



ZEDRA

DO MORE. ACHIEVE MORE.

# Chair's annual report

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## Quilter Investment Pathways

- | Year ended 31 December 2022
- | The ZEDRA Governance Advisory Arrangement (GAA)

September  
2023



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## 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’) for Quilter 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 second 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 for this Firm, 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 (‘VfM’) delivered to [pathway investors](#) over the period 1 January 2022 to 31 December 2022. 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

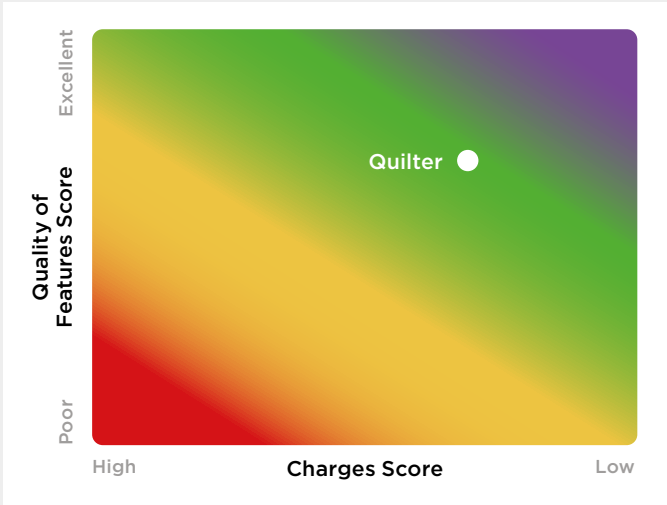
	Weighting toward VfM assessment*	Quilter Investment Pathways
1. Product strategy design and investment objectives	13%	●
2. Investment performance and risk	13%	●
3. Communication	20%	●
4. Firm governance	3%	●
5. Financial security	7%	●
6. Administration and operations	7%	●
7. Engagement and innovation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

\* May not add to 100% due to rounding

<p><b>Quality and investment features (1-7)</b></p> <p>● Excellent ● Good ● Satisfactory ● Poor</p>	<p><b>Cost and charge levels (8)</b></p> <p>● Low ● Moderately Low ● Moderately High ● High</p>
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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 Quality of Service and Investment Features combined (i.e. 1 to 7 in the table above) representing two-thirds of the overall score and the Cost and Charge Level (i.e. 8 in the table above) 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.

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 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 the responsible investment policy into the investment solutions at the next review of funds chosen.

The GAA has not raised any concerns with Quilter during the year but we have challenged Quilter to provide evidence of penetration testing of critical databases and systems next year.

The FCA introduced new requirements last year requiring a comparison with other similar options available in the market. If an alternative scheme(s) would offer better value, we must inform the pension provider. I can confirm that we have not considered it necessary to make this notification this year. Our view on each feature that we are required to make a comparison on is included in the relevant section of the report. Details of how we selected the comparator group, and a consolidated view of our comparator findings is set out in Appendix A.

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

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

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

### Alison Bostock

Chair of the ZEDRA Governance Advisory Arrangement for Quilter Investment Pathways

September 2023



**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](mailto: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**.



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# Contents

Executive summary	2
<b>Overview of the value assessment</b>	<b>6</b>
1. Product strategy design and investment objectives	8
2. Investment performance and risk	10
3. Communication	12
4. Firm governance	14
5. Financial security	16
6. Administration and operations	17
7. Engagement and innovation	19
8. Cost and charge levels	20
<b>ESG financial considerations, non-financial matters and stewardship</b>	<b>22</b>
<b>Appendices</b>	
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.**

## 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 and to undertake comparisons of the Firm's product against a suitable comparator group of providers for certain Quality of Service and Investment Features and Cost and Charges.
- | The provisional Value for Money score, including a full breakdown, has then been shared and discussed with the Firm.

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

The Quality of Service and Investment Features have been determined based directly on the FCA requirements for assessing ongoing Value for Money set out in [COBS 19.5.5](#), in particular services relating to communications with pathway investors and processing of [core financial transactions](#). The Quality of Service and Investment Features considered have 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 and 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 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 will then 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 any 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 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 [Investment Pathway](#) 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 Investment Pathway 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 [Investment Pathway](#) 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 Short Term Fixed Income Fund (renamed during 2022 from 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.



The detailed review of Investment Pathways was carried out in February 2023 including looking at actual investor behaviour and competitors' solutions. No changes were felt to be required in 2023 but some areas for future consideration were highlighted, reflecting on the poor performance in absolute terms over 2022.

## **The Firm's strengths**

The 2023 review process was detailed and robust and set out a clear and reasonable rationale for the retention of each fund, as well as the risks inherent in the design.

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 against which they can be measured and also that can be communicated to the pathways investors. We note that consideration is being given in 2023 to both of the funds used, to investigate whether a better risk/return trade-off can be achieved, possibly also bringing in greater emphasis on ESG factors.

## **Areas for improvement**

### **GAA observations**

As we observed last year, the GAA would like to see a clearer articulation of investment aims or 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, as well as for the purposes of performance monitoring. We note that both of these Pathways are under review in 2023 to explore other options.

The GAA would expect to see progress on the integration of ESG financial considerations within the investment options when they are next reviewed.



## 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 (Assets Under Management (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 Investment Pathways?

- c) How has Quilter taken into account [ESG](#) financial considerations and other financial considerations when selecting the Investment Pathways (e.g. interest rate, liquidity, concentration, exchange rate, political and counterparty risk)?
- d) Have the [Investment Pathways](#) delivered as expected, and therefore does the Investment Pathways 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 Investments Pathways 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 Firm's strengths

There is evidence of a quarterly review of performance by the Wealth Investment Forum 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.

The implications of the challenging market conditions in 2022 were thoughtfully discussed in the annual review.

## 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 January 2022 to 31 December 2022.

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

Investment Pathway	Net Investment Performance	Peer group / Benchmark
1	-11.22%	-10.1% (IA Mixed Investment 40 to 85% shares)
2	-27.08%	-27% (IA UK gilts)
3	-13.6%	-9.6% (IA Mixed Investment 20 to 60% shares)
4	0.823%	1.4% (SONIA)

We have assessed [net investment performance](#) against the stated benchmarks as being satisfactory, taking into account longer 3 year performance records for the funds.

### Comparator results

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

This assessment identified that the one year net investment performance when considered against the fund benchmark for the Firm's pathway investors over 2022 and relative to the comparator group for each investment pathway solution is as set out in the table opposite.

Investment Pathway	Investment Performance
1	Average
2	Below Average
3	Below Average
4	Average

## 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 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.

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.

We saw evidence that processes and communications are kept under review in response to feedback from the team and from customers. All specific feedback and any difficulties encountered by customers using the drawdown tools are individually followed up and small changes can be made quickly.

During 2022 Quilter strengthened the risk warnings of Investment Pathway 2 within the Investment Pathways Brochure to illustrate the risk of interest rates rising more clearly. The Brochure remains under review to ensure that there is sufficient clarity on risks to 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 communication materials provided to the Firm's pathway investors over 2022 were average relative to the comparator group.

## Areas for improvement

### GAA observations

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

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

### The Firm's approach

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.

### The Firm's strengths

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

The Investment Forum is responsible for the governance and oversight of the Investment Pathway solutions to ensure they remain consistent with the needs, characteristics and objectives of their identified target market. Since the pathways were launched the forum has monitored aspects such as the take up of investment pathways, absolute and relative performance, risk as well as cost and charges data at its quarterly meetings.

The Product Governance Forum is responsible for the governance of the pension product.

There is a steering group to oversee and review the effectiveness of the platform performance and a monthly management board meeting to identify and resolve issues that emerge.

The Operations Committee monitors operational performance through management information and key performance indicators, business continuity management oversight, operational resilience performance.

IT & Security are charged with reviewing IT and information security performance, and also review and monitor production performance and root cause thematic and remediation.

The Risk and Compliance Committee have collective oversight, awareness and review of risks and actions being taken to mitigate such risks, review management of significant breaches and themed issues/challenges.

## 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 171% at 31 December 2022. Fitch's rating for Quilter (i.e. the Group Company) was A- as at 10 October 2022.

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 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 both 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 now has Service Level Agreements ('SLAs') of 2 working days for full or single income withdrawal, crystallisation and transfer out and 4 working days for death claims and investment switches.

The Firm completed a technology platform migration during 2021 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.

### The Firm's strengths

Performance of 97% against SLAs was achieved for single income withdrawals and transfers out, which made up the majority of work items processed. Full income withdrawals achieved 94% and deaths and crystallisations were both at 86%. Investment switches were carried out within SLA in 80% of cases, as this is a manual process for pathways. The other 20% (16 cases) were compensated where a loss had been incurred as a result of the delay.

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

The platform migration was completed successfully in 2021.

We have seen evidence that any errors are picked up and customers are compensated for the financial impact of any delays or errors.

Quilter maintains programmes for business continuity management and IT disaster recovery ensuring that client data and critical business services will be recovered in the event of a major incident. This is governed by a business continuity policy which all Quilter operations are required to conform.

The policy requires that business continuity plans are maintained, detailing critical business functions, tasks and dependencies. Quilter maintains a central Incident Management Plan and supporting team that can be invoked following an incident.

Since COVID-19, Quilter continues to operate in a hybrid manner, providing ongoing confidence in response plans.

No evidence of penetration testing in 2022 was provided, either at Quilter or FNZ, but a number of scenarios were tested for operational resilience.

There were no complaints received from pathways customers in 2022.

## Improvements since last year

We note that measurement times now relate to the internal processing times, rather than including an additional 3 days for the money to reach the customer's account. This explains the change from the 10 day end-to-end process target that we observed last year appeared longer than industry norms.

We were shown evidence of improvements to internal controls and processes in 2022, demonstrating a culture of continuous improvement and that staff feel empowered to make suggestions.

## Comparator results

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 2022 were average relative to the comparator group.

## Areas for improvement

### GAA Challenge

We would expect to see evidence of penetration testing of critical databases and systems.



## 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 Investment Forum reviews Investment Pathways annually and monitors performance and take-up quarterly.

The Firm has carried out customer surveys on the withdrawal process. The customer feedback was taken on board and changes were made to simplify the process for the majority of customers.

### The Firm's strengths

The Firm has an existing process for managing product evolution.

Feedback is sought from customers entering drawdown and any concerns are followed up individually.

### Improvements since last year

In 2022 Quilter launched the Quilter app. The app allowed customers to track their investments in a similar way to online banking.

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

The GAA did not identify any specific areas for improvement.

## 8. Cost and charge levels

Value score:

Low

Moderately Low

Moderately High

High

### What are we looking for?

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

- | the 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; and
- | 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

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

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

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

<b>Investment Pathway</b>	<b>Charge Applied</b>
Investment Pathway 1	<b>0.52%</b>
Investment Pathway 2	<b>n/a (0.45%)</b>
Investment Pathway 3	<b>0.52%</b>
Investment Pathway 4	<b>0.45%</b>

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

### **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 2022 were average relative to the comparator group.

### **Areas for improvement**

The GAA did not identify any specific areas for improvement.



# ESG financial considerations, non-financial matters and stewardship

## What are we looking for?

Where the Firm has an investment strategy or makes investment decisions which could have a material impact on [pathway investors'](#) investment returns, the GAA will assess the adequacy and quality of the Firm's policy in relation to [ESG](#) financial considerations, non-financial matters and stewardship. The GAA consider 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 characterises the relevant risks or opportunities;
- b) seeks to appropriately mitigate those risks and take advantage of those opportunities;
- c) is appropriate in the context of the expected duration of the investment; and
- d) is appropriate in the context of the main characteristics of the actual or expected pathway investors.

We also expect that the firm's processes have been designed to properly take into account the risks or opportunities presented.

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 Investment 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, only Pathway 4 has an ESG overlay but the remaining Pathways do not have any ESG integration. Quilter's reasons for this are clearly set out, and in our view are reasonable.

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.

### GAA challenge

As raised last year, Quilter should consider how to develop its proactive engagement with asset managers on stewardship.



# Appendix A: Comparison report

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

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

## How the comparators were selected

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

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

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

This assessment identified that the one year net investment performance when considered against the fund benchmark for the Firm’s pathway investors over 2022 and relative to the comparator group for each investment pathway solution is as set out in the table below.

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

## 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 2022 were 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 compares to other sufficiently similar investment pathway arrangements.

This assessment identified that the administration services provided to the Firm's pathway investors over 2022 were average relative to 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.

This assessment identified that the overall cost and charge level paid by the Firm's pathway investors over 2022 were average relative to 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 early 2023.

Members of the GAA had a meeting with representatives of Quilter to kick off the Value for Money assessment process for the 2022 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 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 [Investment Pathways](#).

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 our Value for Money assessment framework and scoring methodology to ensure this continued to be applied consistently. Whilst the Value for Money assessment framework itself remains largely unchanged from the previous year, significant work has taken place reviewing and developing the data request and the approach for Firms to provide information in response to the data request, to make the process more efficient.

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	21/02/23
Kick off meeting	14/02/23
Site visit	05/05/22
GAA panel review meeting	24/05/22
Discuss provisional scoring	28/06/22 and by email

## Concerns raised, and challenges made 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 but we have challenged Quilter to see evidence of penetration testing of critical databases and systems next year.

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

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

- | The role of the GAA and the opportunity for pathway investors to make representations direct to the GAA has been and will continue to be communicated to pathway investors via the Firm's website.
- | Quilter will receive and filter all pathway investor communications, to ensure that this channel is not being used for individual complaints and queries rather than more general representations which may be applicable to more than one pathway investor or group of pathway investors. Where Quilter determine that a communication from a pathway investor is a representation to the GAA, it will be passed on in full and without editing or comment for the GAA to consider.

In addition, the GAA has established a dedicated inbox at [zgl.gaacontact@zedra.com](mailto:zgl.gaacontact@zedra.com) so that pathway investors can make representation to the GAA direct. Quilter will include details of this contact e-mail address on [ask@quilter.com](mailto:ask@quilter.com)



## 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 is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments we act as an independent trustee on several hundred trust-based pension schemes and we sit on a number of IGCs. More information on ZEDRA can be found at as [www.zedra.com/GAA/](http://www.zedra.com/GAA/)

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

experience, and independence to act in the interests of relevant policyholders or pathway investors.

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

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

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

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

Information on Information on Dean's experience and qualifications can be found at [www.deanwettonadvisory.com](http://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 ZEDRA 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: [www.platform.quilter.com/products-and-services/pensions/governance-advisory-arrangement--investment-pathways](http://www.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.

## Investment Pathway

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

## 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 Investment Pathway offering.

## Relevant policyholder

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

## Relevant Scheme

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

## Transaction costs

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

## Unit-Linked

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



## Appendix E: Data table

Investment Pathway	Number of customers	Value in pathway
1	41	£2,168,098
2	0	£0
3	21	£1,185,001
4	11	£507,521

As of 31/12/22 there were 83 customers in an investment pathway.

**Total Investment Pathway book value = £3,860,620**



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