ANNUAL REPORT

2020

ROYAL LONDON

INDEPENDENT GOVERNANCE COMMITTEE

Personal Introduction from the Chair

Peter Dorward
Chair, Royal London IGC

As Chair of the Royal London Independent Governance Committee (IGC) I am pleased to present our report for 2020. We have changed the format of the report slightly this year to make it easier to navigate and be more interactive. I would specifically draw your attention to the summary section at the front of the report focusing on our assessment of Royal London's activities against our 'Value for Money principles'. The rest of the report then provides more detail on each individual area.

After a busy year for both Royal London and the IGC I am pleased to report that, overall, we are satisfied Royal London is continuing to provide 'value for money' to workplace pension customers.

The primary purpose of the IGC is to act independently and assess the ongoing value for money provided by Royal London to workplace pension customers. The remit and responsibilities of all IGCs was extended in 2020, most notably to include environmental, social and governance (ESG) issues, Investment Pathway solutions for pensions drawdown and the publishing and disclosing of costs and charges to workplace pension customers. We began incorporating these additional responsibilities into our work during 2020 and further details on progress made in these new areas of responsibility can be found later in the report.

During the year we have responded to consultation papers, policy statements and feedback from the Financial Conduct Authority (FCA). I mentioned in our 2019 report that we had supported Royal London in responding to an FCA information request to review the effectiveness of IGCs. In 2020 we worked with Royal London on a number of specific activities in response to the findings of this review and general FCA guidance in order to strengthen our reporting and oversight. These activities included extending the breadth of reporting to cover all variants of default investment arrangements and reviewing charges for an additional cohort of workplace pension customers. Further details on some of these aspects of our work can be found throughout the report.

In our last report I also noted the significant changes in Royal London's senior management in 2019. I and the IGC continue to have regular, positive and open engagement with Royal London's senior management. I am confident that Royal London respects and values the independence of the IGC and recognises the important role we undertake on behalf of workplace pension customers. We have been kept updated as Royal London's revised strategy and operating model has begun to embed into the business in 2020. We have also specifically sought, and received, ongoing assurance that activities which are key to the IGC discharging its responsibilities in relation to workplace pensions customers will continue to be prioritised.

We were pleased to see that the new operating model will bring greater alignment in the management of older and newer pensions products. We continue to closely monitor the project to bring older pension products on to an updated system in order that customers can benefit from a consistent experience and any associated operational efficiencies.

During 2020 we have been particularly pleased with how resilient the provision of support to customers has been against the backdrop and challenges of the Covid-19 pandemic. Royal London had 98% of staff able to work remotely within the first 9 days of lockdown being announced in March 2020. Royal London were able to maintain telephone support for customers through the transition to home working and improved the support provided to vulnerable customers.

You can find further details on me and all my fellow IGC members in the Membership section of the report. In response to the expansion of our responsibilities, we recruited an additional Independent Member. Following an open and transparent recruitment process, we welcomed Rosie Bichard as an Independent Member in August 2020. Rosie has particularly strong experience in ESG and Responsible Investment. We were also pleased to welcome Christelle Lim-Severe as a company appointed member in December 2020. Christelle is Head of Strategy for Royal London and I am delighted that we will have the benefit of her knowledge of the business and insight into its strategic priorities. Both Christelle and Rosie are already making a valuable contribution to the IGC.

We would welcome any feedback you have on the format or content of this report and how useful you found it. You can contact us at RoyallondonIGC@royallondon.com.

Finally, I know 2020 was an incredibly challenging year for many people and we will no doubt continue to feel the social, economic and health consequences of the Covid-19 pandemic for some time to come. I would therefore like to take this opportunity to provide my sincere thanks to my fellow IGC members and everyone involved with the IGC for their continued support during 2020 and beyond.

Peter Dorward
Chair of the Independent
Governance Committee

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If you only have 5 minutes, read this.

Our summary value for money assessment for the customers we look out for

We are satisfied with the overall value for money that Royal London provides for you and we believe Royal London runs its workplace pensions operations well and focuses on your best interests.

Throughout each year, we monitor how well Royal London is doing in a number of key areas; we call these the 'value for money principles'. We ask Royal London to give us information to help us reach an informed view about how well the firm is doing against each of these principles. They have given us all the information we have asked for.

We set out in the table overleaf these important principles, our assessment of how Royal London has performed against them and a short summary. If you have more time to read all of it or perhaps a part which is of particular interest to you, there is a lot more detail provided in the following sections of this report.

You should note that while we believe Royal London in general provides value for money, this does not mean all customers get exactly the same value for money based on all of the principles. The overall outcome can depend on a number of things including the nature of your employer, the fund you (or your employer) has selected and many other factors. Following a detailed review we carried out this year, concentrating on some of these factors, Royal London has committed to further improve the value for money to a group of workplace customers in the coming year. For some, this improvement will be by reducing charges. For others, this will be by offering to change the way your money is invested. Royal London will write to you if you are affected by any of these changes. We will be continuing to monitor the delivery of these important changes during 2021 and will report to you on this in further detail in our annual report next year.

Summary position

Principle (see below for what these mean)	Key points	2019 score	2020 score
Regular reviews	We are satisfied with how Royal London continues to review its products and seeks ways to improve them. It also reacted well to the Covid-19 pandemic, including reviewing the potential impact on customers and providing additional support where appropriate.		
Ongoing charges	We are satisfied the charges levied are fair for the significant majority of customers compared to the benefits being provided. We have agreed with Royal London that charges will be reduced for a proportion of customers. We have altered our rating to amber this year until Royal London has implemented the changes.		
Fair exit charges	There is an issue that still remains around exit charges for a very small number of older products. We recognise that the resolution to this is dependent on wider projects within Royal London. We are satisfied that this continues to be the right course of action but will retain our amber rating until it is addressed.		
Balanced charging	Overall we are satisfied that the charging structure used by Royal London is fair, while further improvements discussed later in this report are expected to strengthen this position. ProfitShare effectively offsets some of those charges if Royal London makes material profits, further enhancing value for money.		
Investment Strategies, Policies and governance	Overall the strategy for the funds offered remains appropriate. Changes made during the year were subject to strong challenge by us and other governance bodies within Royal London. We conducted a review of legacy defaults and changes will be made by Royal London this year as a result. We have also initiated a review of bespoke default funds determined by advisers. There has been good progress against plan on how Environmental, Social and Governance ("ESG", or Responsible Investment) has been incorporated into the business.		

Summary position continues on the next page

- Measures which have been delivered within an agreed range and our expectations in terms of quality and delivery have been met in key areas.
- The delivery against our agreed measures is not as anticipated or where the expected quality has not been achieved in some key areas. We have agreed with Royal London the actions and timelines to achieve a green rating (or future performance is expected to achieve a green rating).
- We have provided a material challenge to Royal London (via the Board) and have been unable to agree a way forward.

Principle (see below for what these mean)	Key points	2019 score	2020 score
Investment returns and transaction costs	Overall Royal London has provided reasonable returns relative to the level of risk, but returns have been slightly behind benchmark over 2020 due to the overweight position in risk assets at the beginning of the Covid-19 pandemic. Our rating has changed to Amber to reflect this short term under performance. Royal London has reviewed and made changes to the asset allocation of their Governed Portfolios. Further details are included in section 4. Transaction costs for 2020 are higher than those reported in 2019. This is due to the increase in costs known as implicit costs. In particular these were impacted by currency fluctuations in Royal London's global holdings.	●	●
Clear communication	We have been engaged with Royal London on improvements to customer communications in a number of ways which we have noted in our report. Certain workplace customers, with older plan types that are no longer actively marketed, do not benefit from the same communications offered to the majority of workplace customers, who are on more modern plans. Our rating remains amber until we see further evidence of this gap closing.	●	●
Effective service	We are satisfied with the overall service that you have been receiving during the year. We have seen improvements in a number of areas and the service has been resilient given the challenges of the Covid-19 pandemic. In particular the way Royal London maintained its telephone support for customers through the transition of staff working from home during lockdown was valued.	●	●

During the year we also monitored and challenged how Royal London were preparing for the launch of Investment Pathways – which are a selection of funds for those customers who have decided not to seek professional advice and who wish to access their pension product at retirement. We were satisfied with the work Royal London did in preparation for the launch that occurred in February 2021. We will continue to monitor Investment Pathways through 2021 and beyond.

● Measures which have been delivered within an agreed range and our expectations in terms of quality and delivery have been met in key areas.

● The delivery against our agreed measures is not as anticipated or where the expected quality has not been achieved in some key areas. We have agreed with Royal London the actions and timelines to achieve a green rating (or future performance is expected to achieve a green rating).

● We have provided a material challenge to Royal London (via the Board) and have been unable to agree a way forward.

Our Value for Money Principles

We regularly review whether our principles remain the best set of tools to assess the value for money that you are receiving. During the year we explicitly considered whether fewer measures could be used, focusing particularly on the actual rate of return achieved on your contributions. We also considered whether the importance of ESG meant that those considerations should merit their own distinct set of scores.

Having carried out this review, we concluded that our existing set of principles remains valid as it enables us to investigate a wide range of aspects in relation to how Royal London manages your pension. Research tells us that you also consider a wide range of aspects when evaluating if your pension is delivering what you want and expect.

We have therefore retained the set of value for money principles used in our report last year, and these are set out in this section. As explained in the following sections of this report, we have also assessed Royal London's work around ESG (see section 5) and preparation for Investment Pathways (see section 7).

Regular reviews

Given the evolving needs of long-term savings customers, Royal London's workplace pension proposition should be regularly reviewed to ensure it remains relevant. Reviews should:

a) take account of the changing market environment;

b) ensure products continue to provide good customer outcomes;

c) ensure the products remain fair relative to the original terms and conditions;

d) take account of any inappropriate outcomes for customers; and

e) make appropriate recommendations and track their implementation.

See more information on page 15

Appropriate ongoing charges

Ongoing charges are fair and appropriate; and offer value for money relative to the benefits provided by the product and service.

Benefits and services will be considered in light of what customers view as important and how Royal London delivers against these.

See more information on page 13

Fair exit charges

Any deduction from the value of a pension on exit will:

a) not exceed the legal cap on exit charges for members to which that cap applies (currently over 55s); and

b) where the cap does not apply, any charge must be fair; in line with the contract terms; and designed to recoup no more than any unrecovered costs incurred by Royal London.

See more information on page 13

Balanced charging

The relevant workplace product should make sustainable - but not excessive - profits. The value customers receive should be shared fairly.

See more information on page 13

Investment strategy

The long-term investment strategy should be designed to deliver appropriate returns within an agreed level of risk and volatility. This should be achieved in a measured and efficient manner.

There should be appropriate policies and governance in place to ensure returns are delivered cost effectively, including management of execution and transaction costs. The investment strategy should be clearly communicated to customers.

See more information on page 17

Appropriate investment returns

Actual Investment returns should be appropriate relative to the risk that a customer has taken. In particular Royal London should:

a) effectively communicate the investment returns and potential risks of their investment to customers;

b) set realistic expectations of future returns and measure actual returns against these expectations;

c) identify where returns fall below appropriate benchmarks and competitor returns; and

d) ensure efficient trading execution.

See more information on page 22

Clear communication

Royal London should communicate with customers in a clear and timely manner and ensure customers are aware of product features, terms and conditions at relevant points in order to make informed decisions. Royal London should also communicate the value of any guarantees or other benefits to customers clearly and communicate the implication of actions which would result in the loss of these benefits.

See more information on page 31

Effective service

Royal London should provide a service that makes it easy for customers to manage their pension and engage with Royal London effectively when they need help.

See more information on page 28

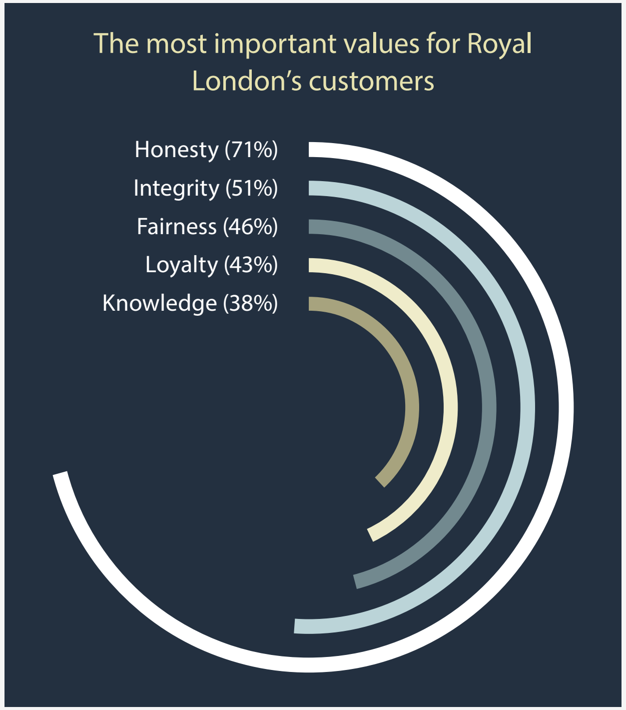
Listening to You

We want to understand what is important to you, how you view Royal London and your thoughts on the service they provide to you. We work with Royal London to ensure we get both regular information (noted in the relevant sections of the report) and receive reports on research projects that can help us understand your views and needs better. In this section we summarise the research projects which are relevant to the scope of our work.

Purpose and Brand

Royal London evolved their brand and purpose in 2020. It is important that we understand how Royal London position themselves to customers as this can have an impact on engagement and willingness to invest appropriately, which can affect customer outcomes. Royal London therefore shared with us the customer research[1] which showed that half their customers already actively seek information on company purpose statements and 91% wish to buy goods and services from brands that share their values. The most important values for Royal London's customers are honesty (71%), integrity (51%), fairness (46%), loyalty (43%) and knowledge (38%). Following this research Royal London developed its new purpose statement - "Protecting today, investing in tomorrow. Together we are mutually responsible."

We have considered the outcome of this research and Royal London's consequent purpose statement, when assessing how Royal London treats their customers and manages their workplace pensions.



1. Royal London Customer Research, Feb 2020 (Base: 443 customers)

Customer Engagement and Value for Money

Royal London use two models which measure customer engagement and value for money which they share with us to support our work. The first model is known as Customer Value Statements (CVS) which was developed through customer research to measure customer perceptions across seven key measures of importance. The model creates an index, which indicates levels of customer trust, likelihood to recommend and value for money. The second model is provided by the research company YouGov and is called the Customer Brand Health Index. This provides information on six separate elements covering Royal London's relationship with its customers. You will note (from the chart on page 12) that 35.9% of customers surveyed thought that Royal London provides value for money. We note that Royal London's score is above the industry benchmark (of 33.3%) and, while we are keen to see Royal London's score improve, this report explains why overall we do consider that Royal London provides value for money. More information on this can be found at YouGov[2]. Both models provide aggregate scores which help us and Royal London track how they are doing on these key measures.

Overall, Royal London performed well in both measures in 2020. For workplace pension customers specifically the overall Customer Brand Health score increased in 2020 compared with 2019 from 45.2 to 52.9[3]. In addition to the quality of their service, Royal London believe that campaigns such as their Secret

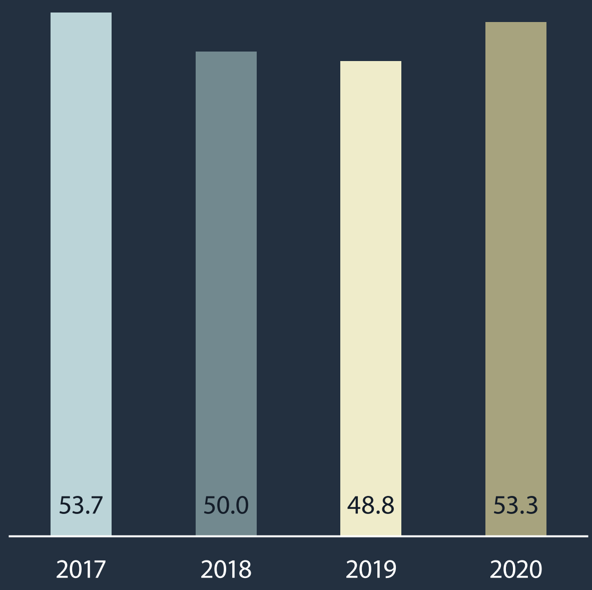
Royal London's customer value statements

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

Customer Brand Health Performance

Year on Year comparison 2017-2020



Royal London's Brand Health scores 2017-2020

Annual scores are an average of daily scores collected from the 1st Jan to 31st Dec of each year and based on across all Royal London current customer views only.

Base size for annual scores: 461 (2017), 803 (2018), 1332 (2019), 1280 (2020)

2. yougov.co.uk/topics/brandindex
3. YouGov Brand Health 01/01/2019 to 31/12/2020 [Base: Royal London Workplace Pension Customers (variable between 181-861)]

Life of Pensions campaign (discussed in the Responsible Investment section) and TV advertising will have aided performance here.

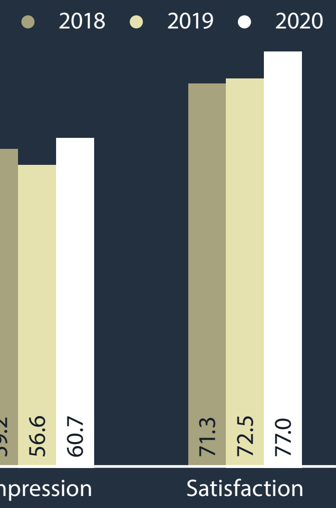
The CVS Index for workplace pension customers remained relatively stable during the course of 2020, dropping 2% points from February 2020 (25%) to October 2020 (23%)[4]. The drop is mostly accounted for in lower scores for the membership and investment statements; the latter suffering because of poorer investment performance during the pandemic. We note again that Royal London's workplace customers still have a significantly lower CVS score than their other customers, even with the improvement shown from the previous year. Engagement with workplace pensions tends to be lower compared with individual pensions, as the latter are actively chosen by policyholders, while workplace pensions are chosen by employers. While we believe this tends to be the case across the market, we continue to challenge Royal London on how this gap can be addressed.

Upon completing the survey, 21% of Royal London workplace customers stated that, if Royal London were to engage with them through ESG investing, they would look to increase the contributions they make into their pension.

The research highlighted the potential importance of Responsible Investment to Royal London's customers and the potential benefits it could bring in engaging customers with their long-term savings.

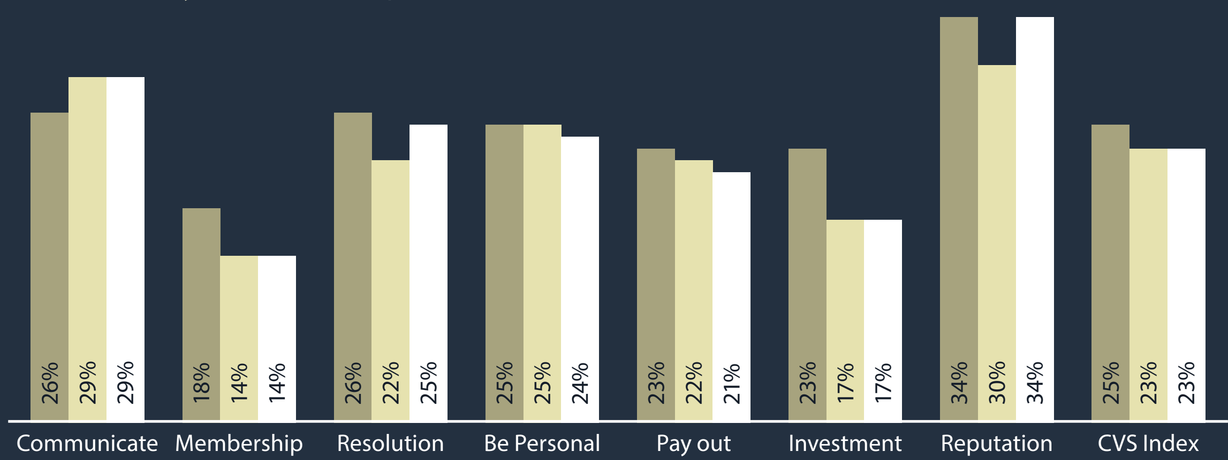
Customer Brand Health Performance 2018-2020

Analysis by Factor



Source: YouGov Brand Index (2018-2020)
Annual scores are an average of daily scores collected from the 1st Jan to 31st Dec of each year.
Base size for annual scores: 803 (2018), 1332 (2019), 1280 (2020)

CVS Index - Royal London workplace customers



Q4. Would you say you agree or disagree with each of the following statements…
Unweighted base: Total: Oct 2020 (2888), Jun 2020 (2990), Feb 2020 (3041), 2020 (8919), 2019 (2334)

4. Royal London Customer Relationship Study, Motif, 2020 (Base: Royal London workplace pension customers, 219 - 309 per wave)

Charges on your plan

An area we monitor closely is the charges that apply to Royal London's range of workplace pension products. Royal London provides the IGC with quarterly data so we can monitor both the general trends in average charges and the range of these charges. We look at both ongoing regular charges and exit charges to ensure we fully understand the charging structure.

Product administration charges

The table below shows the average annual management charge (AMC) applying to funds built up from 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). This illustrates that, overall, average charges have fallen each year since our first report back in 2016.

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	2019	2020
All WPP plans	0.74%	0.71%	0.69%	0.68%	0.67%	0.65%
New members	0.69%	0.65%	0.64%	0.63%	0.58%	0.61%
Continuation plans	0.68%	0.67%	0.69%	0.68%	0.67%	0.66%

The range of charges across Royal London's different workplace pension plans has also narrowed following changes made in previous years. The next table shows the AMC range across Royal London's workplace pensions by count of scheme categories.[5]

5. Within some workplace pension schemes there are different categories of member. This can mean there are different contribution levels, default investments and costs and charges within an individual employer's scheme. As charges can differ across the membership of some schemes, we have shown the range of charges by number of scheme categories which is higher than the total number of employers' schemes.

AMC on plan value	Number of scheme categories
1.26% or greater	304
1.06% to 1.25%	332
1.01% to 1.05%	50
0.96% to 1.00%	4,101
0.86% to 0.95%	915
0.76% to 0.85%	672
0.60% to 0.75%	20,753
0.50% to 0.59%	3,597
0.40% to 0.49%	2,538
0.30% to 0.39%	874
0.29% or lower	111

This spread in AMC illustrates the dangers in making any simplistic comparison of the average AMC charged by different workplace providers (that is, Royal London and their competitors). Each provider's average AMC will be significantly influenced by the type of employer that they are working with and the consequent size and nature of the workplace pension scheme.

The vast majority of Royal London's workplace pension members are in modern, low charge products. Retirement Solutions is Royal London's current flagship contract and the only one which is actively marketed. The following table shows that most of Royal London's customers are in this contract and the proportion is growing year on year. All customers in CIS, Phoenix Life, Police Mutual and Royal Liver workplace products have an AMC of 1% or below. You should be able to find out which product you have from your annual statement. If this isn't clear, give Royal London a call on the number given on your annual statement and they'll be able to let you know.

Number of Royal London Customers in each product type

PRODUCT	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/20	% Change from 2019 to 2020
RS GPP	643,700	849,748	1,004,360	1,167,172	1,204,371	+3%
RS Group Stakeholder	61,800	66,437	71,512	75,208	76,128	+1%
Talisman GPS v1-6	32,600	31,109	29,700	28,230	27,730	-2%
Talisman GPP	1,600	1,527	1,429	1,337	1,309	-2%
CIS Group Stakeholder	9,200	8,842	8,468	8,146	8,078	-1%
Phoenix Life GSP	18,200	17,490	16,915	16,250	16,119	-1%
Phoenix Life GFP	84	73	69	68	66	-3%
Royal Liver GSP	0	1,179	1,150	1,101	1,093	-1%
Royal London GPP	36	36	36	35	35	0%
Police Mutual	586	722	775	819	759	-7%

RS = Retirement Solutions GPP = Group Personal Pension GPS = Group Pension Scheme
GSP = Group Stakeholder Pension GFP = Group Flexible Pension

Police Mutual became part of Royal London on 1 October 2020, including the workplace pension scheme used for staff. This arrangement was therefore brought within our remit on that date. We are aware that in September 2020 the scheme was found to have breached the regulatory charge cap of 0.75% at various points historically. A remediation process is now in progress both for exited and remaining members of this arrangement. For a group of customers (around 34,800) in Retirement Solutions GPP and Talisman plans we have agreed with Royal London that it will make further changes to the charges as described in the next section.

Overall we are satisfied that the charging structure used by Royal London is fair, but we continue to review it and consider the changes described below will improve the position further.

Further improvements to certain workplace scheme charges

In our annual report last year we advised that we were in discussion with Royal London on what action can be taken to further reduce charges in the coming years and committed to provide more details in this year's report. We also alluded to the fact that Royal London had agreed to reduce charges so that the ongoing charge would be no greater than the 1% annual management charge plus the cost of any outstanding or ongoing commission recovery.

During 2020 we carried out a detailed review of the ongoing charges applied to Royal London's workplace pension schemes. We concluded that although the maximum charge excluding the cost of the commission was already at 1% p.a. we now required Royal London to go further. We required charges to be no greater than 1% including the cost of commission. The only way to do this was to ask Royal London to:

- reduce plan charges designed to recoup commission which had already been paid out in the past, where that charge takes the overall charge above 1% p.a; and
- stop paying further commission to advisers on an ongoing basis where there is a corresponding charge on the member's plan.

Royal London has agreed to this and has initiated a project to bring these changes about in 2021.

This will mean that all Royal London's workplace plans will have charges at 1% p.a. or less. You will see from the table above the significant majority already had charges well below this level but this will now mean there is a cap on charges at 1% for all but a very small number of customers. The only exceptions are where there are additional valuable product or adviser features. These are:

- the customer specifically asking for charges to be deducted from the plan to pay for advice
- where the customer has chosen to increase a transfer payment to enhance their death benefits; or
- because they have made a personal choice to invest in funds with additional management charges.

ProfitShare

ProfitShare is a unique feature of Royal London's workplace pension contracts. All unit-linked policies sold since 1 July 2001 could be eligible to receive a share of Royal London's profits. ProfitShare has been declared on these plans now since its introduction in 2017. The level of ProfitShare for 2021 remains the same as the previous year at 0.15%, despite the difficult trading conditions in 2020. ProfitShare was awarded on the retirement savings held at 1 April 2021. The next table shows the level of ProfitShare since inception.

2017	2018	2019	2020	2021
0.18%	0.18%	0.18%	0.15%	0.15%

The ProfitShare feature remains a key 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. This feature also needs to be considered when making any comparisons of workplace pension benefit and charges across different providers.

How charges are disclosed to you

You can find the charges that are relevant to your plan in your annual statement, and if you have a Retirement Solutions plan, on Royal London's mobile app. Royal London has also published the range of administration charges and transactions costs (see section 6 for a description of these) that apply to all the workplace pension schemes it looks after on its website. You can access this information by visiting the "Workplace costs and charges" page[6].

The website shows the administration charges and transaction costs for each default investment used within each workplace pension product. There are also projection tables that show the impact these costs and charges have over time for each default investment available through each product.

Although you can be reassured we closely monitor the charges and the value for money provided by Royal London's workplace pensions, we encourage you to look at this information to understand more about the costs and charges for your employer's workplace pension scheme.

6. www.royallondon.com/workplacecostsandcharges

One note of caution is that the costs and charges information on the website is specifically in respect of 2020, as required by the FCA, and the figures provided in future years will be different. In particular, the transaction cost information in 2020 may not be representative of the costs in subsequent years. The historic transaction costs are reflective of the level of trading in the funds to deliver their investment strategy.

We note from discussions with the FCA that there is an intention for further enhanced disclosure on charges but that agreement across the industry couldn't be reached in time to ensure parity of disclosure for this reporting period. Royal London has conducted customer research on how this disclosure can best be made together with the proposals for delivering it. We reviewed the results of this research and are supportive of the work we have seen on this project; we urge Royal London to deliver this information once market and regulatory consensus is reached.

In the meantime, if you have any feedback on the current information and how it's presented please let us know by emailing us at RoyallondonIGC@royallondon.com

Investment Strategy

For the majority of Royal London's workplace customers, their contributions are invested in a range of funds called 'Governed Portfolios'. As customers near the date when they are likely to start using their savings, money is moved in to safer assets. This is called Lifestyling and is designed to maximise growth while the member is young, and gradually reduce the level of risk as they approach retirement. The choice of the type of assets held in these portfolios and the proportion in each type is set by what is known as a Strategic Asset Allocation (SAA) framework.

During 2020 Royal London reviewed the SAA of the Governed Portfolios. This process used Royal London's research and knowledge combined with Moody's Analytics modelling expertise to ensure that each portfolio has the best mix of investments for the target risk levels of each portfolio. The result of the review was to:

- increase high yield bond exposure;
- reduce exposure to commercial property; and
- move to a new global equity blend that reduces UK equity in favour of global developed and emerging market exposure.
- Royal London believe that the changes increase the expected return of these portfolios while maintaining the expected level of risk. The changes also give a greater exposure to faster growing countries and sectors which will improve long term outcomes for customers.

The changes were implemented by Royal London over 2020 and finalised in early 2021. We analysed the proposals during the review process and are satisfied that a rigorous process was followed. There are objective reasons to consider that the changes introduced by Royal London should lead to improved expected outcomes for customers. These proposals were also considered by other governance bodies within Royal London, including their With Profits Committee and Investment Advisory Committee.

Royal London has conducted the triennial review of the workplace investment default. We provided input into the scope of this review and we support the conclusion that the Balanced Lifestyle Strategy (Drawdown) continues to be an appropriate default option for Royal London's workplace customers. Royal London looked at both the suitability and design of their default strategy along with reviewing their positioning against other providers.

Royal London also presented initial research around optimising outcomes for the younger pensions savers introduced by auto-enrolment. Working with Moody's Analytics they presented research which suggests outcomes for ultra-long term workplace pensions savers could be improved by taking more risk. While this research was based on the theoretical modelling of future outcomes, Royal London signposted further research to be done into diversification at younger ages and behavioural challenges that could arise from a more volatile initial savings journey. We provided input on this and look forward to reviewing the results of this further work.

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 will make suitable checks and enquiries to make sure that the employers and their advisers are acting appropriately when making decisions on how to invest your money. We have asked Royal London to increase the level of review that is carried out, while recognising that there can be reasons why employers, and their investment advisors, have selected a certain investment strategy.

Further information on how Royal London's investment strategy is designed is included in Appendix 1 for your information.

ESG/Responsible Investment

In last year's report, we explained that the Financial Conduct Authority had issued new rules requiring Independent Government Committees like us to report on their firm's policies on ESG, member concerns, and stewardship for the products that IGCs oversee.

We explain what these terms are in the Glossary. Royal London group these considerations under the phrase Responsible Investment because they believe this goes beyond just considering Environmental, Social and Corporate Governance factors in investment decision making; we use this term for the same reason.

To ensure we are able to provide the oversight required by the new rules we have significantly expanded the amount of time spent on this topic in 2020. As mentioned in the Chairman's introduction, we have also added a new independent member, Rosie Bichard, to the Committee who has specific expertise in the area. Rosie's biography is included in Appendix 2.

Our conclusion is that Royal London has made good progress in many areas related to Responsible Investment in 2020, particularly in understanding customer views and providing information about Royal London's activities. It has laid the groundwork for Responsible Investment considerations and practices to be embedded throughout the full organisation, by committing to a set of policies and oversight procedures both inside and outside the firm. Royal London has also committed to make changes to the default funds used for workplace pension schemes. We are satisfied that the right steps are being taken and will continue to monitor progress carefully in 2021.

Assessing Royal London's approach to Responsible Investment

Our first step this year was to develop a framework and set of principles which we could use to test Royal London's ESG policies and developments. This work is now complete, and the framework and principles are included on the next page. We used this framework to ensure Royal London can provide progress reports and data as evidence against each of the principles we believe are important.

We have since considered Royal London's progress against each of the principles as they relate to workplace pensions customers and customers of Royal London's investment pathways. As this is a new area of focus for us and the theme of Responsible Investment is still developing in both market and regulatory terms, we expect to update our framework as thinking and information evolves. In this initial assessment we have used a milestones-based approach to our reporting to reflect that 2020 was a year when important decisions were made by Royal London and the programme is, at the time of writing, being implemented. We will update you on the progress in our next report.

Although we will look for Royal London to make progress on Responsible Investment in its own right we also take comfort from the work of Royal London Asset Management (RLAM) who manage the largest portion of their assets. RLAM's credentials as a Responsible Investor are therefore of particular importance to us. RLAM's A+ rating by UNPRI (a UN supported network of investors who work to promote sustainable investment) for strategy governance and being called out in the FRC report for best practice for early reporting of the new Stewardship Code, highlights their strengths in this area. However, we need to ensure all aspects of Responsible Investment for an asset owner are monitored, and not just rely on RLAM.

The position as at the end of 2020 is as follows:

Responsible Investment strategy & policy

Royal London has made progress in ESG strategy and policies in 2020. The group has added senior talent to its team which has driven strategic thinking forward. In particular, Royal London appointed a Climate Lead who brings extensive expertise in the field to ensure regulatory obligations are met, as well as assisting in embedding Responsible Investment and climate change considerations into the various elements of the Royal London Group. We believe the Responsible Investment policy and climate framework is appropriate and has been integrated into its governance structures. In 2021 we expect to see additional policies being developed on voting, engagement and exclusions, as well as further evidence of their integration into the firm's approach to managing workplace pensions.

1. Balanced costs

Work has been carried out to understand and manage the impact on members when incorporating Responsible Investment principles into workplace pensions. We believe the governance and oversight process is sufficient. For example, the composition of the default fund is being shifted to incorporate ESG factors in the investment process, such as climate considerations, and this is being done at the lowest possible cost. More evidence of this should be available by the end of 2021.

2. Integration & implementation

Royal London is working to ensure funds managed on members' behalf, within the group by RLAM or by third party fund managers, all reflect the emphasis that is placed on Responsible Investment by the group, whether in investment decision-making, ongoing stewardship or other aspects. A framework for monitoring fund managers has been designed and a pilot questionnaire sent to all larger firms, resulting in an initial ranking and further engagement. We expect this to be fully rolled out in 2021 and we will monitor the development of this work closely. See Appendix 3.

3. Communications

Royal London has made good progress in communicating its Responsible Investment approach to members and advisers in 2020. This has been driven by research and understanding of customer priorities. Examples of the work they have delivered include the Secret Life of Pensions campaign aimed at helping members understand how their pension is invested, and articles and podcasts produced to support the adviser community on areas such as stewardship. Royal London has, in our view, developed authentic thought leadership in this aspect and we expect to see this built upon in the year to come, with more channels added to reach and engage members.

4. Customer views

Royal London has performed well in this area. It has commissioned several surveys to capture members' views on Responsible Investment in depth and has taken this research into account when considering its investment priorities and communications strategy. It also surveys the adviser community on ESG. This research has been regularly reported to us. In 2021 we expect to see ongoing research and more evidence of feedback informing its Responsible Investment activities.

5. Impact on default and self-select funds

We consider that this area is still work in progress. In 2020, Royal London built up the insight required to design an evidence based plan to develop its default to incorporate ESG. This includes plans to evolve the passively-managed component of the default fund, and all Governed Portfolios, towards certain factors that reflect greater ESG considerations. This is being implemented in the beginning of Q3 2021. Royal London's approach has been cautious due to the significant nature of these changes and the wish to minimise costs and risks for the members. We agree that it is right to ensure there is a solid insight and planning process before embarking on changes of this type. We will be able to provide analysis of the impact of the new tilt in next year's Annual Report. The plan is that further ESG-related factors will be incorporated in future. Options for self-select funds will also be widened to include solutions with more focussed E, S and G objectives; we note that Royal London is undertaking a wide-ranging review of these and we expect to see further changes made in 2021.

6. Royal London's internal policy and delivery on ESG

Royal London has developed new policies as a responsible business and employer, related to its own carbon footprint, employee wellbeing and community involvement. Its goal is to build on the progress made in 2020 in developing new ways of working, educate and involve employees, detail its Net Zero plan and to ensure it acts responsibly as befits its mutual status.

7. External disclosure and reporting

Royal London is still early on in its journey towards greater external reporting. Though current policies are set out on its website and its goals relating to RI and business practices are discussed in its annual report, it will only be reporting under UNPRI, the UK Stewardship Code and TCFD (Task Force on Climate-Related Financial Disclosures) in 2021 onwards. This area has been given additional resource and priority and we will update you on progress in our 2021 Annual Report.

Asset Managers will fall into 1 of the 3 categories detailed in the chart in Appendix 3. Those with less than £100m AUM will receive a standard RI/CC Due Diligence questionnaire. For those with more than £100m, they will receive additional enhanced questions along with frequent due diligence meetings. As RLAM manage the majority of assets, they fall into the most advanced monitoring section and will be required to provide more information to Royal London on a regular basis.

Understanding our customers - Royal London vs UK average

	UK Average	Royal London	Trend
Understanding of investment Understanding of where and how money is invested is low; only 44% of UK customers (57% RL customers) have ever considered where their money is invested.	44%	57%	↑
Responsible Investment Awareness UK consumer awareness of Responsible Investing is very low (16%) but is almost double (31%) amongst Royal London customers.	16%	31%	↑
Underlying views on Responsible Investment When made aware of Responsible Investment, 56% of UK investors believe it is important - this rises significantly to 81% of Royal London's customer base.	56%	81%	↑
Provider is expected to lead For the majority, it is the responsibility of the provider to determine what is a Responsible Investment.	52%	73%	–

Source: RLG Responsible Investing Research Programme 2020

Investment Returns and Transaction Costs

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

These figures are presented net of a 1% annual management charge. The actual charges members pay varies from scheme to scheme and is never more than 0.75% for automatic enrolment schemes. Royal London has presented performance on this basis to be consistent with other external reporting. Customers are able to see their true performance, net of the actual charges they incur on annual statements and most customers are also able to access this information on Royal London's Mobile App. The figures also don't include any ProfitShare that has been added.

Default Investment Strategy Performance	Percentage Change					Compound Annual Growth Rate (%)	
	01.01.20 31.12.20	01.01.19 31.12.19	01.01.18 31.12.18	01.01.17 31.12.17	01.01.16 31.12.16		
Portfolio Name	%Chg					3 Years	5 Years
Governed Portfolio 4	-0.28	15.52	-4.99	9.73	15.05	3.05	6.67
Composite benchmark	0.31	13.49	-4.43	9.49	16.89	2.85	6.84
Difference	-0.59	2.03	-0.56	0.24	-1.84	0.20	-0.17
Governed Portfolio 5 (Drawdown)	0.53	14.27	-4.29	8.38	14.24	3.21	6.36
Composite benchmark	1.32	12.18	-3.87	8.09	15.69	3.00	6.44
Difference	-0.79	2.09	-0.42	0.29	-1.45	0.21	-0.08
Governed Portfolio 6 (Drawdown)	2.15	10.90	-2.84	5.82	11.56	3.24	5.37
Composite benchmark	2.67	9.21	-2.63	5.42	11.90	2.97	5.18
Difference	-0.52	1.69	-0.21	0.40	-0.34	0.27	0.19
GRIP 3	1.73	10.40	-2.86	7.87	12.40	2.94	5.75
Composite Benchmark	2.42	8.92	-2.95	5.56	12.86	2.68	5.22
Difference	-0.69	1.48	0.09	2.31	-0.46	0.26	0.53

After a strong 2019, markets saw a significant impact from Covid-19 in Q1 2020. Global equity markets fell by around 35% in a matter of weeks in February/March 2020 which had an impact on the performance of the portfolios. Due to Royal London's optimism for typically higher growth assets such as equities going into the beginning of 2020, Royal London were overweight in equities and sharp market falls hampered performance. Equity positions were reduced slightly during this period, but the relatively higher portfolio exposure to equities in comparison to the benchmark remained, meaning performance of the portfolios benefited from the recovery we saw in the weeks and months following the initial market falls.

We will continue to monitor Royal London's investment strategy closely during 2021 given the slight under benchmark performance this year and the adjustment to SAA noted earlier. At the time of writing we note that one year returns to the end of Q1 2021 are extremely strong over all time periods and are over 2.5% ahead of benchmark.

Performance against what you were told

We think that it is important that Royal London monitors its actual investment performance against what it uses when providing you with illustrations. We recognise that these illustrations are governed by the rules set down by the regulators, but nonetheless they 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. The table below shows the position at 31 December 2020 and reflects the returns delivered during 2020.

Performance against expectation set within client illustration

	Annual Compound Real Return (%)			
Lifestyle Point (Portfolio)	Target	1 year	3 year	Since Launch
>15 years from Retirement (GP 4)	1.3%	1.3%	3.9%	6.0%
10 years from Retirement (GP 5)	0.8%	1.8%	3.1%	5.6%
5 years from Retirement (GP 6)	-0.2%	1.1%	1.1%	3.6%
At Retirement (GRIP 3)	-0.2%	2.7%	1.7%	4.3%

1. mid growth rates are over and above an inflation target of 2.5%.
2. Term is the period to notional retirement date.
3. Annual Compound Real Return expresses the total return, after allowing for inflation, over the period (which may include some high and low results) as an equivalent uniform return

Actual real returns over a three year period and since launch remain above projections. We believe this demonstrates that appropriate growth rates are being used when the illustration of expected returns are being given. We consider the real annual compound rates of return achieved since launch are satisfactory and contribute to value for money.

Comparisons against other providers

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. You can see tables of the results in Appendix 4.

These tables 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 40) and an investor with five years to SPA (page 41).

The first and second charts (Appendix 4) combine the risk and relative return information for the same types of investor for each of the workplace pension providers and Royal London . This demonstrates to the IGC that in both examples Royal London is taking the appropriate level of risk for the rate of return achieved.

The information in the comparison tables demonstrate that Royal London's performance is, for one and five years around index and for three years slightly behind the index of returns. This is due to Royal London's strategy of holding an appropriate mix of assets, depending on time to retirement and the member's risk appetite. In these particular ranges, Royal London has less equity exposure than the competitors listed. Royal London's view is that members will benefit from this greater diversification over the longer term. Investment returns have been mainly driven by US equities and in particular the Technology sector. This has resulted in lower returns for Royal London compared to some of their peers due to their lower allocation to the US and their higher allocation to UK equities. Royal London's mix of UK, Global and Emerging Market Equities ensures a diversified mix of assets are being held and there isn't too much focus on one specific region or sector. Again Royal London expect this to produce strong risk adjusted returns over the long-term. As described at the start of section 4, Royal London reviewed their regional equity allocations in 2020 and made changes at the start of 2021.

We believe Royal London has achieved appropriate returns for the level of risk taken.

Transaction Costs

Transaction costs are the expenses of managing and dealing in investments in the fund. These costs are not new or additional costs – they are already included within the investment returns we've shown in Appendix 4. It is important to note that although low transaction costs don't necessarily mean a better outcome for investors (we explain why on page 15) we nonetheless monitor these costs to ensure they are in line with what would reasonably by expected for trading in the relevant investment. Transaction cost information is also important for firms to help them make sure they get the best value for their trades they made and do this efficiently. We cover this under Best Execution below.

We have included graphs showing more information on the make up of transaction costs in Appendix 5.

Transaction costs for 2020 are higher than those reported in 2019. This is due to the increase in costs known as implicit costs. The main reason for the increase is currency fluctuations seen during the first half of 2020 which led to an increase in implicit costs for global investments. The other type of transaction costs are called explicit costs. These reduced from the previous year as Royal London continue to ensure they trade as efficiently as possible, with increased use of contracts called derivatives. These help to reducing the amount of tax paid throughout the year. We are pleased to see this reduction in cost.

Best Execution

It is important for us to ensure Royal London buys and sells investments for their workplace customers in the most efficient way with minimal costs. This is known as Best Execution.

We regularly assess Royal London arrangements to ensure they comply with their best execution obligations and trade efficiently. In our last report we noted that Royal London operated a Best Execution Review Group to oversee the effectiveness of their execution process. The Best Execution Review Group provides us with regular updates.

Royal London recognises that their processes have to evolve to meet developing industry practices to ensure they continue to deliver the best possible results when executing customer requests. The developments above are welcome and we are satisfied with the progress being made.

Other measures of investment return

The results quoted in this section, and in the Appendices, are calculated at a fund level, and assuming a 1% charge and no ProfitShare. The actual return that you will achieve on your, and your employer's contributions will depend not just on what fund and strategy you are invested in, but also on the actual charge being made on your plan, and the dates on which your contributions are received. To help customers understand the performance of their own individual pension plan, Royal London has a tool on their website that lets you see the actual return on your plan, allowing for all these individual considerations. This figure, called the internal rate of return, is a useful measure and we are exploring with Royal London how this can be made more readily available including any potential comparators.

Investment returns for Legacy customers

The performance of the balanced risk multi-asset funds which make up the Royal London workplace default strategies 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.

Legacy Fund Investment Returns	Percentage Change					Compound Annual Growth Rate (%)	
	31.12.19 31.12.20	31.12.18 31.12.19	31.12.17 31.12.18	31.12.16 31.12.17	31.12.15 31.12.16		
Portfolio Name	%Chg					3 Years	5 Years
Royal London With-Profits Stakeholder Fund	2.90	7.64	2.68	11.40	7.23	4.38	6.31
Comparator Benchmark: ABI UK - Mixed Investment 40%-85% Shares	4.70	15.50	-6.15	9.56	13.39	4.30	7.10
Difference	-1.80	-7.86	8.83	1.84	-6.16	0.08	-0.79
Royal London Stakeholder Managed Fund	4.83	15.22	-5.72	9.28	14.85	4.42	7.40
Comparator Benchmark: ABI UK - Mixed Investment 40%-85% Shares	4.70	15.50	-6.15	9.56	13.39	4.30	7.10
Difference	0.13	-0.28	0.43	-0.28	1.46	0.12	0.30
Royal Liver Stakeholder Managed Pension Fund	5.69	17.22	-5.94	10.51	17.73	5.23	8.67
Comparator Benchmark: ABI UK - Flexible Investment	4.88	17.25	-7.59	11.84	14.98	4.35	7.87
Difference	0.81	-0.03	1.65	-1.33	2.75	0.88	0.80

While the Royal London With-Profits Stakeholder Fund underperformed the comparator, its performance is impacted by the smoothing process detailed above which aims to remove the extreme rise or fall in the value of the fund.

Investment Pathways

In our report last year, we explained that the FCA intended to add ESG (covered in section 5) and investment pathways to our remit. Investment pathways are designed for customers who wish to withdraw money from their pension pot without taking advice.

This section covers the work carried out to ensure that Royal London designed appropriate investment solutions for these customers, while their communications and customer service gave appropriate support to customers through the process. Although not required to be included in this report, we note that Royal London successfully implemented their investment pathways in February 2021.

Investment pathways expand our remit to encompass individual customers, when they invest in an investment pathway, as well as workplace customers.

What are investment pathways?

Investment pathways are 4 new default investment solutions designed to meet the needs of customers who are moving into drawdown with specific saving/spending needs.

These are:

Pathway 1	Must be designed to meet the needs of customers who are withdrawing some savings, but plan to leave the rest untouched for 5 years.
Pathway 2	Must be designed to meet the needs of customers who are withdrawing some savings, but plan to buy an annuity (secure income) in the next 5 years.
Pathway 3	Must be designed to meet the needs of customers who are withdrawing some savings and plan to start, or have started already, a regular income in the next 5 years.
Pathway 4	Must be designed to meet the needs of customers who are withdrawing some savings and plan to withdraw all their savings in the next 5 years.

Royal London consulted with us during the design of these investment pathways to ensure that we were comfortable that they meet the needs and goals of the relevant customer groups. We carried out a review of the analysis and rationale for selecting an appropriate investment solution. In particular we wanted to make sure that Royal London didn't simply select from an existing investment solution.

Royal London presented a comprehensive analysis of customer behaviour across their existing extensive book of customers with similar needs. This was used as appropriate indicators for expected pathway use and customer needs. We asked Royal London to closely monitor customer usage after launch to ensure that the pathways are being used as expected, and they have committed to doing so.

Pathway 1, 2 & 3

Royal London shared detailed work known as strategic asset allocation analysis. This showed that customer needs within these pathways are well suited to existing investment solutions. While this is the case, Royal London has also set up new solutions which will mirror these existing investment solutions. This is so that they can adjust the structure or investments used in each investment pathway separately should this be necessary in the future based on usage and experience.

Pathway 4

Royal London initially highlighted that due to the shorter-term nature of this pathway they believed that they did not have an existing solution specifically designed to meet these customer needs. To address this Royal London established an appropriate risk level specifically for this pathway. However, after further analysis, Royal London modelling revealed that, although not originally designed specifically for these needs, there was an investment solution available with the right assets and appropriate level of risk for the customers who are likely to use this pathway. We were fully engaged on the analysis and decision making in the final design of this pathway.

We are comfortable that the design of all 4 investment pathways is appropriate based on information shared with us to date.

We note that all customers who are offered investment pathways are, at this time, existing investors with Royal London who already have a pension with them.

Charges for investment pathways

We reviewed the rationale used by Royal London to establish the charging structure for the new Investment Pathways. In doing so we considered not only internal evidence, but also information in the public domain about other firms' charging structures – although the scope of this was limited at the time of the review. We also understand the rationale that people investing should be charged the same annual management charge for all investment pathways. This is similar to the charging approach they will have been used to while building up their pension pot with Royal London. The standardisation of charges across all investment pathways was considered a key point in their development to prevent any bias impacting a customer's investment selection. Royal London's approach to mirror existing appropriate investment solutions allowed us the opportunity to review the past performance and transaction costs of the investment solutions proposed. We were also able to see exactly how Royal London would communicate the charges to a customer, at outset and on an ongoing basis.

Communication and service to pathway customers

We reviewed all communications that customers investing in investment pathways would be presented with. This covered the initial communications a customer would receive on investment pathways as well as the regular communications. We also reviewed the supporting information available describing investment pathways. We provided Royal London with a number of suggestions as part of this review, with all key points raised being adopted during their development of communications. Some suggestions are being taken forward separately. We also reviewed all call scripts that Royal London developed to ensure customers understand the pathways and are supported towards the right solution for them. Royal London committed to let IGC members listen to calls from Pathway customers from launch and to review the working of these calls based on the experience and feedback from IGC. The people providing service to these customers are part of Royal London's main Group Operations function. We therefore expect the service to be delivered to a high standard. We have however asked Royal London to provide a separate dashboard of information to the IGC from launch so we can monitor the usage and service being provided to these customers. This will allow thorough oversight from us in this new aspect of our work.

Quality of Service

Results of Regular Monitoring

We receive regular data on all the important aspects of customer service from Royal London. This helps us understand the quality and value of the service being provided to you. The information we look at includes:

- Members' joining experience
- How yearly 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

Overall the information we received from Royal London shows that they continue to provide a good quality of service to you through what has been a challenging time for all. In particular we note the speed at which they were able to support their people in working from home and hence continue to administer your policy. It was also reassuring that they continued to offer telephone support to you throughout the period and did not need to narrow the ways in which customers were able to get in touch. We monitor statistics on call handling and you can see this information on page 30.

Royal London's service area made positive changes in the way it measures customer experience since 2019. They have moved away from simply looking at a measure called Net Promoter Score (NPS) as customers in workplace pensions often feel unable to say they would recommend a company they did not select. Instead Royal London now use an experience measure which more directly reflects the service being supplied. It was good to see an improving customer experience score despite the difficulties faced during 2020. For completeness, while we transitioned to focusing on this new measure we also reviewed NPS for this period. The NPS remained stable through this year.

You can see the some of the main measures we look at and the results on page 30.

In our view, the overall ability of Royal London to meet your needs remained stable throughout 2020.

Workplace Complaints

The level of complaints from Royal London's workplace customers remains low, though we did see a slight increase in complaints in the second half of the year as a result of delays relating to transfers in to Royal London. There has been increasing demand in this area as more customers are choosing to transfer their previous pensions to Royal London. We will continue to monitor the service provided here to ensure the service received is regarded as high quality for all customers. Royal London has shared with us their plans for additional recruitment to manage this increased demand, along with further upskilling within the current team. Royal London also continues to update us on processes to improve the end to end customer experience.

Data on complaint trends can be found on page 30.

Unallocated Funds

We reported last year that Royal London has been working with employers to make sure that payments into your plan are processed and invested as efficiently as possible.

During 2020 with many employers furloughing their employees and in some cases only retaining a skeleton staff to manage payroll, Royal London found that some payments were being submitted without the information required to process them. Given these circumstances the information took longer to obtain. This did impact on the application of monthly payments during Q2 and Q3 and consequently on the measures we look at to monitor this. Royal London worked closely with the employers most affected by these issues and significant improvements were seen in Q4. We are encouraged by the support Royal London was able to provide to employers during this period and are satisfied that the processing of core financial transactions is being carried out with due diligence.

As we explained last year, customers do not lose out from any delay in the allocation of funds since Royal London takes the out of market risk (we explain this in the Glossary section).

A system error which we reported in our 2019 report was rectified and controls put in place to prevent re-occurrence.

Yearly Pension Statements

We have noted significant improvements in the timeliness of the yearly pension statements for Royal London customers over the last two years. Royal London continued to make enhancements to this process during 2020 which saw 2,000 more statements issued within a month than in the previous year and an improvement so that 93% of all statements were issued within 3 months of the employer scheme renewal date. This is due to the process improvement work carried out in previous years and the support being provided to employers to ensure the provision of required information. We reviewed and are satisfied with the plans we have seen for issuing the outstanding statements.

You can see more information on the yearly pension statements [here].

Telephone guidance service

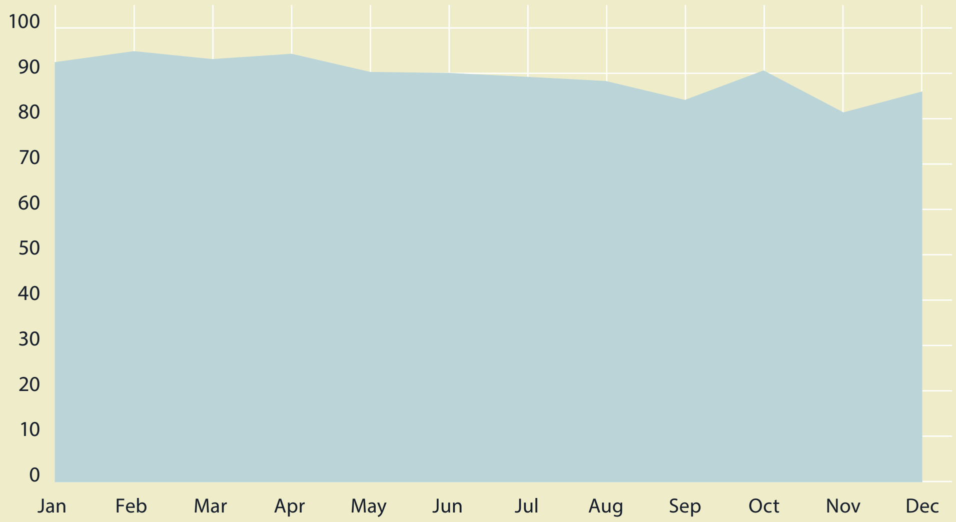
Throughout 2020, Royal London offered a telephone guidance service aimed at helping customers who wanted to access money in their pension and who did not have a financial adviser. Customers who experienced a life shock such as job loss, ill health, bereavement, divorce were offered a call with a trained guider, who helped the customer understand their options and gave them information about independent organisations that may be able to offer further help. As part of the service, customers were also given easy-to-understand guides on relevant topics, such as state benefits, redundancy, cutting bills and budgeting.

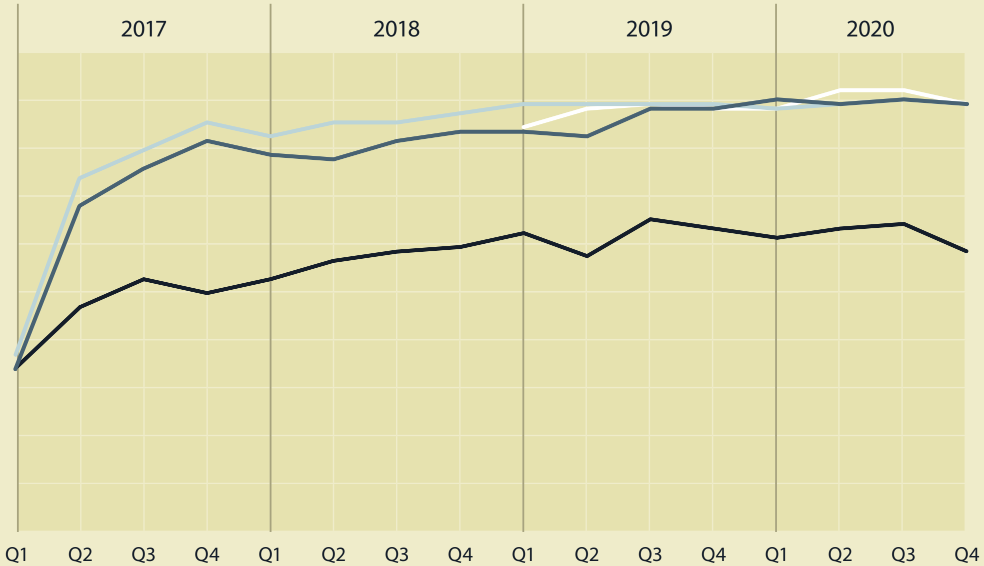
Against the backdrop of the coronavirus pandemic, Royal London developed the service to respond to the increasing number of customers facing a significant drop in or total loss of income, or whose debts had become unmanageable as a result of redundancy.

We see this development as a positive addition to the service being provided to customers. Over 250 customers have now been supported by this new service since launch.

7. www.royallondon.com/siteassets/site-docs/about-us/corporate-goverance/igc-annual-report-2019.pdf

Service Levels - responding to customer queries - call answer rate

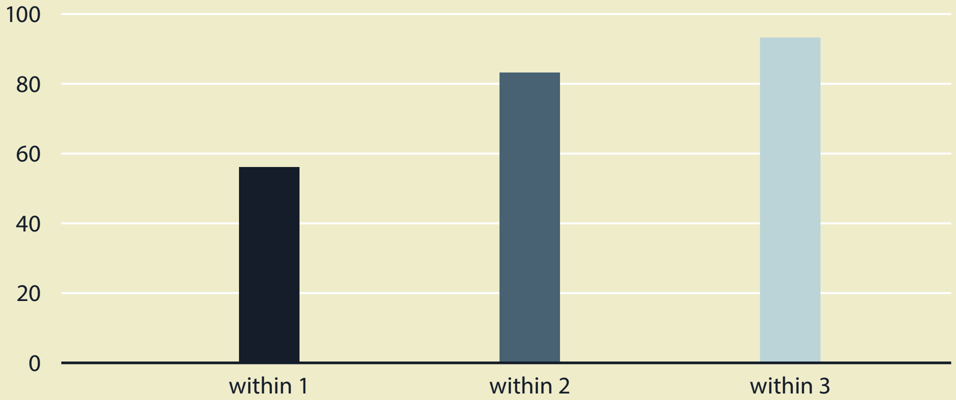




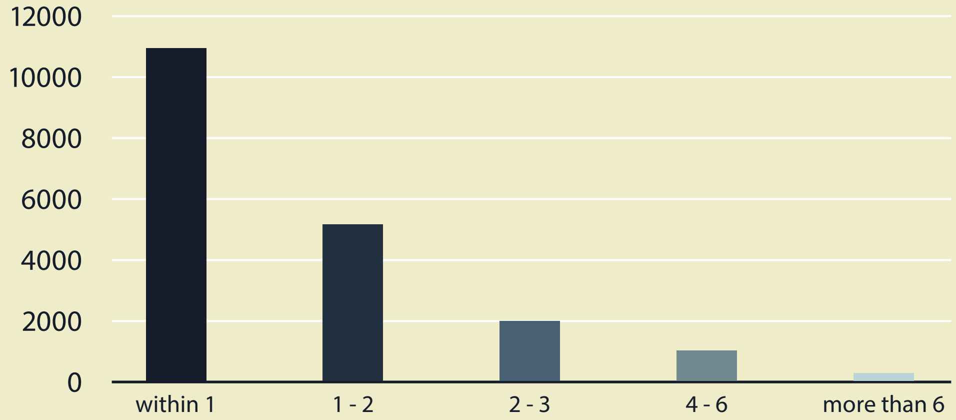
Net Promoter Score (NPS):
- How likely is it that you would recommend us to a friend or colleague
- How easy would you say it was to deal with us today?
- To what extent do you agree or disagree that we were able to resolve all of your queries today?
- How was the Customer Experience you had today?

	Qtr1	Qtr2	Qtr3	Qtr4
	2020			
Complaints per 1000 policies	0.46	0.35	0.51	0.56
	2019			
Complaints per 1000 policies	0.49	0.37	0.40	0.35
	2018			
Complaints per 1000 policies	0.42	0.50	0.44	0.47

Annual Statements
% issued within months



Time to issue Annual Statements
in months



Communications and Engagement

In 2020 Royal London continued to develop how it helps you to better understand your pension. How Royal London engages with you is important to us as this can help ensure a good experience and improve the outcome from the pension provided.

There have been a number of key areas we have monitored this year:

Digital reach

Royal London introduced their mobile app for customers in 2019 and 2020 has seen significant growth in the number of customers who have now registered for the app and are interacting on a regular basis. The number of customers registered for the app more than doubled in 2020, from just over 30,000 at the beginning of the year to 81,213 at the end of 2020. The average number of sessions per month for active users is over 10 with 68% of users having a last login date within the last 2 months, suggesting to us strong levels of engagement once customers start using this technology. As we'd expect, the fund value, savings and growth are the most used sections. We were particularly pleased to note that Royal London's wellbeing content also received favourable usage.

App page	Views
PlanDetails - Fund Value	1,285,668
Savings - Money In & Out	129,964
Performance - Growth, Chgs, ProfitShare	110,660
FutureOutlook - Projections	92,896
Wellbeing Home	55,032
Articles Home	36,936
IR Plan Details	29,085
Pay-In Home	19,010
IR Future Outlook	6,793
PayIn Single Contributions	4,374
PayIn - Transfers	3,893

In addition to mobile app registrations, Royal London has continued to increase the number of customers that can be contacted by email, increasing from 490,000 (in 2019) to 687,000 (in 2020). We have challenged Royal London to obtain as many e-mail addresses as possible, where you want to communicate with them in this way, to ensure quick, timely and reliable communication.

Although this does still represent a small number of customers compared to the total number of workplace pension customers, we recognise that Royal London has made progress in 2020. We are satisfied with the plans that Royal London has to further increase their digital reach in 2021. We continue to engage with Royal London to ensure all customers (including those with older products) benefit from improvements in digital communications.

Engaging with customers

We've seen some clear shifts in 2020 in terms of engagement with workplace customers and expect this to continue. The pandemic has changed how many people have been engaging with their pension and there's a trend towards more frequent demand for information. In response to this Royal London has continued to enhance their programme of proactive digital communications in 2020. This included both more frequent email communications and app notifications. Royal London has provided evidence to us which suggests that engagement levels with these communications have been above industry standards and have remained this way throughout 2020. We have requested and received information from Royal London on how it uses data to continually improve the communications being issued. We will continue to challenge Royal London on their developing engagement strategy and monitor progress through regular reporting.

Royal London has made good progress in continuing to develop engaging communications to improve the overall customer experience. A good example is the Secret Life of Pensions campaign – designed to help members of workplace schemes understand where their contributions go, how their money is invested and what it means to invest responsibly. It delivered easy to access content that included videos, animated explainers, infographics, podcasts, and social media content. The content was also promoted as part of Pension Awareness Day.

Royal London has kept us informed with their plans to improve their communications and we will continue to monitor this in 2021. A key focus will be the introduction of an enhanced welcome experience which will use new technology and data management approach. We believe this is an important engagement point and can set the tone for how customers value and engage with their workplace pension in the future. We're confident that the new technology and data management approach will enable Royal London to improve relevance, timing and personalisation of communications and the IGC will continue to monitor the delivery of the plan.

Helping customers in difficult times

2020 has been a difficult year for many and Royal London has provided a range of support to help people manage their finances and support them with financial education. A dedicated Coronavirus hub was established that hosted a range of videos, podcasts, and clear information to help people navigate areas such as 'what happens to my pension contributions when I'm on furlough'. The existing range of Money guides was expanded to cover areas such as redundancy and the App was enhanced to include a dedicated wellbeing area. Royal London also launched a campaign 'Lost for Words' to help people with difficult conversations around death.

Supporting employers

Royal London recognises that there are several different parties that can influence engagement, your employer being one of them. We outlined in our 2019 report the plans Royal London had to launch an employer toolkit and we were pleased to see this being launched in 2020. The toolkit is a suite of materials covering a number of key topics that can be used by employers to raise awareness and engagement. We'll be working with Royal London to monitor the impact of the existing toolkit and future developments.

Vulnerable Customers

We asked Royal London to explain to us how the particular needs of Vulnerable Customers were being catered for when designing and administering their workplace pensions. This work is now supported by Group Risk and Compliance who have overall responsibility for the high-level plan within Royal London; with individual business units owning identified actions where appropriate.

The vulnerable customers work relates to FCA rules which require the IGC to assess 'whether the communications to relevant policyholders are fit for purpose and properly take into account the relevant policyholders' characteristics, needs and objectives'.

Royal London's engagement with vulnerable customers as a theme started in 2016 shortly after the FCA introduced the concept in its 'Approach to Consumers'. Effort was initially focussed on understanding the topic and where Royal London were against peers. Royal London engaged with charities, gained insight to the level of vulnerability in their customer base and commissioned benchmarking against peers. The initial ambition was not to be a market leader but to drive incremental improvements to at least be in line with industry peers.

Throughout 2020, we have noted progress in a number of areas, including:

- development and implementation of a vulnerability recording capability;
- development of face to face training and e-learning modules in conjunction with the Money Advice Trust that can support front line teams and other colleagues. In line with the roll out of the recording solution, Group Pension employees will attend the training;
- introduction of a referral panel process and support for cases where the action required to deliver the best customer outcome may be outside normal process; these referrals were significantly higher in 2020;
- development of ways to consider and evidence the needs of vulnerable customers in their product governance approaches.
- the launch of an online disclosure form enabling vulnerable customers to disclose their needs to Royal London through digital channels.
- progressed active participation in the ABI mental health initiative; and
- developed communication guidance for outgoing customer documentation based on the Equality Act 2010.

Royal London's primary focus in 2020 has been to support customers and adjust processes to meet changing needs throughout the Covid-19 pandemic. The changes identified in the initial response to Covid-19 continue to be reviewed for effectiveness and where appropriate business units are adopting these as business as usual practices. In relation to employers, Group Operations continue to monitor volumes and key changes at an individual, scheme and member level to assess any Covid-19 impact on a weekly basis.

A consequence of the great deal of work expended to adjust to customers' needs through the Covid-19 period was that it contributed to a slowing down of progress against planned activities. Royal London was quick to identify the treatment of vulnerable customers as an industry and regulatory priority. Progress has been made in several areas but in some relatively elementary aspects, such as training, recording and incorporating customer insight, they are behind expectation.

The publication of long-awaited FCA finalised guidance provides the means to be clear about where Royal London are against FCA expectations. Its stated aim is to help bring about a practical shift in behaviour in firms. Specifically, it wants to prompt action in firms to embed the fair treatment of vulnerable consumers into their culture, policies, and processes throughout the whole customer journey. The guidance details the way Royal London can comply with their obligation under what are known as 'the Principles for Business' to ensure customers are treated fairly. We note that Royal London will use this opportunity to drive more accountability within the business now that there is a clear regulatory baseline.

We will continue to receive updates on this work during 2021 and will report on progress in our next annual report.

APPENDIX 1
Royal London's investment funds and strategy

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 Royal London's Governed Range section [8]. 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.

Royal London's investment strategy is designed and managed at both the Governed Portfolio and the Lifestyle level.

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 performance and expected future performance. A specialist external consultancy, Moody's Analytics, 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's Investment Advisory Committee (IAC) and the outcome of each review is 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.

8. www.royallondon.com/pensions/investment-options/governed-range/

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 and 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 portfolios and strategies 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 the investment risk was appropriate. The relevant sections of this report give information on the actual performance of these strategies.

APPENDIX 2
IGC changes and membership

In accordance with the FCA rules and our terms of reference we have a majority of independent members, including an independent Chair.

The current membership of the IGC is as follows:

- Peter Dorward – Independent Chair
- Myles Edwards – Independent Member
- David Gulland – Independent Member
- Cat Read – Royal London
- Rosie Bichard – Independent Member
- Christelle Lim-Severe – 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.

Myles Edwards
Independent Member

Myles is a pension planholder, and therefore a member, of Royal London. Although this was a primary reason in his appointment 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. Myles is a Director and Audit Risk Committee member of Magenta Living. 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.

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 and Chair of the Risk and Conduct Committee at Hodge Life, a Director and Chair of the Audit and Risk Committee of PG Mutual, the Chair of Scottish Friendly's With Profit Committee and a member of the Compliance Committee of the Funeral Planning Authority.

Catherine Read
Chief Operating Officer
Royal London Asset Management

Catherine has nearly 20 years' experience in Financial Services. She was appointed to the Board of Royal London Asset Management Limited (RLAM) in January 2018, having joined the RLAM Executive as the Chief Operating Officer. She was previously the Royal London Group Audit Director for 5 years. Catherine is a Chartered accountant and joined Royal London from PriceWaterhouseCoopers LLP where she was a Director within the Insurance and Asset Management Risk Assurance Services practice.

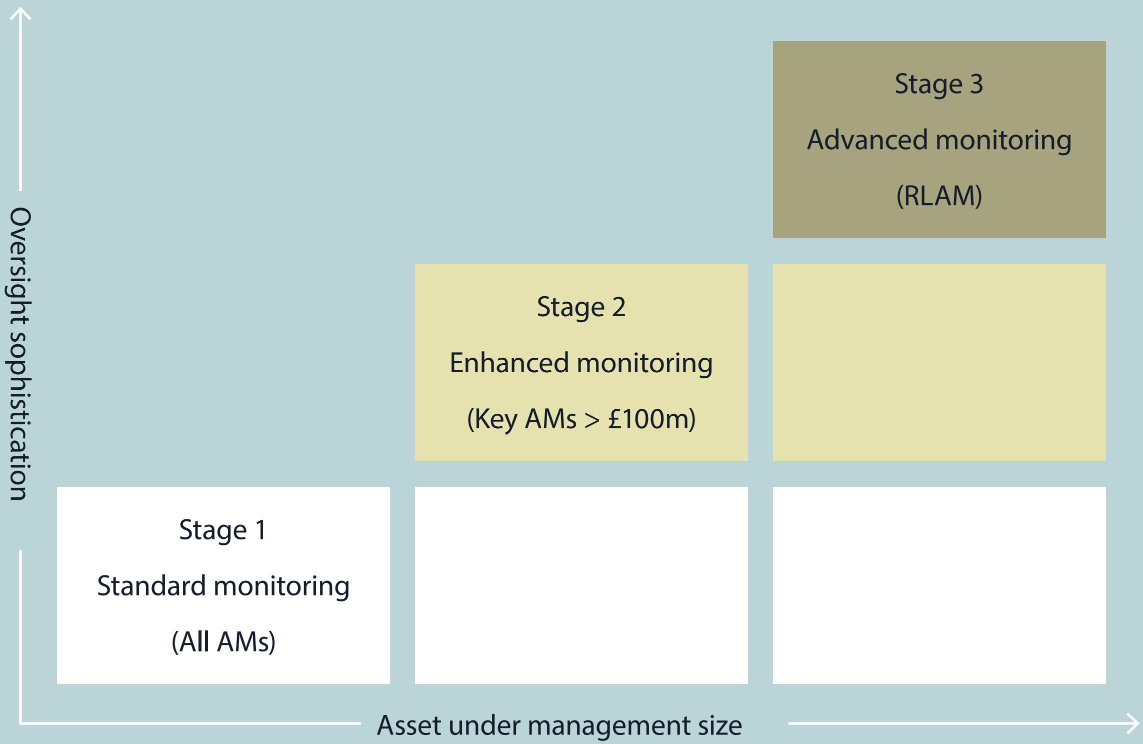
Rosie Bichard
Independent Member

Rosie has worked in financial services since 1990, with 12 years as Global Consumer Analyst at Newton Investment Management and previously at Deutsche Bank in investment banking and fund management roles. In January 2018 she joined Lofoten Asset Management to work on the Global strategy, and leads on ESG policies at the firm. Her role involves considerable engagement with senior management and boards of investee companies. Rosie is a Chartered Financial Analyst and has completed executive education programmes at London Business School and Harvard Business School. She is undertaking the Competent Boards ESG Certificate Program in H1 2021.

Christelle Lim-Severe
Head of Strategy
Royal London

Christelle has over 15 years' experience in the life insurance and Asset Management industry. She has a broad range of experience in various functions including Strategy, Finance, Operations, Internal Audit and consultancy. Christelle is a Chartered Accountant and a Fellow of the Institute of Actuaries. Christelle joined Royal London in 2018 from Aviva where she was the Head of Audit in the Finance Technical and Actuarial Audit team. Prior to Aviva, she spent 5 years in PriceWaterhouseCoopers as a consultant in the Insurance Risk Assurance Services practice. Christelle is currently the Head of Strategy at Royal London.

APPENDIX 3
Asset Manager monitoring approach



APPENDIX 4
Investment performance

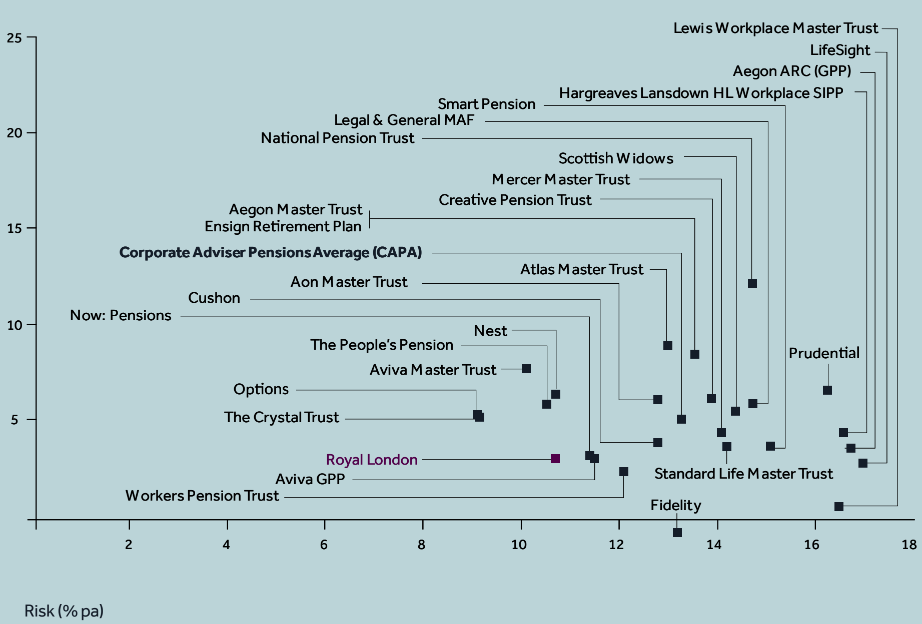
These tables show annualised percentage for one, three and five years for all participating workplace pensions providers and the Corporate Adviser Index (CAPA Index) for an investor who has 30 years to Selected Pension Age (SPA) and an investor with five years to SPA.

Auto-enrolment default fund performance - investor 30 years to SPA.	INVESTOR 30 YEARS TO SPA		
Corporate Adviser Pensions Average (CAPA) data, to 30.9.19, annualised return (%)	1-year	3-year	5-year
Aviva Master Trust & GPP	5.3	7.1	10.4
Cheviot	2	5.8	10.4
Creative Pension Trust	4.8	4.2	9.34
Crystal	4.8	4.8	10.2
Ensign	-0.32	5.3	9.2
Fidelity	1.6	5.3	7.7
Hargreaves Lansdown	0.49	3.6	8.3
Lewis	-2.36	3.29	9.61
LifeSight	1.41	5.9	12.1
L&G MAF	1.42	4.47	8.68
Mercer Master Trust	-1.45	4.5	9.8
Now: Pensions	-2.39	3.46	4.9
Nest	2.16	5.8	9.7
National Pension Trust	5.58	9.2	12.2
Options	-0.85	4.8	10.3
Royal London	-3.35	3.1	7.3
Scottish Widows Master Trust	1	5.28	10.11
Scottish Widows GPP	-0.5	3.98	9.97
Smart Pension	-2.3	4	9.1
Standard Life	-1.1	2.77	5.55
The People'sPension	0.2	4.96	9.71

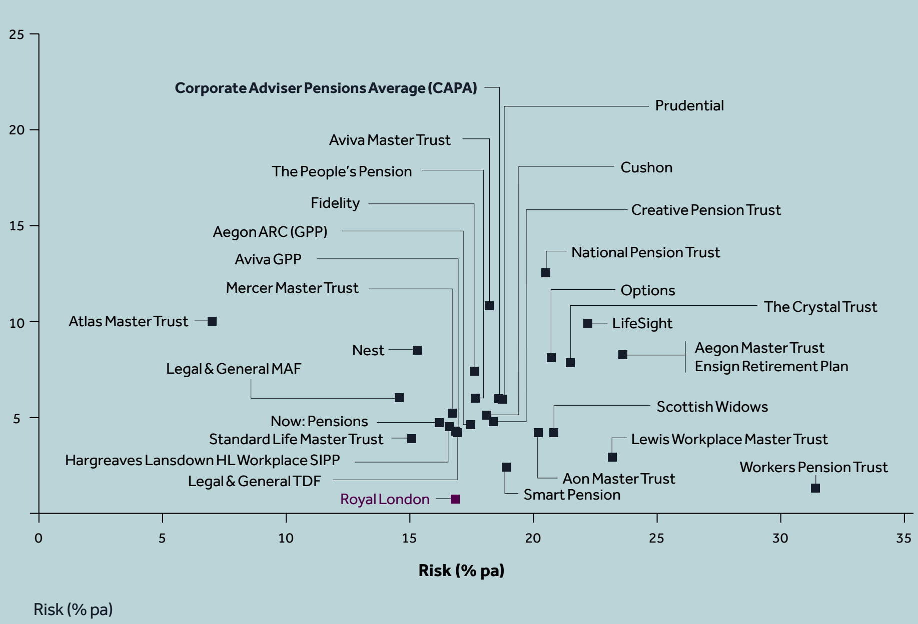
Auto-enrolment default fund performance - investor 5 years to SPA. Corporate Adviser Pensions Average (CAPA) data, to 30.9.19, annualised return (%)	INVESTOR 5 YEARS TO SPA		
	1-year	3-year	5-year
Aegon Master Trust	2.97	5.23	7.64
Aon Master Trust	0.4	4.7	8.9
Aviva Master Trust & GPP	3.9	4.7	6.4
Cheviot Trust	0.8	5	7.8
Creative Pension Trust	2.09	4.67	7.84
Crystal	0.5	4.3	7.9
Ensign	3	5.2	7.6
Fidelity	1.1	0.1	4.3
Hargreaves Lansdown	-1.5	3.6	8.3
Lewis Workplace Pension Trust	-4.06	1.1	5.86
L&G WorkSave Mastertrust	-0.34	4.47	8.68
LifeSight	-2.5	4	8.1
National Pension Trust	5.5	8.2	11.6
Nest	2.5	4.5	7.1
Now: Pensions	-2.05	2.3	3.1
Options	0.8	4.1	7.8
The People's Pension	1.32	4.78	8.7
Prudential	0.6	3.9	8.4
Royal London	-1.5	3.8	6
Smart Pension	-1.8	4.3	8.2
Standard Life	-1.59	2.86	5.54
Scottish Widows Master Trust	2.01	6.12	9.22
Scottish Widows GPP	1.77	4.8	9.38

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

5 years from retirement, 1-year

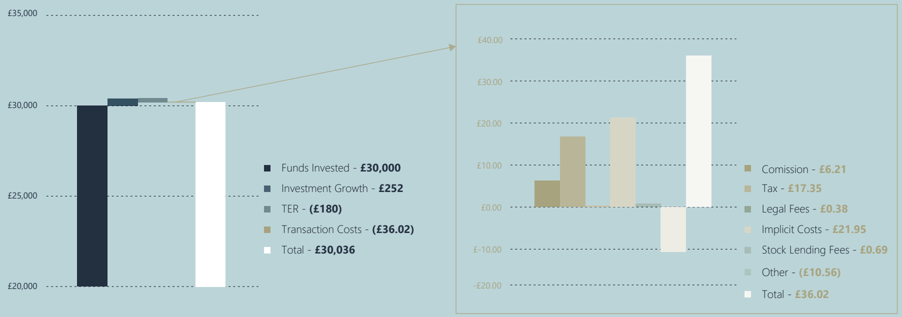


30 years from retirement, 1-year



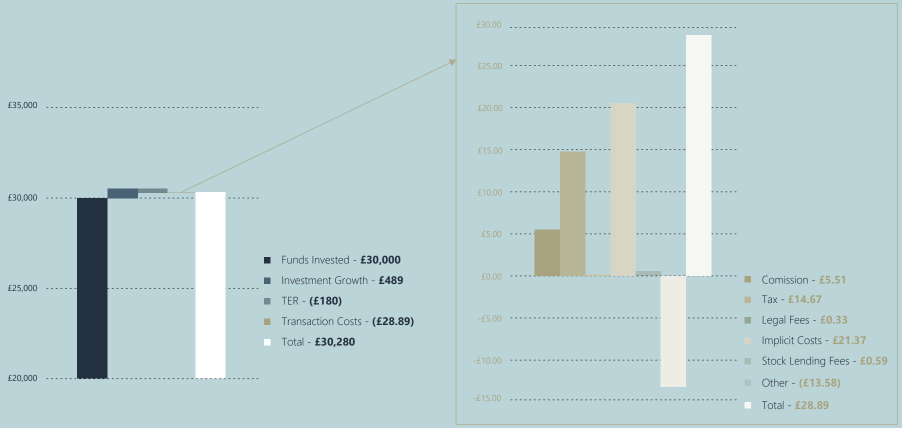
APPENDIX 5
Transaction costs

GP4



GP6

GP5



OVERALL COSTS BREAKDOWN BY TYPE Governed Range	Commission	Tax	Legal Fees	Other	Implicit Costs	Stock Lending Fees	Total
2020							
Governed Portfolio 1	0.018%	0.054%	0.001%	-0.048%	0.068%	0.002%	0.096%
Governed Portfolio 2	0.016%	0.040%	0.001%	-0.038%	0.060%	0.002%	0.081%
Governed Portfolio 3	0.010%	0.016%	0.000%	-0.034%	0.106%	0.002%	0.100%
Governed Portfolio 4	0.021%	0.058%	0.001%	-0.035%	0.073%	0.002%	0.120%
Governed Portfolio 5	0.018%	0.049%	0.001%	-0.035%	0.073%	0.002%	0.108%
Governed Portfolio 6	0.014%	0.038%	0.001%	-0.027%	0.076%	0.002%	0.104%
Governed Portfolio 7	0.022%	0.055%	0.001%	-0.033%	0.086%	0.003%	0.134%
Governed Portfolio 8	0.021%	0.052%	0.001%	-0.032%	0.077%	0.002%	0.121%
Governed Portfolio 9	0.016%	0.035%	0.001%	-0.030%	0.083%	0.002%	0.107%
2019							
Governed Portfolio 1	0.020%	0.085%	0.003%	-0.030%	-0.021%	0.002%	0.058%
Governed Portfolio 2	0.015%	0.062%	0.002%	-0.022%	-0.084%	0.002%	-0.026%
Governed Portfolio 3	0.006%	0.024%	0.001%	-0.011%	-0.096%	0.001%	-0.074%
Governed Portfolio 4	0.021%	0.088%	0.003%	-0.015%	0.004%	0.002%	0.104%
Governed Portfolio 5	0.018%	0.075%	0.003%	-0.016%	-0.037%	0.002%	0.045%
Governed Portfolio 6	0.014%	0.060%	0.002%	-0.009%	-0.067%	0.002%	0.001%
Governed Portfolio 7	0.021%	0.080%	0.003%	-0.009%	0.019%	0.002%	0.117%
Governed Portfolio 8	0.020%	0.078%	0.003%	-0.011%	-0.001%	0.002%	0.091%
Governed Portfolio 9	0.013%	0.052%	0.002%	-0.010%	-0.047%	0.002%	0.012%
DIFFERENCE							
Governed Portfolio 1	-0.001%	-0.031%	-0.002%	-0.017%	0.089%	0.000%	0.038%
Governed Portfolio 2	0.001%	-0.022%	-0.001%	-0.015%	0.144%	0.000%	0.106%
Governed Portfolio 3	0.004%	-0.009%	-0.001%	-0.023%	0.202%	0.000%	0.174%
Governed Portfolio 4	-0.001%	-0.030%	-0.002%	-0.020%	0.069%	0.000%	0.017%
Governed Portfolio 5	0.000%	-0.026%	-0.002%	-0.019%	0.110%	0.000%	0.063%
Governed Portfolio 6	0.001%	-0.022%	-0.001%	-0.018%	0.143%	0.000%	0.103%
Governed Portfolio 7	0.001%	-0.026%	-0.002%	-0.023%	0.067%	0.000%	0.018%
Governed Portfolio 8	0.001%	-0.026%	-0.002%	-0.021%	0.077%	0.000%	0.030%
Governed Portfolio 9	0.002%	-0.017%	-0.001%	-0.020%	0.131%	0.000%	0.095%

OVERALL COSTS BREAKDOWN BY TYPE Governed Range	Commission	Tax	Legal Fees	Other	Implicit Costs	Stock Lending Fees	Total
RLP Global Managed	0.012%	0.021%	N/A	-0.016%	0.022%	0.003%	0.042%
RLP Property	0.069%	0.423%	0.018%	0.012%	0.000%	N/A	0.523%
RLP Global High Yield	0.000%	N/A	N/A	-0.021%	0.114%	N/A	0.093%
RLP Medium (10yr) Corporate Bond	N/A	N/A	N/A	-0.112%	0.016%	0.000%	-0.095%
RLP Medium (10yr) Gilt	N/A	N/A	N/A	-0.071%	-0.186%	0.005%	-0.251%
RLP Medium (10yr) Index Linked	N/A	N/A	N/A	-0.018%	-0.895%	0.002%	-0.911%
RLP Commodity	0.023%	N/A	N/A	0.035%	0.036%	N/A	0.094%
RLP Deposit	N/A	N/A	N/A	0.000%	-0.004%	N/A	-0.004%
RL Stakeholder Managed Fund	0.006%	0.016%	0.000%	-0.016%	-0.091%	0.003%	-0.082%
RL With-Profits Stakeholder Fund	0.023%	0.067%	0.000%	-0.004%	0.035%	0.001%	0.122%

APPENDIX 6
Glossary

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.

Best execution

Best execution is the way in which practical steps are pursued in order to achieve the best possible outcome for each investment transaction undertaken on behalf of customers.

Commission

A commission is a payment made by a provider to an adviser in compensation for the placing business with them. These payments could be one off payments at the point business was placed, or ongoing payments for the duration business is with the provider. The cost to the provider of making these payments would then be recovered from the policyholder's plan over time through added charges. Commission is no longer allowed on new automatic enrolment workplace pensions business, but ongoing commission payments may still be in place for existing business written before 6th April 2016.

Derivatives

Derivatives are contracts you can hold rather than buying the physical assets in the stock market. The benefit of this is there is no tax payable whereas there is when physical assets are bought.

Equities (or company shares)

Companies sell shares to raise money, and pay out a share of their profits as 'dividend'. Investors buy and sell shares on the stock markets. The price goes up or down based on how well the company is doing, or what its prospects are.

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.

Governed Portfolio

Royal London operate 9 investment portfolios (referred to as 'GovernedPortfolios') which are designed exclusively for pensions. These portfolios are made up of a mix of assets and the range of 9 portfolios available is intended to cater for different attitudes to risk. They are also the components of our target lifestyle strategies available as a default investment option. As part of Royal London's 'governed range' of investments the GovernedPortfolios benefit from additional oversight and monitoring intended to ensure the portfolios meet their objectives.

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.

Investment Pathway

Investment pathways are investment solutions, designed for customers entering drawdown. Royal London offer a choice of four investment pathways, based on what you intend to do with your pension savings. Each investment pathway invests in a mix of funds and asset classes and aims to meet different retirement needs.

Moody's Analytics

Moody's Analytics are experts in risk management. They work with some of the biggest companies in the world and support Royal London's proposition with their market assumptions and forward looking projections.

Out of market risk

Out of market risk is when a member transfers their pension savings from one provider to another. During this time, the money is not invested therefore could potentially miss out on growth or losses if the market moves during the period.

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.

ProfitShare

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

Royal London aim to boost your retirement savings by adding a share of profits to your plan each year.

They call this ProfitShare.

Responsible Investment

A strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.

Risk adjusted returns

Investment returns relative to the level of risk taken. It's about ensuring Royal London maximise returns for a given level of risk.

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.