



ZEDRA

DO MORE. ACHIEVE MORE.

Chair's annual report

Interactive Investor Investment Pathways

- | Year ended 31 December 2023
- | The ZEDRA Governance Advisory Arrangement (GAA)

September
2024



Executive summary

This report on the Investment Pathways policies provided by Interactive Investor (“the Firm”) (“ii”), has been prepared by the Chair of the ZEDRA Governance Advisory Arrangement (“the GAA”) for pathway investors. It sets out our independent assessment of the value delivered to pathway investors and our view of the adequacy and quality of the Firm’s policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship.

Further background on the activity of the GAA and details of the credentials of the GAA can be found in Appendices B and C respectively. The GAA works under an agreed Terms of Reference, the latest version of which is dated 12 May 2022 and is publicly available (see Appendix C).

This report covers Investment Pathways and is our third annual report on the product.

The GAA has conducted a rigorous assessment of the Value for Money (“VfM”) delivered to [pathway investors](#) over the period 1 January 2023 to 31 December 2023. The GAA has developed a Framework to assess Value for Money which balances the quality of services and investment performance provided to pathway investors against what they pay for those services and investment performance. Further details are set out on page 6.

A COLOUR CODED SUMMARY OF THE GAA ASSESSMENT

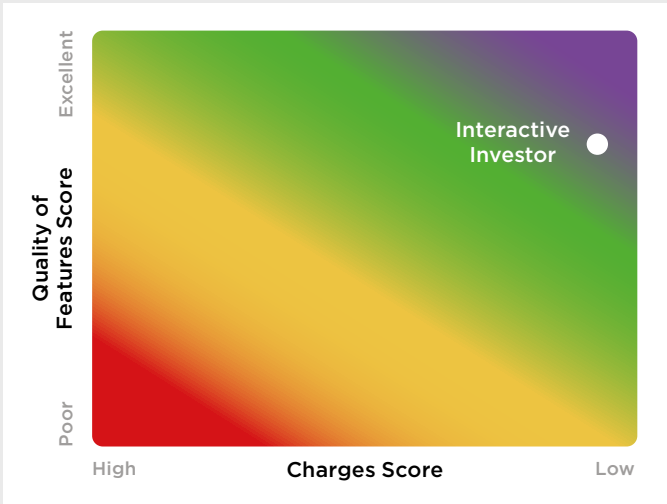
	Weighting toward VfM assessment*	Investment Pathways
1. Product strategy design and investment objectives	13%	●
2. Investment performance and risk	13%	●
3. Communication	20%	●
4. Firm governance	3%	●
5. Security of policyholder benefits	7%	●
6. Administration and operations	7%	●
7. Engagement, innovation and improvements for policyholder experience	3%	●
8. Cost and charge levels	33%	●
Overall Value for Money assessment	100%	●

* May not add to 100% due to rounding

<p>Quality and investment features (1-7)</p> <p>● Excellent ● Good ● Satisfactory ● Poor</p>	<p>Cost and charge levels (8)</p> <p>● Low ● Moderately Low ● Moderately High ● High</p>
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How we determine our Value for Money rating is set out on page 6 of this report. The overall Value for Money is visually represented by the heatmap below.

VALUE FOR MONEY SCORING



Our conclusion is that the investment pathways available from ii provides **good** value for money.

The GAA has raised no formal concerns or challenges for the Firm to address. The GAA has made observations this year which have been shared with the Firm and they may wish to consider over the coming 12 months.

The GAA are pleased to report that the Firm has made progress in addressing points we raised in last year's report and credit must go to the Firm for such developments.

We also concluded that the Firm's policies in relation to **Environmental, Social and Governance** (ESG) risks, non-financial considerations and stewardship were adequate but noted the limitations of implementing such considerations within the Investment pathways framework. We do, however, anticipate the continued evolution of thinking in this area and working towards more sustainable investment options and working practices. We would like to see the Firm to continue discussions in this area and consider integrating sustainable investment options where appropriate.

The FCA requires a comparison of your investment pathways product with other similar options available in the market. If an alternative scheme appears to offer better value, we must inform the pension provider. I can confirm that we have not considered it necessary to make this notification this year. Our view on each feature that we are required to make a comparison on is included in the relevant section of the report. Details of how we selected the comparator group is set out in Appendix A.

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

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

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

Alan Greenlees

Chair of the ZEDRA Governance Advisory Arrangement
for Interactive Investor Investment Pathways

September 2024



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

Interactive Investor, 2nd floor, One Embankment, Neville Street, Leeds, LS1 4DW

Email: pensions@ii.co.uk

www.ii.co.uk/governance-advisory-arrangement

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



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Overview of the value assessment

The GAA has assessed the Value for Money delivered by the Firm to its pathway investors by looking at costs versus investment and service benefits. More detail about how we have done this is set out below.

Our approach

The GAA believes that value for money is subjective and will mean different things to different people over time, depending on what they consider important at that time.

What is clear is that it is always a balance of cost versus investment and service benefits. Our fundamental approach has therefore been to compare all the costs paid by [pathway investors](#) against the investment performance and quality of services provided to pathway investors.

The key steps for the GAA in carrying out the Value for Money assessment are:

- | Issuing a comprehensive data request to the Firm, requesting information and evidence across a wide range of quality features, including [net investment performance](#), as well as full information on all costs and charges, including [transaction costs](#).
- | Attending a number of formal meetings with representatives of the Firm to interrogate the data provided and to enable the GAA to question or challenge on any areas of concern. All such meetings have been documented by formal minutes and a log is also maintained containing details of any challenges raised, whether informally or through formal escalation.

- | Once the Firm has provided all the information and evidence requested, the GAA has met to discuss and agree provisional Value for Money scoring using the Framework developed by the GAA and to undertake comparisons of the Firm's product against a suitable comparator group of providers for certain Quality of Service and Investment Features and Cost and Charges.
- | The provisional Value for Money score, including a full breakdown, has then been shared and discussed with the Firm.

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

The Quality of Service and Investment Features have been determined based directly on the FCA requirements for assessing ongoing Value for Money set out in [COBS 19.5.5](#), including services relating to communications with pathway investors and processing of [core financial transactions](#). The assessment also includes other aspects the GAA considers important based on our experience of conducting Value for Money assessments over many years, such as the Firm's governance structure, the financial security for pathway investors, the Firm's approach to engagement, innovation and service improvement and a wider overview of the administration quality and processes.

Within each of the Quality of Service and Investment Features are several sub-features. These sub-features are each scored using a numeric scoring system. Scoring is aided by means of score descriptors, developed for each sub-feature, ensuring the GAA adopts a consistent approach to scoring across clients, each outlining what the GAA would expect to see to achieve the relevant numeric score. The scores for each sub-feature are then aggregated to the feature level based on our view of the relative value of the sub-feature to the pathway investors ranging from Poor to Excellent.

The GAA will then consider the value represented by the cost and charges which pathway investors bear. The assessment of cost and charges is primarily driven by the level of ongoing charges for investment management, administration, and any platform fees. The GAA also considers the underlying transaction costs incurred by the funds invested in and how they are controlled, and any additional costs the pathway investors have to pay in managing their policies. The costs and charges are also rated on a scale from Low to High. This rating takes into account information available to the GAA on general levels of costs and charges for Investment Pathways providers in the marketplace.

The scores for each feature are then combined using the weightings set out in the table in the Executive Summary to determine an Overall Value for Money rating. The weightings used are based on the GAAs views of the relative importance to the pathway investors of each feature. The weightings are tilted towards the features which have been identified in the regulations relevant to forming this assessment of value. Where possible, we have taken into account the likely needs and expectations of this group of pathway investors.

In the sections on the following pages, we have described the Firm's approach to delivering each of the features, and the rating the GAA has awarded, together with any areas for improvement we have identified.

In addition, there is a section setting out the GAA's views on the adequacy and quality of the Firm's policies on ESG financial considerations, non-financial considerations, and stewardship. Whilst this is a largely qualitative assessment the GAA has considered the Firm's policies in comparison to others the GAA has knowledge of.

A comparative assessment of the Firm's Investment Pathways product has also been made of the net investment performance, quality of communication, quality of the administration service including processing of core financial transactions, and costs and charges relative to a suitable comparator group of pathway investment providers. Comments on the outcome of these assessments is included in the sections for the relevant features. We have also considered whether, overall, an alternative provider would offer better Value for Money so that we can inform the Firm if we believe this to be the case. Details of how the comparator providers and pathway investment products were determined is set out in Appendix A.

1. Product strategy design and investment objectives

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We expect to see an investment strategy that is designed and managed taking the characteristics of [pathway investors](#) into account, that there is clear rationale for the selection of each fund used to support the investment pathways, evidenced by appropriately defined risk ratings, and consideration of the investment time horizon and age profile of the pathway investors.

We want to see that all investment options have clear statements of aims and objectives – in particular that as well as qualitative objectives, there are quantitative objectives in place, that investment performance outcomes can objectively be measured against. Ideally, we would like to see evidence that these objectives link back to the needs of pathway investors.

We are also looking for evidence of a robust ongoing review process for the [pathway investment](#) options, and evidence that the Firm has taken steps to implement changes to the investment options, where appropriate, to ensure alignment with pathway investors' interests.

Whilst policies on [ESG](#) financial considerations and non-financial matters are considered separately on page 24, we expect to see evidence of how these matters are taken into account in the design of the investment pathways strategies and in investment decision making.

The Firm's approach

Policyholders access the investment pathways through a Self-Invested Personal Pension ('SIPP') policy. A pathways investor is able to hold other funds in that SIPP policy alongside investments in the pathway funds.

As part of the investment pathway strategy development the Firm considered policyholders who may be less engaged with their investments. In doing so the Firm set the following objectives:

1. Protect lower confidence, less engaged customers from poor outcomes.
2. Increased governance around appropriateness of each investment option.
3. Independent evaluation of Value for Money.
4. Provide rationales and ongoing communication so that customers know what they are buying and that their choices remain suitable.

The Firm has considered what the likely member objectives for the four investment pathways may be based on market research and have set out descriptions of the expected objectives for each target investment pathway customer. It has sought to provide a best-in-class solution for each pathways fund based on the funds more generally available on its platform.

- | The Pathway 1 design (for customers who have no plans to touch their money in the next 5 years). This provides a low-cost fund with a mix of equities and bonds that provide potential for growth and maintains the same or similar level of equity allocation in the fund over time.
- | The Pathway 2 design (for customers planning to set up a guaranteed income (**annuity**) within the next 5 years) provides a fund that holds bonds, which are investments similar to an annuity income.
- | The Pathway 3 design (for customers who plan to start taking their money as a long-term income within the next 5 years) has a fund objective aimed to achieve an increase in value and with a gradually changing asset allocation. The fund allocation will become more conservative as the 5-year target date approaches and passed, thus moving from higher risk (e.g., shares) to lower risk (e.g., bonds) investments. This approach utilises a target date fund approach, with a specified vintage reflecting the investor's age. The GAA noted that the vintage was updated in 2022 to reflect that new investors should be offered the closest target retirement date.
- | The Pathway 4 design (for customers who plan to take all their money out within the next 5 years) provides a fund that holds low risk cash and short duration bonds. It aims to maintain the value of the investment but may not have the potential for increased levels of growth.

The Firm does not believe there is currently a sufficiently wide and well-established universe of ESG funds available to make consideration of ESG mandatory in the selection of investment pathways funds. There are also question marks over the beneficial impact on member outcomes of using a more ESG focused fund. However, the Firm is cognisant of the direction of travel for future ESG developments and availability of more sustainable funds. Where ESG is taken into account within the Firm, the primary focus is on environmental (specifically climate) concerns.

The Firm's strengths

The high-level objective for each pathway investment and rationale for the fund choice is clearly disclosed on the Firm's website. The Key Investor Information Document (KIID) for each fund is also available on the website and sets out the investment objectives, risk profile of the underlying funds and the charging structure.

There is a clear and understandable rationale for the choice of funds used to provide the investment pathways and the fund objectives are broadly aligned to the investment pathway objectives.

The Firm uses external expertise to help design and select the appropriate investment pathways to deliver the key objectives. Those objectives are regularly assessed through ongoing monitoring.

Furthermore, the website is customer focused and easy to navigate allowing customers to find additional complementary information regarding their fund choice.

The GAA noted that from July 2024 the Firm has begun to use Morningstar Sustainable Attributes to better identify sustainable funds based on their stated objectives. This will support the Firm's future review of possible sustainable funds to incorporate into the strategy.

Areas for improvement

GAA observations

The Firm has clearly articulated to the GAA why they believe the approach in Pathway 3 is in customers' best interests. The GAA notes that this approach uses a different investment vehicle compared to its peer group and we expect the Firm to continue updating vintages and fund literature over time.

The GAA asks the Firm to explore if actual customer behaviours and preferences could be captured and those results utilised in future investment reviews to ensure that fund objectives remain aligned to investor needs.

The GAA would like to see continued progress on the integration of ESG financial considerations within the investment options and anticipate further discussions with asset managers.



2. Investment performance and risk

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We would expect to see a robust governance framework under which investment performance is monitored on a regular basis. Performance should be measured against investment objectives, including against a measurable and stated benchmark. Performance should be net of fees. In addition to the stated benchmark comparison risk adjusted returns should also be considered.

Where there are any concerns over investment performance, we expect to see evidence of appropriate action being taken, which may include engagement with investment managers and/or implementing changes to fund options. We also expect to see evidence that the strategies are effective and take into account the [pathway investors'](#) attitudes to risk.

The Firm's approach

The Funds Working Group meets monthly to monitor the performance of rated products, based on peer group rankings over multiple periods provided by an external agency. Any rated product investments identified as not meeting stated objectives for rolling multiple months are placed under formal review.

The Firm's strengths

The provision of detailed monitoring by an external

agency enables the Firm to review performance and ongoing appropriateness of the funds. There is a robust framework in place against which to assess performance and risk.

The Firm undertakes regular deep-dive reviews of the funds, with the most recently completed review finished in June 2023.

Improvements since last year

Last year the GAA observed that market conditions for 2022 were exceptionally difficult to generate positive returns and notes that in 2023 fund performances had normalised to be greater than or in line with the benchmarks.

Net Investment Performance

The [net investment performance](#) of the investment pathways strategies over 12 months to 31 December 2023 and, where available, the performance of the benchmarks against which those funds are measured by the Asset Manager are set out in the following table.

Investment Pathway	Net Investment Performance	Benchmark
1	10.1%	9.3%
2	3.7%	3.7%
3	9.9%	3.5%
4	4.8%	4.8%

Comparator results

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

This assessment identified that the one year net investment performance when considered against the comparator group for each investment pathway solution is as set out in the table below.

Investment Pathway 1	Performance is in line with the average taken across the comparator group.
Investment Pathway 2	Performance is in line with the average taken across the comparator group.
Investment Pathway 3	Performance is in line with the average taken across the comparator group.
Investment Pathway 4	Performance is in line with the average taken across the comparator group.

Areas for improvement

GAA observation

The Firm's monitoring of risk and volatility could be improved to take greater account of customers' likely or implied attitudes to risk. The current approach is to measure volatility against notional fund-related targets rather than customer expectations. The Firm could also consider additional quantifiable metrics for risk measurement.



3. Communication

Value score:

Excellent

Good

Satisfactory

Poor

What are we looking for?

As a minimum we expect communications to be fit for purpose, clear and engaging and to be tailored to take into account [pathway investors'](#) characteristics, needs and objectives.

We would expect to see a comprehensive suite of communications in place suitable for pathway investors, and which enable them to choose the relevant investment pathways.

In a high quality communication service offering we would expect a substantial online offering, with a range of online support materials such as online drawdown modellers to enable personalised calculations with various selectable options. We would expect telephone support to be available, with good evidence of telephone scripts, call monitoring and staff training.

Additionally, we would expect pathway investors to be able to switch investment pathways online and to have support available if they wish to leave or switch from their current investment pathway. In particular, we would expect there to be appropriate risk warnings built into the process.

We would expect the provider to ensure there is clear signposting to pathway investors on where they can obtain additional guidance and advice on their drawdown and retirement options.

The Firm's approach

The Firm provides a full suite of electronic communication material for pathway investors which meets regulatory requirements, along with extra information around scam warnings, dedicated information guides and website pages relating to pension scams and 'How to' guides on seeking financial advice and appointing a financial advisor.

This online material is supplemented by telephone support if requested by the customer.

Information on each pathway is available on the website. A Pension Calculator and a Drawdown Calculator are available online for policyholders or their advisers. Additional retirement support is available through an [annuity](#) market function.

Information about pension tax, inheritance tax, and different approaches to investing (e.g., ethical investing) is also available online.

Member stories and other planning guides are available on the Firm's website.

All communications were reviewed during the initial implementation of the Consumer Duty standards. To prepare for Consumer Duty the Firm produced a detailed Customer Communications Testing Methodology document and Communication Testing Workbook May 2023 with an external independent consultant of for the assessment, testing and monitoring customer understanding for 2024. Any changes are now routed through the Firm's consumer duty scoring and review standards.

The Firm's strengths

The Firm has a full suite of electronic communications and online secure-messaging functions for current customers with well-resourced telephone support and range of customer stories.

The website functionality supports customer needs and provides additional material relating to retirement support and wider financial wellbeing.

Comparator results

We have assessed how the communication materials provided to the Firm's pathway investors compare to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's policyholders over 2023 were average, i.e. relative to the comparator group.

Areas for improvement

The GAA did not identify any specific areas for improvement.

4. Firm governance

Value score:

Excellent

Good

Satisfactory

Poor

What are we looking for?

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

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

The Firm's approach

The Product Governance Policy sets out the principles for the selection of new financial instruments or manufactured investment products that can be added to the platform.

Governance of the Firm's investment 'universe' is undertaken by the Firm's Customer Committee, with recourse and escalation to the Executive Risk Committee and/or Executive Committee if required.

The selection and review process for investment funds on the Firm's platform is documented and overseen by the Investment Research Monitoring Group and includes those funds used for investment pathways. This Group has support from an external research manager.

The Firm's strengths

IT services are provided inhouse, are overseen by the IT Risk Forum and Executive Risk Committee (ERC), who carry out routine annual risk assessments and tests on all infrastructure, whether physical or virtual, and includes all associated information services, systems and applications where the Firm holds responsibility.

The Firm has a well-documented Purchase and Supplier Management Policy and Framework along with supporting controls.

Areas for improvement

The GAA did not identify any specific areas for improvement.

5. Security of policyholder benefits

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We expect to see that the Firm is in a sound financial position with sufficient capital backing to enable it to continue to operate for the foreseeable future.

We also look for information about how the assets are protected, for example in the event of fraud or bankruptcy, at both the Firm and investment manager level. For example, this could relate to FSCS or other regulatory protections, ringfencing or the structure of the underlying product.

We are looking for evidence that the Firm has processes in place for protecting policyholder assets against fraud and scams and for Firms to be actively monitoring for possible scamming activity.

The Firm's approach

The Firm was acquired by abrdn in May 2022 and is 100% owned through ordinary shares, with the Firm classified as a direct subsidiary.

Interactive Investor Services Limited's ("IISL") is the second largest 'D2C' investment platform in the UK and is FCA regulated. As a 'CASS Large Firm', the Firm has a named supervisor within FCA's CASS Oversight Team for our CASS activities and compliance. IISL is classified as an 'Enhanced Scope' firm, under the FCA's Senior Managers

& Certification Regime and needs to meet the requirements of FCA's Operational Resilience regime.

Investments are made by purchasing units in funds managed by the third party asset managers and so protection of the underlying investments is the responsibility of the asset managers.

The units purchased are held separately from the Firm's own investments and are registered in the name of the Firm's Nominee or another custodian on trust for the policyholders as beneficial owner. Policyholder cash will be pooled, and policyholders will share proportionally in any losses should one of the Firm's appointed banks become insolvent. Where possible claims against FSCS will be made but capped at the relevant level.

The Firm does not provide any financial advice to policyholders. They allow transfers out only to registered pension schemes or qualifying recognised overseas pension scheme, but only if sufficient due diligence can be carried out to their satisfaction and in accordance with HMRC requirements. Scam checks are embedded within this process.

The Firm also provides vulnerable customer training to staff, to help provide protections to those most in need.

The Firm's strengths

The Firm remains in robust financial health with material operating profits recorded during the year. The regulatory capital requirement remains well met.

There were no reportable CASS breaches during the year.

The GAA also noted the Firm's positive and proactive approach to identifying and supporting vulnerable customers, including protection against scam activity.

Improvements since last year

The GAA previously stated that it wanted to understand any structural changes to the abrdn/ Interactive Investor organisational model following the takeover in 2022, and is satisfied that nothing has come to the GAA's attention of any adverse impact on the financial security of customers, with the Firm expected to continue as a self-contained unit within the group.

Areas for improvement

The GAA did not identify any specific areas for improvement.

6. Administration and operations

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We expect Firms to have robust administration processes in place with appropriate service standard agreements and regular monitoring and reporting around adherence to those service standards. In particular, we are seeking evidence that **core financial transactions** are processed promptly and accurately, such as processing drawdown payments, transfers processing and death benefit payments.

We look for evidence of regular internal and external assurance audits on controls and administration processes. In particular, we are looking for a robust risk control framework around the security of IT systems, data protection and cyber-security. We would expect to see evidence that cyber-security is considered as a key risk by the Firm's relevant risk governance committee and that appropriate monitoring, staff training and penetration testing is put in place.

We expect Firms to have a comprehensive business continuity plan and evidence of its effectiveness through appropriate testing or in maintaining continuity of business during the COVID-19 pandemic.

We would expect to see a low level of substantive complaints and demonstration of a clear process for resolving complaints.

The Firm's approach

The Firm has a Service Level Agreement ("SLA") in place that cover the initial transfer of funds in to invest in the investment pathways options, the setup of the at retirement drawdown options, the payment of contributions and the processing of transfer values. These SLAs cover both the wider SIPP and Investment Pathway policyholders. The SLA target for core financial transactions is to complete 95% of these within 5 days. The Firm utilises straight through processing for most activity.

The Firm has robust administration and operations functions. SLA statistics are positive given the large number of cases being processed, although it is noted that the failure to achieve the 95% target of payment to members/beneficiaries within the 5 day SLA was largely due to cases outside of SLAs around April 2023 caused by changes and uncertainties around the LTA (Lifetime Allowance) which drove increased volumes of requests in addition to the general volumes around the tax year end.

Service to all SIPP members, regardless of their chosen investment strategy is delivered in the same way. This is primarily online, with major functions supported directly by online processes or by forms and guidance accessible from the ii web site. Additional support via email/secure message and telephone is also available.

The Firm takes cyber security seriously, viewing it as a primary risk. The Firm has a Data Protection Policy and there were no GDPR data breaches relating to investment pathway policyholders recorded during the year.

In addition, the Firm has a robust Security Policy which includes regular penetration testing.

The Firm's strengths

The Firm's approach to cyber security and business continuity is thorough and regularly tested and involves third-party independent testing for Critical National Infrastructure Banking Supervision and Evaluation Testing, and regular penetration testing. Penetration testing was completed multiple times during 2023.

The Firm conducts annual testing plan of business continuity across several key functions. Testing included communication and connectivity of employees working in the office and remotely. There is an annual Disaster Recovery Test. The Business Continuity Management framework is reviewed each year. There is also a daily connectivity test.

A summary of overall complaints for the Firm's SIPP business is available on the Firm's website and shows that complaints typically arise for only around 1 case in every 1000 accounts.

Comparator results

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

This assessment identified that the administration services provided to the Firm's policyholders over 2023 were average, i.e. relative to the comparator group.

Areas for improvement

The GAA did not identify any specific areas for improvement.

7. Engagement, innovation and improvements for policyholder experience

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We expect to see evidence that the investment pathways product is reviewed on a regular cycle of not more than every three years, with new product features or service innovations being launched when appropriate and in line with relevant improvements being made to other similar products offered by the Firm. We expect these changes to have been developed taking into account [pathway investors](#)' characteristics, needs and objectives, including direct feedback from pathway investors.

We are looking for evidence of regular, proactive engagement with pathway investors to obtain feedback and for this feedback to be taken into account when reviewing the product offering.

The Firm's approach

The Firm has a SIPP Specific Product Team in place that discusses new ideas with external advisers. Successful ideas are then developed into distinct propositions via Product Roadmaps. These Roadmaps have the following key objectives:

- | Reduce friction;
- | Build trust;
- | Low cost;
- | Compliant product; and
- | Manages risk.

New innovations go through extensive testing before launch. The expectation is that the abrdn acquisition will further support the ongoing development of new products and innovation.

The Firm collects customer feedback which is incorporated into Product Roadmaps. Additional sources of feedback from member complaints or customers leaving their journey are also incorporated. A good example of developments on the back of customer feedback is the fund risk warnings. These have been incorporated into the online benefits process, based on customer responses.

Another example of this product development is the introduction of a low cost 'Pension Essentials' product for customers in drawdown.

The Firm's strengths

The Firm's process for managing product evolution, and new product development, together with its proactive approach to requesting and gathering client/customer feedback there is a continuous evolution and potential for gradual improvements in the value for money of the product for policyholders.

Areas for improvement

The GAA did not identify any specific areas for improvement.

8. Cost and charge levels

Value score: Low Moderately Low Moderately High High

What are we looking for?

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

- | the annual fund management and administration charges being borne by Pathway Investors;
- | the transactions costs incurred by the underlying investment funds which reduce the investment return experienced by Pathway Investors
- | any other charges being paid by pathway investors to manage, access and invest their drawdown funds;
- | the Firm's process for collecting and monitoring overall member charges, including [transaction costs](#).

We expect fund management charges to be comparable to charges for similar investment products in the wider pensions market after considering the active or passive nature of the investment and the type of assets involved. We take into account where the majority of relevant pathway investors' assets are invested.

In looking at transaction costs we also consider the overall level of volatility in the markets, recognising that in highly volatile markets transaction costs may increase.

We assess whether the overall level of administration charges are reasonable, bearing in mind the types of services provided to pathway investors.

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

The Firm's approach

Policyholders access the [Pathway Investments](#) through a SIPP policy. A Pathways Investor is able to hold other funds in that SIPP policy alongside investments in the pathway funds.

The Firm charges SIPP policyholders a flat per month administration fee depending on whether the customer holds other products on the Firm's platform and the level of services, such as number of included trades per month, that the customer chooses.

The portion of the service fee attributable to the investment pathways element of a SIPP policy depends on what proportion the pathways investments represent of the total investments across all products held by the policyholder with the Firm.

There are no free trades for those policyholders who only hold a SIPP policy with the Firm. Customers with multiple products on the Firm's platform and paying the highest service charge level are able to execute two free trades per month. Additional trades (switches in and out of funds) are charged at a fixed per trade fee depending on the type of asset involved.

Policyholders must switch monies into the cash fund to ensure there is sufficient cash to meet intended drawdown payments and service charges. Such switches incur a trade charge if the policyholder has already exceeded their fee trade allowance for the given month.

Policyholders also pay an **annual management charge**, which is dependent on the investment pathway they have chosen.

Improvements since last year

Last year the GAA observed that a fixed monthly fee could mean that holders of small investment pots find that their pot is eroded by the fixed fee and further by the trade costs associated with ensuring there are sufficient funds in their cash account to pay those administration fees.

In response the Firm introduced a new 'Pension Essentials' plan for SIPP members which is more attractive to investors with smaller pots.

The Firm's strengths

The Firm clearly articulates its charges to customers and the transaction charges are accessible via the online facility.

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

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

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

Investment Pathway	
1	0.22%
2	0.07%
3	0.24%
4	0.10%

The administration charges paid by investors are in addition and are dependent on the level of activity conducted by the policyholder. The administration element was on average between 0.03% and 0.08% pa over the year.

The GAA believe that the Firm offers appropriate charges to pathway investors.

Comparator results

We have assessed the overall cost and charge levels payable by the Firm's pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider and each investment pathway solution.

This assessment identified that the overall cost and charge level paid by the Firm's policyholders over 2023 were below average, i.e. relative to the comparator group.

Areas for improvement

The GAA did not identify any specific areas for improvement.

ESG financial considerations, non-financial matters and stewardship

What are we looking for?

Where the Firm has an investment strategy or makes investment decisions which could have a material impact on [pathway investors](#)' investment returns, the GAA will assess the adequacy and quality of the Firm's policy in relation to [ESG](#) financial considerations, non-financial matters and stewardship. The GAA will consider how these are taken into account in the Firm's investment strategy and investment decision making. We will also form a view on the adequacy and quality of the Firm's policy in relation to stewardship.

We expect the Firm's policy in relation to these considerations:

- (a) sufficiently characterises the relevant risks or opportunities;
- (b) seeks to appropriately mitigate those risks and take advantage of those opportunities;
- (c) is appropriate in the context of the expected duration of the investment; and
- (d) is appropriate in the context of the main characteristics of the actual or expected pathway investors.

We also expect that the Firm's processes have been designed to properly take into account the risks or opportunities presented. Where ESG considerations have been delegated to external investment managers we expect the Firm to have a suitable oversight and stewardship process in place.

Whilst this formal requirement falls outside the overall Value for Money assessment, the GAA's Value for Money framework does take into account, where relevant, when scoring the area of Product Strategy Design and Investment Objectives on page 8, how the Firm has integrated ESG financial considerations and non-financial matters in the Firm's investment strategy and investment decision making.

The Firm's approach

The Firm provides a platform for investing in a wide range of investments and there are no default funds. Pathway investors need to make an active choice as to which investment pathway they invest in. However, the Firm does make the decision as to which funds are utilised for each investment pathway.

The Firm does not believe there is currently a sufficiently wide and well-established universe of ESG funds available to make consideration of ESG mandatory in the selection of investment pathways funds. There are also question marks over the beneficial impact on member outcomes of using a more ESG focused fund. However, the Firm is cognisant of the direction of travel for future ESG developments and availability of more sustainable funds. Where ESG is taken into account within the Firm, the primary focus is on environmental (specifically climate) concerns.

The Firm adopted a new Corporate Sustainability Policy in October 2022.

The Firm's strengths

The Firm has begun to use Morningstar Sustainable Attributes to better identify sustainable funds based on their stated objectives. This will support the Firm's future review of possible sustainable funds to incorporate into the strategy. Funds are categorised as "general ESG fund" or "Sustainability themed investment". This wider scope captures funds that are currently out of scope of the FCA SDR (Sustainability Disclosure Requirements) regulation, such as overseas, exclusion and ESG-integrated funds.

Areas for improvement

GAA observations

The GAA expects to see continued progress on the integration of ESG financial considerations within the investment options and anticipate further discussions being undertaken by the Firm with asset managers.

Appendix A: Approach to comparisons

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

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

How the comparators were selected

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

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

Based on these criteria we believe that the comparator products chosen will provide a reasonable comparison for the [pathway investors](#) of the Firm.

Comparison of Net Investment Performance

We have assessed how the net of fees investment performance provided to the Firm's pathway investors compares to other Investment Pathways arrangements. This takes account the performance of the investments being offered. Where multiple investment funds are made available, we have taken into account the amount invested by relevant pathway investors in each fund.

Comparison of Communication provided to pathway investors

We have assessed how the full range of communication materials, including any websites and modelling tools, provided to the relevant pathway investors compares to other sufficiently similar investment pathways arrangements. This takes account of the type of pension product provided, and whether the communication materials are fit for purpose considering the age profile of the relevant pathway investors.

Comparison of Administration Services

We have assessed how the quality and timeliness of the administration services, including core transaction processing, provided to the Firm's pathway investors compares to other sufficiently similar investment pathway arrangements.

Comparison of costs and charges

We have undertaken the comparison of cost and charge levels considering three categories of charges:

| [Annual Management Charge](#)

| [Transaction Costs](#)

| Other Costs and Charges

We have assessed the overall cost and charge levels payable by the Firm's pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.



Appendix B: GAA activity and regulatory matters

This section describes the work that the GAA has done over the year and also covers the other matters which we are required to include in our annual report.

GAA engagement and actions this year

We prepared and issued a request for data on all the relevant workplace pension policies in early 2023.

Members of the GAA met with representatives of the Firm to kick off the Value for Money assessment process for the 2023 calendar year and to discuss and agree timescales.

We subsequently had a meeting with representatives of the Firm to discuss the information that had been provided in response to the data request. This was an opportunity for members of the GAA to meet key personnel with responsibility in the various different areas including investment strategy and how this has evolved, investment governance, approach to [ESG](#), non-financial matters and stewardship, administration and communications and risk management. In some cases this meeting was virtual.

We discussed the GAA's provisional scoring of Value for Money of the Firm's in-scope [pathway investments](#).

As part of the Value for Money assessment process, the Firm has provided the GAA with all the information that we requested, including evidence in the form of minutes and other documentation to support areas of discussion at the site visit.

Over the last year the GAA reviewed our Value for Money assessment framework and scoring methodology to ensure this continued to be suitable and can be applied consistently. Whilst the Value for Money assessment framework itself remains largely unchanged from the previous year, work was undertaken to improve the data request to make the overall process more efficient.

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

Item	Date
Issue data request	12/02/2024
Kick off meeting	19/02/2024
Site visit	17/04/2024
GAA panel review meeting	24/05/2024
Discuss provisional scoring	11/06/2024

The arrangements put in place for pathway investors' representation

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

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

In addition, the GAA has established a dedicated inbox at ZGL.gaacontact@zedra.com so that pathway investors can make representation to the GAA directly. The Firm has included details of this contact e-mail address on www.ii.co.uk/governance-advisory-arrangement or can be contacted directly at pensions@ii.co.uk

Appendix C: ZEDRA GAA credentials

In February 2015 the Financial Conduct Authority (FCA) set out new rules for providers operating workplace personal pension plans (called [relevant schemes](#)) to take effect from 6 April 2015. From that date, providers had to have set up an Independent Governance Committee or appointed a Governance Advisory Arrangement whose principal functions is to:

- | Act solely in the interests of the [relevant policyholders](#) of those pension plans; and to
- | Assess the “value for money” delivered by the pension plans to those relevant policyholders.

These requirements were then extended to Firms providing investment pathways from 1 February 2021.

The FCA rules require that the Chair of each Independent Governance Committee and Governance Advisory Arrangement produce an annual report setting out a number of prescribed matters.

The ZEDRA Governance Advisory Arrangement (“the GAA”) was established on 6 April 2015 and has been appointed by a number of workplace personal pension providers and investment pathways providers. ZEDRA is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments we act as an independent trustee on several hundred trust-based pension schemes and we sit on a number of IGCs. More information on ZEDRA can be found at as www.zedra.com/GAA

The members of the ZEDRA GAA are appointed by the Board of ZEDRA Governance Ltd. The Board is satisfied that individually and collectively the members of the GAA have sufficient expertise, experience, and independence to act in the interests of relevant policyholders and [pathway investors](#).

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

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

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

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

Information on Information on Dean's experience and qualifications can be found at <http://deanwettonadvisory.com>

The GAA has put in place a conflicts of interest register and maintains a conflicts of interest policy with the objective of ensuring that any potential conflicts of interest are managed effectively so they do not affect the ability of ZEDRA Governance Ltd or Dean Wetton Advisory Ltd to represent the interests of relevant policyholders or pathway investors.

The terms of reference for the GAA agreed with the Firm can be found at: www.ii.co.uk/governance-advisory-arrangement



Appendix D: Glossary

Please note that some of the terms referred to in this glossary may not be applicable to your product.

Active management

The investment of funds where the skill of the fund manager is used to select particular assets at particular times, with the aim of achieving higher than average growth for the assets in question.

Annual management charge (AMC)

A deduction made by the pension provider or investment manager from invested assets, normally as a percentage of the assets. The AMC is generally how the pension provider or investment manager is paid for their services.

Annuity

A series of payments, which may be subject to increases, made at stated intervals, usually for life. If the annuity is “joint life”, it will continue to a spouse (usually at a lower rate) after the death of the original person receiving the payments (“the annuitant”).

COBS

The Conduct of Business Sourcebook prepared by the Financial Conduct Authority (FCA). In particular when we use COBS in this report we are referring to Chapter 19 of the COBS which sets out the provisions relevant to the Value for Money Assessment of workplace pensions.

Core financial transactions

The essential processes of putting money into a pension policy or taking it out, namely:

- | Investment of contributions
- | Implementation of re-direction of future contributions to a different fund
- | Investment switches for existing funds, including life-styling processes
- | Settlement of benefits - whether arising from transfer out, death or retirement

Decumulation

The process of converting pension savings to retirement income.

Environmental, social and governance (ESG)

These are the three main factors looked at when assessing the sustainability (including the impact of climate change) and ethical impact of a company or business. ESG factors are expected to influence the future financial performance of the company and therefore have an impact on the expected risk and return of the pension fund investment in that company.

Flexible access

This refers to accessing pension savings in the form of income and/or lump sums. Pension savings that are not being accessed immediately will generally remain invested.

Life-styling

An automated process of switching investment strategy as a policyholder approaches retirement, in a way that is designed to reduce the risk of a policyholder's retirement income falling.

Net investment performance

The investment performance of the fund after deducting all asset management charges, administration charges, taxes and fees for managing the fund including any transaction costs.

Pathway investor

A retail client investing in a Firm's pathway investment offering.

Pathway investment

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

Relevant policyholder

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

Relevant Scheme

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

Transaction costs

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

With Profits

An insurance contract that participates in the profits of an insurance company. The insurance company aims to distribute part of its profits to with-profits policy holders in the form of bonuses.

Unit-Linked

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



Appendix E: Data table

Investment Pathways	Number of customers at 31/12/2023	Assets under management as at 31/12/2023
Pathway 1	91	£13.3m
Pathway 2	4	£0.5m
Pathway 3	32	£4.9m
Pathway 4	34	£3.6m
Total	161	£22.3m



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