

HARGREAVES  
LANSDOWN

**INDEPENDENT  
GOVERNANCE  
COMMITTEE REPORT:  
2018**



# 1. INTRODUCTION

Welcome to the Independent Governance Committee's third annual report, which has been prepared for members of Workplace Pension Schemes managed by Hargreaves Lansdown ('HL' or 'the Group').

The Independent Governance Committee (IGC) is tasked with representing the interests of scheme members in assessing the value for money of Defined Contribution (DC) pension schemes, acting independently of the scheme provider.

Each member of the IGC has many years' experience of working with and for members, acting in the best interest of members and championing good member outcomes. We are committed to assessing value for money in a consumer focused way and with an emphasis on ensuring members have the best possible chance of achieving good outcomes at retirement.

The IGC was established on 1st April 2015. It has a duty to protect the interests of members of the HL Workplace SIPP (formerly known as 'Corporate Vantage'). As a minimum, the IGC has a duty to:

- act solely in the interests of workplace pension scheme members;
- operate independently from HL, in accordance with its Terms of Reference;
- assure itself that core financial transactions are processed promptly and accurately; and
- assess and, where necessary, challenge HL on whether these workplace pension schemes provide value for money for members.

HL is the UK's largest direct to investor investment service administering £79 billion of investments for over 1 million clients. HL provides a workplace pension scheme which is a Self-Invested Personal Pension (SIPP), known as the HL Workplace SIPP. As at 31 December 2017, there were 407 employers using the HL Workplace SIPP, encompassing around 85,000 members and £2.78 billion assets under administration.

The IGC makes available to members an annual report on how the HL Workplace SIPP has performed. This is our third report and covers the period 1st April 2017 to 31st March 2018.

The HL Workplace SIPP is a qualifying workplace pension scheme for automatic enrolment. There are no 'legacy' charging arrangements, such as policy fees, initial unit charges or higher charges for members who no longer contribute. All clients have the same product and the same access to the full range of HL services, which alongside the Workplace SIPP includes Individual Savings Accounts (ISAs), a Fund and Share Account, flexible drawdown, annuity broking, individual SIPPs, stockbroking services, a range of multi manager and equity funds, a Portfolio Management Service, and a currency service.

You can find a copy of the IGC Terms of Reference and further information on members of the IGC online at: [www.hl.co.uk/company-pensions/igc](http://www.hl.co.uk/company-pensions/igc)



# 2. OUR PRIORITIES OVER THE PAST YEAR

In our last report, in addition to our continuing assessment of whether the HL Workplace SIPP provides value for money for members, we set a number of key priorities for consideration and review during 2017.

These are listed below, together with reference to where a summary of our findings can be found within this report:

KEY PRIORITY	REFERENCE
To review the 'ABC fund' range (Adventurous, Balanced, Conservative) which are available to members seeking to be more active with their pension based on their attitude to investment risk	3.1.2
To review the use of cash as the default solution for lifestyling	3.1.6
To monitor developments regarding the disclosure of transaction costs over the coming year	3.2.2
To review the process for the distribution of returns on cash	3.2.1
To challenge HL on how exit fees are displayed	3.2.3
To continue to challenge HL to provide a more robust management information report and to create a formalised service level agreement for workplace schemes	3.3.2
To continue to challenge HL to produce new default fund factsheets that provide greater clarity around what the funds are, how they work and the importance of the investment decision in relation to the members' personal needs and investment risk appetite	3.1.1
To challenge HL to review how overall member charges are displayed	3.2
To understand how better to connect with, and understand, those members who are less engaged with their pension	3.7.4

These priorities have been addressed over the past year and, since they all relate to value for money for scheme members, our findings and progress are set out in the following analysis of value for money.

# 3. VALUE FOR MONEY

During 2016 the IGC created a framework to analyse the value for money that members receive.

The framework contains certain principles that reflect what we believe constitutes value for money and delivers good member outcomes at retirement. The framework has been reviewed and updated, to include consolidation of several points for the benefit of simplification and the addition of a number of new dimensions (listed in italics).

## VALUE FOR MONEY FRAMEWORK

ASSESSING VALUE FOR MONEY OF THE HL WORKPLACE SIPP, IN THE DELIVERY OF GOOD MEMBER OUTCOMES AT RETIREMENT						
3.1	3.2	3.3	3.4	3.5	3.6	3.7
Investments	Charges	Administration	Member Support	Security/ Strength of Provider	Retirement Flexibilities	Feedback
Default funds	Platform fee	Timely manner of allocating contributions	Member helpdesk	Financial strength	Pension freedoms access	IGC member survey
ABC funds	Fund fees	Management Information	Onsite support: Face to face meetings & financial education	Internal audit reports	Drawdown provider	IGC engagement with employers
Other investments	Transaction costs	<i>GDPR</i>	Communications & Website	<i>Cyber security</i>	Annuity broking	Complaints
Fund research	Total fees					
<i>Fund performance</i>	Exit charges					<i>Evidence of Engagement</i>
Lifestyling						

The IGC continues to be very mindful of the Pensions Policy Institute's (PPI) work in identifying the outcomes that are likely to be seen as positive for members when determining value for money. These outcomes are broadly:

- the value of the pension pot;
- the security of the pension pot; and
- trust in the pension scheme.

The factors detailed in the framework set out above each contribute to the outcomes identified by the PPI and the IGC considers it is important to focus on all determinants of value for money in making an overall assessment. So whereas charges and investments will have a significant impact on the value of the pension pot, additional contributions from the member are likely to have a greater influence. It is likely that key drivers of higher employee contributions are effective communication and good member support. The IGC is keen to establish evidence of member engagement and the link to better member outcomes with a view to greater emphasis being placed on the key triggers. This will be a continuing focus of the IGC's activity.

### 3.1 INVESTMENTS

The HL platform has an extensive investment choice. The challenge for the HL workplace pension team is to filter this investment universe down into clear choices for members.

#### 3.1.1 DEFAULT FUNDS

During 2016, the IGC reviewed the default funds, which were offered following the introduction of automatic enrolment. Default funds are the funds that an employer has chosen for scheme members ahead of them making an active fund choice. Any members who don't subsequently choose a fund will remain in the default fund. The default funds are chosen for each scheme by the employer from the following options:

- An actively managed fund – currently **Schroder Managed Balanced**
- A passively managed fund – currently **BlackRock Consensus 85**

The **Schroder Managed Balanced fund** is a fund of funds investing predominantly in shares, bonds and cash. The Multi-Asset team decides on the weightings to each of these assets and gains exposure through individual Schroder funds. The fund draws on a well-resourced team of over 100 investment professionals. HL has negotiated a discount on the fund to bring it within the 0.75% charge cap.

The **BlackRock Consensus 85 fund** aims to follow the asset allocation of the average manager in the AI Mixed Investment 40-85% shares sector. This data is collected primarily by Lipper on a monthly basis and the fund is rebalanced within 2 weeks of the end of the month to be aligned with the benchmark. The fund invests in BlackRock's in house range of passive funds, including the iShares ETF range.

Cash (through treasury services provided by HL Asset Management Ltd) is also used, primarily within the lifestyle process for members approaching their selected retirement age. Over a five year period members assets are disinvested from the default or other self-selected fund(s) and placed in cash. HL holds over £4 billion of SIPP assets in cash on behalf of its SIPP clients. HL manages its clients' money by distributing these cash balances across a panel of carefully selected financial institutions to ensure that it is available on demand to support its clients' trading activities and that protection from the Financial Services Compensation Scheme (FSCS) is maximised. HL has appointed a Non-Executive Director to act as a client champion, whose role is to oversee the activities of the trustee and ensure that the clients receive a fair and competitive rate of interest.

Increasingly, employers are selecting the passive option as the default fund with 59% of schemes now adopting this option. However, there remains a demand for the actively managed option and the HL investment team keeps the suitability of each of the default funds under regular review. The IGC meets regularly with the investment team and is content with the default fund review process.

The IGC had challenged HL in 2016 that the default fund fact sheets were dated in appearance and not as clear as they might be, on the important issue of the funds' risk profiles. We are pleased to report that the factsheets for both the Schroder Managed Balanced Fund and the BlackRock Consensus 85 fund have now been updated and the revised documents are engaging and informative with greater clarity on fund performance and an explicit emphasis on the inherent risks.

#### 3.1.2 ABC FUNDS

In addition to the default fund options, the HL Workplace SIPP offers access to the full range of investments available on the HL platform. Pension scheme members are encouraged to consider choosing their own funds and, in this regard, attention is drawn to the ABC funds – one Adventurous, one Balanced and one Conservative – which have been selected by the HL Research Team. Having reviewed the default funds in 2016/17, the IGC has turned its attention to reviewing the ABC funds during 2017/18, meeting with the fund managers and scrutinising the work of the HL Research Team in making the selections.

The ABC funds, and their objectives, are currently as follows:

- **Adventurous – The Lindsell Train Global Equity Fund**  
To increase the value of shareholders' capital over the longer term from a focused portfolio of global equities, primarily those listed or traded on Recognised Exchanges in developed countries worldwide. The Fund's investment performance is compared with the MSCI World Index (Developed Markets) and is reported in Sterling.
- **Balanced – The Baillie Gifford Managed Fund**  
To produce capital growth over the long term. The Fund will invest primarily in a combination of equities, fixed interest securities, collective investment schemes, cash, near cash and deposits. The Fund may invest in derivatives and currency forwards for investment purposes as well as for efficient portfolio management.
- **Conservative – The Newton Real Return Fund**  
The Sub-Fund is managed to seek a minimum return of cash 1 Month GBP LIBOR +4% per annum over 5 years before fees. It aims to achieve a positive return on a rolling 3 year basis. However, a positive return is not guaranteed and a capital loss may occur.

For each of these funds, the IGC has met the fund managers with a view to understanding the investment philosophy, their investment process, the charging structure and the risk profile. We have reviewed the factsheets recently produced by HL in respect of each of these funds, which, like the default fund fact sheets, are now clear on performance and risk. We are content with the selection process used to identify and select the funds for this purpose and we are satisfied the current range of ABC funds provides an appropriate option for consideration for members, seeking to invest outside of their default fund.

Comments have been fed into the process for the HL's investment team's next six monthly reviews of the default and ABC funds.

### 3.1.3 OTHER INVESTMENTS

HL conducts detailed investment research into hundreds of investment funds and refines this research down into a list of preferred funds. Key criteria are performance potential and competitive management charges.

Members also have access to a wide range of funds, which have gone through the same research processes, within the Wealth 150, the ABC funds, the Master Portfolios and HL Portfolio Plus. In addition to the above, members have the ability to self-select from over 2,000 funds, equities, investment trusts, exchange traded funds and bonds. The full investment range is detailed on the member websites or via [www.hl.co.uk](http://www.hl.co.uk).

### 3.1.4 FUND RESEARCH

The IGC has continuing dialogue with HL's research team and keeps the marketing literature available to members under review. We can confirm that members are able to select from a range of funds that have been researched thoroughly and presented clearly.

Evidence of the utilisation of non-default funds can be seen in the number of members making alternative investment choices. 29% of members (28% last year) invest outside of the default funds and 53% of HL's workplace pension scheme assets (51% last year) are outside of the default funds. This reflects a high level of member engagement.

### 3.1.5 FUND PERFORMANCE

As previously commented, the IGC's focus in 2016/17 was on the default funds, with our attention having turned to the ABC funds during 2017/18, albeit we still focus on the default funds, the outcomes of HL's reviews on these funds and their performance over the year.

The following commentary has been provided by the HL research team to provide members with further insight into both the default funds and ABC funds.

#### Default funds:

- **Schroder Managed Balanced**

This fund provides exposure to some of Schroder's most talented fund managers in one convenient, low-cost investment. Johanna Kyrklund and her experienced team combine their economic outlook with their views on individual fund managers to build a portfolio of funds investing worldwide in shares, bonds and cash. We think the team employ a solid process which helps them identify fund managers with strong prospects, and believe this fund is well positioned to outperform its peers over the longer-term, although there are no guarantees.

- **BlackRock Consensus 85**

BlackRock's Consensus 85 is a whole portfolio in one fund, and might be considered by those looking for low cost access to a range of international markets in one investment. It is a balanced fund, holding shares, bonds, property and cash, with the weightings based on the proportions held by the average balanced pension fund. Once these weightings are determined, BlackRock invest passively, looking to track the markets they are invested in, rather than beat them. The fund is restricted to a maximum of 85% in shares, but typically holds slightly less than this proportion. It is one of the lowest cost balanced funds available.

#### ABC funds:

- **Lindsell Train Global Equity**

A concentrated fund run by Nick Train and Michael Lindsell, a management pair we rate highly. The duo adopts a unique investment approach which has led to a long history of out-performance. We believe Nick Train and Michael Lindsell are exceptional stock-pickers and view the fund as an excellent way to access their best ideas.

- **Baillie Gifford Managed**

This fund invests globally in shares, bonds and cash, with a bias towards the former. A higher allocation to shares than the average fund in the sector and a bias towards growth-focused companies means performance tends to be stronger than average when markets are rising, but weaker during tougher times. Overall, long-term performance has been good and we believe the strength and depth of the team will serve the fund well. We like their patient approach and willingness to back companies through thick and thin.

- **Newton Real Return**

Newton Real Return is a flexible fund managed by an experienced team who allocate capital to multiple asset classes including shares, bonds and cash. The fund has achieved its aim of producing cash-beating returns over time, while also sheltering investors' capital during difficult periods. We believe the fund is an excellent choice for relatively cautious investors seeking a core holding for their portfolios.

PERFORMANCE TABLE:	1 YEAR	3 YEARS	5 YEARS
<b>BlackRock Consensus 85</b>	<b>9.79%</b>	<b>34.42%</b>	<b>59.99%</b>
<b>Schroder Managed Balanced</b>	<b>10.22%</b>	<b>28.85%</b>	<b>55.62%</b>
IA Mixed Investment 40-85% Shares TR	10.18%	28.10%	54.67%
<b>Lindsell Train Global Equity</b>	<b>25.41%</b>	<b>83.77%</b>	<b>161.72%</b>
IA Global TR	13.81%	47.40%	93.92%
<b>Baillie Gifford Managed</b>	<b>14.95%</b>	<b>44.19%</b>	<b>74.69%</b>
IA Mixed Investment 40-85% Shares TR	10.18%	28.10%	54.67%
<b>Newton Real Return</b>	<b>1.67%</b>	<b>5.63%</b>	<b>13.74%</b>
IA Targeted Absolute Return TR	3.28%	7.89%	18.84%

Source: Lipper, performance periods 1 year (1/1/17-31/12/17), 3 years (1/1/15-31/12/17), 5 years (1/1/13-31/12/17).  
Calculated as total return after charges.

The IGC is confident in the HL research team's policies and procedures and in the research process for these funds. Taking into account these factors and the performance of these funds net of all charges, we are confident that members are receiving value for money from these investments within their HL Workplace SIPP.

Further details on all applicable charges can be found in section 3.2.



### 3.1.6 LIFESTYLING

A lifestyling process is added to both default funds (Schroder Managed Balanced and BlackRock Consensus 85) in the years close to a member's retirement date. Lifestyling involves automatically switching investments away from riskier assets to less risky assets (traditionally cash and gilts) as a member approaches the point at which they intend to draw retirement benefits. This reduces exposure to investment markets which can fall sharply and helps to protect members' pension investments during the period up to retirement. HL's current approach switches from the default funds to cash.

The IGC continues to press HL whether the current lifestyling arrangement, whereby the member is invested 100% in cash at their selected retirement date, continues to be appropriate. We have sought external information regarding member behaviour at retirement and there is certainly a shift in popularity towards drawdown products and away from annuitisation. In light of this and with consideration given to developments in the broader retirement market, the IGC has encouraged HL to consider an alternative approach to their lifestyling arrangement. HL has confirmed this is something they are exploring during 2018 and we look forward to monitoring progress in this area.

In 2016, at the IGC's request, a communication was sent to members over their nominated retirement date who were 100% invested in cash to highlight this fact and explain their options. This exercise was repeated in 2017 and the IGC was pleased to note that the number of members in this position had reduced from 39 to 21.

**Action for 2018:** The IGC will monitor progress of the development of the lifestyling arrangements available to members with the expectation of an updated range of solutions being available by 2019.

### 3.2 CHARGES

Fund charges are a key element in the determination of value for money. The recent introduction of the MiFID II regulations (Markets in Financial Instruments Directive) sees a step change in the clarity of reporting of charges and each scheme member now receives a 6-monthly report explaining the charges they have incurred over the previous 6 months.

In 2017, the IGC challenged HL to review how overall member charges are displayed within member literature. This, along with the requirements under MiFID II, has resulted in the reporting of fees becoming significantly more explicit and the IGC welcomes the improvements which have been made in this regard in the various promotional materials. It is also noted that HL has been conducting research into the level of members' understanding of fee arrangements and it is anticipated that this may give rise to a change in the way fees are reported. The IGC will be interested to note the outcome of this work.

**Action for 2018:** The IGC will monitor progress of HL's research into the level of members' understanding of fee arrangements and how they are best displayed/reported.

### 3.2.1 DEFAULT AND ABC FUNDS CHARGES TABLE

	Platform fee	Fund charge before discount	HL discount	Fund charge after discount	Total fee	Transaction charge	Interest paid
<b>DEFAULT FUNDS:</b>							
BlackRock Consensus 85	0.45%	0.22%	0.13%	0.09%	0.54%	0.03%	n/a
Schroder Managed Balanced	0.42%	0.62%	0.29%	0.33%	0.75%	0.13%	n/a
<b>ABC FUNDS:</b>							
Lindsell Train Global Equity	0.45%	0.75%	0.20%	0.55%	0.90%	0.01%	n/a
Baillie Gifford Managed	0.45%	0.44%	0.08%	0.36%	0.81%	0.01%	n/a
Newton Real Return	0.45%	0.79%	0.10%	0.69%	1.14%	0.11%	n/a
<b>LIFESTYLING ARRANGEMENTS:</b>							
Cash	0%		none	none	0%	None	0.03%-0.10%

There is no platform fee charged on money held as cash. The IGC note that HL has a process in place to ensure that the difference between earnings and the distribution on cash is below the Government charge cap. A fair and competitive rate of interest is distributed and overseen by a Non-Executive Director.

All Default funds within the HL Workplace SIPP are subject to the Government's charge cap of 0.75%. This means 100% of members have access to a scheme that meets the charge cap; some members choose to take advantage of this while others have elected to invest in other assets that may have higher charges. All charges are clearly disclosed within the fund literature.

The IGC notes the platform charge for the HL Workplace SIPP is higher than many other platform providers'. However, members also benefit from HL's considerable buying power, which enables the default and ABC funds to be offered at significant discounts to members. The result is that the overall charges (platform fee and fund charges together) are not out of line with the market. The real issue is whether the entire proposition represents value for money and the IGC continues to keep all dimensions of the offering under close review; at present the IGC is happy to confirm the services provided within the platform fee do represent good value for members.

### 3.2.2 TRANSACTION COSTS

The Financial Conduct Authority (FCA) issued Policy Statement PS17/20 in September 2017, which set out final rules and guidance to improve the disclosure of transaction costs in workplace pensions. These new disclosure rules took effect from 3<sup>rd</sup> January 2018. The rules place a duty on asset managers to provide full disclosure of transaction costs in a standardised form to any IGC, where members in the scheme can invest in their funds.

Although the transaction cost disclosure rules were restricted to funds held by workplace pensions (and also to Packaged Retail Insurance and Investment Products), in practice virtually all UK funds have made such disclosures since the beginning of the year. These are widely available, including through the HL website, and allow for meaningful comparisons to be made between HL's fund choices and industry averages.

For each default fund and the ABC funds noted above, the headline transaction cost numbers released are significantly below industry averages. In accordance with the new rules, the IGC has the authority to request more granular information on these costs at its discretion. However, we are satisfied the disclosed numbers demonstrate the default funds and ABC funds are managing transaction costs well.

### 3.2.3 EXIT CHARGES

We are pleased to note the HL Workplace SIPP terms and conditions have been updated to provide greater clarity on when exit charges may or may not apply to members in the default funds. HL has processes and controls in place to ensure members do not get charged incorrectly.

**Action for 2018:** The IGC has requested for the controls in respect of monitoring exit charges to be in scope of HL's 2018 internal audit.

### 3.3 ADMINISTRATION

Effective administration is at the heart of a well-run pension scheme. The IGC requests periodic updates from HL in respect of scheme administration and on the whole we are satisfied by the standards which are in evidence. This could certainly be improved by the existence of service level agreements for all member-related administration – please see the following sub-sections for further comment.

HL has made the IGC aware of an issue in respect of the overcharging on a small number of members within a specified time period early in 2018. We have been made aware of the processes HL has in place which identified these issues, together with details of how they were immediately rectified. Appropriate changes have been made to ensure this issue does not arise in the future. The IGC is pleased with HL's transparency on this matter and their swift resolution and actions taken.

#### 3.3.1 TIMELY MANNER OF ALLOCATING CONTRIBUTIONS

The IGC is required to consider whether member contributions are processed promptly and accurately.

HL has confirmed that during the period 100% of member contributions have been collected and invested in a timely manner (all contributions were invested on the following day after being received). There was an instance during the year of duplicate contributions from two companies being taken in one particular month. This was quickly identified and the funds were reimbursed to the companies concerned. The circumstances were thoroughly investigated and improved controls put in place to prevent recurrence. Overall, the IGC is satisfied that scheme transactions are processed promptly and accurately.

#### 3.3.2 MANAGEMENT INFORMATION

The IGC has sought the development of formal service level agreements to codify the commitment regarding the process of member contributions. HL has confirmed this is an area they are exploring in 2018 with the aim of implementing a solution by the end of the year.

**Action for 2018:** The IGC will monitor progress of formal service level agreements for the processing of member contributions and all member-related administration.

### 3.3.3 GENERAL DATA PROTECTION REGULATIONS (GDPR)

Security of member data is a fundamental responsibility for any pension provider. The IGC have been assured that HL has a comprehensive project structure in place to identify and deliver the key activities required in order to ensure the Group is compliant with GDPR within the May 2018 deadline.

### 3.4 MEMBER SUPPORT

The IGC has observed during the year the delivery of member support, which is part of the overall value for money proposition. There are three main areas of support provided to members:

- member helpdesk;
- onsite presentations and one-to-one meetings;
- communications – including the member websites.

#### 3.4.1 MEMBER HELPDESK

The helpdesk receives enquiries from members which range from basic administration queries to complex issues relating to the tapered annual allowance or sophisticated investment products. Whilst the helpdesk does not provide advice the IGC has observed a high level of competency and support with regard to complex queries. In addition, both calls and email queries were dealt with in an efficient manner. The IGC believes that the member helpdesk is a key contributor to the provision of value for money services to members.



### Call metrics (1<sup>st</sup> January to 31<sup>st</sup> December 2016 and 2017)

Year	Calls taken	Calls Missed	Missed %	% immediate answer (<5 secs)	Average Abandoned (sec)	Average Pick up time (sec)	Max Delay
2017	23511	880	3.7%	45.4%	27	19	07:51
2016	20291	843	4.0%	40.9%	25	20	04:09

### Member email contact (1<sup>st</sup> January to 31<sup>st</sup> December 2016 and 2017)

Enquiry completed within	OVERALL		PERCENTAGE		CUMULATIVE %	
	2016	2017	2016	2017	2016	2017
Same day	5472	4742	78%	60%	78%	60%
1 day	1291	2100	18.5%	26%	96.5%	86%
2 days	159	536	2.5%	7%	99%	93%
3 days +	86	565	1%	7%	100%	7%
<b>Total</b>	<b>7008</b>	<b>7943</b>				

Over the past year it was noted that calls to the helpdesk are taking longer and some response times to queries have also been extended. This has been due to an increased complexity in the nature of the queries received due to the pension freedoms legislation becoming more widely recognised.

#### 3.4.2 ONSITE SUPPORT

From 1<sup>st</sup> January to 31<sup>st</sup> December 2017 the team conducted 1,150 (1,154 in 2016) days at employer sites. This included 9,384 (9,014 in 2016) individual meetings and 726 (700 in 2016) financial education presentations. This is part of the core service which the IGC believes provides adds value to members. The IGC has observed presentations and it is noted that the HL team have also presented during unsociable hours to suit the membership's needs.

#### 3.4.3 COMMUNICATIONS AND WEBSITE

The majority of HL Workplace SIPP schemes are provided with a branded website. Members can review and change their investments online, plus there is a wide range of pension guides and an interactive calculator to assist with members' pension planning.

Members can also access their account via the individual HL site or via an iPad app, iPhone app and Android app. Currently 59% (59% in 2016) of members are registered online.

The varied multi-channelled accessible communications are part of the core service which the IGC believes provides added value to members and we have seen it to be significantly valued by members as evidenced in the IGC's own survey of the membership.

### 3.5 SECURITY/PROVIDER STRENGTH

As previously noted, one of the PPI's stated outcomes that is deemed likely to be seen as positive for members when determining value for money is the security of the member's pension pot. The IGC has engaged with HL at Board level to confirm the firm's commitment both to the workplace pensions market and to investing in the systems and talent necessary to ensure the highest levels of security of member funds and, more generally, to provide the infrastructure to achieve positive member outcomes. The financial strength of HL itself is fundamental to being able to do this.

#### 3.5.1 FINANCIAL STRENGTH

HL maintains adequate financial resources at all times. The Financial Conduct Authority (FCA) regulates the investment services provided by HL and the European Directive CRD IV is directly binding on firms in the UK. As a result of this, the Group is required to carry out, at least annually, a comprehensive assessment of its risks and the amount of capital it must hold. The HL Board must demonstrate to the FCA that it understands its risks, knows how they could manifest and the impact they could have on the Group.

The Group has a strong balance sheet with large cash balances and no external debt. It has not previously issued debt, has never undertaken any external borrowing and is not seeking to raise additional capital.

### 3.5.2 INTERNAL AUDIT REPORTS

HL shared their initial findings from an internal audit on HL Workplace Solutions, which focused on security management, data governance, client service and third-party management. It is noted that HL are currently working through key actions as high priority and the IGC await full details once the report has been finalised.

HL will share their 2018 internal audit plan with the IGC as soon as it is finalised.

### 3.5.3 CYBER SECURITY

This is a key risk to consider. The IGC has met the cyber security team and has been reassured that all possible measures have been put in place to prevent hostile cyber-attacks and to ensure the security of member data and the funds they hold.

The following update has been provided by the HL cyber security team:

*"Protecting our clients' money and information is extremely important to us; we have invested in a Cyber Security strategy that ensures we have a range of best practice defences in place. The strategy is aligned with best practice security guidance such as the SANS CIS, GCHQ's ten steps, ISO27002:2013, UK ICO Protecting Data and COBIT 5. The strategy is positioned to ensure we continue to meet our obligation to meet required standards and regulation such as PCI-DSS, PSD2 and GDPR. We also recognise the ever changing cyber threat landscape. It is important that our cyber security strategy must result in our defences evolving as the cyber threat landscape evolves. To this end our security teams work in partnership with a range of leading cyber security firms to continuously test our defences, and as a result of these tests to improve our ability to detect and respond to security threats. Our continuous improvement programme covers a wide range of areas such as protective controls, threat detection, training and awareness as well as vulnerability detection and reduction".*

### 3.6 RETIREMENT FLEXIBILITIES

Members of the HL Workplace SIPP have full access to HL's retirement services. As a relatively new provider in the workplace pensions market, the demographic of scheme membership is, in general, well below retirement age, however, the service offered at retirement is vitally important.

With the increased options now available to retirees, since the Government's Pensions Freedoms initiative, the quality of communication with members at and around retirement is paramount. The whole package of communications sent to members approaching retirement has been kept under review by the IGC and we believe it to be of a high standard.

This part of the service will become increasingly important as the workplace pensions offering matures and is an area for closer scrutiny by the IGC in 2018.

### 3.6.1 PENSION FREEDOMS ACCESS

Members have access to the complete range of pension freedoms and flexibility within the HL Workplace SIPP. This is fairly unique in a workplace pension scheme, as many of the more traditional schemes in the market would require a member to transfer to a separate arrangement to access the full range of freedoms and flexibilities. The IGC believes the accessibility and options provided by HL to members is a significant contributor in relation to value for money for members.

In addition, members can access financial advice from HL's in-house advice team. This is at a separate, explicit cost, specifically for the advice provided.

### 3.6.2 DRAWDOWN PROVISION

HL has been offering drawdown since 2006. They have been voted Best SIPP Provider by readers of 'What Investment' for the last nine years running, together with the Gold Standard Awards for Retirement in 2014-2017. The IGC believe members have access to a high-quality drawdown service as evidenced by these awards.

### 3.6.3 ANNUITY BROKING

The open market annuity broking service is available to all members, at no cost to the member, and additional guidance on income drawdown is also available. On-line tools are also comprehensive and highly functional. The IGC believes this service provided by HL to members is a significant contributor in relation to value for money for members approaching retirement.

### 3.7 FEEDBACK

The IGC believes it is crucial that members' own views are sought on what constitutes value for money, as for the most part the IGC assessment will be driven by what matters to members.

Following on from the member survey we conducted in 2016, the IGC has conducted a further survey in 2017, with a circulation of 50,000 members (compared to 30,000 in 2016). The aim is to better understand members' overall views on value for money but also to note any shifts in attitudes or perceptions over the preceding 12 months. The IGC's research builds on in-house research carried out by HL which has been useful for the IGC's initial deliberations.

The IGC is pleased to note that once again the survey responses have broadly been very positive.

### 3.7.1 IGC MEMBER SURVEY 2017

The content of the 2017 survey did not change from 2016. We asked members:

- Which features of their pension they found most important (based on a prescribed list);
- How they rate those features;
- Whether they feel their employer has chosen a good pension plan and if they do why;
- Whether they feel the HL Workplace SIPP represents value for money;
- Whether they feel there are any areas of their pension that could be improved.

Responses from the 2016 and 2017 surveys have been considered in tandem by the IGC, with a summary of the key outputs in the following table:

IGC MEMBER SURVEY		
Question	2016 key outputs	2017 key outputs
<b>No. of member responses</b>	<b>1,573</b>	<b>2,255</b>
<b>1. When considering a company pension, how important are the following features to you?</b>	Investment performance; cost of the plan; and administration of pension contributions were the top three features.	Investment performance; cost of the plan; and administration of pension contributions were again named as the top three features.
<ul style="list-style-type: none"> <li>• Investments performance</li> <li>• Responsiveness of the pension helpdesk</li> <li>• Opportunity to meet a pension consultant</li> <li>• Knowledge/helpfulness of the consultant</li> <li>• Quality of communications</li> <li>• Administration of pension contributions</li> <li>• Quality of information available (e.g. online)</li> <li>• Cost of the plan</li> </ul>		
<b>2. Please rate the above features of your HL workplace pension</b>	Most were rated as either good or excellent. However, one area the IGC were concerned with was the relatively high number of 'I don't know' responses to the cost of the plan.	Similar to 2016, with most being rated as good or excellent, but again with a high number of 'I don't know' responses, particularly notable in relation to investment performance and cost of the plan.
<b>3. To what extent do you agree with the statement 'I feel my employer provides a good pension plan'?</b>	Two-thirds of respondents agreed or strongly agreed that their employer has chosen a good pension plan, with only 6% disagreeing/strongly disagreeing.	Again, two-thirds of respondents agreed or strongly agreed that their employer has chosen a good pension plan, with a marginal increase in disagree/strongly disagree – 7.58%.
<b>4. Please tell us why you believe your employer provides a good pension plan</b>	Most of the responses were in relation to flexibility of the plan in general, but particularly in respect of investment options; quality of communications; availability of the helpdesk; and the ability to meet with Hargreaves Lansdown representatives.	Comments were similar to those received in 2017, with many positive comments regarding online access, communications and flexibility of the plan:  <i>"Good online access and opportunity to interact and make my own choice."</i>  <i>"There have been opportunities to meet a representative one-to-one if I wanted to. I found the presentation was enough for what I needed. The online service is very good, response times are very good, and my questions all answered in detail. I have a few small investments but keep my main contributions as arranged by my employer as I have found the returns on it to be good."</i>

## IGC MEMBER SURVEY (CONTINUED)

Question	2016 key outputs	2017 key outputs
<b>5. To what extent do you believe the HL Group SIPP represents value for money?</b>	Nearly two-thirds of respondents agreed or strongly agreed. However, there were a relatively large number of 'I don't know' and 'Neither agree nor disagree' answers (33.36% in total).	Two-thirds of respondents (a marginal increase from 63.91% in 2016 to 66.4% in 2017) agreed or strongly agreed. There were again a relatively large number of 'I don't know' and 'Neither agree nor disagree' answers (29.93%).
<b>6. Are there any other improvements which could be made to your HL Group SIPP?</b>	Many of the comments were in relation to HL providing greater clarity on charges and the cost of the plan to individuals.	Many of the responses to this question either implied or stated that no improvements could be suggested, including comments such as <i>"None at present"</i> and <i>"Not that I can think of"</i> ; or the comments were in relation to the employer rather than HL.  However, where comments were made in respect of HL, these were along the lines of those provided last year, including:  <i>"More transparency on fees."</i>  <i>"Cheaper costs."</i>



On the whole the responses are very similar to last year. Members continue to rank investment performance; cost of the plan; and administration of pension contributions as their top three features, with flexibility of the plan, quality of communications and availability of the helpdesk featuring in the positive verbatim comments.

A continuing theme is also the apparent lack of understanding by members in respect of charges. This is an area the IGC will continue to monitor throughout 2018. Particularly in light of the recent changes brought in under MiFID II and the ongoing research being conducted by HL in this area, as commented upon earlier in this report.

**Action for 2018:** The IGC will continue to seek members' views on their HL Workplace SIPP, specifically in relation to value for money, via the IGC member survey.

### 3.7.2 IGC ENGAGEMENT WITH EMPLOYERS

Members of the IGC attended a number of employer governance committee meetings during 2016 with the purpose of witnessing the quality of presentation and information provided by HL relationship managers and also with a view to receiving feedback of employer priorities. Due to the overwhelmingly positive feedback received from employers during those visits the IGC did not feel it a priority to engage employers directly throughout 2017. This is something we will aim to revisit again during 2018.

### 3.7.3 COMPLAINTS

During the period of this report 28 complaints, most of which related to administrative tasks, were received by HL regarding the workplace pension. 12 of these complaints were upheld. The IGC has no concerns in respect of these complaints given the extremely low volume and that none were considered to be of a serious nature. This represents less than 0.1% of the membership.

### 3.7.4 EVIDENCE OF ENGAGEMENT

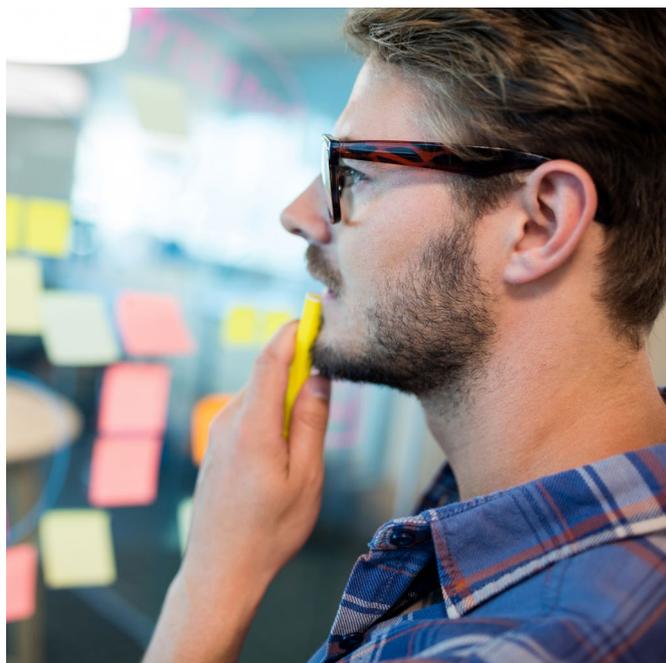
The IGC is particularly keen to explore the hypothesis that greater member engagement can lead to better member outcomes. In particular, we are seeking information regarding additional member contributions as evidence of engagement. This is a difficult area since the contribution regime varies from scheme to scheme and some employers make extremely generous contributions. The data can only be collated on a scheme by scheme basis; however, the IGC is pressing HL for better information in this area. Data regarding the number of members investing their pension pots in self-select options rather than the scheme default is readily available. Moving forward, it will be helpful to compare this with industry averages to establish whether HL is achieving a higher level of member engagement than other providers.

Additional member contributions and active fund choices are not the only indicators of positive member engagement. HL has shared with the IGC some of the work they are doing in this area to better understand what the broader range of indicators are. Specifically how they can be measured and how that data can be used to develop even more positive and effective member engagement in the future.

**Action for 2018:** The IGC will continue to explore the hypothesis that greater member engagement can lead to better member outcomes. We will monitor HL's progress in this area with the ambition to achieve a range of metrics to evidence positive member engagement.

# 4. SUMMARY OF IGC ACTIONS FOR 2018

- Monitor progress of the development of the lifestyling arrangements available to members with the expectation of an updated range of solutions being available by 2019.
- Monitor progress of HL's research into the level of members' understanding of fee arrangements and how they are best displayed/reported.
- Ensure that the controls in respect of monitoring exit charges to be in scope of HL's 2018 internal audit.
- Monitor progress of formal service level agreements for the processing of member contributions and all member-related administration.
- Continue to seek members' views on their HL Workplace SIPP, specifically in relation to value for money, via the IGC member survey.
- Engage directly with employers to seek feedback in respect of their experiences of HL and their HL Workplace SIPP.
- The IGC will continue to explore the hypothesis that greater member engagement can lead to better member outcomes. We will monitor HL's progress in this area with the ambition to achieve a range of metrics to evidence positive member engagement.



# 5. MEMBER REPRESENTATION

HL has put in place the following arrangements to be used by members who would like to make representation to the IGC:

**Email: [IGC@hl.co.uk](mailto:IGC@hl.co.uk)**

Or by writing to:

**FAO: IGC**

**Freepost, HARGREAVES LANSDOWN**

# 6. CONCLUSION

There are no concerns to report and in consequence there has been no need to escalate any issues to senior management or to the Financial Conduct Authority.

The IGC believes that the HL Workplace SIPP continues to represent value for money. The excellent service delivery is evidenced by the member survey and during the year the IGC has observed that the business continues to invest in infrastructure, service delivery and marginal improvements to the benefit of all. On an ongoing basis the IGC will continue to seek improvement and monitor that the HL Workplace SIPP is being efficiently and effectively delivered.







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