



ZEDRA

DO MORE. ACHIEVE MORE.

Chair's annual report

Quilter Pathway Investments

- | Year ended 31 December 2021
- | The ZEDRA Governance Advisory Arrangement (GAA)

September
2022



Executive summary

This report on the Investment Pathways policies provided by Quilter ('the Firm'), has been prepared by the Chair of the ZEDRA Governance Advisory Arrangement ('the GAA') and sets out our 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 Terms of Reference, agreed with Quilter, the latest version of which is dated 16 March 2022 and are publicly available (see Appendix C).

This is our first annual report on Investment Pathways policies provided by the Firm. Investment Pathways were launched by the Firm on 1 February 2021 and made available to existing pensions customers who wished to enter income drawdown without taking advice.

As Chair of the GAA, I am pleased to deliver this value assessment of the Quilter Investment Pathways. The GAA has conducted a rigorous assessment of the Value for Money delivered to [pathway investors](#) over the period from launch to 31 December 2021. 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

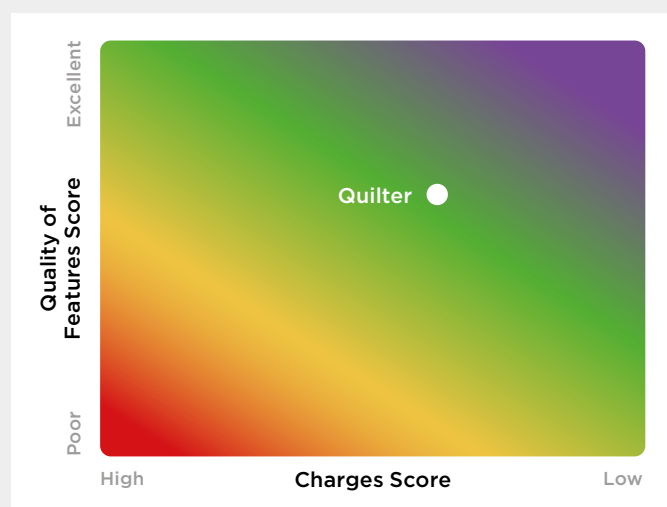
| | Weighting toward VfM assessment* | Quilter Investment Pathways |
|--|----------------------------------|-----------------------------|
| 1. Product strategy design and investment objectives | 13% | ● |
| 2. Investment performance and risk | 13% | ● |
| 3. Communication | 20% | ● |
| 4. Firm governance | 3% | ● |
| 5. Financial security | 7% | ● |
| 6. Administration and operations | 7% | ● |
| 7. Engagement and innovation | 3% | ● |
| 8. Cost and charge levels | 33% | ● |
| Overall value for money assessment | 100% | ● |

* May not add to 100% due to rounding

| | |
|--|--|
| Quality and investment features ● Excellent ● Good ● Satisfactory ● Poor | Cost and charge levels ● Low ● Moderately Low ● Moderately High ● High |
|--|--|

The Overall Value for Money rating is determined on a rating scale based on the product of the overall scores for the individual Features and the weightings shown in the above table. The Investment and Quality Features combined representing two-thirds of the overall score and the Cost and Charge Level representing one-third of the overall score. It is visually represented by the heatmap below.

VALUE FOR MONEY SCORING



The overall conclusion is that Quilter Investment Pathways provide **good value for money. The GAA has identified a number of areas for improvement, which are observations rather than challenges or concerns.**

Some areas, such as quantifying investment objectives, improving the online customer experience and ESG integration are still evolving and the GAA would expect to see ongoing developments, both in line with Quilter's existing implementation plan outlined to the GAA, and to reflect future developments in the wider marketplace. We have seen robust governance frameworks and in future years, we expect to see evidence of changes made where necessary.

We would also expect Quilter to provide evidence next year that the migration to the new platform has delivered improvements for customers and to consider whether the target SLA processing times can be reduced and consistently achieved for some payment types.

Details of the numbers of pathway investors and their funds were supplied to the GAA for the assessment and are summarised in Appendix E.

We also concluded that the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship are adequate and of good quality but further work is needed to embed them into the investment solutions.

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

The FCA has introduced new requirements this year. One of these new changes require us to undertake a comparison with other similar options available in the market. If an alternative pathways provider would offer better value, we must inform the pathways provider. I can confirm that we have not considered it necessary to make this notification this year. Our view on each Feature 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, and a consolidated view of our comparator findings is set out in Appendix A.

The GAA has not raised any concerns with Quilter during the year.

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

Clare James

Chair of the ZEDRA Governance Advisory Arrangement

September 2022



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

Secretary to the GAA, ZEDRA Governance Ltd,
Merlin House, Brunel Road, Theale, Reading RG7 4AB

Alternatively, you can contact the GAA directly at ZGL.gaacontact@zedra.com

Please note that we do not receive complaints in respect of the Collective Retirement Account. If you would like information about your collective retirement account and/or want to make changes to it or wish to make a complaint you should contact **Quilter**.



Contents

| | |
|--|----|
| Executive summary | 2 |
| Overview of the value assessment | 6 |
| 1. Product strategy design and investment objectives | 8 |
| 2. Investment performance and risk | 10 |
| 3. Communication | 13 |
| 4. Firm governance | 15 |
| 5. Financial security | 16 |
| 6. Administration and operations | 17 |
| 7. Engagement and innovation | 19 |
| 8. Cost and charge levels | 20 |
| ESG financial considerations, non-financial matters and stewardship | 22 |
| Appendices | |
| A. Comparison report | 24 |
| B. GAA activity and regulatory matters | 26 |
| C. ZEDRA GAA credentials | 28 |
| D. Glossary | 29 |
| E. Data table | 31 |

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.

Regulatory changes

The Framework used for this year's assessment has been updated to reflect changes to the Conduct of Business Sourcebook ([COBS](#)) in effect from the 2021 assessment year. This has included an explicit assessment of [net investment performance](#), and the assessment of any charges the [pathway investors](#) might need to pay in operating their policy which are in addition to any [annual management charges](#) and [transaction costs](#). Our framework already included assessment of communications and processing of [core financial transactions](#). These changes have been reflected in the assessments reported on in sections 2. Investment Performance and Risk, 3. Communication, 6. Administration and Operations and 8 Cost and Charge Levels.

In addition, the regulatory changes introduced a requirement to undertake comparisons of the Firm's product offering against a suitable comparator group of providers products across net investment performance, communications, processing of core financial transactions, and costs & charges. We have included comments on these comparisons in each relevant section of the report. Details of how the comparator group was selected and a consolidated view of the comparison outcomes are included in Appendix A.

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 information and evidence requested, the GAA has met to discuss and agree provisional Value for Money scoring using the Framework developed by the GAA.
- | 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, and the Costs and Charges borne by the pathway investors. This assessment is undertaken of the Firm's product(s) relative to the GAAs view of good practice.

The Quality of Service Features 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, in particular services relating to communications with pathway investors and processing of core financial transactions. The Quality of Service features considered has been expanded to include other aspects the GAA considers important based on the GAA's experience of conducting Value for Money assessments over the past several years, such as the Firm's governance structure, the financial security for pathway investors, the Firm's approach to engagement and innovation, and a wider overview of the administration quality and processes.

Within each of the Quality of Service Features and in the assessment of Investment Features are several sub-features. These sub-features are each scored using a numerical scoring system of 0 to 4, where 4 is 'excellent', 3 is 'good', 2 is 'satisfactory', 1 is 'poor' and 0 is 'non-compliant or insufficient information has been provided'. 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 set of score descriptors outline what the GAA would expect to see in order to achieve each numerical score. The scores for each sub-feature are then aggregated to the Feature level based on the GAAs view of the relative value of the sub-feature to the pathway investors.

The GAA then went on to consider the value represented by the Cost and Charge Levels which pathway investors have to bear. The assessment of Cost and Charge Levels is primarily driven by the level of ongoing charges for investment management, administration, and platform fees. The GAA also considers the transaction costs and how they are controlled, and any additional costs the pathway investors pay in the investment and management of their policies. The Cost and

Charge Levels are rated on a numerical scale of 1 to 4 where 4 is 'low' charges, 3 is 'moderately low' charges, 2 is 'moderately high' charges and 1 is 'high' charges. This assessment 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 GAAs views of the relative importance to the pathway investors of each Feature. The weightings are tilted towards the Features and sub-features which have been identified in the regulations relevant to forming this assessment of value. Where possible, the GAA has taken into account the likely needs and expectations of this group of pathway investors, based on the information made available by the Firm.

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.

An assessment 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 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 the comparisons, including 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 pathways 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 22, 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 funds selected were as follows:

Pathway 1 – Vanguard LifeStrategy 60% Equity Fund

Pathway 2 – Vanguard UK Government Bond Index Fund

Pathway 3 – Vanguard LifeStrategy 40% Equity Fund

Pathway 4 – Royal London Cash Plus Fund

Consideration was given to ESG matters by looking at how ESG considerations were integrated into the investment process and the approach to stewardship. The Vanguard funds do not have any explicit ESG screening or tilting. The Royal London fund does have an ESG overlay with exclusions applied.

In its design, the Firm has considered the likely investor characteristics for the four Investment Pathways and assigned a risk level on a scale of 1 to 10. A shortlist of funds meeting the required risk criteria was identified using the Morningstar database of open ended funds. Selection was based on a review of past performance, costs and charges, the size of the fund, qualitative ratings and modelled projections of outcomes.

Investment Pathways were subject to continuous oversight by Quilter and after the first 11 months the initial design was reviewed in detail, including looking at actual investor behaviour and competitors' solutions, and no changes were felt to be required.

The Firm's strengths

The initial design and review processes were robust and set out a clear and reasonable rationale for the selection and retention of each fund.

The modelling of outcomes demonstrates the alignment of each fund's objectives to the pathway investor's interests.

The aims and objectives are set out in the KIID for each fund, which is included in the pathways brochure. The Vanguard funds for pathways 1 and 3 do not have a quantitative performance objective or target. The objectives are stated as "The Fund seeks to hold investments that will pay out money and increase in value through a portfolio comprising approximately 60%/40% shares and 40%/60% bonds and other similar fixed income investments". The pathway 2 objective is to track a named government bond index. The pathway 4 objective is to "achieve a total return over rolling 12 months periods" but an explicit performance target of SONIA + 0.5% pa is also given.

Therefore we do not consider that Pathways 1 and 3 are providing clear statements of aims and objectives to the pathways investors.

Areas for improvement

GAA observations

The GAA would like to see a clearer articulation of investment aims of objectives for Pathways 1 and 3 in the brochure to help pathways investors understand the level of return that the funds are trying to achieve.

The GAA would expect to see continued progress on the integration of ESG financial considerations within the investment options appreciating that this is an evolving area.

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 that the strategies are effective and take into account the [pathway investors'](#) attitudes to risk.

The Firm's approach

The Investment Forum monitors performance, risk and the take-up (AUM and number of customers) for each pathway on a quarterly basis. There is also a more detailed annual review structured as follows:

- a) What are the needs and objectives of the identified target market for each Investment Pathway?
- b) What are the aims and objectives of the underlying [pathway investments](#)?

- c) How has Quilter taken into account [ESG](#) financial considerations and other financial considerations when selecting the Pathway Investments (e.g. interest rate, liquidity, concentration, exchange rate, political and counterparty risk)?
- d) Have the Pathway Investments delivered as expected, and therefore does the Pathway Investments remain consistent with the needs, characteristics and objectives of the identified target market?
- e) Have any changes been made since the last review?
- f) How does Quilter's Pathway Investments compare to others? Are they consistent or outliers?
- g) Have the Investment Pathways been distributed to the identified target market? Have the pathway investors done anything that would contravene this?
- h) Conclusion and recommendation(s)

The review of performance looks at peer group (Investment Association "IA") benchmarks for pathways 1, 2 and 3 as well as a number of risk metrics and performance versus inflation. For pathway 2, there was also an analysis of the purchasing power of a notional fund to buy an [annuity](#) at the beginning and end of the period. For pathway 4, performance was analysed relative to the SONIA benchmark and inflation.

For all pathways, the Forum also considered a chart showing risk and return for a number of competitors selected by Quilter.

The Firm's strengths

There is evidence of regular review of performance and of a robust and thorough annual review process.

The analysis of Pathway 2 against annuity purchasing power and of Pathway 4 against inflation was helpful and in line with what we would expect to see.

Net investment performance

The net* investment performance of the investment pathways strategies and the performance of the benchmarks against which those funds are measured by the Firm are set out in the following table for the period 1 February 2021 to 31 December 2021 (figures cover an 11 month period and are not annualised). This is the period since launch date until the end of the year under review.

** Investment charges have been deducted but not platform/product charges paid to Quilter.*

| Investment Pathway | Net Investment Performance | Peer group / Benchmark |
|----------------------|----------------------------|---|
| Investment Pathway 1 | 10.8% | 11.4% (IA Mixed Investment 40 to 85% shares) |
| Investment Pathway 2 | -3.8% | -3.7% (IA UK gilts) |
| Investment Pathway 3 | 6.7% | 6.7% (IA Mixed Investment 20 to 60% shares) |
| Investment Pathway 4 | 0.03% | 0.05% (SONIA) |

We have assessed [net investment performance](#) against the stated benchmarks as being Satisfactory, taking into account also longer 1 and 3 year performance records for the funds. For Pathway 2, we noted an improvement in the annuity income that could be purchased over the 11 month period, despite the negative absolute performance.

Comparator results

The GAA has faced some challenges in identifying suitable comparators for the comparison of investment performance since different firms have adopted different pathway investment solutions with significantly different levels of risk exposure. In addition, the risk and return performance relates to different periods depending on when the Firm launched investment pathways. The comparison of risk adjusted net investment returns has therefore been limited this year and we have therefore focused on whether the return has been below, broadly in line or ahead of an appropriate benchmark taking into account the nature and risk profile of the investment pathway solution.

| Investment Pathway | Investment Performance |
|----------------------|--|
| Investment Pathway 1 | Performance below peer group, suggesting better performance might have been achieved from a comparable investment solution, whilst noting limitations of comparator data |
| Investment Pathway 2 | Performance broadly in line with peer group, suggesting performance is comparable with that expected of a similar investment solution, whilst noting limitations of comparator data |
| Investment Pathway 3 | Performance broadly in line with peer group, suggesting performance is comparable with that expected of a similar investment solution, whilst noting limitations of comparator data |
| Investment Pathway 4 | Performance slightly below benchmark, suggesting better performance might have been achieved from a comparable investment solution, whilst noting limitations of comparator data |

Areas for improvement

GAA observations

The GAA would like to see performance for Pathways 1 and 3 analysed against specific appropriate performance targets, either by reference to markets or inflation, rather than peer group benchmarks. This links to clear and quantifiable investment objectives, as noted in Section 1.

The GAA will expect to see evidence of changes made where necessary in future years.



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 and financial guidance

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

There is customer support available online and via the telephone and we were able to see a demonstration of the portal with its online tools and listen to a sample of calls.

The withdrawal journey can be commenced online or by telephone. This triggers the presentation of investment pathways to non-advised customers. This generates a paper form which is pre completed as far as possible and sent to the customer to complete and sign.



The Firm's strengths

The Firm has used an award winning third-party communication specialist to make sure that written information is clear and jargon free.

Guidance is available for customers who wish to switch funds and there was evidence of two customers exiting a pathway after taking financial advice from a new adviser, which we view as positive.

We saw evidence that processes and communications are kept under review in response to feedback from the team and from customers.

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 quality of the communication materials provided to the Firm's pathway investors over 2021 was above average relative to the comparator group.

Areas for improvement

GAA observations

Customer forms were not available in electronic format and therefore not fully online. Forms can be partially completed by team and then posted or emailed to customer for signature and return. The GAA would like to see electronic forms available, as this will enable customers to be better supported in completing a complex form.



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 for appointing and monitoring service providers, with evidence of regular reviews being undertaken and active changes being made as required.

The Firm's strengths

The Firm's documented approach to monitoring and managing service providers and funds is comprehensive and robust.

The Firm's approach

We were provided with Terms of Reference for the Investment Forum and the Product Governance Forum.

There is a framework in place to oversee the outsourced technology provider, FNZ.

We were also provided with details of the process to add new funds to the platform.

Areas for improvement

The GAA did not identify any specific areas for improvement.



5. Financial security

Value score:



Excellent



Good



Satisfactory



Poor

What are we looking for?

We look for information about the financial position of the Firm supported by evidence such as accounts as well as ratings from third party rating agencies, where available.

We also look for information about how the assets are protected, for example in the event of fraud or bankruptcy, at both Firm and manager level. This could relate to FCA or PRA protection, ringfencing or the structure of the underlying product.

We are looking for evidence of a clear process to warn [pathway investors](#) about fraud and scams and for Firms to be actively monitoring for possible scamming activity.

The Firm's approach

The most recent AKG report (issued in February 2022) rates financial security as B Plus, which is Very Strong. The Solvency Capital Requirement coverage ratio was 217% at 31 December 2020.

The Firm is FCA regulated. Pathways investors' funds are held in a Collective Retirement Account ('CRA') wrapper.

The units purchased are held separately from the Firm's own investments with Quilter Life & Pensions Limited as the legal and beneficial owner and the units are notionally attributed to each CRA.

In the event of insolvency of Quilter Life & Pensions Limited, the Financial Services Compensation Scheme ('FSCS') would provide full protection with no upper limit.

In the event of insolvency of the asset manager providing the fund, protection is provided by the ring-fencing of assets by that asset manager (as enforced by the FCA). The FSCS would not apply as Quilter Life & Pensions is not eligible to claim. We rate this structure as Good.

We were provided with details of the due diligence process to prevent fraud and scams, together with the warnings to customers.

The Firm's strengths

We rated the financial strength and fraud and scam protection processes as Excellent.

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

The Firm has Service Level Agreements ('SLAs') in place which are generally 10 working days for the end to end achievement of payments (2 days for issuing death claim packs).

The Firm completed a technology platform migration during the year alongside a staff restructuring exercise.

There are policies in place covering IT security and personal data, as well as a Business Continuity plan which were all provided to us.

We were provided with details of the first and second line reviews of operational processes which took place in 2021, including a Compliance Monitoring Team review of the Investment Pathway delivery in May 2021. The main finding was that signposting of adviser fees could be improved. This could apply to Pathways customers who have used an adviser in the past but have undertaken the withdrawal of funds that triggers the offer of Pathways without involving their adviser.

The Firm's strengths

Performance of 98% against SLAs was achieved for withdrawals, with 100% for issuing death claim packs. On average death claims took 12 working days to settle. Simple transfers out were completed in 23 calendar days on average, as an end to end process.

There is evidence that the Firm is aiming for excellence and works hard to make contact easy.

The platform migration was completed successfully and the outcome of the second line review of pathways implementation was positive.

We saw evidence that short term resources were provided where needed to ensure that customer service was not detrimentally impacted by the staff restructuring.

Complaints typically related to delays in processing time and practical difficulties in withdrawing funds due to the additional processes involved since the introduction of Pathways. There is a clear process for handling complaints and providing remediation where required. No systemic issues were identified from customer complaints that needed to be addressed.

Comparator results

We have assessed how the quality and timeliness of the administration services, including core financial transaction processing, provided to the Firm's [pathway investors](#) compare to other sufficiently similar investment pathway arrangements.

This assessment identified that the administration services provided to the Firm's pathway investors over 2021 were average amongst the comparator group.

Areas for improvement

GAA observations

SLAs of 10 days are at the higher end of current industry standards and the GAA would like to see these brought down towards 5 days for all withdrawal and death payments and then consistently achieved.

The GAA would like to see evidence in 2022 that the new platform has delivered improvements in customer servicing and that the admin teams continue to be suitably resourced following the restructuring.



7. Engagement and innovation

Value score:

☐ Excellent

☒ Good

☐ Satisfactory

☐ Poor

What are we looking for?

We expect to see evidence that the investment pathways product is reviewed at least annually, with new products or services being developed taking into account [pathway investors'](#) characteristics, needs and objectives.

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

The Product Governance Forum will review Pathways in 2022, taking account of the findings and recommendations of the second line review in 2021. In particular they will review the actions of customers following their pension withdrawal investment decisions to better understand the implications of customers making their own investment decisions.

The Firm has carried out customer surveys on the withdrawal process. The customer feedback was taken on board and changes were made to improve engagement.

The Firm's strengths

The Firm has an existing process for managing product evolution.

The withdrawal process has been accepted as requiring further development and we were pleased to see that small changes were being implemented quickly in response to customer feedback.

Areas for improvement

GAA observations

Quilter should consider how to develop its proactive engagement with pathway investors in order to obtain broader feedback on its product, for example through the use of customer surveys.



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 fund [annual management charges](#), administration charges and [transaction costs](#) being borne by pathway investors
- | Any other charges being paid by pathway investors to manage, access and invest their drawdown funds.
- | The process for collecting and monitoring overall member charges, including transaction costs
- | How the Firm monitors charges
- | Whether the overall level of charges is reasonable, bearing in mind the nature of the investment, level of performance, and degree of risk management,
- | The distribution of charges across pathway investors.

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

The Firm's approach

Quilter applies a sliding scale of charges for each investment pathway solution based on fund size. The investment charge is the same for all customers within each fund but the product charge is based on their total assets held with Quilter and varies between 0.15% and 0.5% and may reflect a special deal with a particular adviser.

The investment charges are 0.22% for Pathways 1 and 3, 0.12% for Pathway 2 and 0.15% for Pathway 4.

We were provided with details of the actual charges paid by each individual pathways customer, although there are no customers using Pathway 2.

We were also provided with transaction costs incurred by each fund, which were between 1 and 7 basis points.

There are no additional charges applied.

The Firm's strengths

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

| Investment Pathway | Charge Applied |
|----------------------|----------------|
| Investment Pathway 1 | 0.53% |
| Investment Pathway 2 | n/a |
| Investment Pathway 3 | 0.53% |
| Investment Pathway 4 | 0.46% |

The GAA rating reflects the charges applied for the investment pathways made available by the Firm, as well as transaction costs. The GAA considers the charges to be moderately low and the transaction costs to be low.

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 pathway investors over 2021 were in line with the median of 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, how these are taken into account in the Firm's investment strategy or 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 characterise 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.

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

We have been provided with a copy of Quilter's Responsible Investment policy, which contains a specific section on integrating ESG into investment pathways as follows:

"The Firm's existing investment pathways have not been designed to incorporate ESG factors into their investment approach. The four pathways invest primarily in index-tracking funds which means that they track a standard index, and as such they do not take into account ESG factors in their construction.

When selecting the underlying investment solutions for our pathways, Quilter consider whether the underlying groups have signed up to initiatives such as the UN Principles for Responsible Investment and the UK Stewardship Code, as they would expect engagement and use of voting rights. In addition, Quilter actively monitor those solutions that do apply explicit ESG criteria and take this into consideration as part of the regular reviews of pathway solutions."

The Firm's strengths

We believe that the overall policy sets out a clear articulation of Quilter's position on ESG and the specific actions it will take in relation to portfolios which are directly managed. This includes stewardship and non financial factors such as the exclusion of controversial weapons.

The funds used for Pathways are not directly managed by Quilter.

The GAA considers that Quilter's policies on ESG, non-financial matters and stewardship are adequate and of good quality.

Areas for improvement

GAA observations

At present, the chosen funds do not have any explicit ESG integration. Quilter's reasons for this are clearly set out, and in our view are reasonable, but this is a rapidly evolving area and we expect that Quilter will need to keep this approach under review as asset managers begin to offer a wider range of cost effective multi-asset solutions that could be suitable for Pathways 1 and 3 in particular.



Appendix A: Comparison report

Commencing with the 2021 year assessments the FCA introduced a requirement 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.

As this is the first year when these disclosures are required the availability of public information relating to the sub-features that need to be compared is limited prior to the publication of this year's reports. 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 in order to improve the meaningfulness of the comparisons undertaken 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 of workplace group personal pension
- | Products where Firms provide similar services, for example in the case of a SIPP whether the provider has responsibility for setting and monitoring the investment strategy
- | Similar membership cohort, for example staff schemes for staff of the provider

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

The GAA has faced some challenges in identifying suitable comparators for the comparison of investment performance since different firms have adopted different pathway investment solutions with significantly different levels of risk exposure. In addition, the risk and return performance relates to different periods depending on when the Firm launched investment pathways. The comparison of risk adjusted net investment returns has therefore been limited this year and we have therefore focused on whether the return has been below, broadly in line or ahead of an appropriate benchmark taking into account the nature and risk profile of the investment pathway solution.

| Investment Pathway | Investment Performance |
|----------------------|--|
| Investment Pathway 1 | Performance below peer group, suggesting better performance might have been achieved from a comparable investment solution, whilst noting limitations of comparator data |
| Investment Pathway 2 | Performance broadly in line with peer group, suggesting performance is comparable with that expected of a similar investment solution, whilst noting limitations of comparator data |
| Investment Pathway 3 | Performance broadly in line with peer group, suggesting performance is comparable with that expected of a similar investment solution, whilst noting limitations of comparator data |
| Investment Pathway 4 | Performance slightly below benchmark, suggesting better performance might have been achieved from a comparable investment solution, whilst noting limitations of comparator data |

Comparison of Communication provided to pathway investors

We have assessed how the communication materials provided to the Firm's pathway investors compares 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 pathway investors over 2021 were above average relative to the comparator group.

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 compare to other sufficiently similar investment pathway arrangements.

This assessment identified that the administration services provided to the Firm's pathway investors over 2021 were average amongst the comparator group.

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 and each investment pathway solution.

This assessment identified that the overall cost and charge level paid by the Firm's pathway investors over 2021 were in line with the median of the comparator group.



Appendix B: GAA activity 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 late 2021.

Members of the GAA had a meeting with representatives of Quilter to kick off the Value for Money assessment process for the 2021 calendar year and to discuss and agree timescales.

Members of the GAA had a meeting with representatives of Quilter 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 given COVID 19 considerations, this meeting was virtual.

Members of the GAA had a meeting with representatives of Quilter to discuss the GAA's provisional scoring of Value for Money of the in-scope Quilter [pathway investments](#).

As part of the Value for Money assessment process, Quilter 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.

The GAA held several meetings during the year to review and discuss the information we received and to develop and improve the way that we assess Value for Money and report on this.

Over the last year the GAA reviewed and evolved our Value for Money assessment framework to include a broader range of evaluation criteria, which is reflected in this report. Some of these changes were made in response to regulatory amendments relating to the Value for Money assessment criteria.

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

| Item | Date |
|-----------------------------|----------|
| Issue data request | 21/12/21 |
| Kick off meeting | 15/01/22 |
| Site visit | 21/03/22 |
| GAA panel review meeting | 25/04/22 |
| Discuss Provisional scoring | 04/05/22 |

Concerns raised with the Provider by the GAA and their response

The GAA has not raised any concerns with Quilter during the year covered by this report.

The arrangements put in place for policyholders' 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.

The GAA has established a dedicated inbox zgl.gaacontact@zedra.com so that pathway investors can make representation to the GAA direct. Quilter will include details of this contact e-mail address on platform.quilter.com/products-and-services/pensions/governance-advisory-arrangement--investment-pathways



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 would be 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 in respect of [pathway investors](#) from 1 February 2021.

The FCA rules also 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 Governance Ltd 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. We have oversight or responsibility for in excess of £120bn of pension assets. More information on ZEDRA Governance Ltd can be found at www.zedra.com/pension-schemes

The members of the 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 or pathway investors.

The Board of ZEDRA Governance Ltd has appointed ZEDRA Governance Ltd to the GAA, including as Chair. All Client Directors may act as representatives of ZEDRA Governance Ltd on the GAA and Clare James currently represents ZEDRA Governance Ltd in the capacity of Chair. More information on each Client Director, their experience and qualifications can be found at www.zedra.com/zedra-team

Dean Wetton, acting on behalf of Dean Wetton Advisory UK Ltd, is also appointed to the GAA. Dean Wetton and Dean Wetton Advisory UK Ltd are independent of ZEDRA. Information on Dean’s experience and qualifications can be found at www.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 PTL Governance Ltd or Dean Wetton Advisory Ltd to represent the interests of relevant policyholders or pathway investors.

The terms of reference agreed with the Firm can be found at: platform.quilter.com/products-and-services/pensions/governance-advisory-arrangement--investment-pathways



Appendix D: Glossary

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.

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.



Appendix E: Data table

| Investment Pathway | Number of customers | Value in pathway |
|----------------------|---------------------|------------------|
| Investment Pathway 1 | 19 | £1,026,388 |
| Investment Pathway 2 | 0 | £0 |
| Investment Pathway 3 | 14 | £1,577,181 |
| Investment Pathway 4 | 4 | £182,386 |

As of 31/12/21 there were 37 customers in an investment pathway.

Total Investment Pathway book value = £2,785,955



ZEDRA

DO MORE. ACHIEVE MORE.

zedra.com

 @zedragroup

 ZEDRA Group