

ANNUAL REPORT

2018

ROYAL LONDON

INDEPENDENT
GOVERNANCE
COMMITTEE

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A quick summary





Personal Introduction from the Chair

I am delighted to present my first report to you as the new Chair of Royal London's Independent Governance Committee (IGC). As my predecessor Phil Green explained in his introduction last year, he stood down from the IGC during 2018 after three years as Chair. We are all grateful for the significant amount of work Phil did to establish the IGC and I look forward to continuing to represent your interests and ensure Royal London deliver value for money for your pension.

We are an independent committee with a duty to you as a Royal London workplace pension customer. We are here to look after your best interests and to assess whether Royal London is giving you value for money on your pension.

You can read more about us, including our personal backgrounds and our terms of reference (what we have to do and how we do it) on this page of Royal London's [website](#)¹. You can also find our previous reports on the same page.

This report describes the work we did in 2018. We've responded to feedback and have not repeated information about Royal London's workplace pensions that has previously been covered, unless it is relevant to a specific point in this report.

2018 was an eventful year on many fronts, including the turbulence in investment markets during the latter part of the year. Certainly in the short term this turbulence affected Royal London's investment performance for the portfolios that the majority of you invest in. We discuss this in [section 7](#) of the report. It is important to stress, that pensions are a long-term investment which may from time to time be impacted by short term fluctuations in investment markets. Despite the challenging market conditions during 2018, we remain satisfied with the overall investment strategy adopted by Royal London, which is the foundation of the investments of your portfolios.

Royal London has continued to develop the services it offers its workplace customers and has significantly improved the way it communicates with customers via annual statements and as they approach retirement. There has also been a coherent and comprehensive programme of research to make sure that Royal London's efforts to improve their service are focused on aspects of your pension that are of most value to you.

During 2019 it is very likely that the Financial Conduct Authority will require Independent Governance Committees to extend the scope of their work. We will be considering the implications of this once the details are confirmed, including whether we need to expand the size of the IGC.

I am grateful to my fellow committee members for their work during the year and in supporting me as I took on my new role of Chair. I am also grateful to the key employees of Royal London who have been unstinting in providing the information we have requested and in supporting the work of the IGC during the year.

We are always trying to improve how we explain our work to you. If you have any suggestions to improve our report or the work we do, you can contact us via our dedicated mailbox royallondonIGC@royallondon.com. We will also be present at Royal London's Annual General Meeting on 5th June so please look out for more details on that from Royal London in due course and we look forward to meeting some of you then.



Peter Dorward
Chair, Royal London IGC

A review of 2018

SUMMARY

In this section we outline the main activities we have worked on during the year, and key internal and external events.

To assess whether Royal London is providing you with value for money, we:

- » **Made sure Royal London delivered on promises made in earlier years**
- » **Checked up on the latest workplace developments inside and outside Royal London**
- » **Reviewed the way Royal London manages your money**
- » **Vetted the quality of service being delivered**
- » **Checked Royal London is taking your views on board**
- » **Assessed the value for money you are receiving**

1.1 How Royal London has kept its promises

In 2017 we asked Royal London to make further reductions in charges to a small number of older workplace pension plans. This was done during 2018 and more details are set out in [section 4](#) of this report.

These plans had a variety of different characteristics and so Royal London used different methods to reduce charges. In some cases, it was possible to reduce the explicit charges. For others, the same net effect was achieved by adding additional money to the pension plan. This change benefited just under 500 customers. We are now satisfied that on-going charges on all Royal London's workplace pension plans, including on older plans, are providing value for money.

1.2 Measuring the impact of new initiatives

Royal London continues to make changes to how it manages your pension and how it communicates with you. We reviewed the following enhancements made for workplace customers:

- Introduction of a new annual statement for Retirement Solutions workplace customers.
- Communications related to an increase in required minimum contribution levels (known as phasing).
- Developments in the communications and support provided in the years nearing retirement.
- Communications explaining changes to workplace customers' default investment.
- Changes to employer microsites to provide a better customer experience.
- New services introduced to support advisers review the quality and service being provided to workplace pension customers of Royal London and other pension scheme providers.

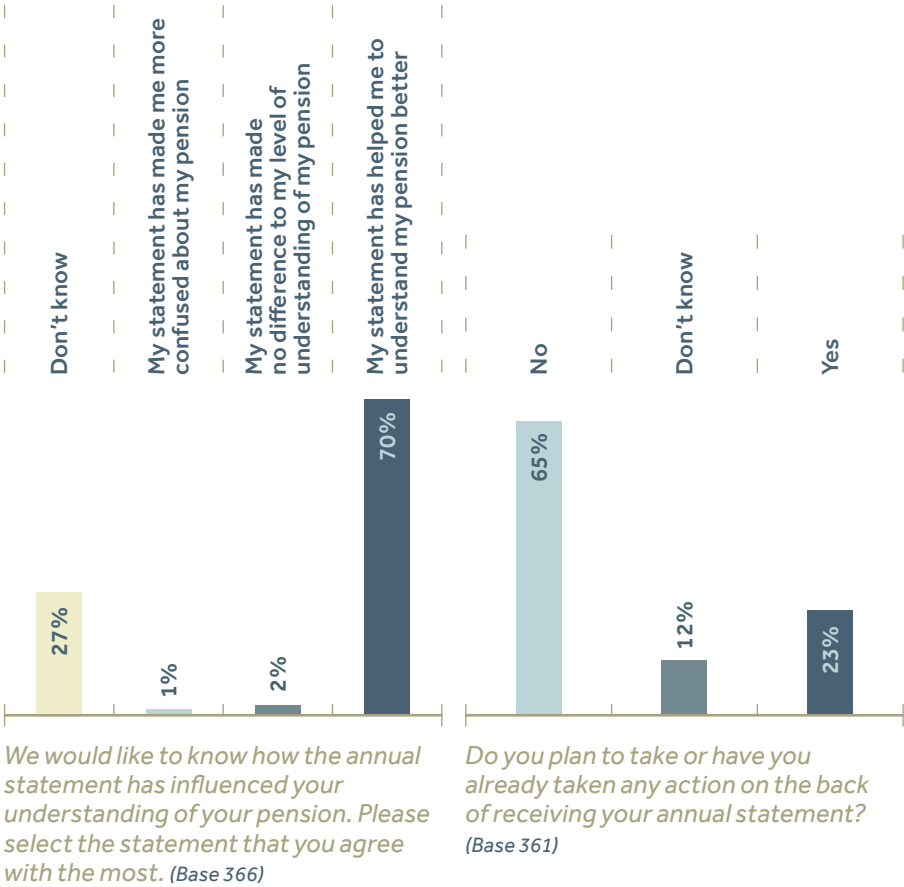
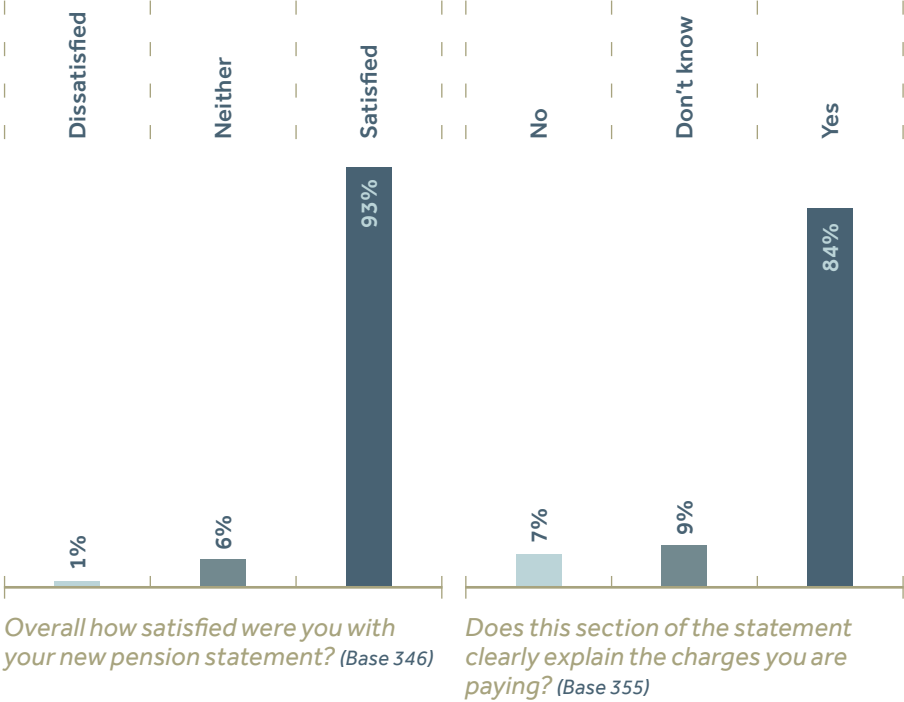
- Development of a **mobile app** to allow easy access to information on your pension plan.
- Improvements in the systems and processes used for employers to inform Royal London about changes in membership of the scheme.

We are keen to ensure changes have made, or will make, a difference to you. One of the most significant developments in the year has been the improvement to the annual statement, which has received positive feedback. Royal London gathered feedback from customers after the new statement was sent out. The research highlighted the following:

- 93%** say they were satisfied or very satisfied with the information
- 84%** responding that the charges were clearly explained
- 70%** say their understanding of their pension increased
- 23%** say they will take action as a result of the statement

Further information on the other developments are provided in the sections that follow where appropriate.

Many of the reports in this section were new for 2018, as such previous year comparisons are not available. The IGC will continue to review and measure continuous improvement.



1.3 An overview of the research activity

Throughout this report we describe the research that Royal London has been involved in during the year. In addition to assessing the impact of the new annual statement, other research has included:

- Understanding more about what value for money means to workplace pension customers.
- Engaging with an external company to assess how Royal London is treating its **vulnerable customers** compared to other pension providers.
- Researching employers' views on pensions and what makes a good scheme.
- Monitoring the views of advisors who work with Royal London.
- Understanding to what degree social responsibility, sustainability and responsible investing are important to customers when they are deciding where to invest their money.
- Comparing Royal London's investment performance with its competitors.

We've been involved in the design of key research activity. This helps us ensure we understand what you value and how Royal London is doing compared to its competitors. Our conclusions are set out in the relevant sections of this report.

1.4 Key points from our regular Management Information pack

Each quarter we receive a detailed Management Information pack from Royal London covering their performance across a variety of agreed areas. We review this to ensure Royal London are maintaining agreed standards. The pack contains both internal performance measures and customer perceptions of Royal London's performance. The pack is also used to monitor charges and investment performance.

Data is taken from the Management Information pack and included throughout this report along with our conclusions on investment, service standards and communications.

1.5 Increased scrutiny of Royal London's investments

In 2018 we widened our review of how Royal London invests your money. Each year we monitor market developments and challenge Royal London on how they are, or will be, responding to these. An example of this, is the growing interest being taken by Government in environmental, social and governance (ESG)(or responsible investment) matters, which we discuss in [section 6](#). The Financial Conduct Authority have said they intend to consult on rule changes in April 2019 requiring IGCs to report on their firm's policies on:

- evaluating ESG considerations, including climate change;
- taking account of members' ethical concerns; and
- stewardship.

Rather than waiting until the FCA requires us to consider these issues we have been monitoring Royal London's work relating to ESG (as we said we would in last year's report). We explain more about what ESG is and our findings in [section 6](#).

We also reviewed the effectiveness of investment transaction controls. This is described in [section 7](#).

We also considered the independent reviews that Royal London receives on its investment strategy and describe this in [section 5](#).

1.6 Other developments

Brexit

The way that Royal London administers your workplace pension is unlikely to change as a result of Brexit. For investments, Royal London has been investing across a mix of assets that are designed to perform well in a range of different scenarios rather than positioning for one particular outcome. We're reassured by the actions taken by Royal London given the significant uncertainty around Brexit that exists at the time of writing.

Pre-retirement communications

We have also monitored Royal London's planned reaction to other potential changes around pensions, such as the material they are obliged to send you before your retirement. We encouraged Royal London to implement these improved standards before they became a legal requirement.

It is possible that our work will be extended in future years to cover the products Royal London sells at the point of retirement. At present our remit does not cover Royal London's work in this area. Despite this, we are already examining the communications and support you get in the run up to your retirement to ensure this is appropriate.

Non-workplace pensions

The FCA have issued a discussion paper on effective competition in non-workplace pensions which drew parallels with the workplace market. There is the potential for the FCA to look to widen the IGC remit into non-workplace pensions but at this time our focus remains on Royal London's workplace customers only.

Royal London executive changes

In December 2018 Royal London announced that its Chairman would be stepping down at the end of 2018. In addition, the Chief Executive would step down during 2019. These changes are not expected to materially affect the work of the IGC.

Value for Money

SUMMARY

In this section of the report we describe the framework we use to assess value for money, and how we settled on that framework.

In summary:

- » **Royal London carried out research to find out what was important to customers and employers.**
- » **We monitored the results of a regular YouGov survey that asks whether customers think their pension provider is providing value for money**
- » **We continue to consider value for money to be the combination of various attributes and not a single item.**

2.1 Customer research

Royal London carried out a research project during 2018 to explore what "value for money" meant to its customers. The key findings from this project were that customers felt that value for money was more than just the charges or cost of a product. In particular items such as trust worthiness, overall quality of service and the clarity, transparency and nature of the communication with the firm were all important factors. The results of this research were consistent with findings from previous research projects and our own view on value for money.

2.2 Employer research

Two different research projects were carried out amongst employers. The first concentrated on auto-enrolment and what support employers were looking for to help them meet their legal obligations. The second project was broader and covered a range of size and type of employers and explored the employers' attitudes to pensions and their role in helping people save. The research also explored employers' views around Responsible Investment.

The findings of this research confirmed that a value for money assessment has to include items such as administration, communication and ease of doing business – in addition to charges and investment performance.

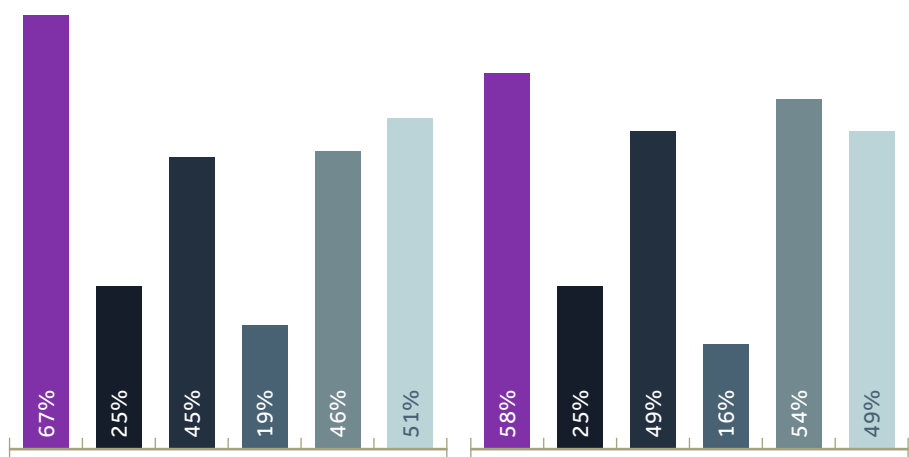
2.3 YouGov survey results

During the year we have regularly accessed data from **YouGov** Profiles (GB). **YouGov**'s syndicated dataset contains over 250k data points which are

updated on a weekly basis. For the purposes of this report, we have used **YouGov** Profiles (GB) data to look at people who have workplace pensions with the main providers of workplace pensions, as well as Royal London. The people who take part in **YouGov**'s workplace pensions surveys are asked a number of questions including whether they think their workplace pension provider is providing good value for money.

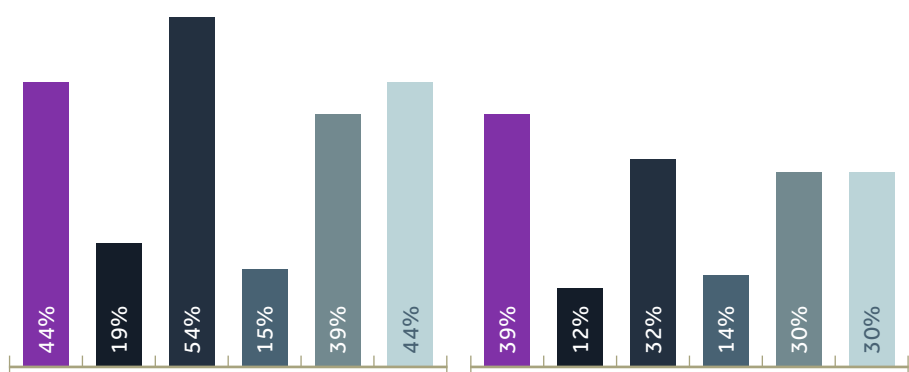
This research provides customer driven benchmark measurements of Royal London against other workplace pension providers. The key performance indicators we monitor through this route include the customer's overall impression of the pension provider, overall satisfaction with the pension provider, the likelihood they will recommend the pension provider to a friend or colleague and the perceived value for money provided. Value for money is assessed by respondents being asked to reflect on what value a firm provides to them in return for the price paid. The following graph provides a view of the scores from Royal London customers and the scores from 5 other workplace pension providers' customers:

Based on the responses from company pension holders of each company giving positive responses to the following questions:



Impression:
Overall, of which of the following financial institutions do you have a positive impression?

Satisfaction:
Of which of the following financial institutions would you say that you are a "satisfied customer"?



Recommend:
Which of the following financial institutions would you recommend to a friend or colleague?

Value for Money:
Which of the following financial institutions do you think represents good value for money? By that we don't mean "cheap", but that the brands offer a customer a lot in return for the price paid.

We were pleased to note that a higher proportion of Royal London customers had a positive impression of Royal London, were more satisfied with Royal London and perceived Royal London to provide better value for money than those holding workplace pensions with the other firms.

The data highlights how the value-for-money scores are generally lower than the other key performance indicators across all providers. We have asked Royal London to consider how they might improve future communications to assist workplace pension members' understanding of value for money, specifically looking at the services and investment return provided against charges. We have also requested that Royal London improve illustrations provided within the annual statement by highlighting the potential impact increasing contributions could have on members' individual retirement outcomes.

We asked Royal London to explain any material changes in these measures from quarter to quarter and give reasons for any significant differences between the results for different pension providers. This helps us to put into context any other information that Royal London gives to us, for example on the effect of any short-term fluctuations in service standards.

2.4 Our framework to assess value for money

As a result of the work described above and our understanding of the market for workplace pensions we concluded that the existing framework to assess value for money set out on the next page remains appropriate.

We will however be expanding our framework to take account of developments in Responsible Investment in 2019. We believe it is appropriate to review the FCA's announcement in this regard before making a change. We also intend to consider changes to our framework to recognise the particular need of Vulnerable Customers, which we discuss in section [].

The framework we use to assess value for money is as follows, which is unchanged from last year:

Area	Principle
	Workplace pension contracts should be regularly reviewed to make sure they continue to meet the changing needs of customers in the long-term savings market. This includes consideration of:
Regular reviews	<ul style="list-style-type: none"> • The changing market environment. • The customer experience taking account of different customers' needs. • Any inappropriate results or potential results for customers.
	Ongoing charges must continue to offer value for money.
Appropriate ongoing charges	Benefits and services will be considered in light of what customers view as important and how Royal London delivers against them.
	Any deduction from the value of a pension on exit:
Fair exit charges	<ul style="list-style-type: none"> • For people over 55, must meet the requirements of the legal cap on exit charges, • If the cap doesn't apply, any charge must be fair and designed to recoup no more than any costs incurred by Royal London caused by the early exit of the customer.
Balanced charging	Any assessment of value for money should allow for the need for some cross-subsidies between workplace pension plans where appropriate and in the interest of customers.
	Investment returns should be appropriate for the level of risk a customer has taken.
Appropriate investment returns	The return should also be measured in relation to the expectation set with the customer.
Clear communication	Communication with customers must be clear, timely and designed to meet the needs of the customer, which may change over time.
Effective service	The service provided by Royal London should make it easy for customers to manage their pension and engage with them effectively when they need help.

Programme of Research

SUMMARY

In this section of the report we describe Royal London’s approach to gathering regular customer feedback and how it is used to improve outcomes for you. Royal London also carries out other, focussed pieces of research throughout the year when it’s necessary to gather your views and, where relevant, we’ve mentioned these throughout our report.

In summary:

- » Royal London continues to explore different ways of getting your views on your pension
- » We, and Royal London, want all the research to be capable of leading to changes for the better for workplace customers The research is well-coordinated and conducted in line with required best practice
- » We have been given the opportunity to input into what is researched and how this is carried out

3.1 Overview

Over the last three years we have asked Royal London to develop a comprehensive research programme to enable us to examine the quality and value of services provided and how they can be improved in the areas you value most.

This research programme has been built around Royal London’s customer value statements, which represent the seven outcomes Royal London customers said mattered most to them. By developing the research programme around these statements it enables us and Royal London to measure every aspect of service and value provided to you and your employer.

Royal London’s customer value statements

The company I can really trust and recommend

- **REPUTATION**
Be fair and represent my interests
- **MEMBERSHIP**
Involve and reward me
- **COMMUNICATE**
Listen and talk my language
- **BE PERSONAL**
Understand me and meet my needs
- **RESOLUTION**
Take ownership and resolve my queries
- **PAY OUT**
Pay me what I expect
- **INVESTMENT**
Look after my money

We provide more information on how Royal London is performing on these aspects of your pension throughout this report.

3.2 Service feedback and customer voice

We continue to review your feedback on the service you receive from Royal London. We considered three key areas:

- how easy you find Royal London to do business with,
- how well they resolve your enquiries and
- how likely you are to recommend them.

Royal London gathers customer opinion and feedback through various mechanisms and provides this information to us regularly:

Customer Voice

- Post-contact surveys with customers and employers
- Regular proactive research with customer and financial advisers (customer relationship study)
- Complaints data
- Deep dive research in areas of interest
- Internal monitoring
- Bespoke research

We monitor how easy you find Royal London to deal with through their rolling "customer voice" programme. Over 6,000 workplace pensions members responded to a telephone survey completed at the end of service calls. Whilst the overall satisfaction scores indicate you value the service Royal London delivers, there have been times when service levels have dipped. We see from the complaints data we receive that this has resulted in a small increase in overall complaints levels at the time of year coinciding with peak demand. We provide more information on this in [section 8](#).

The IGC reviewed the results from Royal London's regular customer relationship study, which is designed to measure your views on how easy Royal London are to do business with, how satisfied you are with them and how well they are delivering against the customer value statements. This research involved contacting workplace pension members proactively to ask a series of questions. The results showed a lower satisfaction score than from the regular "customer voice" programme described previously. Whilst this may be expected due to the proactive nature of this survey, the number of surveys completed was lower than we would have liked. This was partly due to the amount of contact details Royal London hold for workplace pension members. We have challenged Royal London to present a plan to ensure they hold contact details and contact preferences for as many workplace pension members as possible. We believe that making these improvements will result in a higher number of responses to surveys like the customer relationship study.

3.3 Other, bespoke research

Over the course of 2018 we have reviewed findings from ten research programmes, including seven customer and two employer projects. A number of these are rolling programmes enabling us to monitor year on year improvements and others have been developed this year in areas we believe are important to develop a deeper understanding and may lead to future improvements. Where they are relevant, we have mentioned these in other sections of the report however there are two particular pieces of work that it is appropriate to highlight here:

(a) Improving communications

In our 2017 report we updated you on an IGC customer service and engagement workshop which helped us understand more about Royal London's strategy to invest in improved communications and service. Building on this, we had a two day workshop in Royal London's Edinburgh offices to understand how this strategy was being implemented. We also gained a better understanding of the investment being made in technology to improve the communications you receive and make it easier for you to do business with Royal London. We visited customer innovation teams, who demonstrated how they were using insights gained from various research programmes to deliver long term improvements on areas you said were most important. It was clear all the staff members we met had a commitment to delivering a high quality service to you and to meeting your needs.

Each time we review these research findings, our main objective is to challenge Royal London on how they plan to invest and innovate to improve value for money.

These site visits and the research programmes ensure that we are better informed on how customers are supported, how satisfied you are and what improvements you expect to be delivered.

(b) Employer research

Employers play a vital role in ensuring employees have a good understanding of the pension scheme and the choices available to them. During 2018 we considered two research studies that were carried out with employers. The first presented views from over 300 employers on automatic enrolment and the service they received from their pension providers. Findings included:

- Satisfaction levels were relatively high
- The rate of people opting out of their pension scheme correlates to employer size (i.e. the bigger the company, the higher the number of people that opted out of the pension scheme)
- Staying compliant is the employer's priority
- The majority believe pension is a valuable benefit but do not see it as their responsibility to encourage employees to save more
- Perceived employee engagement is relatively low
- Employers see good, relevant communications as being crucial to encouraging employees to engage with their pension and to save more

We asked Royal London to build on this employer research and develop a new study exploring the employer's role in providing a pension with the objectives of:

- Understanding more about the role a pension scheme plays in recruitment and retention of employees and where it sits in an employer's overall benefits package; and
- Understanding what good pension scheme support (to both the employer and employee) looks like, the role of the adviser and how Royal London might be able to help.

We provided input into the employer selection and the questions asked. Independent members of the IGC also attended and observed a selection of interviews to gain a better understanding of employers' views.

The research included an explanation of Pensions Dashboard and we were pleased to note an overwhelmingly positive reaction to this initiative. Royal London are using these findings to provide feedback to the Government's consultation on Pensions Dashboards.

After reviewing the research findings, we asked Royal London to consider introducing employer case studies to illustrate the benefits of the services that can be provided to employers who have chosen Royal London's pension scheme for their workforce. Royal London are also using the findings to help create educational materials and information for members of their workplace pension schemes.

3.4 Conclusion on research and insight

Having asked Royal London to improve their understanding of what workplace pensions customers value and the areas members expect improvements on, we believe good progress is being made.

Significant effort and investment has been made in understanding your views on the new annual statement and the service you receive when contacting Royal London. Whilst improvements have been made, we have asked Royal London to consider further those research findings relating to customer engagement. This is with a view to enhancing the way Royal London help customers understand their potential position at retirement and how action can be taken to improve this if required.

Royal London has committed to deliver technology solutions which will make it easier for many workplace pensions customers to get information and interact with their pension plan. The launch of the smartphone App is a good example of this. However, we have challenged Royal London to continue to listen to members who prefer paper communications and ensure targeted improvements are delivered based on the needs of different customer groups.

We will continue to monitor the things you told Royal London you expect them to deliver improvements on and ensure they keep asking you how they can support you to achieve your retirement goals.

Charges on Your Plan

SUMMARY

In this section of the report we explain what further reductions to charges Royal London has made as a result of our requests, and our views on the current position.

In summary:

- » **Royal London has implemented the reductions in charges that we had explained were necessary for a small group of plans**
- » **The remaining variety and scale of charges are consistent with our views on value for money**
- » **Royal London has improved how it communicates the charges to you**
- » **The ProfitShare feature is a valuable element of value for money as Royal London aim to boost your retirement savings by adding a share of profits to your plan each year.**

4.1 Reductions in charges

In our report last year, we explained that (although Royal London had made wide ranging reductions) the charges on a very small number of older plans still did not meet our required test for value for money. Royal London committed to making further improvements during 2018 to address this. This was achieved in two ways.

Firstly, for a group of approximately 350 plans, the explicit charges were further reduced so the ongoing annual charge could be no greater than 1%, plus the cost of any commission. This change was made with effect from November 2018 and all affected members were told about this improvement.

Secondly, for a further group of approximately 130 plans, the most efficient way of reducing charges to the agreed level was by adding additional sums to the plan rather than to alter the regular charges on the policy. We are satisfied that this is a suitable method to meet our value for money test and we will be monitoring to ensure these additional payments are indeed made in the future as agreed.

4.2 Variety and scale of charges

The quarterly Management Information pack gives us a regular analysis of the variety and scale of charges on Royal London's range of workplace pension products. We monitor both the general trends in average charges but also the range of these charges and in particular the highest charge that was made during the period. We look at both on-going regular charges and also any charges on exit. During the year we challenged the exit charge on a few individual cases of older style policies but were satisfied with the reasons provided for the charge being applied.

The average AMC for Royal London's workplace plans is as follows:

Product charges				
These figures show the average annual management charge (AMC) applying to funds built up from the current and/or previous regular contributions across all Royal London's workplace pension plans (WPP), the average AMC for new members and for those who have left the employer and moved to their own plan (Continuation plans).				
Average AMC for:	2015	2016	2017	2018
All WPP plans	0.74%	0.71%	0.69%	0.68%
New members	0.69%	0.65%	0.64%	0.63%
Continuation plans	0.68%	0.67%	0.69%	0.68%

4.3 Automatic Enrolment (charge capped) schemes

The vast majority of Royal London's workplace pension members are in modern, low charge products. Retirement Solutions is Royal London's most modern contract and the only one which is actively marketed. The following table shows that most of Royal London's customers are in these plans and the proportion is growing year on year.

PRODUCT	31/12/2015	31/12/2016	31/12/2017	31/12/2018	% Change
RS GPP	455,300	643,700	849,748	1,004,360	18%
RS SHR	57,600	61,800	66,437	71,512	8%
Tal version 1 - 6	34,000	32,600	31,109	29,700	-5%
Tal GPP	1,700	1,600	1,527	1,429	-6%
CIS Group stakeholder	9,500	9,200	8,842	8,468	-4%
Phoenix Life GPP	18,800	18,200	17,490	16,915	-3%
Royal Liver	0	0	1,179	1,150	-2%

The Retirement Solutions contract is the one which Royal London offers to employers for the purposes of auto-enrolment. Some employers also offer a non-qualifying auto-enrolment scheme and Royal London still has a number of schemes of this kind. We pressed Royal London to contact a number of employers where it was unclear whether the employer had fully appreciated that their scheme was not compliant with the auto-enrolment requirements. The charges on these schemes could therefore be higher than if a new auto-enrolment scheme were to be used. Royal London has carried out this work and we are satisfied that it has done all it can to ensure employers are clear about their scheme status and that there are valid reasons why any non-auto-enrolment qualifying scheme remains in place. Where any doubt remains, Royal London is continuing to seek clarification from the employer.

We are satisfied that the charges now in place on all Royal London's workplace pensions meet our requirements for value for money. We will continue to challenge Royal London to find ways to reduce exit charges further where they are still in place.

4.4 How charges are explained to you

We think it is important that not only should charges provide value for money, but you should also be aware what these charges are so you can make your own assessment. In the past the annual statements you received did not make it very clear what charges had been taken from your policy. Royal London has redesigned the annual statement that they send to you to try and make the charges more transparent. We were consulted on these proposed changes and gave input to the process. As we explained earlier,

Royal London has carried out research to see what you think of these changes and 84% of responses said that the new statement clearly explained the charges. Although this is a good result, there were also some useful suggestions in the feedback from customers. For example, some of the responses said that it was not clear what the charges were for. Royal London has agreed to consider how to make further improvements to address this feedback.

4.5 ProfitShare

A unique feature of Royal London's workplace pension plans is **ProfitShare**. All policies sold since 1 July 2001 could be eligible to receive a share of Royal London's profits. For both 2016 and 2017 the **ProfitShare** declared was 0.18% which was paid on the retirement savings held at 1 April of each year. This year Royal London has again declared a **ProfitShare** of 0.18%.

We consider these increases to your pension plan as an important part of value for money and we remain extremely supportive of Royal London's **ProfitShare** initiative.

This feature also needs to be considered when making any comparisons of workplace pensions across different providers.

Investment Strategy

SUMMARY

In this section of the report we explain how Royal London designs and implements its strategy when investing your money. A later section discusses the recent investment performance.

In summary:

- » **Royal London continues to operate a coherent approach to its default investment strategy**
- » **Different sets of external specialist consultants have been used to design and verify the strategy**
- » **There is a robust system of governance in place**
- » **We are satisfied that the default, and other strategies, are sound.**

5.1 How the investment strategy is designed

Royal London's investment strategy is designed and managed at both the Governed Portfolio and the Lifestyle level. These terms are explained in [appendix 2](#) which outlines how Royal London constructs its funds.

The Governed Portfolios are managed using forward-looking risk measures. This is done by modelling thousands of different potential future investment outcomes. The models are updated every quarter so that future expectations are based on a combination of current market conditions, past history and expected future performance. A specialist external consultancy is used to provide these models and the simulations.

Each Governed Portfolio is then reviewed against its stated risk targets. These are monitored each quarter and reviewed by Royal London Intermediary's Investment Advisory Committee ("IAC") and these papers are shared with us. If the results are outside their target range this is discussed at the IAC, potentially prompting changes to the strategic asset allocation.

The Lifestyle Strategies are then built up from the Governed Portfolios in a similar manner. Lifestyles work around the idea that when you are younger, with a longer period until retirement, it's sensible to have more of your money invested in assets with a higher potential for growth than when you are older and closer to retirement. When you have a longer period to retirement there is more time to ride out any dips in the market and as you get closer to retirement the Lifestyle Strategy gradually moves your investments towards assets that are less exposed to the peaks and troughs of the market.

The following diagram and table illustrate how the mix of assets within the Balanced Lifestyle Strategy (Drawdown) changes as you near retirement.

Risk category	Your lifestyle journey			
	15 years +	10 years	5 years	Retirement
Balanced	Governed Portfolio 4	Governed Portfolio 5	Governed Portfolio 6	Target Drawdown

The above diagram highlights how the Balanced Lifestyle Strategy (Drawdown) moves through governed portfolios 4, 5 & 6 before moving to the target drawdown endpoint which is the Governed Retirement Income Portfolio 3 (GRIP 3).

We found the aims and objectives of each of the default options to be clear. Each strategy aims to give above inflation growth in the value of the pension pot taking into account the level of risk taken. When investment risk is considered, variations in returns under different market conditions are assessed. We received data to satisfy us that this was appropriate. The following section of this report gives information on the actual performance of these strategies.

5.2 Governance and controls over the strategies

Royal London works with various external partners to produce governance material for the IAC. Moody's Analytics is used as a **stochastic modelling** partner to review risk and asset allocations. The IAC review the performance of each of the funds and work closely with the IGC to ensure that the investments into which workplace customers can invest are well governed and we understand the performance of the funds.

We took comfort from the additional review conducted by Willis Towers Watson (WTW) into asset allocation of one of the governed portfolios as part of testing new Royal London policies. WTW concluded that asset allocation was optimum which was the same conclusion reached by the IAC working with Moody's. We will be continuing our review during 2019 alongside the further work that Royal London has planned.

5.3 What funds and strategies are used by you

The vast majority of new schemes are set up using the Balanced Lifestyle Strategy (Drawdown) as the default arrangement. However, employers can decide to adopt alternative strategies, and you have the option of choosing from the wide range of funds offered by Royal London.

In some cases, employers do not use a Royal London default. In such cases Royal London continues to make suitable checks and enquiries to make sure that the employers and their advisors are acting appropriately when making decisions on how to invest your money.

Responsible Investment

SUMMARY

In this section of the report we explain how Royal London is considering Environmental, Societal and Governance matters when investing your money. This is often called ESG or Responsible Investment.

In summary:

- » **There's growing regulatory, market and public concern to ensure that customer monies are invested in a responsible way.**
- » **We have taken notice of this and reviewed Royal London's work in this area.**
- » **Royal London used independent consultants to measure how they currently perform compared to their peer group**
- » **We have agreed with Royal London that they need to increase their work in this area, and they have produced a clear strategy to achieve this.**

6.1 What is Responsible Investment?

Responsible Investment describes the commitment to invest customer money in a responsible way, to implement stewardship responsibilities through voting and company engagement and to take account of environmental, social and governance factors when making investment decisions. It was originally limited to "ethical investment" and involved avoiding investment in firms with certain negative criteria, such as tobacco firms or weapons manufacturers. Now, Responsible Investment is wider in scope and involves those who invest money on your behalf considering a range of issues such as how a firm is governed, its employment practices and how its activities may be contributing to, or affected by, climate change.

These issues are not only important from a moral or ethical view point but also from a financial perspective. There is research that shows, for example, that firms that demonstrate strong performance on ESG have better corporate financial performance generating higher returns for investors than those with weaker ESG performance (we describe research by Royal London on this later in this section).

In addition to considering how these factors could impact on the value of their investments, there is an argument that since it is your money that is being invested for your pension, then, if you have strong views on how your money should be invested, Royal London should take these into consideration as much as possible.

Much of the external commentary around Responsible Investment relates to equities, but we also consider it important to adopt the same principles across all types of investment as much as possible, including property, bonds and cash.

6.2 Assessing Royal London’s approach to Responsible Investment

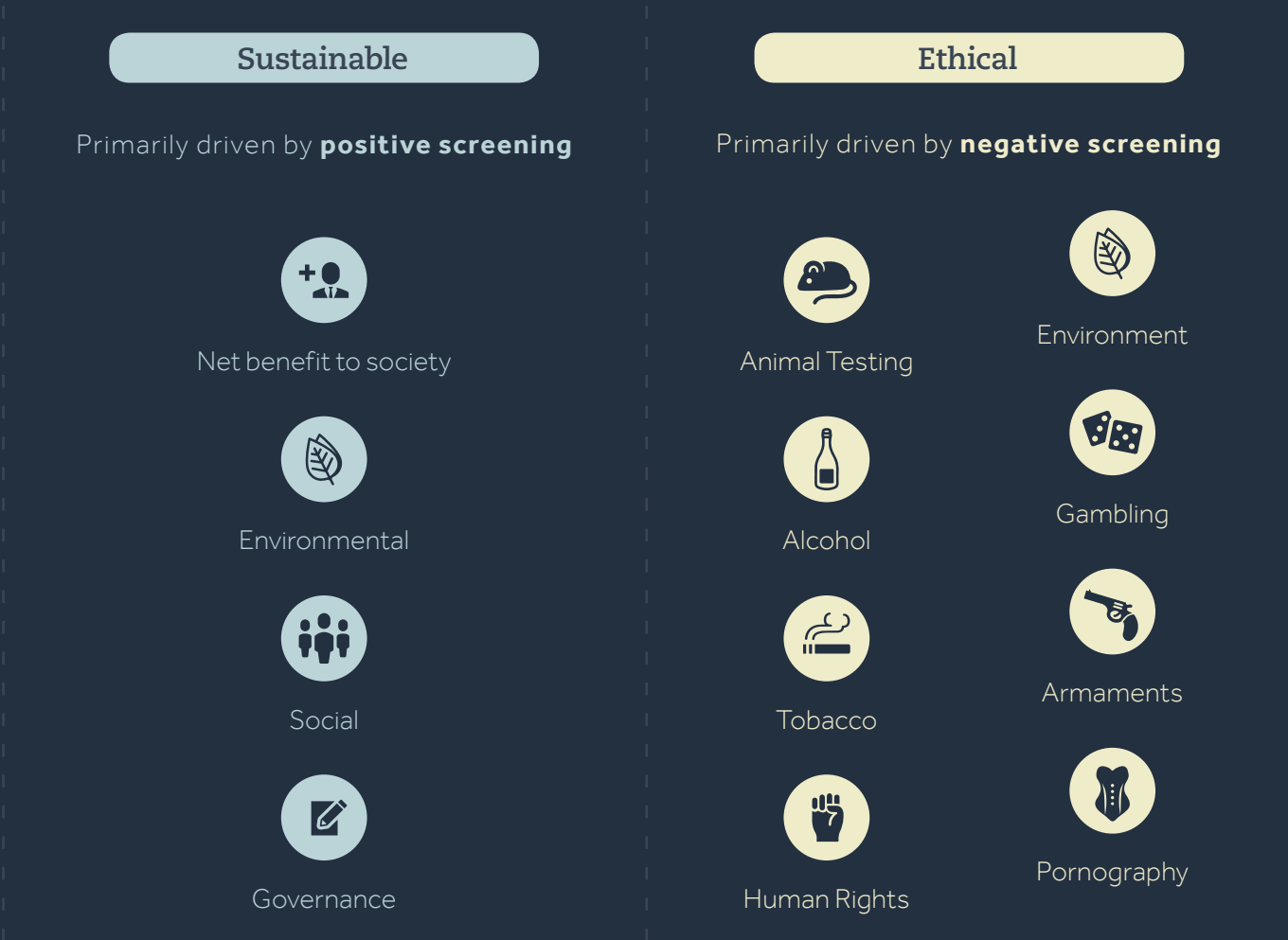
Members of the IGC met with specialist companies who advise investment funds on Responsible Investment. These were helpful in setting out a framework for our examination of how Royal London was doing in this area.

Royal London has provided all the information we requested setting out their approach to Responsible Investment and we’ve also reviewed the information Royal London supplies to Financial Advisers on their approach. This information helped us form an initial assessment of the current position.

Royal London is well regarded in some aspects of Responsible Investment. For example it is currently rated Tier One by the Financial Reporting Council’s assessment of its Stewardship Activities, and also received an A+ rating for Strategy and Governance in the latest Principles for Responsible Investment (PRI) survey.

Royal London offers a range of sustainable and ethical funds and can support employers who wish to set up an ethical or sustainable default fund.

The diagram below explains how Royal London see the differences between ethical and sustainable funds. We are in agreement with this approach.

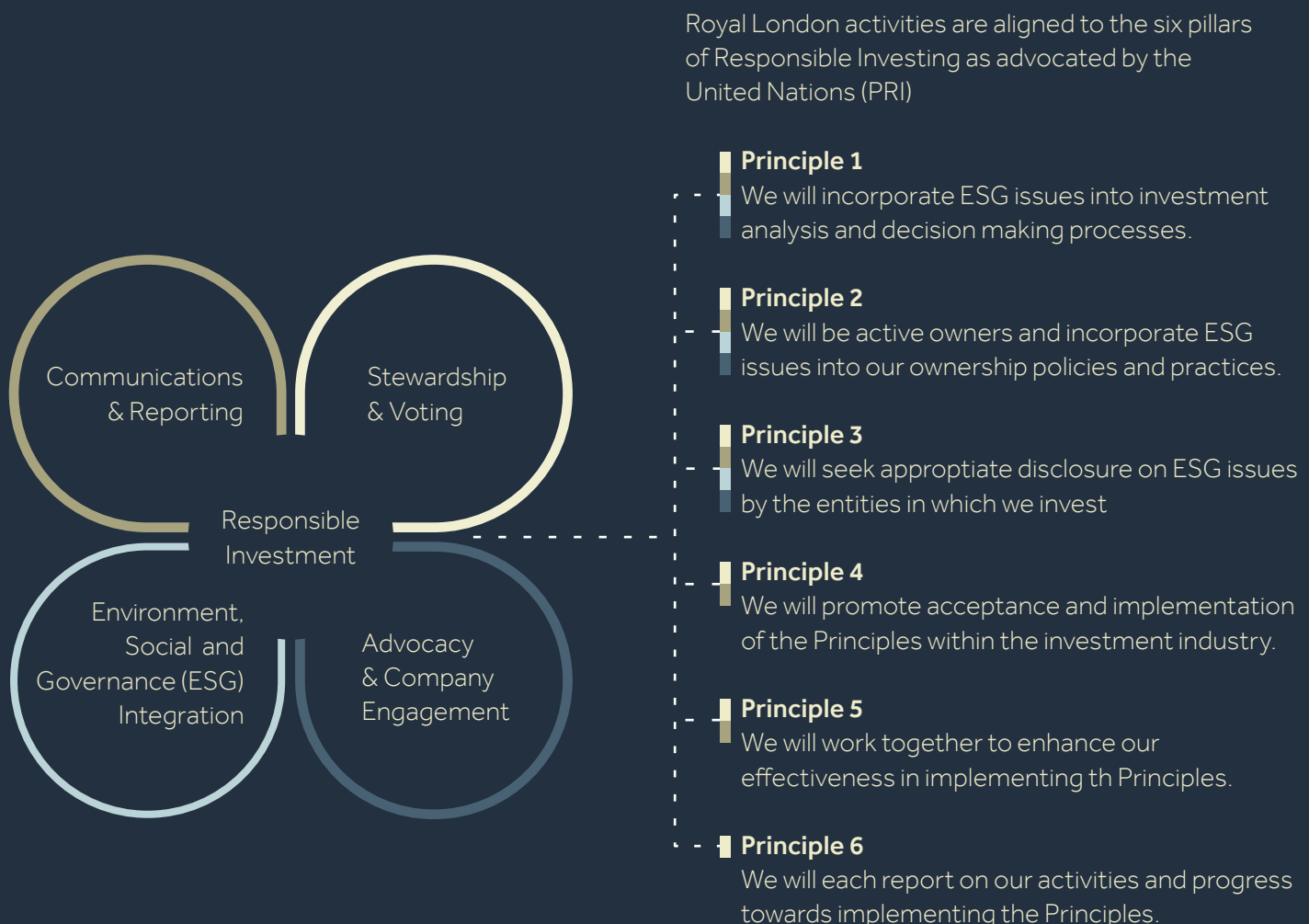


We also noted that if a pension scheme planholder has specific Responsible Investment goals, Royal London has funds that meet sustainable or ethical requirements and it is very easy for a member to switch out of the default fund into one of these specialist funds.

We note that Royal London has a set of standards in place for Responsible Investment which it uses to measure fund managers. This includes demonstrating how Responsible Investment is integrated into their procurement, internal governance and investment processes. Around 98% of Royal London's pension

assets are invested with Fund Managers who achieve 'Advanced' or 'Intermediate' status against the United Nations Principles for Responsible Investment (UNPRI). Royal London's UNPRI summary scorecard is included in [appendix 4](#).

Royal London is committed to being a responsible investor and the following diagram illustrate how it is aligning with principles for responsible investing:



6.3 How Royal London compares to other pension providers

We were very pleased that Royal London commissioned an independent firm of consultants to carry out a wide-ranging assessment of how Royal London compares to a peer group of 16 market peers.

The results were shown separately for Royal London Mutual Insurance Society (RLMIS) (the legal owner of the assets) and Royal London Asset Management (the fund manager within the Royal London Group). This separation between the two organisations resulted in the scores being lower for RLMIS than for RLAM because of a lack of sufficiently clear communication on Responsible Investment positions between the two organisations. As described later, Royal London explained to us how they are addressing this potential weakness.

Even after allowing for the impact of having two separate organisations, the scores for Royal London were slightly below the average for their peer group. One of the reasons for this was because Royal London does not vote on assets held within its global passive equity shares. However, whilst the benchmarking review found pockets of excellence, it also showed that some work is needed to more consistently integrate Responsible Investment practices across all asset classes. We describe how Royal London are planning to do so, and how we will be monitoring this, later in this section.

6.4 Other results from the research

The Responsible Investment project also asked the consulting firm to investigate a wide range of academic and industry research to assess whether integrating Responsible Investment into asset management will have an impact on returns across geographies and asset classes.

Both the academic and industry research concluded there was no detriment to investment returns for customers from integrating Responsible Investment.

6.5 Future regulatory requirements

We expect the Financial Conduct Authority to amend the rules governing our work so that we, and Royal London, has more formal obligations around Responsible Investment. This could include having arrangements to make sure your own views on this matter are known and considered.

As mentioned earlier, Royal London has already carried out research to gather your views on this topic and we will cover the outcome of the research in next years' report.

6.6 Royal London's plans for the future

In 2019 Royal London will create a new RLMIS policy framework for Responsible Investment. The policy framework will support a focus on developing their capabilities further and consistently integrating Responsible Investment across all asset classes. Royal London will develop targeted advocacy and engagement with companies and vote on global passive equity shares.

Royal London will also develop their Responsible Investment reporting and communications with customers and advisers.

We have asked Royal London to provide us with regular updates on progress during 2019.

6.7 Your views on Responsible Investment

Royal London has carried out research into your views on this topic and we expect to see the results in early 2019, and will describe them, and how Royal London has reacted to them, in next years' report.

Investment Returns and Transaction Costs

SUMMARY

In this section we report on how Royal London has done in managing your money over the recent past.

In summary:

- » Investment performance for most workplace pension customers performed slightly below benchmark in 2018.
- » The 3 and 5 year returns for many of the portfolios fell below benchmark because of this.
- » Despite this underperformance during 2018, we remain satisfied with the overall investment strategy adopted by Royal London, which is the foundation of the investments of your portfolios.
- » The respected Corporate Adviser publication produced external research on default investment strategy performance and Royal London produced appropriate returns on a risk adjusted return basis.
- » Due to negative returns over 2018, returns were below expectations based on client illustrations over the short term, however all portfolios were above expectations over 3 and 5 years as well as since launch.
- » Transaction costs are around the same level as they were for 2017 and we are satisfied with their level.

7.1 Actual performance

The performance of the portfolios which make up the Royal London workplace default strategy are shown in the table below.

For easy comparison with external data the performance figures assume a 1% annual management charge (AMC). The actual AMC on workplace pension assets is generally lower than this.

The figures also don't include any **ProfitShare** that has been added.

Portfolio Name	Percentage Change					Compound Annual Growth Rate (%)	
	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013	3 Years	5 Years
	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014		
	%Chg						
Governed Portfolio 4	-4.99	9.73	15.05	3.78	8.29	6.24	6.15
Composite benchmark	-4.40	9.49	16.89	2.35	8.26	6.95	6.27
Difference	-0.59	0.24	-1.84	1.43	0.03	-0.71	-0.12
Governed Portfolio 5 (Drawdown)	-4.29	8.38	14.24	3.08	9.02	5.82	5.89
Composite benchmark	-3.82	8.12	15.71	1.82	9.10	6.35	5.97
Difference	-0.47	0.26	-1.47	1.26	-0.08	-0.53	-0.08
Governed Portfolio 6 (Drawdown)	-2.84	5.82	11.56	2.08	8.07	4.67	4.82
Composite benchmark	-2.59	5.44	11.91	0.91	8.65	4.75	4.73
Difference	-0.25	0.38	-0.35	1.17	-0.58	-0.08	0.09
GRIP 3	-2.86	7.87	12.40	1.63	9.77	5.60	5.61
Composite Benchmark	-2.88	5.57	12.86	0.48	9.85	4.98	5.01
Difference	0.02	2.30	-0.46	1.15	-0.08	0.62	0.60

Markets had a tough time in 2018 and both the UK and US stockmarkets suffered their biggest losses since the financial crash in 2008. For example the return on the FTSE 100 index was -8.7% (Source: Lipper for Investment Management). Although this helps to explain the absolute returns shown in the table we were also disappointed that the portfolios underperformed their respective benchmarks over 2018. The main reason for this was the portfolios being overweight in equities when markets suffered their worst drops in December. This was compounded by the fact the European exposure within the equity fund performed very poorly over the year. The upsides are that both the Property and Fixed Interest funds included in the portfolios all performed well over the year which shows the benefit of diversification.

Royal London has developed their global equity strategy used within the default during 2018 by adding an **actively managed** Global Equity fund to the equity exposure which has a track record of strong performance. Royal London has also developed the capacity to use derivatives within these funds. This allows access to markets such as Canada which they previously didn't have access to but was included in the benchmark. Derivatives also are used for efficient portfolio management allowing the fund managers to access markets more quickly along with reducing **transaction costs**.

We've already seen early signs of improvement with all 9 portfolios outperforming their respective benchmarks in January 2019. We will be monitoring Royal London's investment strategy closely during the rest of 2019 to see whether they are on track to remove the impact of the below benchmark performance in 2018.

7.2 Performance against what you were told

We think that it is important that Royal London monitors its actual investment performance against what it used when providing you with illustrations when you took out a plan. We recognise that these illustrations are governed by the rules set down by the regulators, but nonetheless these illustrations can influence what you expect to receive from Royal London and so they play a part in how you may view the value for money from your pension.

Every quarter, Royal London compares performance of the Governed Portfolios against the expected growth rates provided to you in illustrations and provides this information to us. We wanted this information to review the default funds which the majority of workplace customers are in and see how they are performing relative to the expectations set with you at outset. This table shows the position at the 31 December 2018 and reflects the negative returns delivered during 2018 which were below expectations. We are pleased that the longer term position remains stronger.

Performance against expectation set within client illustration

Lifestyle Point (Portfolio)	Annual Compound Real Return (%)			
	Target	1 year	3 year	Since Launch
>15 years from Retirement (GP 4)	1.2%	-7.5%	3.1%	5.4%
10 years from Retirement (GP 5)	0.8%	-6.8%	2.5%	5.0%
5 years from Retirement (GP 6)	-0.2%	-5.1%	1.1%	3.3%
At Retirement (GRIP 3)	-0.2%	-5.4%	2.4%	3.6%

1. Target returns are over and above an inflation target of 2.5%.
2. Term is the period to notional retirement date.

As you can see in the above table the effects of 2018 are evident in the real return comparison over one year. We take comfort from the longer term positions being above the rates that are used within your projections.

7.3 Comparisons against competitors

We asked Royal London to compare the performance of their key Governed Portfolios against broadly similar funds from their major competitors. Royal London provides data on performance and risk adjusted returns to a company called Corporate Adviser. They use this information to produce a quarterly report on providers' default strategies comparing both performance and risk-adjusted returns. The tables that follow provide this data which confirms that Royal London achieved appropriate returns for the level of risk taken.

The tables on pages [32](#) and [34](#) show annualised percentage for one, three and five years for all participating workplace pensions providers and the

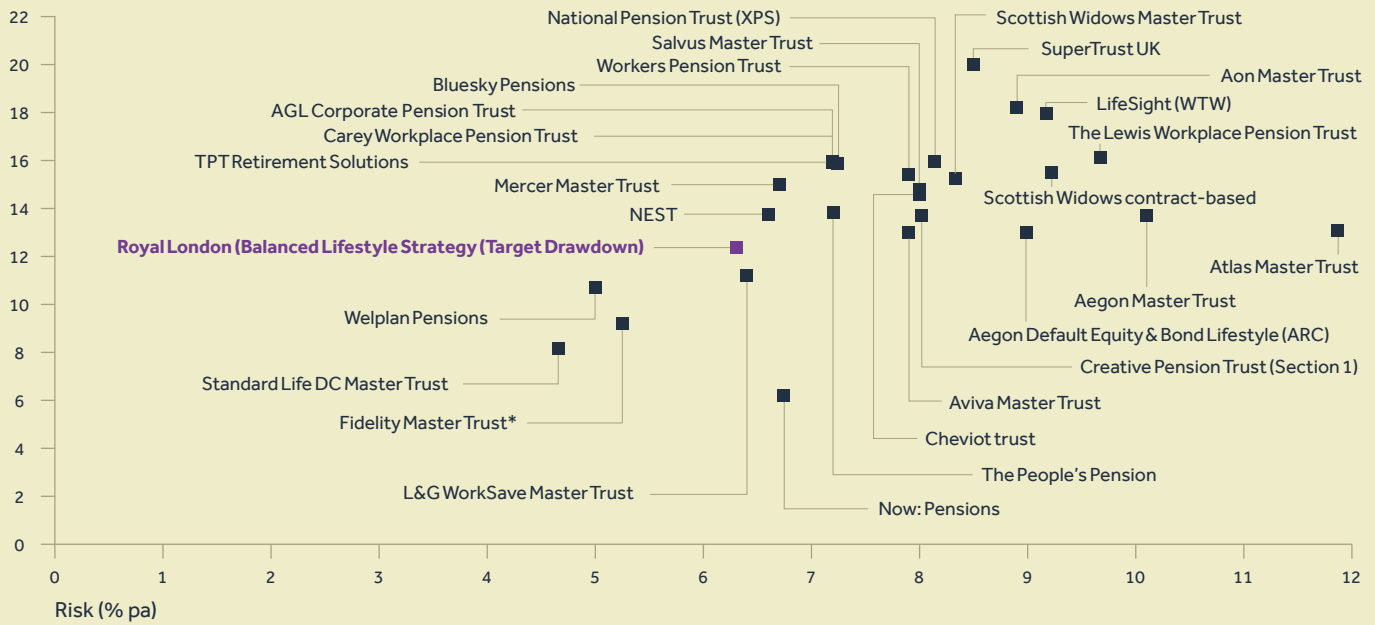
Corporate Adviser Index (CAPA Index) for an investor who has 30 years to Selected Pension Age (SPA) ([page 32](#)) and an investor with five years to SPA ([page 34](#)). Both tables demonstrate to the IGC that Royal London's performance is, for one and five years around index and for three years slightly behind the index of returns.

The first and second charts ([page 33](#)) combine the risk and relative return information for the same types of investor for each of the workplace pension providers and Royal London and demonstrates to the IGC that in both examples Royal London is taking the appropriate level of risk for the rate of return achieved.

Auto-enrolment default fund performance - investor 30 years to SPA.	INVESTOR 30 YEARS TO SPA					
Corporate Adviser Pensions Average (CAPA) data, to 30.9.18, annualised return (%)	1-year	Change since 30.9.18	3-year	Change since 30.9.18	5-year	Change since 30.9.18
Aegon Default Equity & Bond Lifestyle (ARC)	8.01	-	13	-	9.82	-
Aegon Master Trust	10.1	1.04	13.7	4.08	-	-
AGL Corporate Pension Trust	10.03	1.27	15.93	3.97	-	-
Aon Master Trust	10.8	3.5	18.2	3.6	-	-
Atlas Master Trust	8.11	2.41	13.07	-	-	-
Aviva Master Trust	8.39	1.5	12.98	1.97	9.74	-0.27
Bluesky Pensions	10.17	1.37	15.88	3.97	11.49	0.34
Carey Workplace Pension Trust	10.03	1.27	15.93	3.97	-	0
Cheviot Trust	8.7	1.4	14.6	4.2	10.4	0
Creative Pension Trust (Section 1)	6.34	1.12	13.72	2.99	9.5	-0.41
Fidelity Master Trust *(no longer marketed)	5	5	9.2	9.2	-	0
L&G WorkSave Master Trust	2.5	-1.33	11.2	1.59	8.9	0.59
LifeSight (WTW)	10.08	1.06	17.96	-	-	0
Mercer Master Trust	8.6	1.4	15	3	10.3	0.2
National Pension Trust (XPS)	14.63	7.38	15.94	4.24	10.89	0.39
NEST	8.92	2.88	13.76	2.67	10.8	0.32
Now: Pensions	4.39	-1.73	6.2	2.42	9.61	-0.28
Royal London (Balanced Lifestyle Strategy (Target Drawdown))	9.15	0.34	12.38	2.22	10.07	-0.35
Salvus Master Trust	9.8	2	-	-	-	-
Scottish Widows contract-based	7.72	1.74	15.51	3.83	10.13	-0.39
Scottish Widows Master Trust	10.41	3.01	15.27	3.43	-	0
Smart Pension	9.1	0.8	14.5	-	-	-
Standard Life Active Plus III	4.8	-	8.15	-	7.13	-
Standard Life DC Master Trust	4.8	-0.17	8.15	1.67	7.13	-0.39
SuperTrust UK	14.2	4.8	20	4.5	14.3	1.1
The Lewis Workplace Pension Trust	10.86	2.86	16.11	3.9	10.87	-
The People's Pension	7.32	0.67	13.83	2.68	10.07	-0.18
TPT Retirement Solutions	10.02	1.27	15.95	3.97	11.5	0.34
Welplan Pensions	6.9	0.4	10.7	2.9	8.8	8.8
Workers Pension Trust	8.6	0.2	15.4	3.1	10.5	10.5
CAPA Index	8.62	1.7	13.87	3.5	10.1	0.97

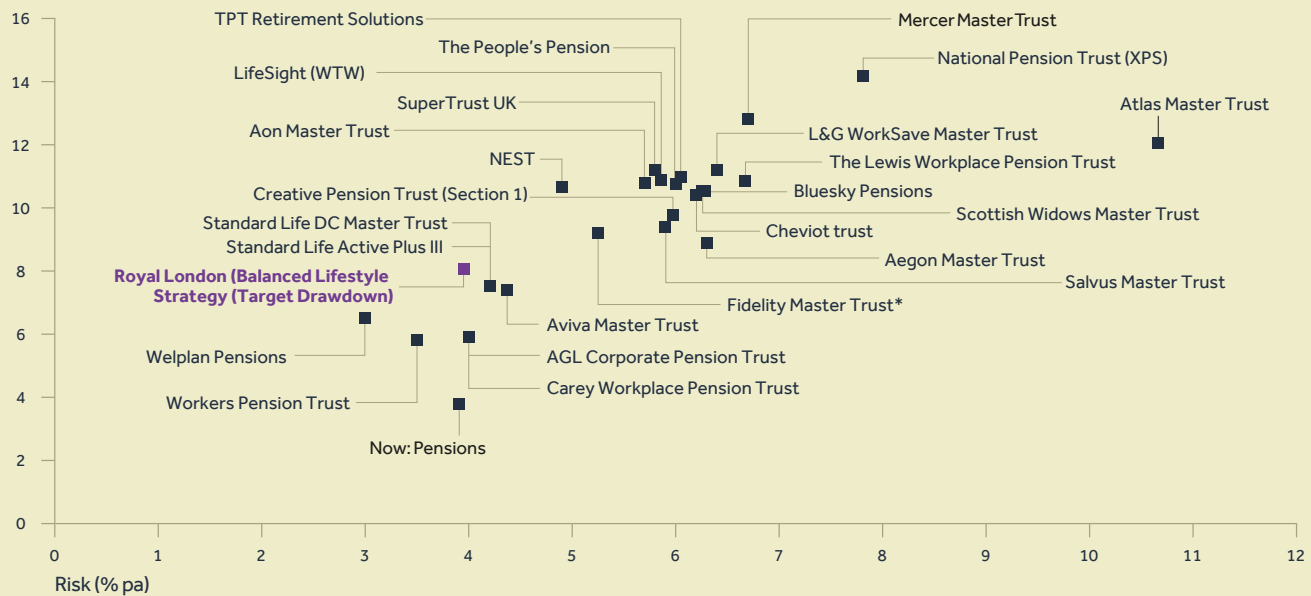
30 years from retirement, 3-year

Return (% pa)



5 years from retirement, 3-year

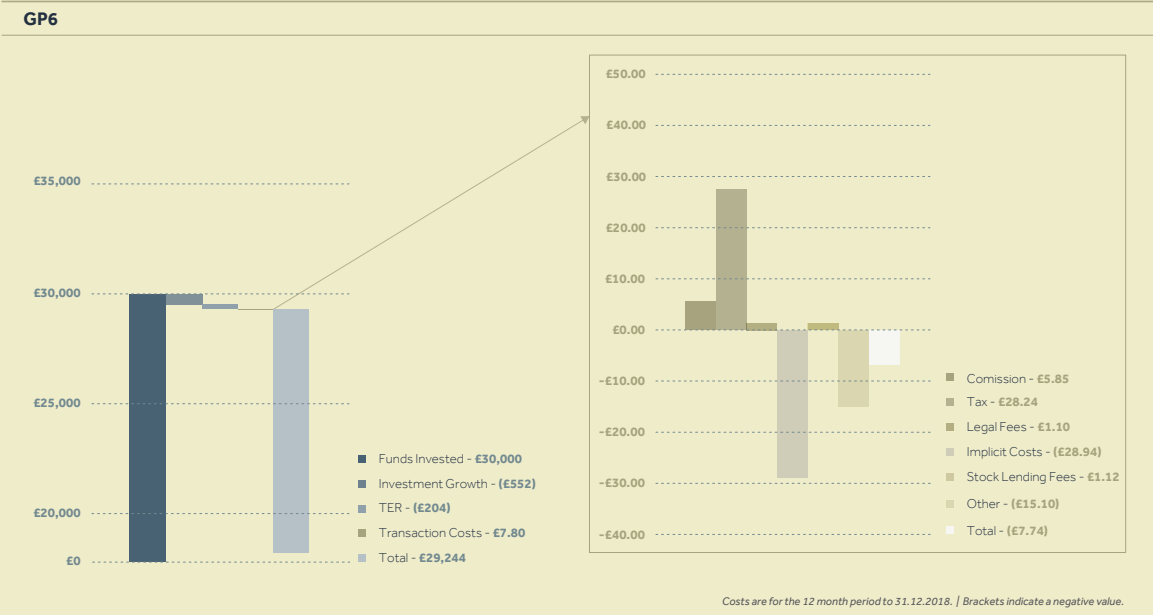
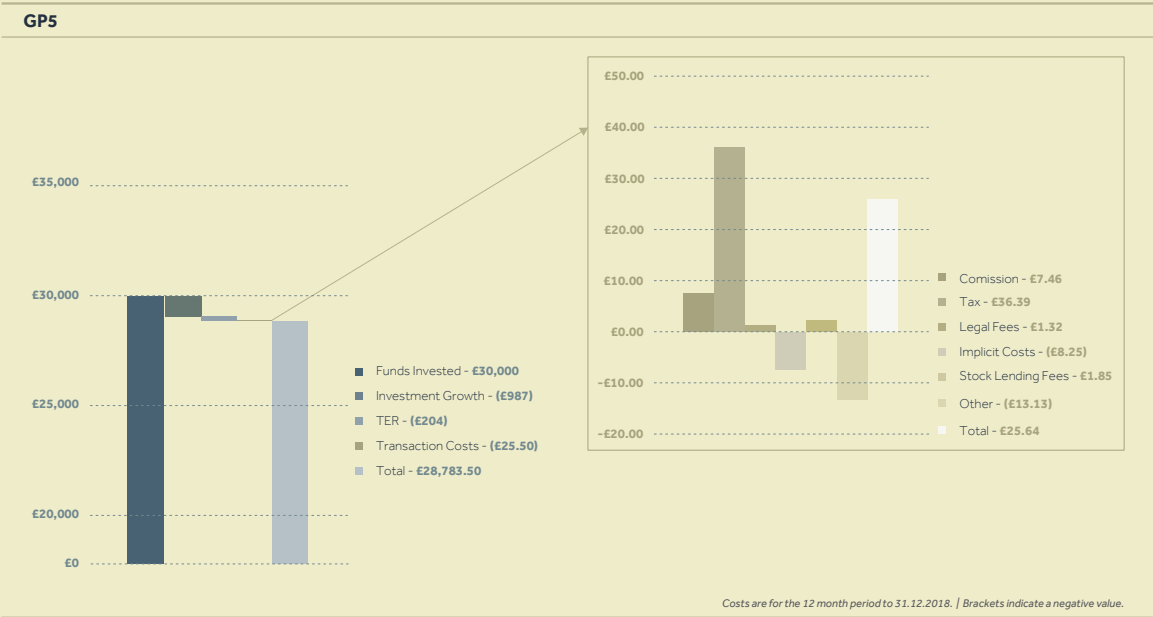
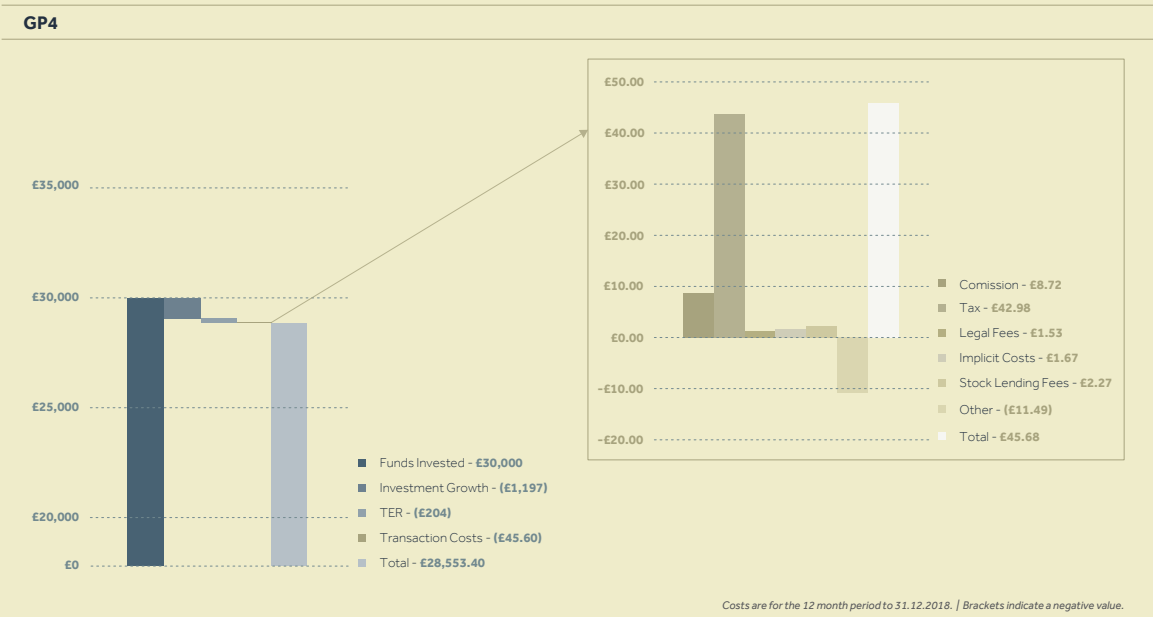
Return (% pa)



Auto-enrolment default fund performance - investor 5 years to SPA.	INVESTOR 5 YEARS TO SPA					
Corporate Adviser Pensions Average (CAPA) data, to 30.9.18, annualised return (%)	1-year	Change since 30.9.18	3-year	Change since 30.9.18	5-year	Change since 30.9.18
Aegon Default Equity & Bond Lifestyle (ARC)	-	-	-	-	-	-
Aegon Master Trust	5.2	-0.7	8.9	1.89	-	-
AGL Corporate Pension Trust	2.76	0.1	5.91	0.32	-	-6.25
Aon Master Trust	4.6	1.2	10.8	1.8	-	-7.3
Atlas Master Trust	5.98	2.98	12.05	12.05	-	-10.7
Aviva Master Trust	4.73	1.01	7.41	0.73	7.41	0.9
Bluesky Pensions	4.87	0.28	10.55	1.13	9.03	-1.02
Carey Workplace Pension Trust	2.76	0.1	5.91	0.32	-	-6.25
Cheviot Trust	5	0.5	10.4	2.1	8.4	-0.4
Creative Pension Trust (Section 1)	4.01	0.9	9.78	1.41	7.89	7.89
Fidelity Master Trust *(no longer marketed)	5	5	9.2	9.2	-	-
L&G WorkSave Master Trust	2.5	-1.33	11.2	1.59	8.9	-0.09
LifeSight (WTW)	3.96	-0.21	10.87	10.87	-	-
Mercer Master Trust	5.5	0.7	12.8	2	-	-
National Pension Trust (XPS)	9.45	3.55	14.17	3.27	9.87	0.47
NEST	6.05	2.35	10.66	2.56	9.01	0.96
Now: Pensions	2.75	-0.99	3.8	1.39	-	-2.65
Royal London (Balanced Lifestyle Strategy (Target Drawdown))	5.5	0.1	8.08	0.8	7.23	-1.88
Salvus Master Trust	5	0.2	9.4	1.2	-	-
Scottish Widows contract-based	4.01	0.9	9.78	1.41	7.89	0.77
Scottish Widows Master Trust	6.45	1.38	10.53	1.4	-	-0.68
Smart Pension	9.1	0.8	14.5	-	-	-
Standard Life Active Plus III	4.21	-	7.53	-	6.94	6.94
Standard Life DC Master Trust	4.21	-0.09	7.53	1.32	6.94	-0.67
SuperTrust UK	3.6	0.1	11.2	2	8.8	8.8
The Lewis Workplace Pension Trust	6.87	1.35	10.86	2.68	7.16	7.16
The People's Pension	4.26	0.18	10.75	0.87	8.96	-0.32
TPT Retirement Solutions	5.06	0.34	10.98	1.2	9.27	0.82
Welplan Pensions	4.4	0.3	6.5	2	3.8	0.1
Workers Pension Trust	2.6	-	5.8	0.5	-	-5.3
CAPA Index	4.84	0.78	9.58	2.52	7.97	-0.38

7.4 Transaction costs

The following graphs show a breakdown of the total **transaction costs** for 2018 and how they compare to the investment return and explicit charge on the fund. These are for a typical pension policy that had a value of £30,000 at the start of 2018.



7.5 Interpreting the results

When looking at these figures it's important to think about the type of the fund. For example we'd expect an equity fund to have lower **transaction costs** than for a property fund, and an **actively managed** fund to have higher **transaction costs** than one which is passive.

The IGC asked for and obtained all the **transaction cost** information we see as appropriate. The level of detail given goes beyond that required by the FCA methodology and splits out implicit and **explicit costs** and also shows how these are made up. This is important as some of these costs are within the control of Royal London while some aren't. Clearly the **explicit costs**, with the exception of tax, are within the control of Royal London.

We believe it's important for us to assess the reasonableness or otherwise of the reported **transaction costs** on your behalf. During 2018 we engaged with Royal London Asset Management, other asset managers external to Royal London Group and the Investment Association as well as other market practitioners to try and establish the development of a benchmark for **transaction costs**.

In our last Annual Report the IGC indicated that it was keen to pursue the potential to develop an approach to measuring **transaction costs** against an industry benchmark. We have continued to engage with market participants in this regard but so far the challenge for the industry continues with various market stakeholders citing competition issues as a key challenge. Whilst continuing to engage in those discussions we have not been passive in our efforts to find an interim solution.

Royal London introduced a Best Execution Review Group at the end of 2017 to oversee the effectiveness of Royal London Asset Management's execution process. The Best Execution Review Group challenges the ongoing development of execution arrangements and the outcome of the regular best execution monitoring.

Whilst this does not specifically look at **transaction costs** in isolation it does make use of Transaction Cost Analysis which has now been embedded in regular monitoring activity. At this stage this is for only equity trades.

For fixed income trades and **OTC derivatives**, the limitations of the currently available Transaction Cost Analysis are recognised across the industry. Analysis here is focused on comparable market quotes.

Given the continued challenges being experienced by the industry in developing a benchmark of **transaction costs** we look to leverage Royal London's existing governance structures as effectively as possible. The IGC is able to take comfort from the oversight of all aspects of trade execution by the Best Execution Review Group and therefore the appropriateness of the level of **transaction costs** reported and impact of Value For Money.

7.6 Conclusions on transaction costs

Transaction costs for 2018 are very much in line with what was reported in 2017. Similar levels of turnover in the underlying funds meant **explicit costs** were largely consistent with the previous year and **implicit costs** were also similar.

Quality of Service

SUMMARY

In this section of the report we describe how we monitor the service you receive from Royal London and the actions they have taken to make improvements.

In summary:

- » **We monitor service standards, customer complaints and feedback on your behalf**
- » **There was a short period when service standards fell below our, and Royal London's, expectations in a peak demand period**
- » **Royal London took action to remedy this and we're satisfied with the plans Royal London has put in place to prevent this recurring**
- » **Royal London has made good progress on the items we identified last year as requiring improvement**
- » **There are features of Royal London's service which we consider to be very helpful and contribute positively towards value for money**

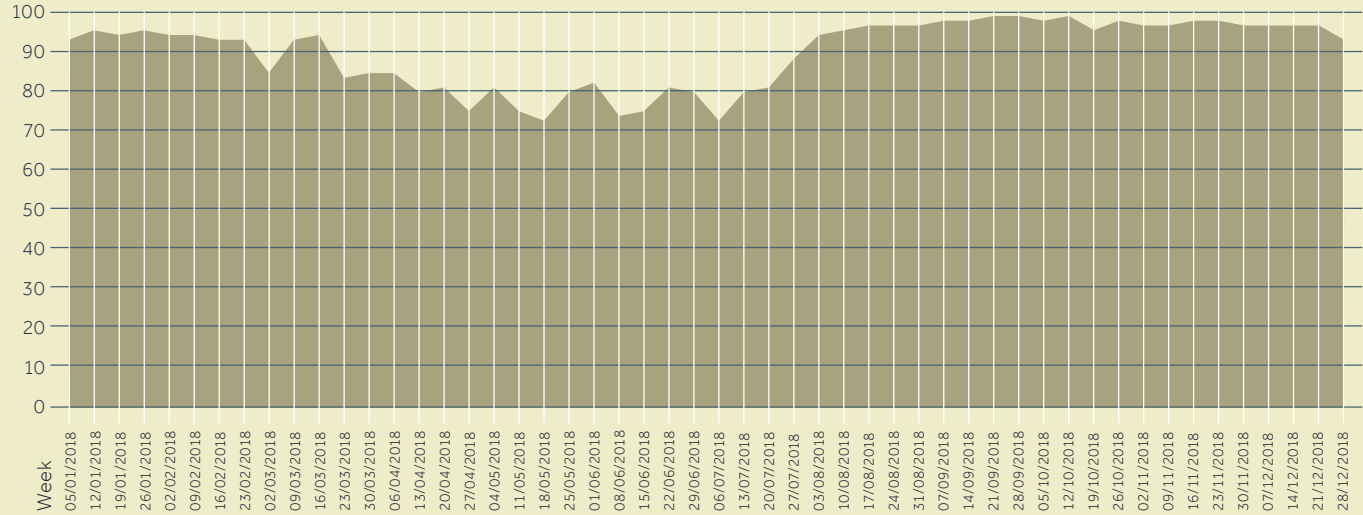
8.1 Results of regular monitoring

Since 2015 we have been receiving quarterly data on the following aspects of customer service:

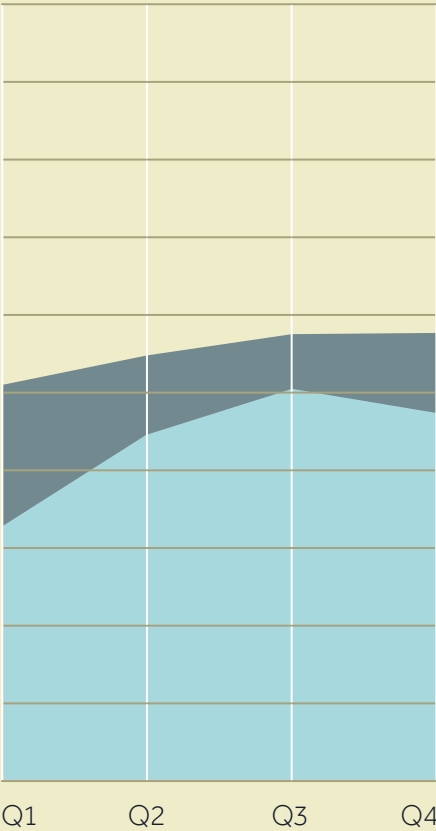
- Members' joining experience
- How annual statements are issued
- How members' regular requests are processed
- How telephone calls are managed
- How payments are paid
- Your views on the service received
- The prompt and accurate investment of your money
- The level of complaints made and their nature

In general, we are pleased with the results of this regular monitoring. The following diagrams illustrate some of the key results of this monitoring. We describe some of these later in this section.

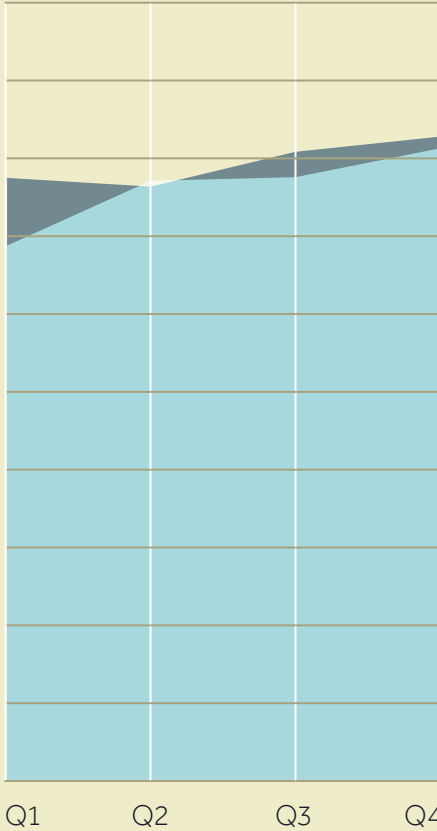
Response rate to customers
% in 5 days



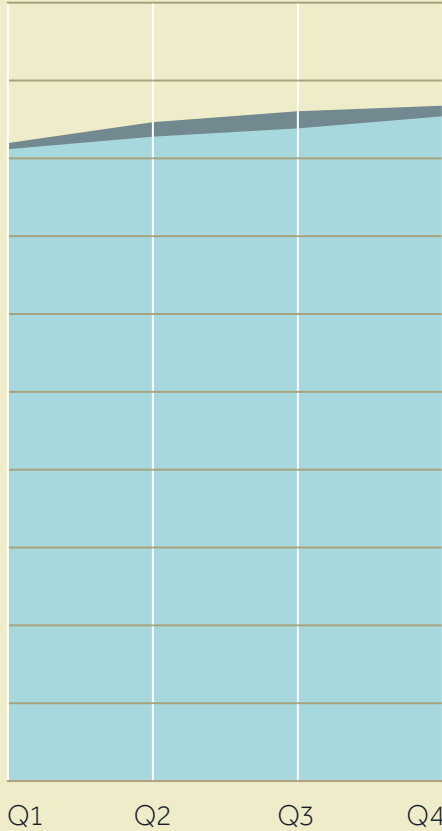
Net Promoter Score (NPS):
How likely is it that you
would recommend us to a
friend or colleague?



How easy would you say it was
to deal with us today ?



To what extent do you agree
or disagree that we were able to
resolve all of your queries today?



8.2 Royal London's workplace complaints and remedial action

The level of complaints from Royal London's workplace customers is low as you can see from this table:

2018	Qtr1	Qtr2	Qtr3	Qtr4
Complaints per 1000 policies	0.42	0.50	0.44	0.47

During the summer of 2018 there was a small increase in the rate of complaints from workplace pension customers. This was mainly caused by delays in dealing with requests for information or not providing what was asked. This coincided with a period of very high demand in quarter 2.

It should be noted that the overall level of workplace customer complaints is very low per transaction. On average the number of upheld complaints was 0.13% per transaction throughout the year.

Royal London's customer complaints team work closely with the Group Customer Service management team to analyse the root cause of complaints and discuss any required action to address any area of concern.

We also challenged Royal London on their plans to:

- improve staff planning processes during busy times,
- act earlier to respond to staff leaving customer facing roles. We note that this has often been as a result of internal promotion and,
- multi-skill staff so that they are able to resolve a wider range of your enquiries.

Royal London's work in these areas was presented to us in 2018 by their customer service management team and we are pleased to see improvements in your satisfaction scores as these commitments were delivered as the year progressed. Royal London see quality service as an important part of its proposition to customers and we will continue to keep this area under review.

8.3 Areas of significant improvement – unallocated funds

Over the last two years Royal London has been working with your employers to make sure that payments into your plan are processed and invested as efficiently as possible. This work was needed because sometimes Royal London was not being provided with all the information it required first time to allocate the payments to the right investment fund and the right individual on a timely basis. Royal London has been making improvements in the system and the process to make it easier for employers to provide all the necessary information up front.

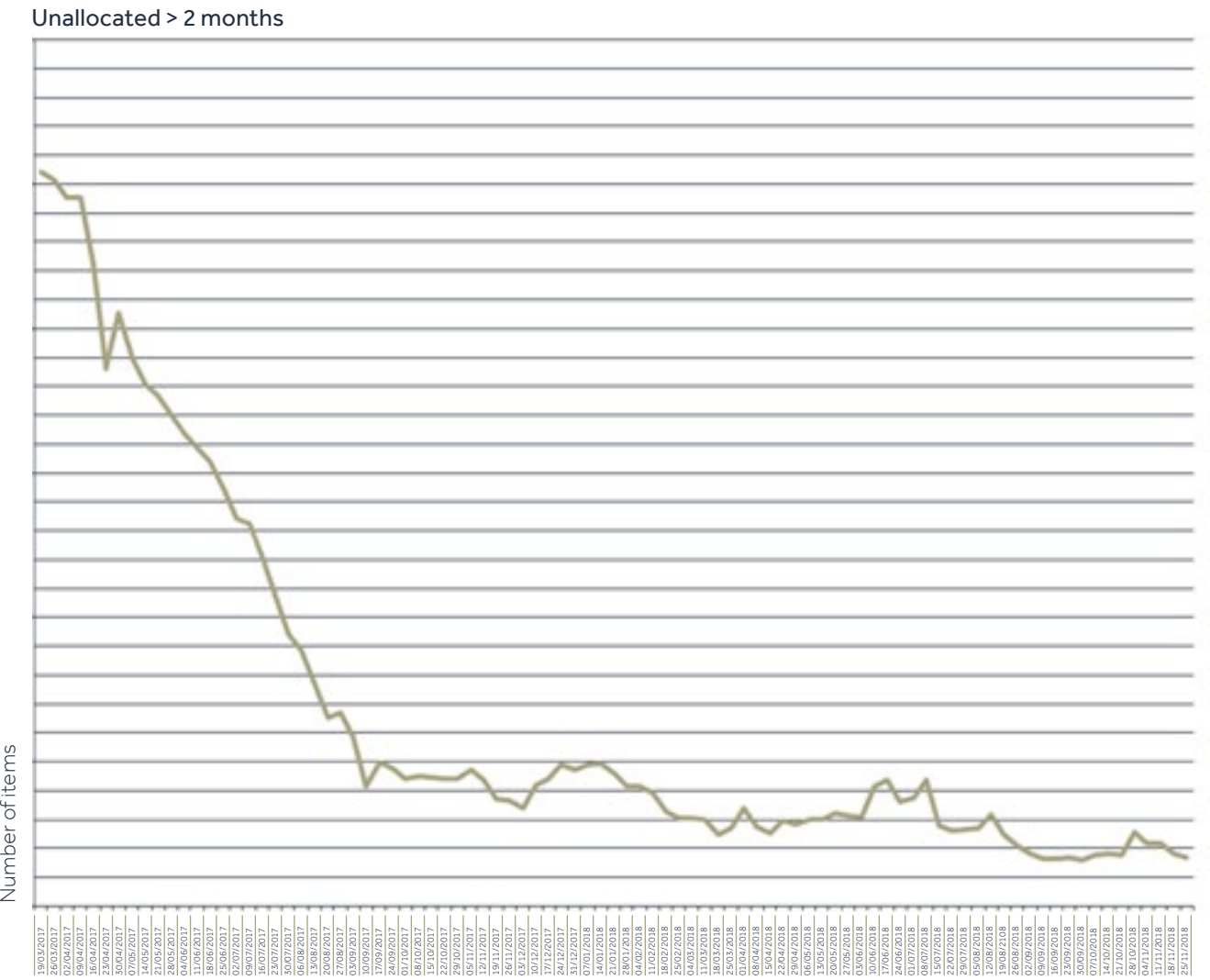
Royal London has made significant progress with this during 2018 as shown by the following information.

Total unallocated items



As we explained last year, customers do not lose out from any delay in allocation since once Royal London are provided with the required information they make sure that the money invested is given full allowance for any changes in investment values that would have occurred if the money had been allocated to the plans when first received.

As we explained in our report last year, we are satisfied with this process and are pleased that Royal London is continuing to find ways to reduce the amount of money that can't be immediately allocated due to outstanding information.



8.4 Areas of significant improvement – speed of sending annual statements

Partially as a result of the unallocated funds issue, Royal London had also experienced some delays in making sure they sent your annual statement to you promptly after each scheme anniversary. This has been addressed through increased resource and making improvements to internal processes. We explained in our report last year that actions taken during 2017 had led to significant improvement. We can report that the additional action taken this year has again improved how quickly annual statements are being issued and we are now satisfied with the position on this aspect of service.

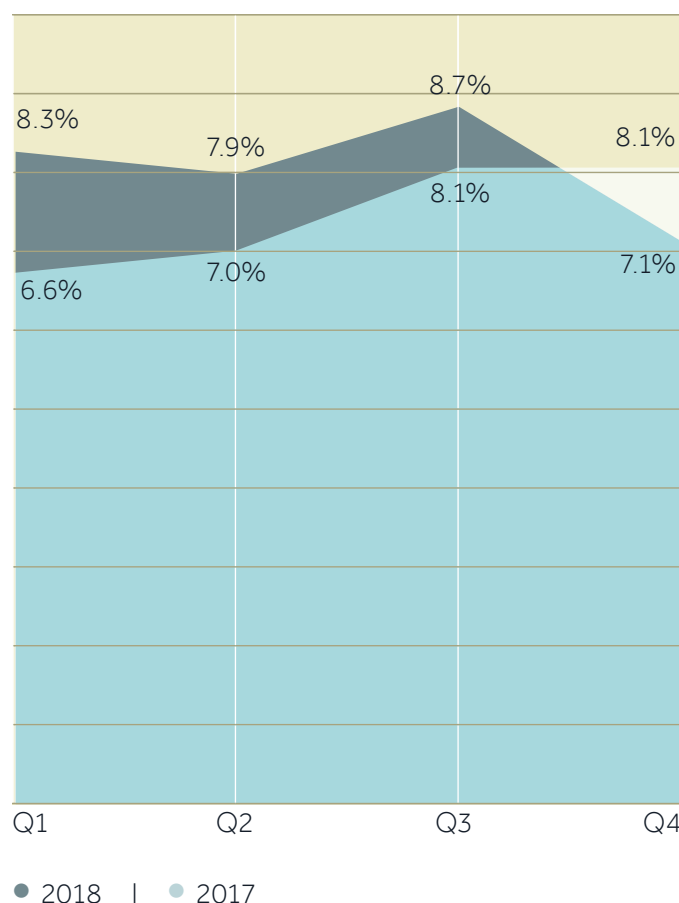
8.5 Other features of service - treatment of tax relief

Within the pensions industry there are two main ways in which you can receive tax relief on your contributions. Royal London continues to mainly provide what is called Relief at Source. This is beneficial to lower-paid members since they can receive the effect of tax relief even if they are not liable to income tax. This aspect is becoming increasingly important as the gap between the earnings limits for auto-enrolment and income tax continues to widen.

Royal London is also successfully managing the implications of customers in Scotland and in other parts of the United Kingdom having different rates of tax.

8.6 Other features of service - Members opting-out of the pension scheme

An important aspect of automatic enrolment is ensuring, where appropriate, that customers start and continue saving for their future. Customers have the option to opt out of being enrolled into their pension scheme and therefore a low "opt out" rate is important. We therefore regularly monitor the opt out rate from Royal London's workplace pension schemes. The rates for 2018 are as follows:



It is pleasing to note that these rates are low compared to the auto-enrolment workplace market as a whole. We were also pleased that the increase in contribution rates (required by auto-enrolment legislation) during 2018 did not lead to a significant increase in the opt-out rate. Royal London explained to us how they worked closely with employers to make sure this change went as smoothly as possible. Royal London also provided information to customers to ensure they were well informed about the upcoming changes in contribution rates.

Contribution rates are increasing again in April 2019. We have been reassured by Royal London's plans to support employers and customers through this change.

It is important that now the vast majority of customers are remaining in their scheme that Royal London continues to engage with them and supports their journey to a successful retirement.

8.7 Investor in Customers

In addition to the ongoing monitoring that we provide, Royal London also asked the Investor In Customers organisation to carry out an in-depth assessment of Royal London's administration team and the service they provide. Although this covered a wider range of products than just workplace pensions, we are pleased to note that Royal London has been awarded the top accolade of the Gold Investor In Customers award for the third consecutive year.

Communications

SUMMARY

In this section of the report we describe how Royal London has acted on its plans to improve how it communicates to you and how it intends to make further improvements.

In summary:

- » **The planned changes we described in last year's report have been made**
- » **Royal London continues to find ways to improve how it communicates to you, your employer, and any adviser involved in your workplace pension scheme**
- » **The changes that have already been made have been welcomed**
- » **Additional work is still needed and Royal London plans to make further improvements.**

9.1 Improvements to your annual statement

In our report last year, we explained how Royal London was going to introduce a new style of annual statement for you. This was done during 2018 and Royal London carried out research during August to November to see whether you felt it was helpful. This showed that:

- 70% of you said the statement helped you to better understand your pension
- A third of you agreed that the new statement makes you more likely to increase your contributions to your plan and
- 70% of you agreed or strongly agreed that the statement makes you think more about how you will fund your retirement.

We think the first and last points are particularly important as in our opinion, improved outcomes from workplace pensions can only happen if customers are more engaged with their pension, and have a better understanding about what it can provide for them at retirement.

The research also produced some suggestions for improvements. These ranged from suggestions on the physical appearance of the statement to more technical aspects such as how the charges are explained. Royal London is considering the findings when making future improvements and we will be monitoring how this is implemented.

9.2 Communication with members of Royal London

Being a member of Royal London, which comes with your membership of your employer's workplace pension scheme with Royal London, is a unique characteristic of your pension that is not provided by other providers. We therefore analysed the feedback Royal London received from over 1,600 Royal London members, from both workplace pension members and others, as to the quality of the membership communication that is provided. The key messages from the feedback are:

- The communication pack they send to members for the Annual General Meeting (AGM) is widely appreciated by members
- Voting at the AGM is lower amongst younger members
- Membership updates are sent out at the right frequency
- Nearly all of the members that took part in the research said they took some action on the receipt of the communications
- On and off line communications are easy to read and navigate however Royal London could improve the instructions on what members should do next
- Members were more likely to remember communications Royal London sent by post than those sent electronically (by email) and this was particularly true of people in older age-groups
- Members in the older age groups and those who are long-standing members are more likely to understand the benefits of membership

We asked Royal London to improve membership communications. This included making voting topics clearer, helping members to understand the benefits of voting, to consider sending members postal and electronic communications and to maintain the variety and frequency of regular membership communications. To achieve these improvements, Royal London will need to increase the contact information and communication preferences they hold for workplace pension members.

9.3 Other changes in how you can communicate with Royal London

We also monitored the development of Royal London's **mobile app** which is being rolled out in early 2019. This is designed to help you keep track of your workplace pension. We discussed with Royal London what sort of information you should be able to see on the app and what actions you can carry out. Once the app is launched and customers have had a chance to use it, we will be examining your feedback and monitoring how Royal London develops the service in light of this.

We also note that Royal London is trying to increase its use of email when communicating with you, but for a variety of reasons, may not hold your up to date email address. We encourage you to provide this information to Royal London as it could help them deliver quick and efficient communication.

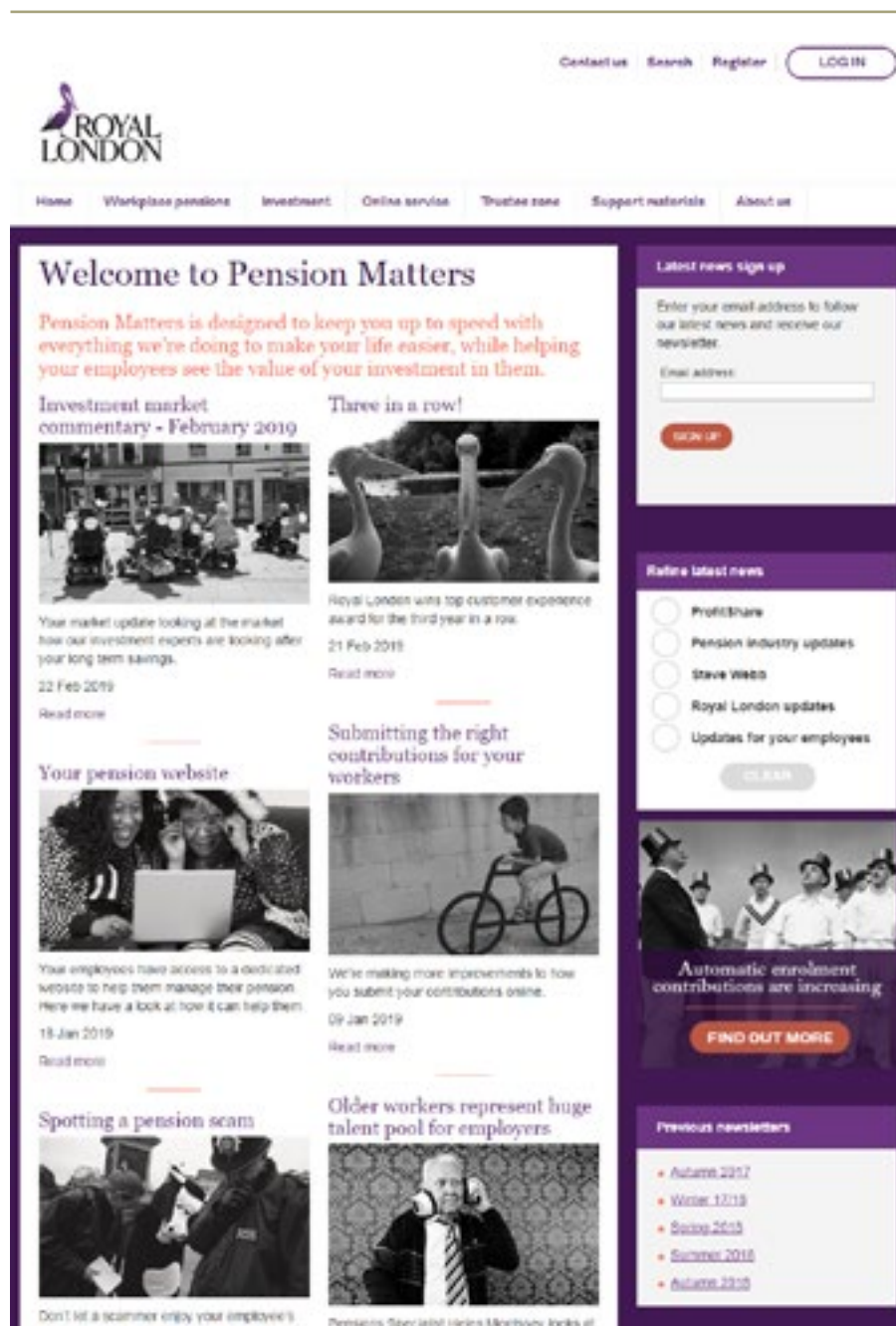
9.4 Information and communication to employers

During the year we provided input to a new newsletter that Royal London was launching for employers. We also monitored how employers responded to the newsletter and how Royal London was reacting to this feedback.

We believe this is a useful development which supports employers in their provision of a scheme for their employees.

9.5 How we receive your views

In addition to all of the research findings and insights we have access to, Royal London has set up a mailbox on our behalf, allowing customers and any other interested parties to get in touch with us direct. We're always looking for feedback and are happy to answer your questions. You can email us at royallondonIGC@royallondon.com. We will also be present at Royal London's AGM on 5 June when we would be pleased to answer any questions you may have on our work.



Vulnerable Customers

SUMMARY

In this section of the report we explain how Royal London has considered the particular needs of vulnerable customers, and its plans to increase its service to them.

In summary:

- » Royal London has an appropriate policy in place covering this important subject
- » An external firm was asked to help assess how Royal London were doing compared to peers
- » Royal London were largely in line with peers but identified two key areas where improvements could be made
- » Royal London has a plan to increase its capability in this area

We asked Royal London to explain to us how the particular needs of **vulnerable customers** were being catered for when designing and administering workplace pensions.

Royal London explained to us that they had already taken steps to ensure that **vulnerable customers** were actively considered in all of their key processes. However during 2018, as part of a wider strategic review of its treatment of **vulnerable customers**, Royal London engaged with Huntswood (an independent firm of consultants) to understand how Royal London considered its approach to that adopted by other providers. This helped identify what additional activities Royal London could undertake to improve the services provided to **vulnerable customers**. This report was discussed with the IGC and indicated that Royal London were largely in line with their peers but identified two key areas where improvements could be made. These two areas were communications and improving processes to allow Royal London to effectively record vulnerability.

Royal London has already told us that they are actively looking at how they can improve the communications they send to **vulnerable customers**.

With regards to recording vulnerability, as is common in the Life and Pensions industry, the various systems utilised across Royal London make it difficult to record vulnerability once and reutilise this across disparate systems. However Royal London has described a coherent project to us that will resolve this difficulty.

In addition to these initiatives, we were informed that the Customer Standards Committee (an internal governance committee within Royal London) agreed other key activities to continue to improve Royal London's services to **vulnerable customers**. These include:

- Improving Royal London's approach to disability (following issues identified in relation to Equality Act);
- Improving and standardising their approach to Braille/Large print services, for customers with hearing issues and those who need translation services. A separate specialised team is being established to improve services in this area. The launch of the new Royal London website has already improved services to their customers who have difficulties with sight;
- Improving process in relation to establishing Power of Attorney – ensuring the right balance of controls to protect **vulnerable customers** without causing unnecessary barriers to them;
- Improving and deepening the approach to training and awareness. Royal London are establishing a more formal training programme for all customer facing staff and targeting specific training (working with charities) to a new specialised team being established in their Customer Service area;
- Continuing to deepen the topic of **vulnerable customers** in their proposition development approach;
- Developing further Management Information to gauge the success of initiatives and focus attention on further areas of improvement; and
- Continuing to widen the ways Royal London can communicate with customers as well as how customers can keep Royal London up to date, including things like the use of e-mail and established web chat facilities.

Overall, considering the current position, the additional actions already taken and the plans for the future we were satisfied with how Royal London explained they managed **vulnerable customers**. We will continue to receive updates on this work during 2019 and will report on progress in our next annual report.

Conclusions on Value for Money

SUMMARY

In this section of the report we summarise our views on value for money, based on the work described in the other sections.

In summary we conclude that:

- » The default investment strategies have clear statements of their aims and objectives and are designed and executed in your interests (see [section 5](#)),
- » All other relevant investment strategies are regularly reviewed by Royal London to check that their characteristics and net performance are aligned with your interests, with Royal London taking appropriate remedial action where necessary (see [section 6](#)),
- » The relevant investment costs, including transaction costs, are acceptable (see [section 7](#)),
- » All core financial transactions are processed promptly and accurately (see [section 8](#)),
- » The charges on your policy are consistent with our views on value for money (see [section 11](#)).

We have also assessed Royal London's value for money against the framework set out in [section 2](#).

We expect to amend this framework during 2019 to increase the emphasis placed on both **vulnerable customers** and on Responsible Investment. We've advised Royal London of our intention to formally include responsible investment and **vulnerable customer** principles as part of our value for money in the coming year.

The following table sets out our summary comments based on the work in this report together with a red, amber or green rating. The ratings we gave in last year's report are also shown.

Area	Summary comments	Previous score	Current score
Regular reviews	We're satisfied with how Royal London continues to review its products and seeks ways to improve them.	●	●
Appropriate ongoing charges	We're satisfied the charges levied are fair compared to the benefits being provided.	●	●
Fair exit charges	Although we understand why exit charges are necessary and the historic reasons for their structure, we will continue to press Royal London to find and implement measures to reduce exit charges further.	●	●
Balanced charging	We're satisfied the structure of charges is appropriate.	●	●
Appropriate investment returns	Royal London's investment performance for the portfolios the majority of workplace pensions customers invest in performed below benchmark over 2018. Further, this performance meant that the 3 and 5 year returns for many of their portfolios also fell below benchmark. However, Royal London do have an appropriate strategy for default investments for workplace customers. Given the returns are down to short term underperformance at present we don't see any issue with the default investment strategy for the longer term.	●	●
Clear communication	There has been considerable improvement in communication for workplace customers during 2018, particularly in relation to annual statements, communications approaching retirement and the work to develop a mobile app .	●	●
Effective service	We're satisfied with the overall service that you have been receiving during the year.	●	●

Overall, we're satisfied Royal London is continuing to provide value for money to its workplace pension customers.

We have a duty to raise any areas of concern to the Board of Royal London. No issues were escalated to the Board in 2018. We did however provide an update on our work and findings to the board after each quarterly IGC meeting.

For the rest of 2019 we will continue to monitor the service, communication, charges and investment elements of your policy. In addition, we expect to:

- Deepen our review of Royal London's work on Responsible Investment
- Closely check investment performance to see whether the effect of the under-performance for 2018 is being offset by better performance during 2019
- Monitor the development of Royal London's support for **vulnerable customers**
- Review Royal London's overall approach to how it communicates with you, including both the information shared and the effectiveness of the channel (email, post, website, text messages) used for that communication
- Examine Royal London's plans to ensure customers benefit from future reductions in internal costs, for example from new administration systems and better ways of working.
- Monitor developments relating to IGC scope and act accordingly.

Appendices

APPENDIX 1 IGC CHANGES AND MEMBERSHIP

As he described in his "Personal Introduction from the Chair" in last year's Report, Phil Green stepped down as Chair with effect from June 2018 after three years of service. Phil was replaced as chair by Peter Dorward who was already an independent member of the committee.

In addition, Isobel Langton, the Chief Executive of Royal London Intermediary, also stepped down from the IGC with effect from September 2018 after 3 years. Her replacement is Paul Gallagher, the Life and Pensions Risk Director at Royal London. One of Paul's areas of responsibility within Royal London is making sure that Royal London is treating its **vulnerable customers** with appropriate care and attention. This is one of our areas of focus, so having this specialist knowledge within the IGC is a great help to our work.

The current membership of the committee is now as follows:

Peter Dorward – Independent Chair

Myles Edwards – Independent Member

David Gulland – Independent Member

Jon Macdonald – Royal London

Paul Gallagher – Royal London.

Full details of our members, as well as an explanation of our role and responsibilities, is set out at royallondon.com/igc.

The current members of the Committee are:



Peter Dorward
Independent Chair

Peter has over 40 years' experience in life assurance, pensions and institutional investments in the UK and overseas. He is now Managing Director of IC Select a consulting firm specialising in providing investment governance support for defined benefit pension fund Trustee Boards. He holds an MBA from Edinburgh Business School, Heriot Watt University, Edinburgh.



David Gulland
Independent Member

David has a broad range of experience across the UK life insurance sector, with 25 years' experience as an actuarial consultant, followed by senior executive roles within the life insurance industry - including Managing Director of RGA UK and Chief Executive of Marine & General Mutual. He is currently a Director of PG Mutual and a member of the Compliance Committee of the Funeral Planning Authority.



Paul Gallagher
Life And Pensions
Risk Director
Royal London

Paul has over 30 years' experience within the Financial Services industry and over 15 years' experience in Life, Pensions and Asset Management Companies. He has a broad range of experience in various functions including Operations, Finance, IT and has specialised in Risk, Compliance and Audit for the last 20 years. Previous companies include Aegon, Capita, Resolution and RBS Insurance. His current role in Royal London is Life and Pensions Risk Director.



Myles Edwards
Independent Member

Myles is a pension planholder, and therefore a member, of Royal London. Although this was a primary reason why he was appointed to the IGC, Myles brings significant experience and expertise built up during his 28 years working in financial services. Myles has a broad range of skills in product design, marketing and customer engagement and it is this wider customer focus which, along with being a Royal London customer, which makes him an ideal member of the IGC. He has also been Executive Director at Age UK Enterprises and Foresters Friendly Society for over 12 years responsible for product design, marketing and communications.



Jon Macdonald
Group Risk Director
Royal London

Jon Macdonald was appointed to the Board on 14 December 2012 having joined the Group in November 2012 as Group Risk Director. He was previously Group Chief Risk Officer for both RSA and Prudential. He has held a number of senior risk and capital management roles at PwC, Aviva, Fox-Pitt Kelton, Swiss Re and Zurich and is a fellow of the Institute of Actuaries.

APPENDIX 2 AN OVERVIEW OF ROYAL LONDON'S INVESTMENT FUNDS

Royal London manages its investments through a tiered hierarchy of funds.

The bottom tier is a range of "building block" funds with clear and transparent investment objectives, guidelines and restrictions. They normally just invest in a single type of asset such as UK Equity or Property. Although you can invest in them directly, for workplace pensions they're mainly used to create the second tier of funds.

These building block funds are held in different proportions across a range of Governed Portfolios. These Governed Portfolios form the second tier of funds. Each Governed Portfolio has a different strategy and hence a different mix of assets. Performance across these Governed Portfolios is reviewed regularly. You'll find a summary of these reviews posted on line [here](#)¹.

Finally, there are three groups of "lifestyle" strategies. These make up the third tier of Royal London's investment range. These aim to provide the optimum strategy depending on whether the proceeds of the pension policy are intended to be taken as cash, annuity or drawdown.

For each of the three options, there are five different strategies, each with varying levels of risk. For each of these levels of risk an active or **passive investment strategy** can be selected.

As a result of these options there are 30 different "lifestyle" strategies available. A customer investing in one of these strategies will have a varying mix of the Governed Portfolios at any one time depending on how close to retirement they are.

Where the adviser or employer doesn't wish to make a decision around the default investment, Royal London will automatically make the Balanced Lifestyle Strategy (Drawdown) available as the default. Details of this strategy are set out [here](#)².

1. <http://www.royallondon.com/governedrange>

2. <https://www.royallondon.com/strategyfactsheets/strategyfactsheet.asp?InvestmentType=F&strategyid=404680>

APPENDIX 3 TRANSACTION COSTS

OVERALL COSTS BREAKDOWN BY TYPE Governed Range	Commission	Tax	Legal Fees	Other	Implicit Costs	Stock Lending Fees	Total
2018							
Governed Portfolio 1	0.027%	0.135%	0.005%	-0.043%	-0.031%	0.006%	0.100%
Governed Portfolio 2	0.021%	0.099%	0.004%	-0.043%	-0.061%	0.005%	0.025%
Governed Portfolio 3	0.009%	0.039%	0.001%	-0.025%	-0.043%	0.002%	-0.016%
Governed Portfolio 4	0.029%	0.143%	0.005%	-0.038%	0.006%	0.008%	0.152%
Governed Portfolio 5	0.025%	0.121%	0.004%	-0.039%	-0.021%	0.006%	0.097%
Governed Portfolio 6	0.020%	0.094%	0.004%	-0.025%	-0.029%	0.004%	0.067%
Governed Portfolio 7	0.028%	0.134%	0.004%	-0.040%	0.028%	0.009%	0.163%
Governed Portfolio 8	0.027%	0.129%	0.004%	-0.039%	0.009%	0.008%	0.139%
Governed Portfolio 9	0.018%	0.085%	0.003%	-0.031%	-0.015%	0.005%	0.066%
2017							
Governed Portfolio 1	0.028%	0.152%	0.005%	-0.055%	-0.034%	0.002%	0.099%
Governed Portfolio 2	0.021%	0.112%	0.003%	-0.051%	-0.086%	0.002%	0.002%
Governed Portfolio 3	0.009%	0.043%	0.001%	-0.029%	-0.062%	0.001%	-0.036%
Governed Portfolio 4	0.031%	0.161%	0.005%	-0.046%	0.002%	0.003%	0.155%
Governed Portfolio 5	0.026%	0.136%	0.004%	-0.045%	-0.036%	0.002%	0.088%
Governed Portfolio 6	0.020%	0.105%	0.003%	-0.032%	-0.043%	0.002%	0.055%
Governed Portfolio 7	0.031%	0.152%	0.004%	-0.045%	0.023%	0.003%	0.167%
Governed Portfolio 8	0.029%	0.146%	0.004%	-0.044%	0.002%	0.003%	0.139%
Governed Portfolio 9	0.020%	0.096%	0.003%	-0.037%	-0.028%	0.002%	0.056%
RLP Global Managed	0.011%	0.052%	N/A	-0.061%	0.038%	0.011%	0.051%
RLP Property	0.112%	0.618%	0.029%	0.029%	0.000%	N/A	0.788%
RLP Global High Yield	0.001%	N/A	N/A	-0.056%	0.151%	N/A	0.096%
RLP Medium (10yr) Corporate Bond	N/A	N/A	N/A	-0.151%	-0.020%	0.000%	-0.171%
RLP Medium (10yr) Gilt	N/A	N/A	N/A	-0.051%	-0.209%	0.001%	-0.258%
RLP Medium (10yr) Index Linked	N/A	N/A	N/A	-0.037%	-0.618%	N/A	-0.656%
RLP Commodity	0.036%	N/A	N/A	0.096%	-0.047%	N/A	0.085%
RLP Deposit	N/A	N/A	N/A	-0.003%	-0.002%	N/A	-0.005%
RL Stakeholder Managed Fund	0.011%	0.030%	0.000%	-0.042%	-0.048%	0.004%	-0.045%
RL With-Profits Stakeholder Fund	0.019%	0.045%	0.000%	-0.054%	0.027%	0.000%	0.037%

Property tends to have the highest **transaction costs**. This is due to the cost of purchasing the actual buildings rather than investing in Property stocks. Purchasing Property direct has additional costs including Stamp Duty, which averages around 4% per purchase.

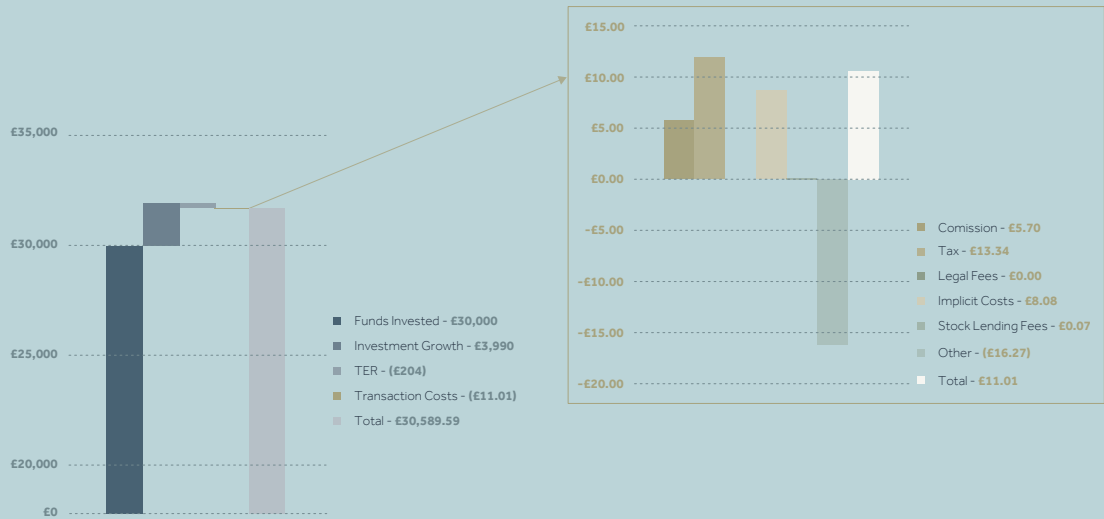
Property tends to have low correlation with other asset classes which makes it ideal for multi asset investing, and rental income will generally provide a secure income stream for portfolios.

Stakeholder Managed



Costs are for the 12 month period to 31.12.2018. / Brackets indicate a negative value.

With Profits Stakeholder



Costs are for the 12 month period to 31.12.2018. / Brackets indicate a negative value.

APPENDIX 4 ROYAL LONDON'S UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

Summary Scorecard

AUM	Module Name	Your Score	<div> <div></div> <div></div> </div> <div> Your Score Median Score </div>
	01.Strategy & Governance	A+	
Indirect - Manager Sel., App. & Mon			
<10%	07. Private Equity	Not reported	
Direct & Active Ownership Modules			
10-50%	10. Listed Equity - Incorporation	A	
10-50%	11. Listed Equity - Active Ownership	A	
10-50%	12. Fixed Income - SSA	B	
10-50%	13. Fixed Income - Corporate Financial	A	
10-50%	14. Fixed Income - Corporate Non-Financial	A	
<10%	15. Fixed Income - Securitised	A	
<10%	17. Property	A	

APPENDIX 5 GLOSSARY

Actively managed

Active management is the use of a human element to actively manage an investment fund. Active managers rely on analytical research, forecasts, and their own judgment and experience in making investment decisions on what securities to buy, hold and sell.

Balanced Lifestyle Strategy (Drawdown)

Balanced Lifestyle Strategy (Drawdown) is Royal London's default investment strategy designed for pension investors. The default strategy is where your money is invested if you don't choose a different investment fund or strategy.

Explicit costs

Those costs, such as tax and broker commission, where there is both a readily identifiable source and basis for the cost. These are more simple to quantify.

Implicit costs

When the fund manager is instructed to carry out a transaction it is important to do this at the best price possible. The available price may vary with the size of the sale or purchase, and it may also be possible to get different prices from various buyers/sellers. The actual price can vary between the time the order was made and when the transaction is actually carried out. The **implicit costs** we have shown seeks to capture the impact of all of these features. The measurement of this item is of varying complexity depending on the nature of the asset – being more complex when robust independent market prices are not readily available at all times (for example property) and more straightforward for other more liquid assets (for example equities of major UK listed companies). Since prices can move up or down in the period between receiving instruction and implementation, it is possible for this item to be negative, that is it can increase overall investment returns rather than reduce them.

Investor in Customers Organisation

Investor in Customers is an independent customer experience agency with more than 10 years of improving customer service skills and bettering businesses.

Mobile app

A **mobile app** is a software application developed specifically for use on small, wireless computing devices, such as smartphones and tablets, rather than desktop or laptop computers.

OTC Derivatives

Over-the-counter (OTC) derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary.

Passive investment strategy

A passive management is the opposite of active management where the fund's managers attempt to beat the market with various investing strategies and buying/selling decisions of a portfolio's securities. Instead the fund aims to track or to mimic the performance of an externally specified index e.g. the FTSE100 and there is no active management of the fund.

Pensions Dashboard

Pensions Dashboard(s) are a Government and industry initiative that should let you see all of your pension pots all together - in an online place that you can choose. It is expected that the first Dashboards will launch at the end of 2019.

ProfitShare

Royal London is a mutual, which means we're owned by their members. As such they we believe customers should share in their success.

Royal London aims to boost your retirement savings by adding a share of profits to your plan each year. They call this **ProfitShare**.

Although Royal London can't guaranteed that it will be able to award **ProfitShare** every year it has declared **ProfitShare** at the rate of 0.18% each year since launch. Royal London shared £142m of profits with over 1.2 million customers in April 2018.

Stochastic modelling

Stochastic modelling is a technique used to understand a range of possible outcomes in investment markets

TER (Total Expense Ratio)

This is a measure of the total cost of a fund to the investor. Total costs can include various fees (purchase, redemption, auditing) and other expenses. The **TER** is calculated by dividing the total annual cost by the fund's total assets averaged over that year, and is expressed as a percentage.

Transaction costs

When Investments are made in financial securities there are costs incurred in buying, selling and holding these assets. The IGC are given information on these costs and we take a view on whether Royal London is managing these costs and the customer is getting value from them.

Vulnerable customer

A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.

YouGov

YouGov is a global public opinion and data company specialising in market research through online methods

