process, as evidenced by the Terms of Reference for the Investment Performance Committee, for appointing and monitoring performance of investment managers and performance is monitored on an ongoing basis. Discussions and actions taken are recorded in minutes. The FSMC supports the Head of Financial Services in their accountability for the management of NFU Mutual's Financial Services business (advice and manufacturing) by providing oversight of governance and risk, including financial controls and outsourcing and financial performance.

The FSMC also approves escalated recommendations from the Financial Services Pricing Committee (FSPC) and FSPGF. The FSPGF meets every month to discuss fund performance (including quarterly meetings with more in-depth discussions), risk and current issues relating to the options available to policyholders.

## **Areas for improvement**

The GAA did not identify any specific areas for improvement.

## 5. Security of policyholder benefits

Value score:



Excellent



Good



Satisfactory



Poor

### What are we looking for?

We expect to see that the Firm is in a sound financial position with sufficient capital backing to enable it to continue to operate for the foreseeable future.

We also look for information about how the assets are protected, for example in the event of fraud or bankruptcy, at both the Firm and investment manager level. For example, this could relate to FSCS or other regulatory protections, ringfencing or the structure of the underlying product.

We are looking for evidence that the Firm has processes in place for protecting policyholder assets against fraud and scams and for Firms to be actively monitoring for possible scamming activity.

### The Firm's approach

The Firm is a UK registered insurance company and is required to adhere to the rules in relation to capital adequacy and solvency ratios as laid out by the Prudential Regulation Authority (PRA). The PRA sets testing thresholds and the GAA is satisfied that based on these requirements, policyholders' interests are protected.

In 2023, the Firm experienced a profit of 164m ((2022: £1,049m loss) with total funds under management of £20.2bn (2022: £19.2bn). The core General Insurance business delivered an underwriting loss of £156m (2022: £167m loss)

which reflected a challenging year due to the effects of rising inflation severe storms towards the end of the year and an increase in the volume and severity of very large claims. Nevertheless, the Firm's long-term approach means that it has the financial strength to support its general insurance members by awarding £244m (£247m in 2022) in Mutual Bonus.

The Firm's Solvency II coverage ratio remains sound at 218% (2022: 218%).

### The Firm's strengths

The Firm operates under the PRA regime which provides the GAA with reassurance that policyholders' interests are protected.

The Firm has demonstrated that it has a robust policy with regards to transfer requests and that every effort is made to safeguard policyholders against fraud. An example customer story, in which a family of 4 with their own business requested a pension transfer for each of their policies, was presented to the GAA at the site visit and the Firm demonstrated their robust transfer process.

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

At the transfer payment request stage, initial checks on the receiving scheme and administrators are undertaken in accordance

with the Firm's internal process guide. If there are any issues or concerns identified, the case is then referred to the senior team members for further checks and, if required, escalated to the management team.

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

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

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

## Areas for improvement

The GAA did not identify any specific areas for improvement.

## 6. Administration and operations

**Value score:**

Excellent

Good

Satisfactory

Poor

### What are we looking for?

We expect Firms to have robust administration processes in place with appropriate service standard agreements and regular monitoring and reporting around adherence to those service standards. In particular, we are seeking evidence that **core financial transactions** are processed promptly and accurately, such as processing drawdown payments, transfers processing and death benefit payments.

We look for evidence of regular internal and external assurance audits on controls and administration processes. In particular, we are looking for a robust risk control framework around the security of IT systems, data protection and cyber-security. We would expect to see evidence that cyber-security is considered as a key risk by the Firm's relevant risk governance committee and that appropriate monitoring, staff training and penetration testing is put in place.

We expect Firms to have a comprehensive business continuity plan and evidence of its effectiveness through appropriate testing or in maintaining continuity of business during the COVID-19 pandemic.

We would expect to see a low level of substantive complaints and demonstration of a clear process for resolving complaints.

### The Firm's approach

Administration is carried out in-house and service levels are closely monitored. Clear standards are set and there are quality audits to ensure these are adhered to.

The Firm conducted regular penetration and phishing tests during the assessment period in 2023 carried out by the Firm's IT department and external companies with evidence provided to the GAA.

The call centre, which manages the customer line, answered 52,714 call out of a total of 52,961 calls achieving 98.5% versus a target SLA of 98% during the assessment period.

On the overall core financial transaction SLAs, the Firm achieved 97.1% versus an average target of 97.0%. In particular, the processing of transfers in and out of the funds achieved a 5-day SLA of 97.1% compared to a target of 97.0%, transfers of assets between different investments within the fund missed its 5-day SLA target of 97.0% at 93.1%, and the payment to policyholders/beneficiaries achieved a 5-day SLA of 99.5% versus its target of 97.0%.

Although the administration practices at the Firm are run to tight standards, on the overall SLAs, the Firm missed its target of 94% by achieving an average SLA of around 91%. In particular payments out are processed on a

5-day target with a target of 95%. For the year, 94% of payments were processed within target. And, policy servicing achieved 68.9% and 92.6% completion on a 3- and 5-day target, respectively, as well as 99.4% against the 10-day target. On payments made within 5 days, they just missed their target of 95% by achieving an SLA of 94%. However, they achieved an SLA of 98.5% versus the target of 98% for the call centre customer line activities.

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

## The Firm's strengths

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

The Firm was also able to evidence a very low level of incidence of complaints (4 received in 2023 and 6 in 2022) and it was able to demonstrate the process for resolving those complaints with appropriate redress being provided for the small number of complaints that were upheld (1 in 2023 against 2 in 2022).

## Comparator results

We have assessed how the quality and timeliness of the administration services, including the core financial transaction processing, provided to the Firm's policyholders compare to other sufficiently similar employer pension arrangements.

This assessment identified that the administration services provided to the Firm's policyholders over 2023 were average relative to the comparator group.

## Areas for improvement

### GAA observations

The firm did not meet their overall averaged SLA targets and cited a challenging year with significant uplift in work volumes along with market volatility as the reasons. However, although the 3- and 5-day SLAs were missed, the teams did an incredible job to manage customer expectations. The GAA received evidence to show team changes and the allocation of more resourcing into the administration team to mitigate any temporary issues that caused SLA delays in 2023. The firm will be implementing further changes in 2024 and the GAA would like to see improved performance against SLAs with targets met for next year.

## 7. Engagement, innovation and improvements for policyholder experience

**Value score:**  Excellent  Good  Satisfactory  Poor

### What are we looking for?

We expect to see evidence that the investment pathways product is reviewed on a regular cycle of not more than every three years, with new product features or service innovations being launched when appropriate and in line with relevant improvements being made to other similar products offered by the Firm. We expect these changes to have been developed taking into account [pathway investors](#)' characteristics, needs and objectives, including direct feedback from pathway investors.

We are looking for evidence of regular, proactive engagement with pathway investors to obtain feedback and for this feedback to be taken into account when reviewing the product offering.

### The Firm's approach

There are a number of committees in place to oversee the products offered to investors. The Investment Pathways fund characteristics along with aims and objectives, performance and risk, fees, and relevance for investors are reviewed regularly and updated where required.

This process has resulted in the recommendation to amend the investment pathway solution for Investment Pathways 2 and 4 which was implemented on 11 September 2023.

### The Firm's strengths

The Firm was able to demonstrate that the funds are under continuous review. Recent changes have been made with a view to improving the outcome for investors. The GAA has reviewed the Investment Committee minutes and both investment and product reviews. The Firm has demonstrated that its offering is reviewed on a rolling three-year basis with changes made where required.

The Firm has demonstrated that it is able to take action where required within the constraints of a fund range that remains relatively limited.

The GAA notes that there has been limited feedback from investors, however, the Firm is proactive in communicating with investors, seeking their opinion.

## Improvements since last year

Last year, the GAA challenged the Firm that while client feedback surveys were carried out, engagement appeared to be limited. The GAA wanted to see improved engagement to get greater member feedback. This year, the GAA understands that the Firm continues to push clients for feedback through their annual statements and when customers ring in, but the actual feedback survey had yet to be done. The GAA asked for this to be put in place for this year's assessment and improve policyholder engagement to get greater feedback.

We are pleased to note the Firm responded and confirmed that in 2023 they conducted a Customer Research survey of their Investment Pathway related work whereby they looked at Communications Research, fund design alignment with policyholders' feedback and surveys, member behaviour feedback, and feedback on their [ESG](#) capabilities.

## Areas for improvement

The GAA did not identify any specific areas for improvement.

## 8. Cost and charge levels

**Value score:**  Low  Moderately Low  Moderately High  High

### What are we looking for?

The GAA has considered the overall level of charges borne by [pathway investors](#) over the year. This included assessing:

- | the annual fund management and administration charges being borne by pathway investors;
- | the [transaction costs](#) incurred by the underlying investment funds which reduce the investment return experienced by pathway investors;
- | any other charges being paid by pathway investors to manage, access and invest their drawdown funds;
- | the Firm’s process for collecting and monitoring overall member charges, including transactions costs.

We expect fund management charges to be comparable to charges for similar investment products in the wider pensions market after considering the active or passive nature of the investment and the type of assets involved. We take into account where the majority of relevant pathway investors’ assets are invested.

In looking at transaction costs we also consider the overall level of volatility in the markets, recognising that in highly volatile markets transaction costs may increase.

We assess whether the overall level of administration charges are reasonable, bearing in mind the types of services provided to pathway investors.

Whilst we have considered the average total costs and charges payable by pathway investors we have noted where there may be significant outliers such as high charges for small pots.

### The Firm’s approach

The GAA was provided with comprehensive details of pathway investor charges including transaction costs calculated on the DC workplace methodology.

The GAA was provided with evidence of a robust governance framework for reviewing costs and charges, including transaction costs.

We observed a range of charges across the investment pathways offered with the average charge applied being as follows:

Investment Pathway	
1	1.35%
2	1.27%
3	1.35%
4	1.27%

Transaction charges were:

Investment Pathway	
1	0.04%
2	0.02%
3	0.01%
4	0.02%

There are no additional charges.

The GAA rating reflects the charges applied for the investment pathways made available by the Firm, and we believe that the Firm offers appropriate charges to pathway investors. The GAA considers the charges to be moderately low for the actively managed Investment Pathway funds.

### Comparator results

We have assessed the overall cost and charge levels payable by the Firm's pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider and each investment pathway solution.

This assessment identified that the overall cost and charge level paid by the Firm's policyholders over 2023 were average relative to the comparator group.

### Areas for improvement

The GAA did not identify any specific areas for improvement.

# ESG financial considerations, non-financial matters and stewardship

## What are we looking for?

Where the Firm has an investment strategy or makes investment decisions which could have a material impact on [pathway investors](#)' investment returns, the GAA will assess the adequacy and quality of the Firm's policy in relation to [ESG](#) financial considerations, non-financial matters and stewardship. The GAA will consider how these are taken into account in the Firm's investment strategy and investment decision-making. We will also form a view on the adequacy and quality of the Firm's policy in relation to stewardship.

We expect the Firm's policy in relation to these considerations:

- a) sufficiently characterises the relevant risks or opportunities;
- b) seeks to appropriately mitigate those risks and take advantage of those opportunities;
- c) is appropriate in the context of the expected duration of the investment; and
- d) is appropriate in the context of the main characteristics of the actual or expected pathway investors.

We also expect that the Firm's processes have been designed to properly take into account the risks or opportunities presented. Where ESG considerations have been delegated to external investment managers we expect the Firm to have a suitable oversight and stewardship process in place.

Whilst this formal requirement falls outside the overall Value for Money assessment, the GAA's Value for Money framework does take into account, where relevant, when scoring the area of Product Strategy Design and Investment Objectives on page 8, how the Firm has integrated ESG financial considerations and non-financial matters in the Firm's investment strategy and investment decision-making.

## The Firm's approach

The Firm takes an integrated approach to ESG and fund managers consider ESG alongside traditional financial measures. The Firm's approach is to engage proactively with management teams in order to effect change where required. It is the Firm's policy to cast its vote at all meetings and this is executed using the proxy services of ISS, although it has taken a tougher stance than that recommended by ISS in a number of cases. The Firm has well developed ESG and stewardship policies in place for UK equities and this is now being extended to overseas investments as well.

These policies are implemented across fixed income investments as far as possible. The introduction of green bonds has facilitated this process. Following industry feedback, the Firm believes that exclusions are likely to play a more important role than they do in equities.

ESG for third-party overseas investments are assessed using Mercer's ratings for individual funds.

## The Firm's strengths

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

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

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

The Firm has announced its ambition to be net zero by 2050. For investments this currently covers equity and corporate bond portfolios. The Firm's Responsible Business Report was provided to the GAA which evidences ongoing commitment to achieving this goal.

## Improvements since last year

Throughout 2023 the Firm delivered a number of papers to their investment committees outlining their approach to ESG, voting, stewardship and carbon reductions. At each of the quarterly Board Investment Committees, there was a surrounding ESG or stewardship discussion. Furthermore, ESG is included in portfolio analytic packs which are provided by Mercer ahead of quarterly meetings to assess external asset managers.

The Firm conducted customer research in 2023 of their Investment Pathway related work whereby they looked at many areas including feedback on their ESG capabilities to better understand customer attitudes and what's important when it comes to ESG investing. The Firm looked to understand the policyholders' views with respect to their current approach to ESG investing, and whether this resonates with their customer base and their expectations on them as a financial services provider. Key outcomes of this research were that:

- | Their own company ESG credentials are an important factor to policyholders.
- | When making investment decisions, customers consider return on investment before all other factors. ESG is least important when compared to returns, security, trust, and access to money.
- | Most policyholders would not be persuaded to pay more for ESG investments, but customers felt positively about the Firm's current approach. Of particular resonance was the balanced approach that the Firm takes which aligns closely with their customers' attitudes.
- | As over half of customers are not sure what ESG investing is, and those who understand ESG investing have polarised opinions, the Firm needs to continue to develop their content and communications, and regularly check in with customers on the factors that are important for them when it comes to investing and ESG investing more pertinently.

## Areas for improvement

The GAA did not identify any specific areas for improvement.

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# Appendix A: Approach to comparisons

The FCA requires that a comparative assessment be made of certain sub-features of the Value for Money assessment. The GAA is required to compare the Firm's offering against a selected group of other similar product options available in the market based on publicly available information. If an alternative scheme(s) would offer better value, we must inform the pension provider.

ZEDRA's GAA operates for a number of Firms, all of whom have agreed that the GAA can make use of the data we have gathered on their offerings to carry out the required comparisons this year. This is done on an anonymised basis.

## How the comparators were selected

The GAA has selected a number of comparator products that we determined are sufficiently similar products to those provided by the Firm for this purpose. The selection was based on the following broad criteria:

- | Type of product i.e. whether accumulation or pathways, and within accumulation whether the product is a SIPP or workplace group personal pension
- | Products where Firms provide similar services, for example, whether the provider has responsibility for setting and monitoring the investment strategy.

Based on these criteria we believe that the comparator products chosen will provide a reasonable comparison for the [pathway investors](#) of the Firm.

## Comparison of Net Investment Performance

We have assessed how the net of fees investment performance provided to the Firm's pathway investors compares to other Investment Pathways arrangements. This takes account the performance of the investments being offered. Where multiple investment funds are made available, we have taken into account the amount invested by relevant pathway investors in each fund.

## Comparison of Communication provided to pathway investors

We have assessed how the full range of communication materials, including any websites and modelling tools, provided to the relevant pathway investors compares to other sufficiently similar investment pathways arrangements. This takes account of the type of pension product provided, and whether the communication materials are fit for purpose considering the age profile of the relevant pathway investors.

## Comparison of Administration Services

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

## Comparison of costs and charges

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

| [Annual management charge](#)

| [Transaction costs](#)

| Other costs and charges

We have assessed the overall cost and charge levels payable by the Firm's pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.



## Appendix B: GAA activities and regulatory matters

This section describes the work that the GAA has done over the year and also covers the other matters which we are required to include in our annual report.

### GAA engagement and actions this year

We prepared and issued a request for data on all the relevant workplace pension policies in early 2023.

Members of the GAA met with representatives of the Firm to kick off the Value for Money assessment process for the 2023 calendar year and to discuss and agree timescales.

We subsequently had a meeting with representatives of the Firm to discuss the information that had been provided in response to the data request. This was an opportunity for members of the GAA to meet key personnel with responsibility in the various different areas including investment strategy and how this has evolved, investment governance, approach to [ESG](#), non-financial matters and stewardship, administration and communications and risk management. In some cases this meeting was virtual.

We discussed the GAA's provisional scoring of Value for Money of the Firm's in-scope [pathway investments](#).

As part of the Value for Money assessment process, the Firm has provided the GAA with all the information that we requested, including evidence in the form of minutes and other documentation to support areas of discussion at the site visit. In particular, the GAA has seen evidence of ESG integration within the Firm's investment decision process, and evidence of their stewardship approach.

Over the last year the GAA reviewed its Value for Money assessment framework and scoring methodology to ensure this continued to be suitable and can be applied consistently. Whilst the Value for Money assessment framework itself remains largely unchanged from the previous year, work was undertaken to improve the data request to make the overall process more efficient.

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

The key dates are:

Item	Date
Issue data request	14/02/2024
Kick off meeting	05/03/2024
Site visit	23/04/2024
GAA panel review meeting	13/05/2024
Discuss provisional scoring	29/05/2024

## The arrangements put in place for pathway investors' representation

The following arrangements have been put in place to ensure that the views of pathway investors can be directly represented to the GAA:

- | The role of the GAA and the opportunity for pathway investors to make representations direct to the GAA has been and will continue to be communicated to pathway investors via the Firm's website at [www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement](http://www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement)
- | The Firm will receive and filter all pathway investor communications, to ensure that this channel is not being used for individual complaints and queries rather than more general representations which may be applicable to more than one pathway investor or group of pathway investors. Where the Firm determines that a communication from a pathway investor is a representation to the GAA, it will be passed on in full and without editing or comment for the GAA to consider.

In addition, the GAA has established a dedicated inbox at [zgl.gaacontact@zedra.com](mailto:zgl.gaacontact@zedra.com) so that pathway investors can make representation to the GAA directly. The Firm has included details of this contact e-mail address on [www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement/](http://www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement/)

## Appendix C: ZEDRA GAA credentials

In February 2015 the Financial Conduct Authority (FCA) set out new rules for providers operating workplace personal pension plans (called [relevant schemes](#)) to take effect from 6 April 2015. From that date, providers had to have set up an Independent Governance Committee or appointed a Governance Advisory Arrangement whose principal functions is to:

- | Act solely in the interests of the [relevant policyholders](#) of those pension plans, and to
- | Assess the “value for money” delivered by the pension plans to those relevant policyholders.

These requirements were then extended to Firms providing investment pathways from 1 February 2021.

The FCA rules require that the Chair of each Independent Governance Committee and Governance Advisory Arrangement produce an annual report setting out a number of prescribed matters.

The ZEDRA Governance Advisory Arrangement (“the GAA”) was established on 6 April 2015 and has been appointed by a number of workplace personal pension providers and investment pathways providers. ZEDRA is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments we act as an independent trustee on several hundred trust-based pension schemes and we sit on a number of IGCs. More information on ZEDRA can be found at as [www.zedra.com/GAA](http://www.zedra.com/GAA)

The members of the ZEDRA GAA are appointed by the Board of ZEDRA Governance Ltd. The Board is satisfied that individually and collectively the members of the GAA have sufficient expertise, experience, and independence to act in the

interests of relevant policyholders and [pathway investors](#).

The Board of ZEDRA Governance Ltd has appointed ZEDRA Governance Ltd to the GAA. The majority of ZEDRA Governance Ltd’s Client Directors act as representatives of ZEDRA Governance Ltd on the GAA.

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

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

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

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

The GAA has put in place a conflicts of interest register and maintains a conflicts of interest policy with the objective of ensuring that any potential conflicts of interest are managed effectively so they do not affect the ability of ZEDRA Governance Ltd or Dean Wetton Advisory Ltd to represent the interests of relevant policyholders or pathway investors.

The terms of reference for the GAA agreed with the Firm can be found at: [www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement/](http://www.nfumutual.co.uk/financial-planning/pensions/governance-advisory-arrangement/)



# Appendix D: Glossary

*Please note that some of the terms referred to in this glossary may not be applicable to your product.*

## Active management

The investment of funds where the skill of the fund manager is used to select particular assets at particular times, with the aim of achieving higher than average growth for the assets in question.

## Annual management charge (AMC)

A deduction made by the pension provider or investment manager from invested assets, normally as a percentage of the assets. The AMC is generally how the pension provider or investment manager is paid for their services.

## Annuity

A series of payments, which may be subject to increases, made at stated intervals, usually for life. If the annuity is “joint life”, it will continue to a spouse (usually at a lower rate) after the death of the original person receiving the payments (“the annuitant”).

## COBS

The Conduct of Business Sourcebook prepared by the Financial Conduct Authority (FCA). In particular when we use COBS in this report we are referring to Chapter 19 of the COBS which sets out the provisions relevant to the Value for Money Assessment of workplace pensions.

## Core financial transactions

The essential processes of putting money into a pension policy or taking it out, namely:

- | Investment of contributions
- | Implementation of re-direction of future contributions to a different fund
- | Investment switches for existing funds, including life-styling processes
- | Settlement of benefits – whether arising from transfer out, death or retirement

## Decumulation

The process of converting pension savings to retirement income.

## Environmental, social and governance (ESG)

These are the three main factors looked at when assessing the sustainability (including the impact of climate change) and ethical impact of a company or business. ESG factors are expected to influence the future financial performance of the company and therefore have an impact on the expected risk and return of the pension fund investment in that company.

## Flexible access

This refers to accessing pension savings in the form of income and/or lump sums. Pension savings that are not being accessed immediately will generally remain invested.

## Life-styling

an automated process of switching investment strategy as a policyholder approaches retirement, in a way that is designed to reduce the risk of a policyholder's retirement income falling.

## Net investment performance

the investment performance of the fund after deducting all asset management charges, administration charges, taxes and fees for managing the fund including any transaction costs.

## Pathway investor

A retail client investing in a Firm's pathway investment offering.

## Pathway investment

A drawdown fund which is either a capped drawdown pension fund or a flexi-access drawdown pension fund.

## Relevant policyholder

A member of a Relevant Scheme who is or has been a worker entitled to have contributions paid by or on behalf of his employer in respect of that Relevant Scheme.

## Relevant Scheme

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

## Transaction costs

A combination of explicit and implicit costs included within the price at which a transaction (i.e. buying or selling an asset) takes place.

## With Profits

An insurance contract that participates in the profits of an insurance company. The insurance company aims to distribute part of its profits to with-profits policy holders in the form of bonuses.

## Unit-Linked

A type of investment where the investments of a number of people are pooled together and divided into units of equal value. The value, or price, of each unit depends on the value of the assets of the unit linked fund. The unit price determines the number of units the policyholder receives when they invest money in the fund, and the sum they receive when they sell their units.



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