



Hargreaves Lansdown

**Independent  
Governance  
Committee**

Report

2024

# YOUR WORKPLACE PENSION DASHBOARD FOR 2024

A committee of independent professionals (the “IGC”) has assessed whether your workplace pension plan gives you **value for money**. The key factors the IGC considered are summarised below, together with the IGC’s rating of each factor and where more work is needed.

## KEY








Meets or exceeds the IGC's expectations.



The IGC has identified areas for improvement which are being addressed / are in relation to emerging risks or regulation.



The IGC has identified areas for improvement which have not yet been addressed.

	VALUE FOR MONEY COMPONENT	RATING	CALLS TO ACTION
<b>Investment strategy and performance</b>	<p>For example, are investment strategies appropriate and reviewed?</p> <p>Are investments performing well?</p> <p>How adaptable are they?</p> <p>Is there an appropriate range of funds?</p> <p>Does HL consider ESG, stewardship and other financial and non-financial matters?</p>		
<b>Communications, engagement and support</b>	<p>For example, are communications to members clear, appropriately targeted and accessible?</p> <p>Is there robust support for vulnerable members?</p>		
<b>Administration and service</b>	<p>For example, are financial transactions processed promptly and accurately?</p>		
<b>Other features</b>	<p>We considered other features that we thought relevant to <b>value for money</b>.</p>		
<b>Costs and charges</b>	<p>Are the charges reasonable for the product?</p>		

The IGC is satisfied that most members are receiving **value for money** from their workplace pension. The IGC has found a number of areas of strength in the Hargreaves Lansdown proposition, however, we've also found several areas for improvement. More detail can be found in our full report.






Saving to provide for retirement is one of the most important financial decisions you'll make. Good planning, the amount you contribute and the product and fund choices you make will all make a big difference to your retirement income. It's important to bear in mind when deciding how best to prepare financially for retirement that saving in a pension scheme offers valuable tax benefits to most of us that can considerably boost our retirement income.

Pension and tax rules can change and benefits depend on your personal circumstances.

# YOUR INVESTMENT PATHWAYS DASHBOARD FOR 2024

A committee of independent professionals (the “IGC”) has assessed whether the Hargreaves Lansdown **Investment Pathways** give you **value for money**. The key factors the IGC considered are summarised below, together with the IGC’s rating of each factor and where more work is needed.



	VALUE FOR MONEY COMPONENT	RATING	CALLS TO ACTION
<b>Investment strategy and performance</b>	<p>For example, are investment strategies appropriate and reviewed?</p> <p>Are investments performing well?</p> <p>How adaptable are they?</p> <p>Is there an appropriate range of funds?</p> <p>Does HL consider ESG, stewardship and other financial and non-financial matters?</p>		
<b>Communications, engagement and support</b>	<p>For example, are communications to members clear, appropriately targeted and accessible?</p> <p>Is there robust support for vulnerable members?</p>		
<b>Administration and service</b>	<p>For example, are financial transactions processed promptly and accurately?</p>		
<b>Other features</b>	<p>We considered other features that we thought relevant to <b>value for money</b>.</p>		
<b>Costs and charges</b>	<p>Are the charges reasonable for the product?</p>		

The IGC is satisfied that most clients are receiving **value for money** from the **Investment Pathways**. The IGC has found a number of areas of strength in the Hargreaves Lansdown proposition, however, we've also found several areas for improvement which is why most areas have been amber rated this year. More detail can be found in our full report.

Making choices at retirement is one of the most important financial decisions you'll make. These determine your future, and some decisions cannot be changed once they've been implemented. **Investment pathways** have been created as a default option for people who have or want to choose **drawdown** without firstly obtaining financial advice.

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# Introduction

Hello and welcome to our 2024 report. We'll tell you whether we think your pension scheme and Investment Pathways give you value for money and our opinion on Hargreaves Lansdown's investment policies.



My name is Richard and I chair the committee (the Independent Governance Committee, or "IGC") that's written this report. Our main job is to assess whether you get **value for money** (VFM) from your pension scheme. You can find how we did this and much more information on the background and role of the committee by reading the rest of this report. It's enough to say for now, though, that we're here to act only in your interests and that we're independent of Hargreaves Lansdown (who from now on I'll call "HL").

The report includes some important "calls to action". These are things you need to do to make the most of your pension scheme.

We've written the report for you, but we recommend you talk about it with a financial adviser.

Sometimes we've had to use industry jargon. Where we've done this, we've put the words in **bold** and given a definition in the jargon buster which you can find at the very back of the report.

We'd love to hear your views or comments on this report or your pension scheme. You can email us on [IGC@hl.co.uk](mailto:IGC@hl.co.uk)

**Or write to us at;**

FAO: IGC  
Freepost  
HARGREAVES LANSDOWN

Thank you for reading this report.

A handwritten signature in black ink, appearing to be 'Richard Butcher', with a long, sweeping underline.

**Richard Butcher**  
Independent Chair

# Proposed acquisition of HL by a private equity consortium

In August 2024, the Board of HL recommended to the HL shareholders that they accept an offer to buy the business from a consortium of private equity investors. The IGC will monitor the impact both of this offer and, should it proceed, the acquisition, on the VFM you receive.





# Our conclusion on value for money

Our overall conclusion is that your workplace personal pension and the Investment Pathways give most members value for money.

While the costs you pay aren't the lowest available on the market, our assessment is that they are, in our view, reasonable particularly when all the benefits provided to you are considered.

## VALUE IS MORE THAN JUST COST

**Value for money** has been defined by the National Audit Office as "The optimum combination of whole-life costs and quality". This is the definition to which we've worked.

Because, however, there is a lack of perfect information about what's available and at what price and because some parts of the proposition are qualitative, what's "optimum" can only be theoretical.

Nevertheless, a **value for money** assessment must take account of the quality of the proposition as well as its cost and consider how that compares to what's available for equivalent schemes from other providers in the marketplace.



# Workplace pensions: what we considered when doing our value for money assessment

In this section, I'll tell you how we went about assessing value for money, the factors we considered and why we arrived at our conclusion.

We've created a framework to assess the **value for money (VFM)** you get.

The framework helps us to make sure we consider the factors that contribute to **VFM** in a robust and consistent way. You can find more information on this framework, along with a full list of the factors we considered, in Appendix 3.

Ultimately, the real value from your pension will be measured by you, based on what you receive when you need or want to start taking money out of it. Two of the most significant factors that'll influence that, however, are out of our control. They're what you and your employer pay into the scheme and the decisions you make just before you take the money – and that's why there are calls to action here:

## CALLS TO ACTION

- Review how much you have in pension savings and make sure you (a) have enough to pay for the standard of living you want in retirement – the [Retirement Living Standards](#) have been developed to help you do that – and/or (b) are paying in enough to fill any gap. You can speak to a financial adviser to help you do this.
- Before you take your pension, we strongly recommend you understand the options and check your chosen option is right for your circumstances. Take advice or guidance if you're unsure. The government provides a free and impartial service to help you understand your retirement options. Pension Wise is available online ([www.moneyhelper.org.uk](http://www.moneyhelper.org.uk)), by calling 0800 138 3944 or face-to-face.





## INVESTMENT STRATEGIES AND PERFORMANCE

You'll be invested in either a "Default fund", one or more of the many other funds or exchange-traded investments on offer or possibly holding your pension money as cash. Like many others, you may have selected funds from the "ABC fund range". In our VFM assessment, we looked at both the **Default funds** and the ABC range.

You can find out which fund you are invested in by logging in to your online account, or by calling or writing to HL.

### THE DEFAULT FUNDS

The **Default funds** are:

- **BlackRock Consensus 85** which aims to mirror the investment strategy of the average pension fund, specifically, the average fund in the 'ABI Mixed Investment 40-85% Shares Pension' sector, by investing in a diverse range of company shares, bonds and cash.
- **Schroder Managed Balanced** which invests in a balance of shares, bonds and cash. The fund is actively managed, trying to beat the markets it invests in. The fund can invest up to 85% in shares but has typically held less than this.
- **HL Growth Fund** which invests across different assets such as shares and bonds with the flexibility to invest into property, commodities and cash. Shares make-up 70-85% of the fund, mostly in collective investments which track global markets. **ESG** is integrated into the process and at least 70% of the fund will be invested in indices with **ESG** requirements.

- **BlackRock's MyMap 4 Fund** is the default for those of you approaching retirement. This is explained in more detail under Investment strategies: Lifestyling.

The HL Growth Fund became the **Default fund** in December 2021 and some members switched into it. Since April 2022, your contributions may have been paid into this fund unless you made an alternative investment choice. HL has control over the fund's strategy, asset allocation and day-to-day management of the funds, as well as deciding who the fund manager is, giving HL the ability to adapt the design of the fund from time to time. This is a positive development, as it allows HL to change the fund to reflect the changing needs of you and the other members.

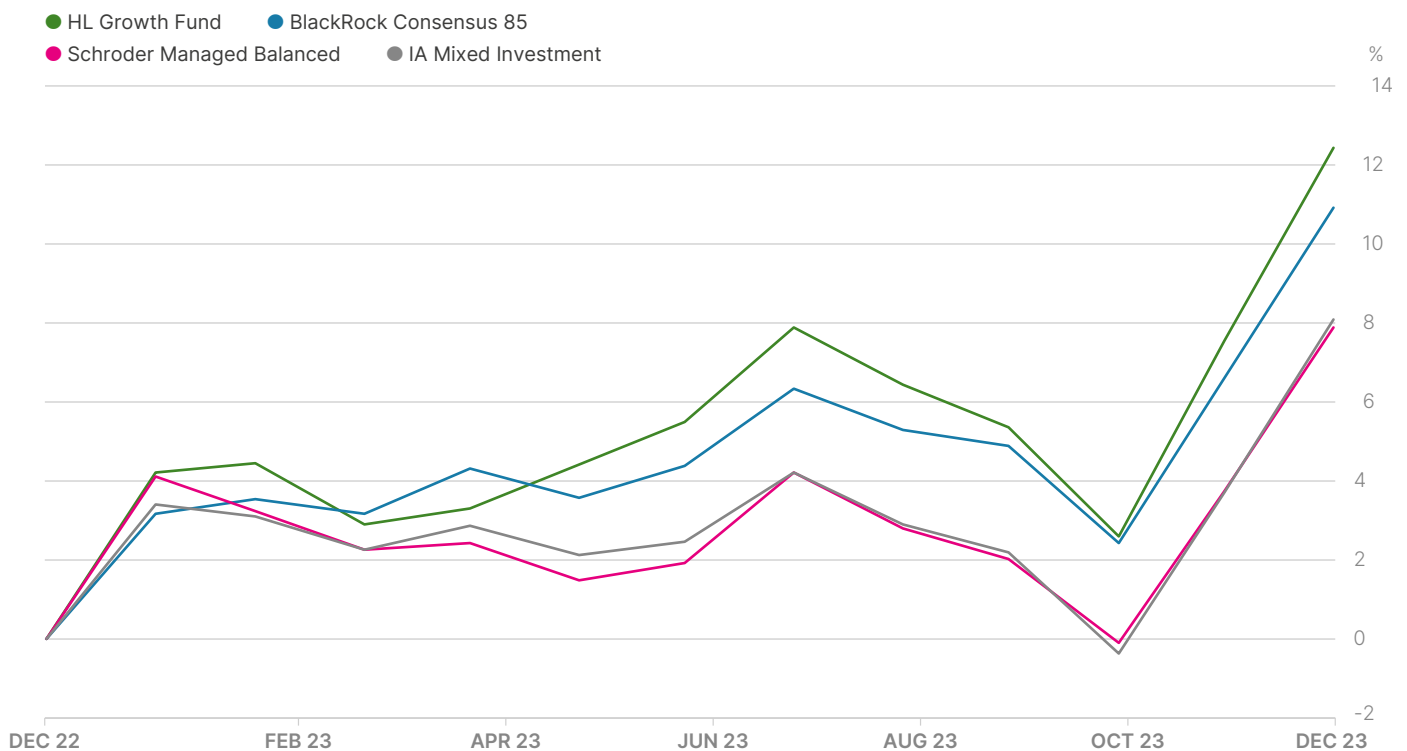
HL has not moved any pension savings you built up in the Schroder or Blackrock funds before April 2022. This means, whether you're currently paying contributions or not, you may still have money invested in one of these previous **Default funds**. Because a lot of members are still invested in them, we'll continue to monitor these funds.



### CALL TO ACTION

It's important to check your pension investments are right for your circumstances and goals. You can get help by speaking to a financial adviser.

## DEFAULT FUND PERFORMANCE – 1 YEAR



Source: Lipper IM 31/12/2023

Past performance is not a guide to future returns

The **Default funds** aim to achieve a balanced investment outcome across shares, bonds and cash to lower the overall fund risk in relation to returns.

Cash has also historically been used as a default for a minority of you. It's important you review whether holding cash is appropriate to your long-term investment needs. Holding cash may be the right thing to do if you intend to access the money from your pension in the short term, but is highly unlikely to be if this is not the case.



## CALL TO ACTION

It's important to check your pension investments are right for your circumstances and goals. If you're holding a lot of cash in your pension, think carefully about whether this is right for you and ask for guidance or advice if you're not sure. You can get help by speaking to a financial adviser.

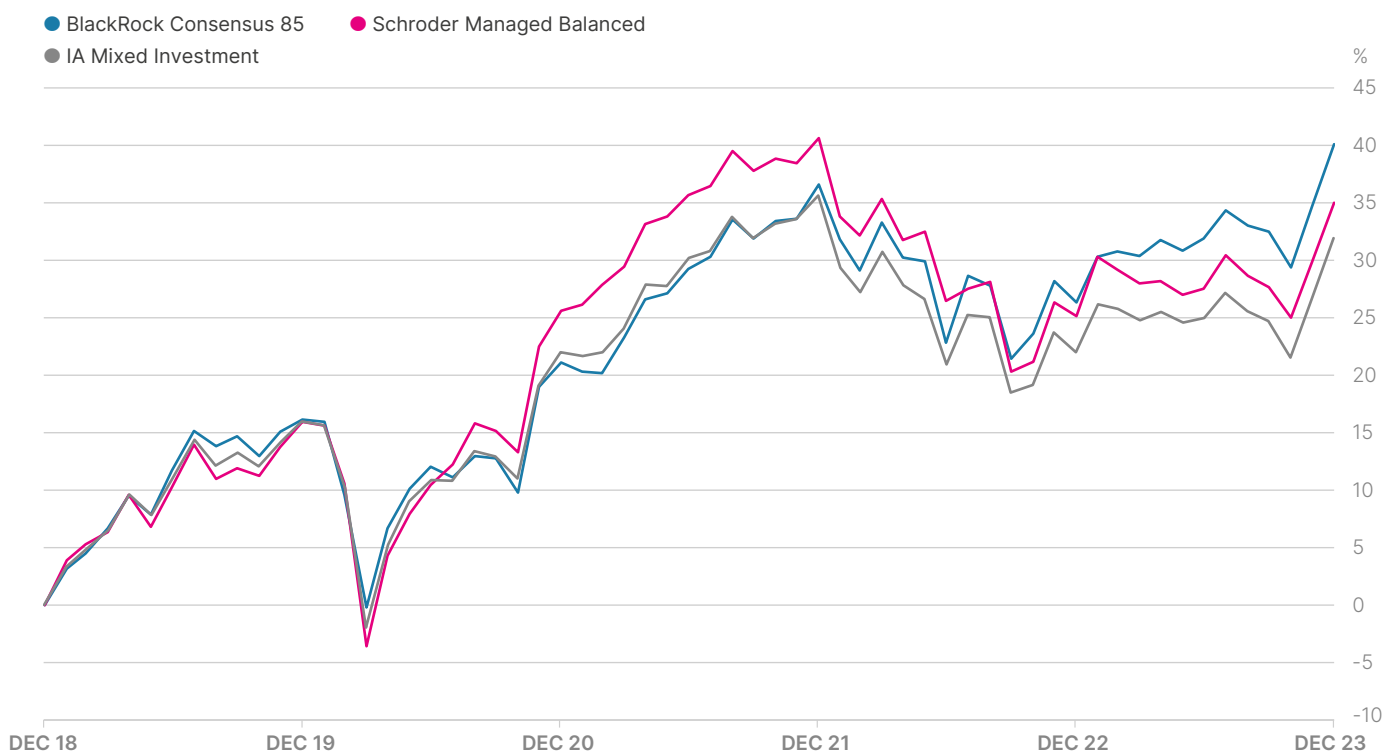
### Fund performance

When reviewing fund performance, we looked at a number of measures; the funds against their benchmarks, how they have performed against their peers, and output from the **Redington study**.

The graphs below show the performance of both the BlackRock and Schroder **Default funds** over one and five years. The one-year graph also shows the HL Growth Fund (it doesn't have a five-year performance record yet). Both older **Default funds** performed well over the last five years compared to their benchmark (the IA Mixed Investment Sector 40-85%). All three funds produced positive one year performance, as the market conditions rebounded from Covid-19 lows. HL Growth and Blackrock outperformed their benchmarks, while the Schroder Managed Balanced fund underperformed its benchmark marginally. While a review of short-term performance is useful and allows us to see how the **Default funds** have performed during the period this report covers, pension fund performance is best assessed over the longer term due to the fact most of us will be saving into our pensions for a very long period of time (which is why we look at performance over a five year period as well where possible).

Turning to how the funds performed compared to the **Default funds** of other workplace pension schemes, we used performance data to 31 December 2023 produced by the independent company Lipper for a selection of providers we believe represents a good peer group for comparison. As you can see from the graphs below, all **Default funds** performed broadly in line with their peers.

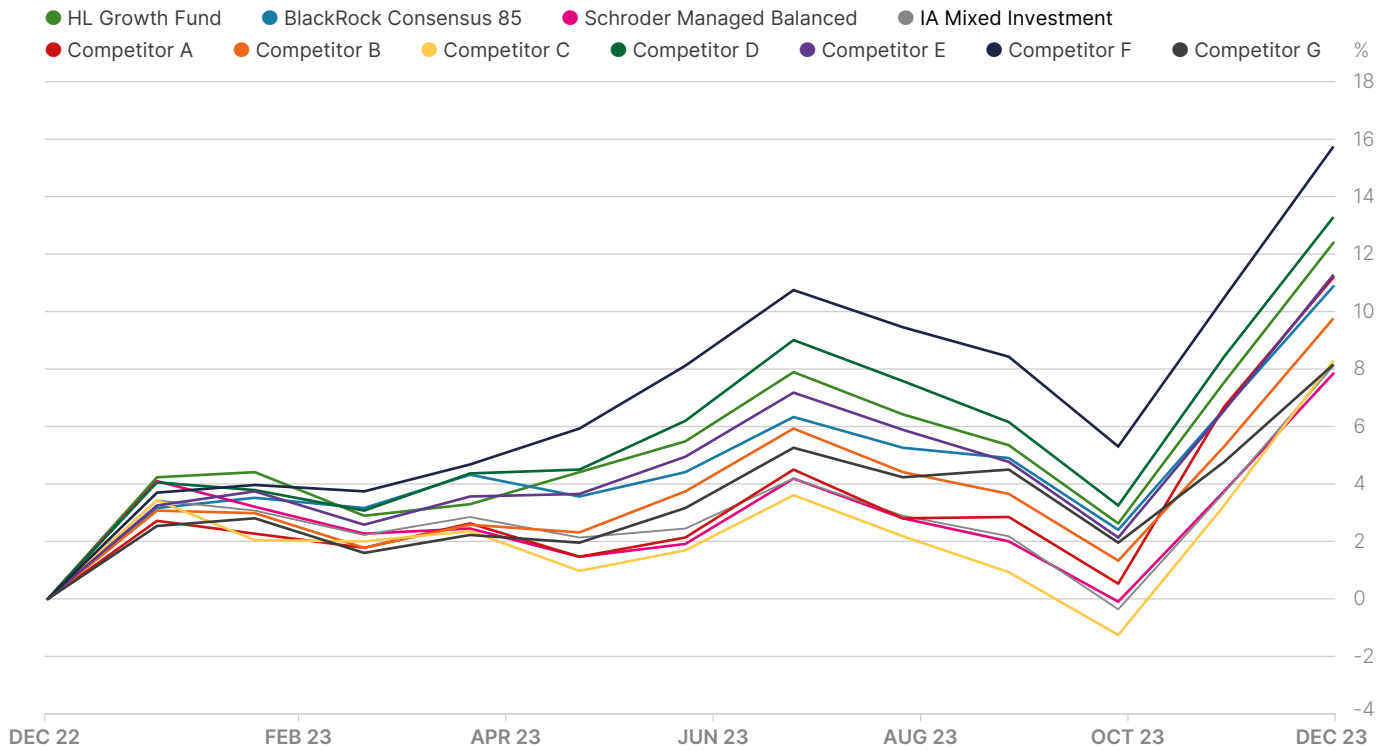
## DEFAULT FUND PERFORMANCE – 5 YEARS



Source: Lipper IM 31/12/2023

Past performance is not a guide to future returns

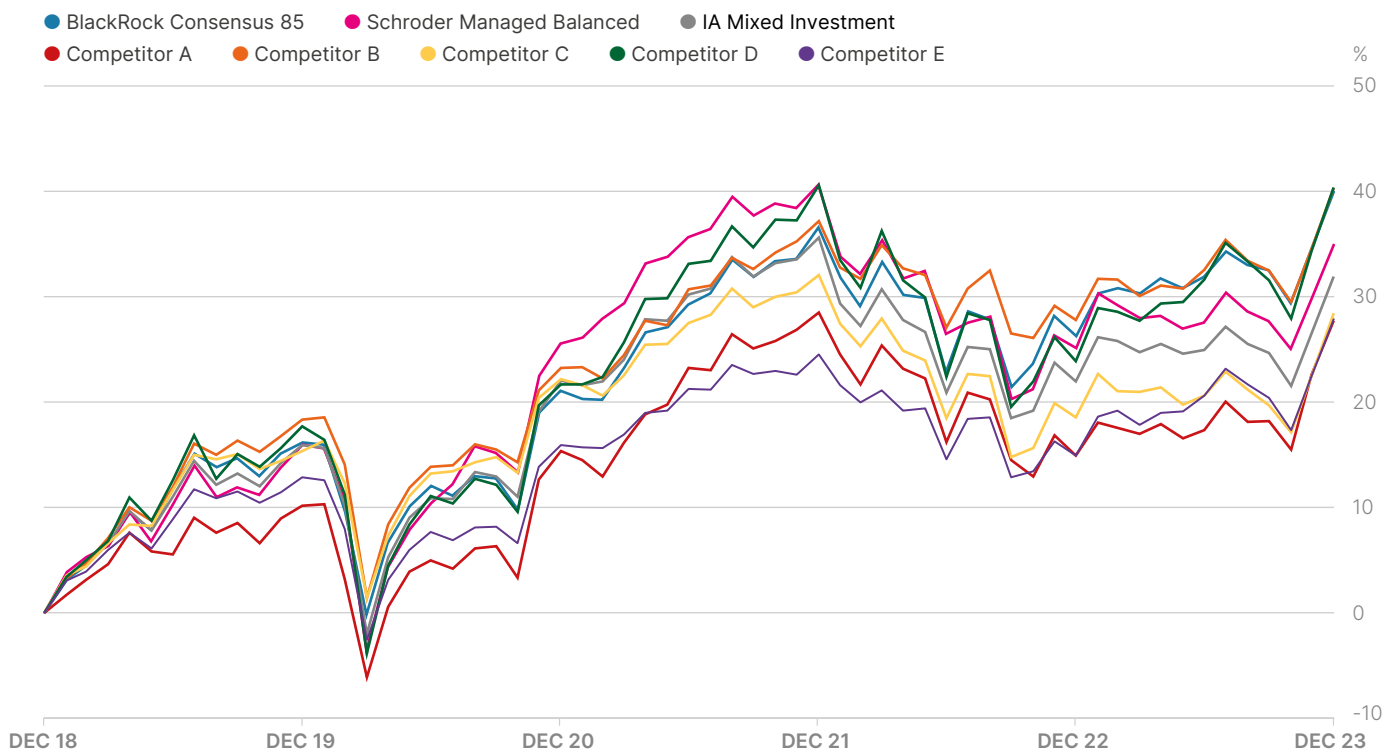
### DEFAULT FUNDS vs COMPETITORS – 1 YEAR



Source: Lipper IM 31/12/2023

Past performance is not a guide to future returns

### DEFAULT FUNDS vs COMPETITORS – 5 YEARS



Source: Lipper IM 31/12/2023

Past performance is not a guide to future returns

In addition, we assessed the output of the **Redington study** which reviewed the **Default funds** and investible strategies across eight participating firms. Within this study, HL funds performed relatively well, with the following being noted:

- In Redington's forward-looking analysis of expected return versus volatility (how widely an investment's return will deviate from the average), HL's default (using the HL Growth fund in the comparison) had the third highest expected return and volatility score in the years when a member is saving for retirement; and the highest expected return and highest volatility score in the years immediately approaching retirement. This is in line with our expectations for this **Default fund** based on the asset allocation (the balance between assets within the fund including equities and bonds).
- In Redington's review of past performance, their conclusions were broadly similar to ours in that HL **Default funds** have performed around the middle of the pack compared to the other participants in the study.

#### **ESG, stewardship and other considerations**

Alongside fund performance, we have also assessed the funds' focus on ESG, stewardship and other considerations, and how HL governs the funds to ensure they remain appropriate for members.

**ESG** considerations are factors related to the sustainability and societal impact of an investment in a company or business. These criteria help to better determine the likely future financial performance of companies (return and risk).

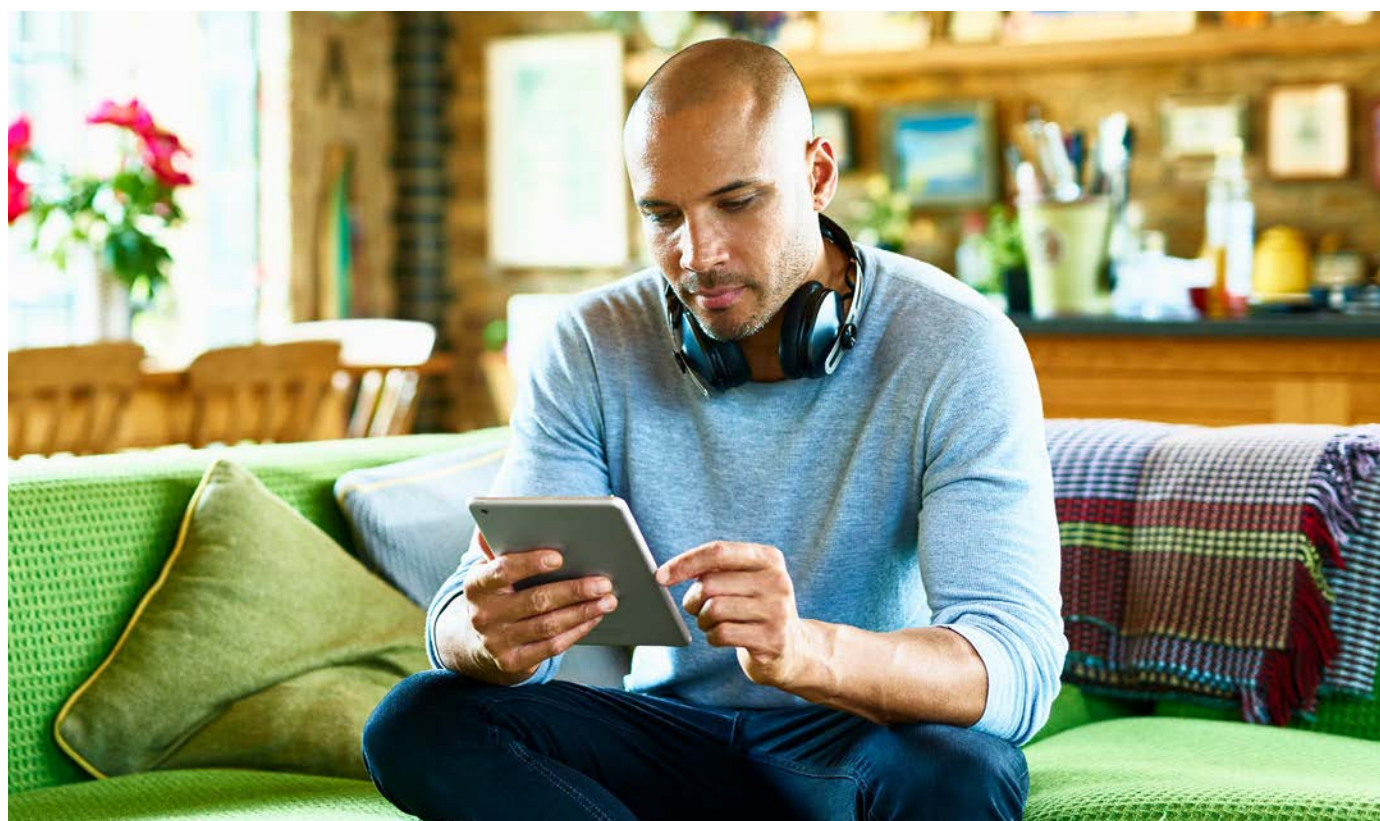
Stewardship relates to the way a pension provider or fund manager engages with the companies in which they're investing to encourage positive change, such as on matters involving corporate strategy and culture, their efforts on reducing climate change and workplace policies and practice. Examples of **ESG** criteria, alongside other considerations, are covered in another part of this report. The two previous **Default funds** (BlackRock and Schroder) don't have a specific focus on **ESG**, however, **ESG** is fully integrated into the HL Growth fund investment process and at least 70% of the fund will be invested in assets subject to **ESG** measurement.

This **ESG** integration within the HL Growth fund is a positive development, however, we continue to believe HL could be doing more across the board on **ESG**, stewardship and other considerations, including more explicit targets for what HL is aiming to achieve with these considerations. We'll continue to discuss this with HL.

#### **Fund governance**

"Fund governance" is the process used by HL to oversee the various funds used by you and other members, to ensure they remain appropriate. The process includes considering fund strategy, performance and other factors. It also describes the way HL makes decisions about these funds and any resultant changes they make.

We're satisfied that there is evidence of regular reviews of the **Default** and ABC funds, however we're less satisfied with the time taken to act on the issues they identify. We'll continue to push HL on this point throughout 2024.





### INVESTMENT STRATEGIES: ABC FUNDS

The HL ABC funds are designed with reference to the level of investment risk each can take: “A” stands for adventurous; “B” stands for balanced and “C” for conservative. In broad terms, the idea of the funds is that A is higher risk, C is lower risk and B is in the middle of the two.

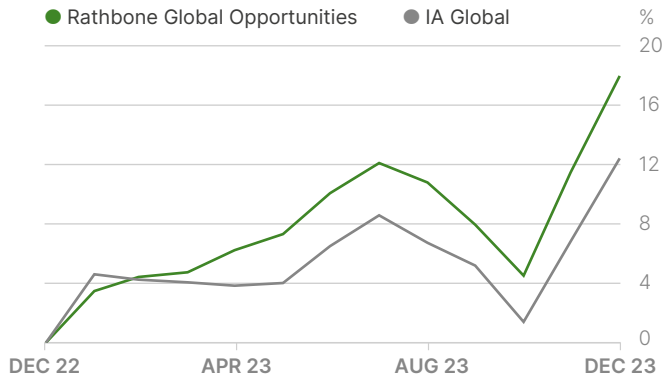
- The **A** fund is the **Rathbone Global Opportunities fund**. This invests almost completely in company shares, including those of smaller companies (which can produce higher returns but with a matching level of higher risk). Presently, the fund mainly invests in developed markets, such as the US, the UK and Europe.
- The **B** fund was the **Baillie Gifford Managed fund**. This invested between 40% and 85% of its value into company shares. In May 2023, HL replaced the Baillie Gifford fund with the BNY Mellon Multi-Asset Balanced fund.
- The **C** fund is the **Troy Trojan fund**. The manager invests in four main areas: shares (focusing on larger companies although the manager has the flexibility to invest in smaller companies), bonds, gold and cash. The portfolio is concentrated because the manager holds large positions in each of his investments, so each one has the potential to contribute significantly (positively or negatively) to the fund's performance. The manager can also invest in “derivatives” (a type of financial contract whose value is dependent on an underlying asset or assets), but both of these factors increase the risk of the fund.

The risk level typically indicates the chance that an investment's actual return will differ from its expected return. This includes the possibility of losing some or all your original investment. Typically, the greater the investment risk taken, the greater the potential gains but also the greater the potential losses. By “gains” and “losses”, we mean the amount you see your pension investment increase or fall in value.



**ABC FUND PERFORMANCE – 1 YEAR**

**FUND A**

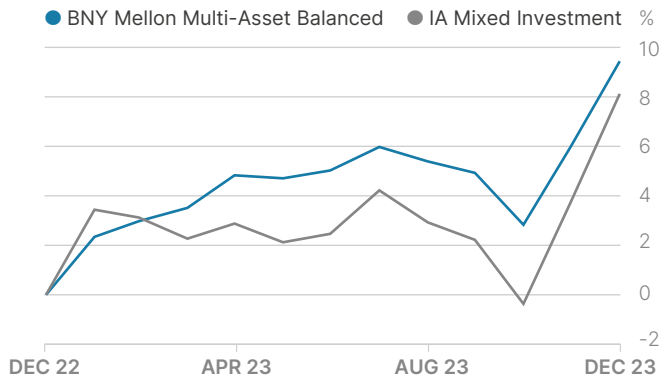


**ABC FUND PERFORMANCE – 5 YEARS**

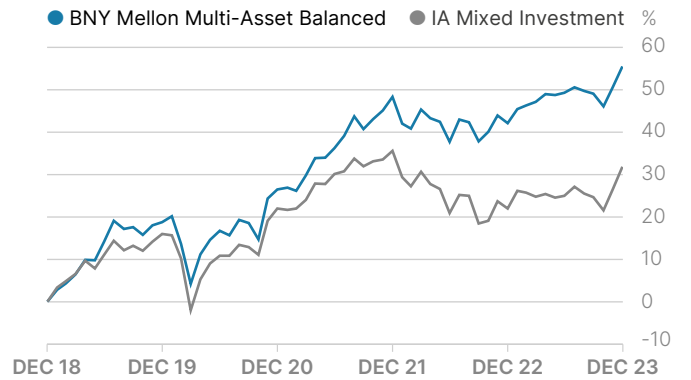
**FUND A**



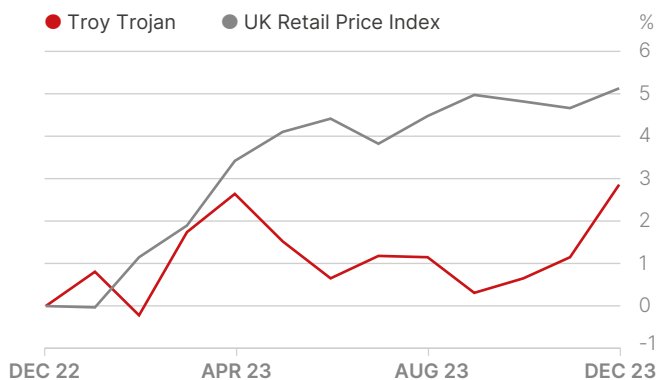
**FUND B**



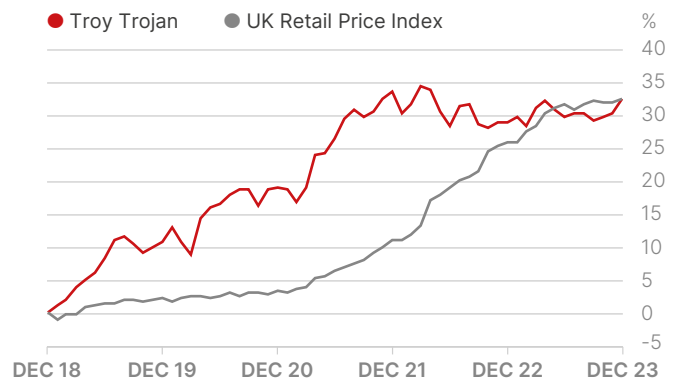
**FUND B**



**FUND C**



**FUND C**



The graphs above cover the past one and five years to 31 December 2023. Over both time periods, the A and B funds have performed well against their respective benchmarks. However, we do have concerns over the shorter-term performance of the C fund, which has underperformed its benchmark over one year and just outperformed over five years.

In the longer term, the A and B funds have performed in line with their objectives, delivering returns after charges above their benchmarks. The charges are in line with our expectations for funds of each type. Do note that charges for these funds are higher than the **Default funds** (see Appendix 4 for information on Charges).

The C fund has just outperformed its benchmark and therefore its objective, which is to achieve growth in capital (net of fees), ahead of inflation, as measured by the UK Retail Prices Index, over the longer term (over 5 to 7 years). Inflation (rising prices) globally has been extremely high because of Covid-19 and the impacts of the Russian invasion of Ukraine. In the UK, it was above 10% for half of 2023, while at the end of the year it remained above 5%. As inflation moderates, we believe the C fund should perform as expected. However, this remains disappointing, given HL replaced the former C fund (the BNY Mellon Real Return fund), with the Troy Trojan fund, only recently, in December 2021.

Performance aside, the replacement B fund has been less volatile than its predecessor, however, the C fund has been more volatile, experiencing greater ups and downs in value, than we'd expect for the level of risk purported to be taken by this fund and which its label of "Conservative" would suggest. We're challenging HL to ensure the funds within the ABC fund range remain appropriate.

We've been challenging HL since 2019 on whether the names of the ABC funds and associated risk descriptions are appropriate. HL reviewed the names in 2022 and concluded they remain appropriate on the basis they align with the HL brand and they're simple to understand. While we agree the names are "simple", this was part of our initial challenge in that members may not fully understand the extent of the risks involved in each of the funds by the nature of their simplistic names. HL has conducted a thorough review, concluding that their communication of risk is suitably clear and understood. We remain concerned about the naming of the ABC funds and descriptions of associated risks.

Following a challenge from us and their own internal review, HL replaced the ABC range with its own Multi-Index range of funds during 2024. We'll report further on this next year.

## INVESTMENT STRATEGIES: LIFESTYLING

As you approach retirement, the scheme may automatically switch your investments in a phased way over a period to align them with how you'll take your benefits in retirement. This is a process called **lifestyling**.

If you have the **lifestyling** option switched on, your pension will gradually be moved into the BlackRock MyMap4 fund during the ten years approaching your selected retirement age.

BlackRock's MyMap 4 Fund aims to grow your money, whilst being mindful of risk. HL expects the fund to be consistently lower risk compared to the HL Growth Fund. The purpose is to try and limit the risk of your investment falling in value compared to when investing in the Default fund, although there are no guarantees. Blackrock invests less of the fund in the stock market compared to the approach taken by the **Default funds**. Typically, around half of the fund is invested in company shares, with the remainder invested in lower risk assets such as bonds issued by companies and governments. Blackrock will change the exposure to higher-risk investments depending on stock market conditions, adding more protection when things are less certain and increasing exposure to shares when conditions allow.

The previous HL **lifestyling** strategy moved your investments into cash five years before your selected retirement age. If you have less than 5 years to retirement currently and have already moved into the previous **lifestyling** strategy of cash, this will continue unless you actively choose to move into BlackRock MyMap4.

You do also have the flexibility to increase or reduce the ten-year timescale and switch into other funds instead of cash or BlackRock MyMap4.

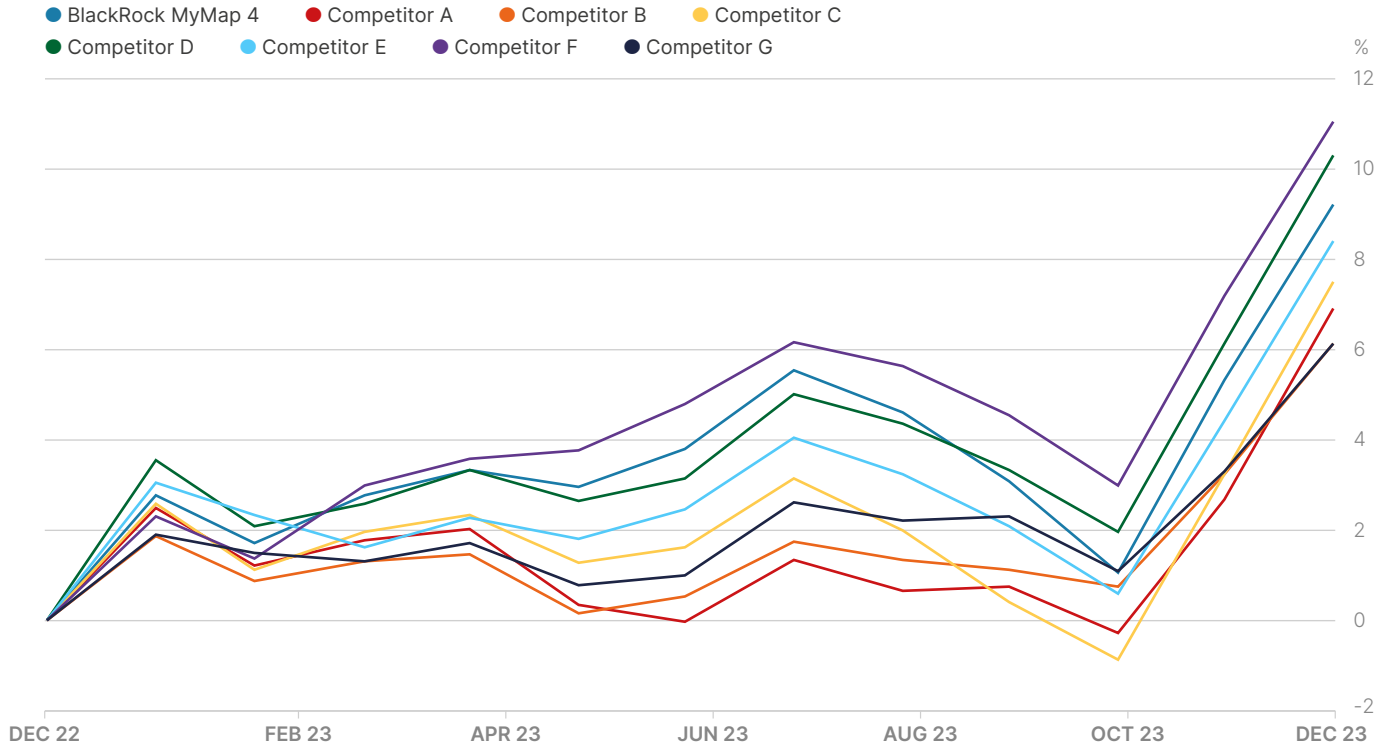
## CALL TO ACTION

If you're getting close to retirement you should check the **lifestyling** approach set up by HL is right for you.

We welcome the improvements and enhancements to the **lifestyling** options.

## LIFESTYLING FUND PERFORMANCE

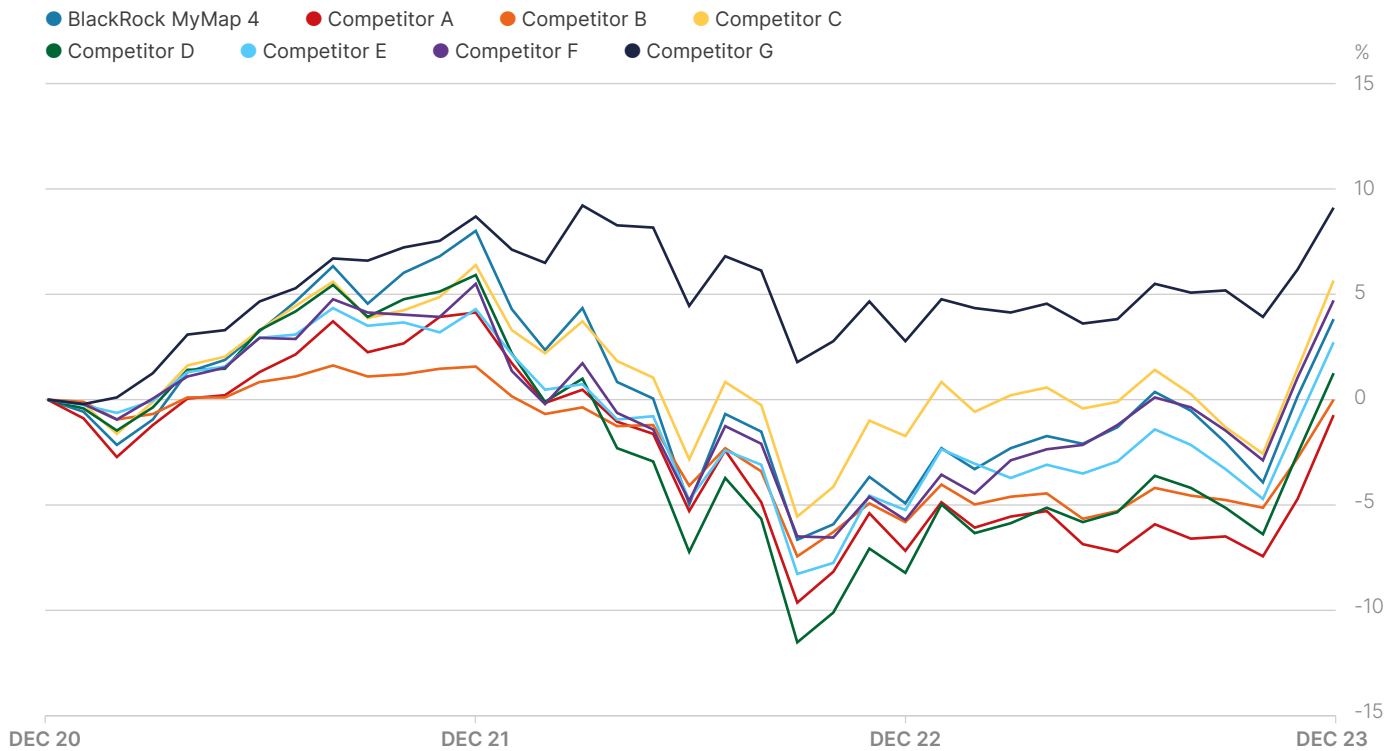
### LIFESTYLING FUND vs COMPETITORS – 1 YEAR



Source: Lipper IM 31/12/2023

Past performance is not a guide to future returns

### LIFESTYLING FUND vs COMPETITORS – 3 YEARS



Source: Lipper IM 31/12/2023

Past performance is not a guide to future returns



We examined the performance of the lifestyling fund over the past year and the longest period available (three years), and against a selection of providers we believe represent a good peer group for comparison (as we did with the Default funds). Unlike the other funds, BlackRock MyMap 4 doesn't have a formal benchmark, however, when compared to its peers, it has performed well over both one-year and three-year periods. It's pleasing to report improvements in its performance profile and we'll continue to monitor and report accordingly.

We meet regularly with the investment team and we're satisfied the characteristics and net performance of the funds are regularly reviewed by HL to ensure alignment with your interests and that they take action to make any necessary changes.

We're happy the review process is effective although actions that follow the reviews are still not carried out quickly enough. We've continued to challenge HL about this.

#### INVESTMENT STRATEGIES: OTHER ACCUMULATION OPTIONS

For members wishing to choose their own funds either as a replacement for the **Default fund** or to work alongside it or the ABC funds, there's a broad range of choice, with specific focus given to the Wealth Shortlist. We're satisfied that there's more than sufficient choice for members seeking to move away from the **Default fund**, and note that the number of **ESG** funds options within the Wealth Shortlist was increased during 2023 for those seeking these options with the benefit of HL's research and analysis (which the broader range of funds do not benefit from).

#### INVESTMENT STRATEGIES: "COMPLEX PRODUCTS"

A "complex product" is an investment that is difficult to understand, value or assess the risks in relation to. Examples of complex products include leveraged instruments, some Exchange Traded Funds (ETFs), complex bonds and warrants. These pose a greater risk of harm and may not be suitable for everyone. Because of their nature, it is important HL make sure members who hold complex products can demonstrate they have appropriate knowledge about and experience of them and can make informed decisions before and during the time they use them.

According to analysis done by HL, 1,117 (0.5%) workplace pension members are using complex products sometimes in addition to other investment options.

During 2023, we concluded HL were not doing enough to protect members who are seeking to hold / already hold complex products and that they needed to make a number of important changes to ensure they did. Since then, HL has been carrying out work to make those improvements and we are being updated on this from time to time.

There is nothing to suggest that holding complex products has harmed those members who are holders of these products.

We will report further on this next year.

#### CALL TO ACTION

If you're invested in a complex product, you should check you have appropriate knowledge about and experience of them and they are right for you.

#### CONCLUSION

In summary, we believe the **Default funds** and **lifestyling** options are designed and executed in the interest of the members. We'll be monitoring the following in 2024:

However, we will be monitoring the following in 2023:

- The **Default funds**, including **lifestyling** – although performance is broadly in line with peers, we'll be monitoring this next year to identify if stability of performance can be maintained.
- The new Multi-Index range of funds which replaced the ABC fund range during 2024.
- **ESG** – the integration of **ESG** within the new **Default fund** is a positive development, however, we believe HL could be doing more across the board on **ESG**, stewardship and other considerations, including more explicit targets for what HL is aiming to achieve with these considerations.
- Governance – while we're comfortable HL has review processes in place, we'll continue to challenge HL on the time taken to complete follow-up actions.
- HL's progress towards making improvements in respect of complex products.

## COMMUNICATIONS, ENGAGEMENT AND SUPPORT

During your life you'll have some very important decisions to make about retirement saving and HL has an equally important role to play in helping you to make those decisions and, more generally, in raising your awareness on pension matters.

The decisions you'll need to make include:

- whether to join or remain in the pension scheme offered by your employer
- how much money to pay into your scheme
- where to invest your savings
- what to do as you get close to retirement and
- what to do when you choose to take your retirement benefits

Our focus has been on whether HL's approach is based on promoting better retirement outcomes for you.

As part of our VFM assessment, we revisited the process HL follows to prepare the communications sent to you. We also considered several aspects of communications, engagement and support.

### Communications process

We reviewed HL's three-stage process for producing member communications which HL calls "discovery", "control" and "measurement".

In the first stage – discovery – HL says its guiding principle is that, for you to achieve a good outcome in retirement, it's necessary for you to engage in the retirement planning process. We agree wholeheartedly with this as a principle.

HL measures your engagement by considering several factors.

One of these factors is whether you have logged in to your on-line account in the last year. HL's latest statistics show 71% of you have done, which is similar to 2022.

Another factor is the level of your contributions. We're particularly pleased to see that, in 2023, more than half of members continued to pay above the required minimum. This is very encouraging – the contribution you pay is the single most important decision you make about retirement saving after deciding to join the scheme.

Overall, HL states that member engagement is 79%, which represents the percentage of members who've engaged with at least one of the factors HL measures. It is challenging to find evidence of how this compares with other workplace pension schemes as most providers do not publish this type of information, nor is there one cohesive set of measures for engagement. However, we believe the factors HL considers are relevant and demonstrate a high level of member engagement.

In the second stage – control – HL seeks to follow a process which ensures that all their communications content is relevant, concise and compliant. Our review of this process showed it to be both robust and thorough.

In the third stage – measurement – HL carries out tracking, for example of response rates, to monitor communications for their effectiveness. HL often tests different versions to learn from the findings as to what works best.

We also reviewed the multiple channels and communication tools used by HL to communicate with you. These may be emails, postal mailings, web pages, the HL mobile app, HL's secure messaging centre, videos, factsheets, articles, through contacting the helpdesk and onsite meetings (where HL specialists may attend sessions at your place of work).

Finally, we looked at the communication between HL and your employer. Your employer has an important role to play in supporting you, and research shows they are often the most trusted source of pension information, so the material provided to them by HL is an important part of the whole process.

It's important that HL regularly seeks your views about its service, and one of the ways HL does this is through carrying out surveys. We were particularly pleased to see a 31% increase in the number of people responding to the HL survey in 2023.

HL receives generally positive feedback from members, with 75% of them saying their overall experience of their HL workplace pension was good or excellent. These are encouraging results, however there's room for improvement, for example nearly half of those who completed the survey said they haven't used the HL app. We believe the HL app is one of the most convenient ways you can engage quickly and easily with your pension.

We feel the HL survey is a great way for you to influence the service HL provides you with and we encourage you to take part in surveys run by HL each year.

HL provides support, guidance and, for a fee, financial advice to help members understand their options – whether at the start of your retirement savings journey or at the end.

### Workplace Financial Education programme

HL has developed a wide range of tools to help educate and engage you. At the heart of this is HL's "financial wellbeing" programme where a team of specialists deliver live group presentations, webinars and one-to-one meetings.

During 2023, 15,793 members attended a Financial Wellbeing webinar and 4,598 attended an individual one-to-one meeting. Both of these represented a significant increase on the previous year.

HL's survey results following these sessions indicate people value them, with an overall rating of 4.56/5 given by members. This is a slight increase from 4.45/5 in 2022.

We believe that initiatives such as this go a long way to explaining why HL is achieving the levels of engagement and so significantly contributes to the value you get from your scheme.

## Key communications

We've focused here on those communications which relate directly to the important decisions you need to take, but HL does issue a broad range of communications on other aspects of your pension. We've assessed whether the communications to you are fit for purpose and properly consider your likely characteristics, needs and objectives. We've focused on the clarity of the communication including visual appearance.

From the end of 2023, HL has been participating in a multi-provider study into a wide range of communications with the help of third-party research companies. The study aims to compare mandatory, core engagement, value add and key end-to-end journeys across several providers. HL plans to use the results of the study to provide a focus for improvements they can make to their communications to help members engage with their retirement planning. We look forward to seeing the results of the study and HL's intended actions in 2024.

## Default fund

The way that HL describes the **Default funds**, and in particular their aims, objectives and the risks, is extremely important in helping you to choose where your money is invested.

As highlighted in our 2021 and 2022 reports, we had reservations about how HL communicated the **aims and objectives** of the **Default funds**, as we believed these could be improved to provide more clarity to members about what the funds they're invested in are aiming to achieve. These remain as follows:

- **BlackRock Consensus 85** – The aim of the fund is to provide a return on your investment (generated through an increase in the value of the assets held by the fund and/or income received from those assets) by investing in units or shares of collective investment schemes (i.e. other investment funds, which may be Associated Funds).
- **Schroder Managed Balanced** – To provide capital growth and income by investing in a diversified range of assets and markets worldwide.
- **HL Growth Fund** – The objective of the fund is to deliver long-term growth over rolling 10-year periods.
- **Blackrock MyMap 4** (the **lifestyling** default) – The aim of the fund is to provide, over five year periods, a return on your investment (generated through an increase in the value of the assets held by the fund and/or income received from those assets) through an actively managed portfolio, whilst also maintaining a risk profile (i.e. an evaluation of the risks, such as risk of losses, associated with the portfolio) for the fund's portfolio of 6%-9%.

We continue to challenge HL on the statements of aims and objectives as we feel there's still room for improvement. As the BlackRock and Schroder funds aren't owned or managed by HL, it's reasonable to accept that these cannot be changed. The HL Growth fund, however, is within the control of HL. One point of feedback we have given them on its statement of **aims and objectives** is that its **ESG** focus isn't sufficiently drawn.

HL told us that the way the **aims and objectives** of the fund are described has been agreed with the **FCA** and they're unable to deviate from these agreed descriptions. New rules around how funds can be described and marketed come into force in 2024 and these will impact what HL can and cannot say about the HL Growth fund. We'll continue to engage with HL on this important topic.

As well as assessing the **aims and objectives** of the funds, we also looked at how the investments, including **lifestyling**, are communicated to you, both in the welcome pack you receive when you join the scheme and when you are approaching retirement. On the whole, we're satisfied with HL's approach, notwithstanding the comments we've made elsewhere in this report after consideration of the **Redington study**.

## Periodic communication

HL sends you communications periodically. You'll, for example, receive an annual illustration setting out how your savings are performing, what their estimated value is at your retirement and monthly newsletters and investment reports.

HL also sends communications to you to highlight the importance of specific aspects of your pension – such as getting online, logging in to keep track of your savings and transferring previous pension policies.

Another important communication HL may send is to members who are deemed to hold an inappropriate amount of cash in their pension. They're required to do this by the **FCA**. An "inappropriate" amount is quantified as 25% or more of the value of a member's savings for six months or more. Where you invest in cash for long periods of time, your savings are at risk of being eroded by inflation.

In August 2023, HL contacted 4,600 members in this regard. This was primarily done by email (or letter where an email address wasn't available) but also included an invitation to book a call with a Financial Wellbeing Specialist where their savings were 100% in cash and therefore at the greatest risk from inflation.

Overall, 70 calls with a Financial Wellbeing Specialist were booked. 134 members reduced their cash holding to less than 20%. We believe this is a positive result.

As you approach retirement, there are some important decisions you need to make. We therefore specifically assessed the support provided to you at this time by HL: a Fifties Retirement Planning guide together with a series of letters; a turning 50 letter; reminders; a six-months to retirement letter; and a two-months to retirement letter.

Finally, we looked at the communications sent to you around the time you make decisions on how you'll access your savings.

Overall, we considered the periodic communications sent to you by HL to be comprehensive and fit for purpose, however, we think HL could do more to identify a wider range of situations where you might need to engage with your savings (for example, a change in job, or family circumstances), and to think through what communications would be helpful at those times. We've challenged HL to consider this and will report further next year.

## Website

HL's website has become an increasingly important medium for communicating with and supporting you. In the 2023 survey, 68% of people said their experience using the HL website was 'excellent' or 'good'. As well as the main website, HL also delivers scheme microsites which contain bespoke content for your specific employer's pension arrangement. In 2023, HL completed a project to ensure all employer schemes have access to their new-style microsites hosted on the main HL website with the aim being to improve the member experience.

Our VFM assessment focused on the functionality provided on the website, including the range of online tools and calculators available to assist you with your decision making, and we concluded the quality of the website and the online functionality was good.

HL has also told us they provide a mobile phone app. We'll look at this and report further next year.

## Vulnerable customers

A vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to harm, particularly if HL does not act with appropriate levels of care. The characteristics of vulnerability can include poor health (such as mental impairment), a significant life event (such as a bereavement or taking on new caring responsibilities), a low ability to cope with financial or emotional shocks and low or poor literacy or numeracy skills.

It's important that vulnerable customers are protected and treated fairly.

The evidence we saw confirmed that HL do protect and are fair to those members they've identified as vulnerable, however, we feel there's more HL can do to identify potentially vulnerable members. According to the **FCA's** Financial Lives Survey 2022, 47% of UK adults showed one or more characteristics of vulnerability. The **Redington study** showed that three of the eight providers that supplied data on this classified 25% of their members as vulnerable. At HL, the number of customers categorised as vulnerable was 0.1%. We've challenged HL to explain this discrepancy and asked them if they plan any changes in their processes as a result. Their initial response to us recognised more needed to be done and that improvements had already been made during 2024 in proactive identification of vulnerable customers along with staff training. They also told us a plan was in place for further improvements. We'll report further on this next year.

## Comparative data study

One of the areas assessed in the comparison with other product providers was that of engagement. The principal focus was a review of core communication material.

The Redington study found that HL's communications were supported by holding up to date contact details and online registrations for more of their clients than anyone else in the study. HL also had the best results for encouraging clients to take action on their account and the evidence pointed to HL's communications having a positive impact on engagement.



The study did find that HL could do more to improve how easy their communications are to read, and we expect HL to address this through the work they're doing which we mentioned earlier. We'll continue to monitor this, look forward to seeing the results and what actions HL plans to take.

## CONCLUSION

Our overall assessment of the communications, engagement and support provided by HL is that they're fit for purpose and properly consider your likely characteristics, needs and objectives. We continue to be impressed by HL's investment in the important area of engagement, and the evidence points to the delivery of some very real benefits. We'll be monitoring the following in 2024:

- The clarity of the descriptions of the **aims and objectives** of the **Default funds**.
- How HL can do more to identify a wider range of situations where you might need to engage with your pension (for example, a change in job or family circumstances), and to think through what communications would be helpful in those situations.
- How HL plans to improve their identification of vulnerable customers and other procedures around members identified as such.
- How HL plans to improve their communications following the results of the study they've commissioned for this purpose.

## ADMINISTRATION AND SERVICE

Your pension savings are among of your most important and substantial assets. When you need to interact with your scheme, it's critical that the process is smooth, efficient and secure. Whether you choose to use the website, mobile app or to speak to someone, your interactions should be seamless whether you're adding money, changing your address or taking your benefits.

We all know poor administration and service when we experience it. Our **terms of reference** require us to assess whether HL processes core financial transactions promptly and accurately. To help us make this assessment we consider a wide range of factors, including:

- the accuracy of service,
- timeliness of activities (which we assess by comparing performance against **SLAs**),
- whether administration is automated or requires intervention by a person – which increases the risk of human error and
- whether HL independently assesses the controls they have in place to ensure proper administration.

We also evaluate the quality of the service they provide to you. Factors considered included:

- how well HL protects you against fraud and scams,
- how happy people say they are with HL's service,
- whether your data is kept secure,
- the support given to members being auto enrolled into a pension scheme and
- the level of complaints HL receives about their service.

HL demonstrated that they process most transactions whether transferring, investing or paying out money, promptly and accurately. Most of HL's commonly used "bulk" processes such as fund switches and retirement payments are automated through Straight Through Processing (STP).

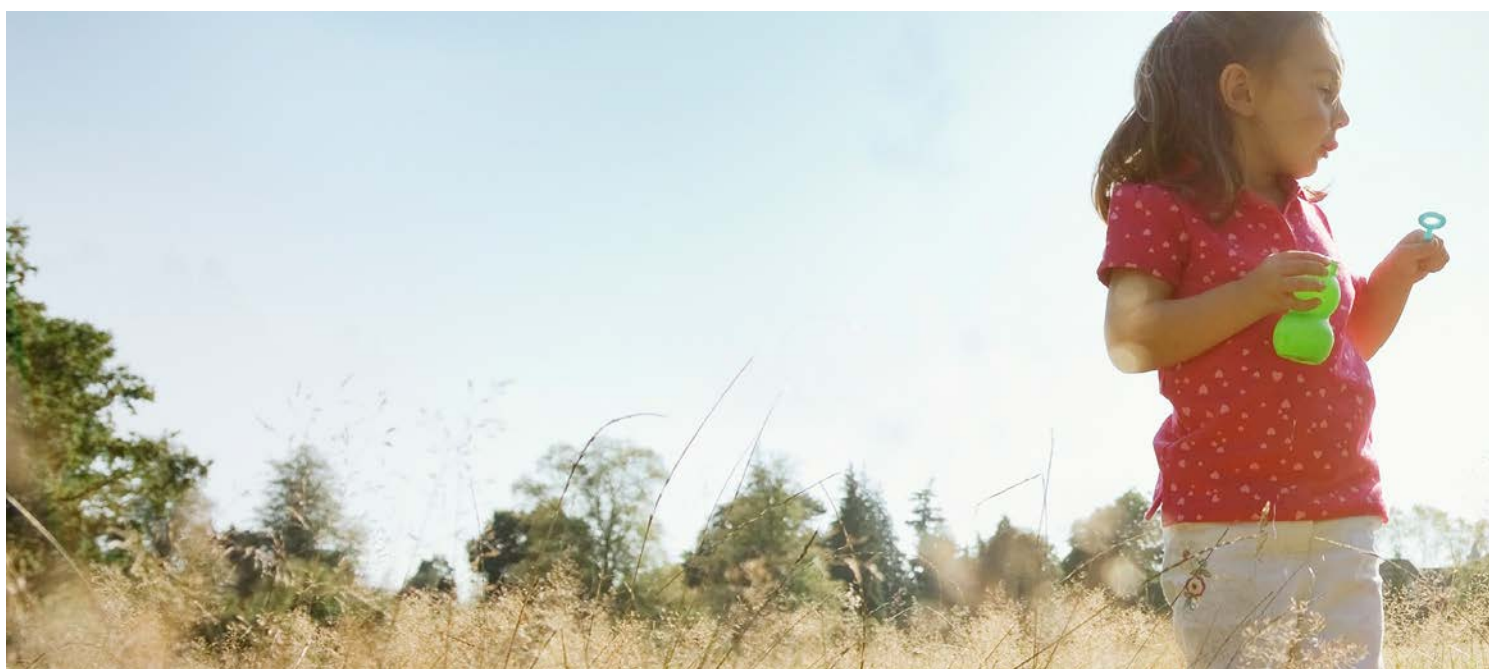
However, compared to peers, HL has generally lower percentage levels of automation. Transfers in and contribution processing are particularly cumbersome and manual. A number of these HL administrative processes use checklists and secondary checks to reduce errors rather than being fully automated.

HL has announced greater investment in this area as part of their Digital Transformation programme and is in the process of creating a new Workplace Solutions Hub. The Hub will enable employers to self-serve and increase STP particularly for contribution management, auto enrolment and member data. We're keen that HL progress at pace with automation of core financial transactions and continue to challenge HL on this.

Your actual end-to-end transaction experience can vary, as some processes rely on other external parties outside of HL's control such as other insurance companies or providers, which can extend HL's processing times.

HL sets and monitors **SLAs** for its core transaction processes which overall they meet. Industry wide, there is a lack of consistency when measuring **SLAs** for core financial transactions. HL set their **SLAs** on an end-to-end basis. Nevertheless, we continue to challenge HL to ensure the **SLAs** are fit for purposes relative to your (the members) reasonable expectations and other providers. On a positive note, HL has made material progress on reducing the administration time for death claims and has dealt well with the surge in demand for **annuities** by increasing resources. There has also been an increase in call waiting times which we'll continue to monitor.

During 2024 HL told us of a processing error affecting a small number of members that began in November 2023 and was fixed in January 2024.





Whenever you pay a personal top up contribution, HL claims tax relief on your behalf. The tax relief is paid to HL seven to eleven weeks later and is usually invested in the same way as the original contribution. Because of the processing error, the tax relief wasn't invested correctly. This affected 59 members who will have missed out on investment growth on this small part of their contribution until the problem was fixed.

HL is investigating how this happened but has already made good any losses and contacted affected members in accordance with their normal remediation policy. We'll report further on this next year.

HL's approach to protecting you from fraud and scams is noteworthy. HL has a strong set of internal measures to protect you including a dedicated fraud strategy. HL participates in several industry initiatives such as the Investment Association's Brand Cloning Working Group and Financial Crime Committee. They perform checks on pension transfers, with a pre-approved list of providers which have been assessed as presenting a very low-risk of fraud in line with DWP pension transfer regulation. Transfers to pension providers not on this list are subject to a much higher level of scrutiny.

HL provides an Online Security Centre for members (and non-members) which provides information on existing threats, red flags and actions that you should take to protect yourself from fraud. HL is improving the Centre further by connecting its internal expertise from its Fraud, Infosec (Information Security) and Cyber Security teams to help provide clear and effective information for you.

Member feedback is generally positive, with 76% of members said their overall experience of their HL workplace pension was good or excellent. But there is room for improvement. Between December 2022 and April 2023, an IT problem

meant that some members didn't receive pre-retirement communications. In last year's report, we promised to update you on HL's progress, HL has successfully remediated the issue and, after a thorough "lessons learned" exercise added additional controls to their processes. We're reassured by HL's robust approach and actions.

HL has experienced a very low incidence of data protection breaches with minimal impact on members. Alongside this, HL is increasing the resources dedicated to monitoring their data protection controls and outsourcing more client contact and mailing activities to specialist providers to improve efficiency and reduce risk. Additionally, HL has created a Data Ethics framework which provides a guide to AI and machine learning use in its operations.

## CONCLUSION

Our assessment is that HL provides good administration and service, but there are areas where improvement is needed and progress has been made on these albeit slowly.

We'll be monitoring the following in 2024:

- HL's progress on automaton of administration processes through the implementation of STP.
- How HL will ensure their SLAs are fit for purposes relative to your reasonable expectations and other providers.
- HL's review of the tax relief error that occurred in late 2023, in particular what they've done to ensure the error isn't repeated in future.



## CHOICES AT RETIREMENT

When you come to access your savings, you'll have a wide range of needs. HL offers all the main retirement options, with and without financial advice.

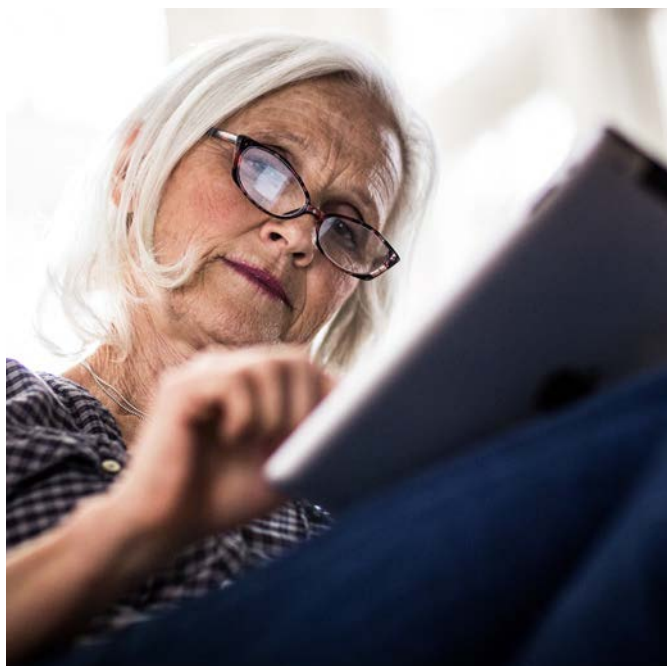
If you're looking for some or all of your income to be guaranteed, then you may want to consider an **annuity**. HL offers an **annuity** service that shops around all the providers in the market on your behalf. An important part of the service involves encouraging you to provide health and lifestyle information to see if you qualify for a higher rate of income. The active support that HL provides in this regard meant that in 2023 more than 89% of applications received a higher rate of income, with the market average for an enhanced rate at 35% (**FCA's** retirement income market data). This is a very welcome result.

If you wish to consider a higher risk but more flexible retirement option, then HL also provides **drawdown**. We're satisfied that HL communications in general appropriately reflect the risks associated with **drawdown**.

To help protect people moving into **drawdown** without the benefit of financial advice, the regulator introduced **Investment Pathways** in 2021. This important development is covered in a separate part of this report.

You can also access your pension as a single or series of lump sums (known as an "Uncrystallised Funds Pension Lump Sum" or "UFPLS").

You can get free guidance on your options from HL. They also offer financial advice for a fee. Additionally, Pension Wise (the government's free pension guidance service) is available to those aged 50 or over considering their retirement options. An appointment can be booked with Pension Wise or HL can book an appointment for you.



## CONCLUSION

We view HL's range of retirement offerings as a positive feature for members, particularly as some other workplace pension providers do not offer as full a range of options.

## OTHER FEATURES

There are some features of what HL provides that don't fit neatly into the other categories listed above but are essential to the smooth running of your savings.

### Governance

As well as being sustainable, secure businesses, pension providers like HL can safeguard against things going wrong in the first place by ensuring they have robust governance and risk frameworks in place as well as the right people managing and overseeing their operations.

HL has an internal audit function to monitor the adequacy and effectiveness of controls within, and the governance model and risk management framework of, the business. They report directly to the Board of Hargreaves Lansdown plc and are, therefore, operationally independent from HL management. The team focus on the areas which HL believes represent the greatest risk to the business and you, their members. The work of the internal audit team has been reviewed by an external independent provider and found to be effective. We've been impressed by the strength and strengthening of the internal audit function.

There is direct external independent checking of controls, including cyber security and keeping your assets safe.

We continue to discuss with HL the merits or otherwise of achieving wider external accreditation. In this regard, they are currently consulting with the Pensions Regulator and other industry experts to ensure their systems and processes reflect best practice and regulatory expectations.

Our assessment is HL does have robust governance and risk frameworks in place as well as the right people managing and overseeing their operations.

### Other Benefits

HL is a large business offering a wide range of services. By being a workplace pension member, you can also benefit from a variety of other features and benefits.

Our assessment is HL provides other benefits that may be of use to you.

### Sustainability and ongoing investment into developing the proposition

The sustainability of HL as a business and their commitment to the workplace pensions market, are crucial as you are trusting them to look after your savings for years to come. HL's financial stability also impacts on its ability to invest in improvements to the service you get and to ensure your savings keep pace with whatever changes occur in the future.

Our assessment is HL is a sustainable and stable business and that they are committed to the workplace pensions market.

In our 2022 report we set out that, following our challenge, HL had developed a strategy for enhancing their proposition involving a £175m 5-year investment plan. Our assessment is that, providing they see the strategy through, we should see the VFM you get improve further. We see evidence that this plan is proceeding across the wider HL business and, following our challenge, in respect of some elements of the workplace proposition. This includes a multi-million pound programme to re-engineer the core workplace employer administration system between 2023 and 2025. We've challenged HL to set out a broader development plan which will benefit the parts of the propositions that will improve the VFM you get. We'll report further on this next year.

### Reputation

If a provider has a good reputation, you're more likely to trust it. If you trust a provider, you're more likely to feel comfortable saving and investing with them. This means HL's reputation is important when we considering VFM.

This being the case, we considered whether there are any negative or positive aspects of HL's reputation that members should be aware of.

HL has a robust approach to managing its reputation. It regularly reviews and considers a number of matters that might impact it, including:

- investor confidence in the overall market
- how satisfied members are with HL's service
- how likely members are to recommend HL based on their interactions with our Helpdesk (known as the Client Service Net Promoter Score)
- how satisfied employees are working at HL
- third-party recognition and awards
- coverage in the traditional press
- social media, and
- review websites such as Trustpilot and Google.

Overall, our assessment is that HL has a good reputation and has an effective internal process to manage it.

### Cyber Security and Robustness of IT Systems

HL needs to provide secure and resilient IT infrastructure to keep your savings and the administration processes they use safe from cyber-attacks.

We were provided with a variety of evidence to show the robustness of HL's approach to cyber security, such as adhering to external standards and external reviews of HL's approach. This external assessment has been reviewed at the most senior level of HL's management, showing the seriousness with which they take cyber security.

We're confident HL manages cyber security well and have been impressed by how this increased further during 2023, but this is a complex area and HL is unable, for reasonable commercial reasons, to be as transparent with us as they are on some areas, reducing the scrutiny we are able to provide. We're considering whether to ask an independent external expert to help us to review HL's approach to cyber security to gain additional assurance next year.

In respect of 2023, we were provided with more evidence on HL's approach to ensuring the robustness of their IT systems. In our opinion, they rely heavily on an aged IT system, which, while sufficiently robust, creates some risks to their ability to manage your savings in a timely and efficient way. As set out above, however, they have committed to a £175m 5-year investment plan to improve and modernise their IT system. Our assessment is that, providing they see this commitment through, we should see those risks reduce and the VFM you get improve further. While this plan is proceeding across the wider HL business and in respect of some elements of the workplace proposition, we have, however, challenged HL to set out a firm timeline for investment in the parts of the propositions that will reduce risk and improve the VFM you get. We'll report further on this next year.

### Security of your funds

HL is a stock exchange listed company managing or administering around £150 billion in assets. They ensure the security of your assets through robust financial practices and regulatory compliance.

HL is regulated by the FCA and has to comply with strict rules on how it looks after your money and investments. HL holds more reserve capital than they are required to and maintain a conservative and prudent approach to accounting. HL submits regular financial reports to the FCA.

Furthermore, any client cash balance that is on deposit with HL is held in trust separate from HL funds and deposited with UK banks covered by the FSCS. The FSCS protects up to £85,000 per investor in case of bank defaults. HL does not act as a bank, does not lend client stocks and most of the assets it holds are easily tradable. Additionally, HL's senior management and CASS (client assets) Committee oversee the safeguarding of client investments. Finally, HL's procedures for managing workplace pensions are independently assessed by HM Revenue & Customs.

If HL were to cease trading, what you'd get back would depend on the financial position of HL. Further details can be found [here](#) and on the [FSCS website](#).

### CONCLUSION

We're satisfied with these additional features add value for you. We'll be monitoring the following in 2024:

- Whether HL intends to set out a broader development plan, with a firm timeline, which will benefit the parts of the propositions that will improve the VFM you get.
- HL's progress on considering the merits or otherwise of achieving wider external accreditation.
- In respect of cyber security, we're considering whether to ask an independent external expert to help us to review HL's approach to cyber security to gain additional assurance next year.

## COSTS AND CHARGES

Every investment, including an investment within a pension, has a cost.

There are many kinds of cost and charge, but they'll have one thing in common: the money is coming out of your savings.

What you're paying for is the management of your savings and the underlying investments. These charges can include platform fees, investment management fees and other expenses.

### Why are costs and charges important?

Costs and charges can add up, compounding along with your investment returns. This means you aren't just losing the amount of money you have paid in charges, but also any growth that money might have had if it had stayed in your savings into the future.

The UK Government has set a cap on charges for all **Default funds** within workplace pension schemes of 0.75% of the value of an individual's pension savings each year. HL's **Default funds** are subject to this charge cap. It's important to note that transaction costs aren't included within the calculation of the charge cap.

We've analysed the costs and charges applicable to the **Default fund** and ABC funds.

The costs and charges for all the funds and investments offered through HL, including for the **Default fund** and ABC funds, are available on their website [here](#).

You can find information on the costs and charges in Appendix 4.

Although it's important that you understand what you are paying in costs and charges, it's equally important to know the returns achieved by each of the funds after costs and charges have been taken out. Ultimately, this "net return" is one of the key determinants of **VFM**.

## CONCLUSION

Our assessment is that the costs and charges, before any discounts were applied, were reasonable. We have however rated this as amber as the addition of the platform charge can make the overall charges relatively high compared to most other workplace schemes in the market.

## COMPARISONS WITH OTHER PENSION SCHEMES

We've compared what you have with other similar workplace pension arrangements.

Before doing this comparison, we considered whether it would also be appropriate to compare your pension with one you could buy for yourself. We decided against this as the comparison wouldn't be entirely valid (the individual and workplace markets are quite different, not least in relation to the charges that apply), would require a disproportionate amount of work and, probably, produce little useful data.

Across the market there are around 30 providers of schemes like this one, and about a dozen of them are large enough to have an IGC.

A number of these providers, including HL, participated in a research study, carried out by a firm called Redington (the **Redington study**), which analysed data across their schemes. We thought this was a robust, useful, reasonable and proportionate way to do a comparison. In particular, taking part in this study meant all of the providers had to disclose quantitative and qualitative data that wouldn't have otherwise been available to us.

Our aim was to assess whether what you and your employer were getting from HL was **VFM** compared to what could've been obtained elsewhere.

To ensure we could do this, where relevant we looked at data from the survey for other pension schemes similar in size to yours, by reference to the number of members and the total asset size (referred to as "comparable cohorts"). We did this because scheme size is the key determinant of the price you pay.

The study gathered data on how they, the pension providers, engage with their members, investment performance, how you can access your savings when you want to, their administration service and their charges, i.e. various components that contribute to **VFM**. To be clear the study did not capture or use any member data.

The output of the study was a report which allowed us to compare your scheme and how it performed against similar sized schemes provided by those who took part in the study and we used that data to inform our conclusions.



# Investment Pathways: what we considered when doing our value for money assessment

In this section I'll tell you how we went about assessing value for money, the factors we considered and why we arrived at our conclusion.

Investment Pathways are four investment strategies (see below) that can be used for those starting to drawdown their benefits.

We've created a framework to assess the **value for money** ("VFM") you get.

The framework helps us to make sure we consider the factors that contribute to **VFM** in a robust and consistent way. You can find more information on this framework, along with a full list of the factors we considered, in Appendix 3.

Ultimately, the real value from your pension will be measured by you, based on what you receive when you need or want to start taking money out of it. One of the most significant factors that'll influence that, however, is investment performance and particularly so as you get close to taking money out – and that's why there is a call to action here:

## CALL TO ACTION

Review the **Investment Pathway** you're in to make sure it's right for your circumstances. You can speak to a financial adviser to help you do this.

### WHAT ARE INVESTMENT PATHWAYS?

HL's **Investment Pathways** ("pathways") are a set of four investment funds, intended to help you make investment decisions close to when you draw, or when you are drawing, your pension, without necessarily having to speak to a financial adviser.

The four pathway funds have different objectives depending on what you intend to do:

**Pathway 1:** for people who have no plans to touch their money within the next five years.

**Pathway 2:** for people who plan to take a **guaranteed income** within the next five years.

**Pathway 3:** for people who plan to start taking a long-term income within the next five years.

**Pathway 4:** for people who plan to take out all of their money within the next five years.

### INVESTMENT STRATEGIES AND PERFORMANCE

In order to select each investment fund HL had to make assumptions about the characteristics of the people likely to choose each of the four pathways. These assumptions included, for example, the attitude to risk of the people that would choose them. HL has recently extended their considerations to specifically take into account the needs of vulnerable customers. On this basis, HL set out what the **aims and objectives** of each would need to be and then selected the four investment funds they considered most appropriate.

HL's pathways were launched in 2021 and we were pleased to see that a formalised approach has been adopted to identify – and contact – those clients who exhibit behaviours which aren't in line with the pathway that they've chosen. HL has discovered, as a result, that some clients have multiple objectives and HL is considering how it might create triggered communications to clients reflective of the actions they're taking.

We reviewed the performance of the pathways taking into account the following:

- gross (before charges) and net (after charges) performance, including risk-adjusted performance,
- consistency with underlying investment objectives
- performance relative to benchmarks (where available) and, in relation to pathway 4
- performance relative to a peer group.

All the funds for pathways have generally performed in line with expectations taking into account the market environment, and performance generally appears competitive compared with similar funds. HL's Pathway 1 fund delivered below average 3-year performance versus other provider's fund choices although this relative performance has improved during 2024. HL's Pathway 4 performed well against its peers.



## CONCLUSION

We believe the pathways have been designed and managed in your interests. We also believe the investment funds selected by HL had clear statements of **aims and objectives** and that they performed as expected.

We're satisfied that HL regularly reviews the characteristics and net performance of the investment strategies of each pathway. Within HL's review and governance processes is the ability for them to make changes to any of the strategies if required, however the outcome of the reviews they've carried out to date hasn't necessitated any changes.

We'll be monitoring the following in 2024:

- HL's progress on considering how it might create triggered communications to clients reflective of the actions they're taking.

## COMMUNICATIONS, ENGAGEMENT AND SUPPORT

As noted above, pathways are intended to help you make investment decisions close to when you draw, or when you are drawing, your pension, without necessarily the need to speak to a financial adviser. We therefore recognise quite how important HL's communications are in supporting you in your decision-making.

We reviewed the communications to assess whether they were fit for purpose and properly considered the characteristics, needs and objectives of those investing in pathways. Broadly, we found they met these requirements.

We reached this conclusion based on HL providing the following:

- relevant communications to clients targeted at specific points in their retirement journey,
- useful tools and support on the HL website, including:
  - a **drawdown** calculator which helps people determine how much they can afford to take as income from their pension,
  - signposting throughout the retirement pages, including a comparison of the main options for accessing a pension, outlining the pros and cons of each,
  - detailed information on the pathways covering how they work, the risks associated with each, and links to the technical documents and charges.
- the process of consumer testing that HL has carried out.

We're content that HL has appropriately incorporated the needs of vulnerable customers.

We did, however, previously identify a few areas where we thought improvement was required. HL said they would pick these up as part of their work on Consumer Duty (see elsewhere in this report). We have monitored these developments closely and confirm that most have been addressed to our satisfaction.

One area we previously identified was how investment risk was communicated to clients. We thought this could be done in ways that would be more meaningful. HL considered our challenge but decided they stood by their original work and have made no changes. We'll continue to press them on this as we continue to believe that improvements can be made.

Various changes have been made to make it easier for clients to find information on the pathways website. We'll review how effective these have been in due course.

Enhancements have been made to improve functionality for vulnerable customers with an online form allowing customers to self-identify their support needs. This has resulted in a marked increase in the reporting of vulnerable customers. We believe that further enhancements are needed in this area and HL indicated that a concerted effort would be made in the coming year.

The findings from a survey carried out by HL showed, generally, good satisfaction scores from clients although there was a small decrease in the percentage of respondents who found the information easy to understand. The number of respondents to the survey overall was, however, low.

## CONCLUSION

We believe the communications were fit for purpose and properly considered the characteristics, needs and objectives of those investing in pathways.

We'll be monitoring the following in 2024:

- how investment risks are communicated to clients
- the enhancements HL introduces in relation to vulnerable customers

## ADMINISTRATION AND SERVICE

Our assessment is that HL provides good administration and service, but there are clear areas of strength and areas where improvement is required. This is covered in more detail in the section on "Administration and service" in another part of this report.

HL sets and monitors targets (**SLAs**) for its core transaction processes which overall they met although we did note deterioration in some areas. HL has indicated that this was driven by increased volumes combined with some resourcing constraints that were addressed within the calendar year.

We had, previously, challenged HL to assess whether the **SLAs** they work to are fit for purpose in the context of your reasonable expectations and other providers and we've pressed HL for a timeline setting out their long-term plan for improving their **SLAs**. We're disappointed that little progress has been made in this area with the matter still under review.

We had, previously, raised concerns that many of HL's administration processes are manual (using checklists and secondary checks to mitigate risk) rather than automated as this exposes them to the risk of other manual processing errors. We're encouraging HL to progress with further automation, at pace. We are, however, a little disappointed that progress has been relatively slow, and we'll continue to monitor developments closely.

During 2024, HL told us of a processing error affecting a small number of clients that began in November 2023 and was fixed in January 2024.



Whenever you pay a personal top up contribution, HL claim tax relief on your behalf. The tax relief is paid to HL seven to eleven weeks later and is usually invested in the same way as the original contribution. Because of the processing error the tax relief wasn't invested correctly. This affected seven pathway investors who will have missed out on investment growth on this small part of their contribution until the problem was fixed.

HL is investigating how this happened but has already made good any losses and contacted affected clients in accordance with their normal remediation policy. We'll report further on this next year.

HL carries out surveys to find out what you think of the service you receive. At the end of 2023, 85% of you rated it as good, very good or excellent, although this was based on a very small response rate equivalent to 0.2% of clients. This was down from 97%. The reduction is of concern to us, and we'll continue to monitor this closely.

The number of complaints is very low. However, with the number of people in pathways also remaining very low, care needs to be taken in drawing firm conclusions.

## CONCLUSION

Our assessment is that HL provides good administration and service, but there are areas where improvement is needed and progress has been made on these albeit slowly.

We'll be monitoring the following in 2024:

- HL's progress on automaton of administration processes through the implementation of STP.
- How HL will ensure their SLAs are fit for purposes relative to your reasonable expectations and other providers.
- HL's review of the tax relief error that occurred in late 2023, in particular what they've done to ensure the error is not repeated in future.

## OTHER FEATURES

There are some features of what HL provide that don't fit neatly into the other categories listed above but are essential to the smooth running of your savings.

### Governance

As well as being sustainable, secure businesses, pension providers like HL can safeguard against things going wrong in the first place by ensuring they have robust governance and risk frameworks in place as well as the right people managing and overseeing their operations.

HL has an internal audit function to monitor the adequacy and effectiveness of controls within, and the governance model and risk management framework of, the business. They report directly to the Board of Hargreaves Lansdown plc and are, therefore, operationally independent from HL management. The team focuses on the areas which HL believes represent the greatest risk to the business and you, its members. The work of the internal audit team has been reviewed by an external independent provider and found to be effective. We've been impressed by the strength and strengthening of the internal audit function.

There is direct external independent checking of controls, including cyber security and keeping your assets safe.

We continue to discuss with HL the merits or otherwise of achieving wider external accreditation. In this regard, they're currently consulting with the Pensions Regulator and other industry experts to ensure their systems and processes reflect best practice and regulatory expectations.

Our assessment is HL does have robust governance and risk frameworks in place as well as the right people managing and overseeing their operations.



### Other Benefits

HL is a large business offering a wide range of services. By being an investment pathways client, you can also benefit from a variety of other features and benefits.

Our assessment is HL provides other benefits that may be of use to you.

### Sustainability and ongoing investment into developing the proposition.

The sustainability of HL as a business and their commitment to the retirement incomes market are crucial as you are trusting them to look after your savings for years to come. HL's financial stability also impacts on its ability to invest in improvements to the service you get.

Our assessment is HL is a sustainable and stable business and that they're committed to the workplace pensions market.

In our 2022 report we set out that, following our challenge, HL had developed a strategy for enhancing their proposition involving a £175m 5-year investment plan. Our assessment is that, providing they see the strategy through, we should see the **VFM** you get improve further. We see evidence that this plan is proceeding across the wider HL business and, following our challenge, in respect of some elements of the investment pathways proposition. This includes a multi-million pound programme to re-engineer the core administration system between 2023 and 2025. We've challenged HL to set out a broader development plan which will benefit the parts of the propositions that will improve the **VFM** you get. We'll report further on this next year.

### Reputation

If a provider has a good reputation, you are more likely to trust it. If you trust a provider, you're more likely to feel comfortable saving and investing with them. This means HL's reputation is important when we consider **VFM**.

This being the case, we considered whether there are any negative or positive aspects of HL's reputation of which clients should be aware.

HL has a robust approach to managing its reputation. It regularly reviews and considers a number of matters that might impact it, including:

- investor confidence in the overall market
- how satisfied clients are with HL's service
- how likely clients are to recommend HL based on their interactions with our Helpdesk (known as the Client Service Net Promoter Score)
- how satisfied employees are working at HL
- third-party recognition and awards
- coverage in the traditional press
- social media, and
- review websites such as Trustpilot and Google.

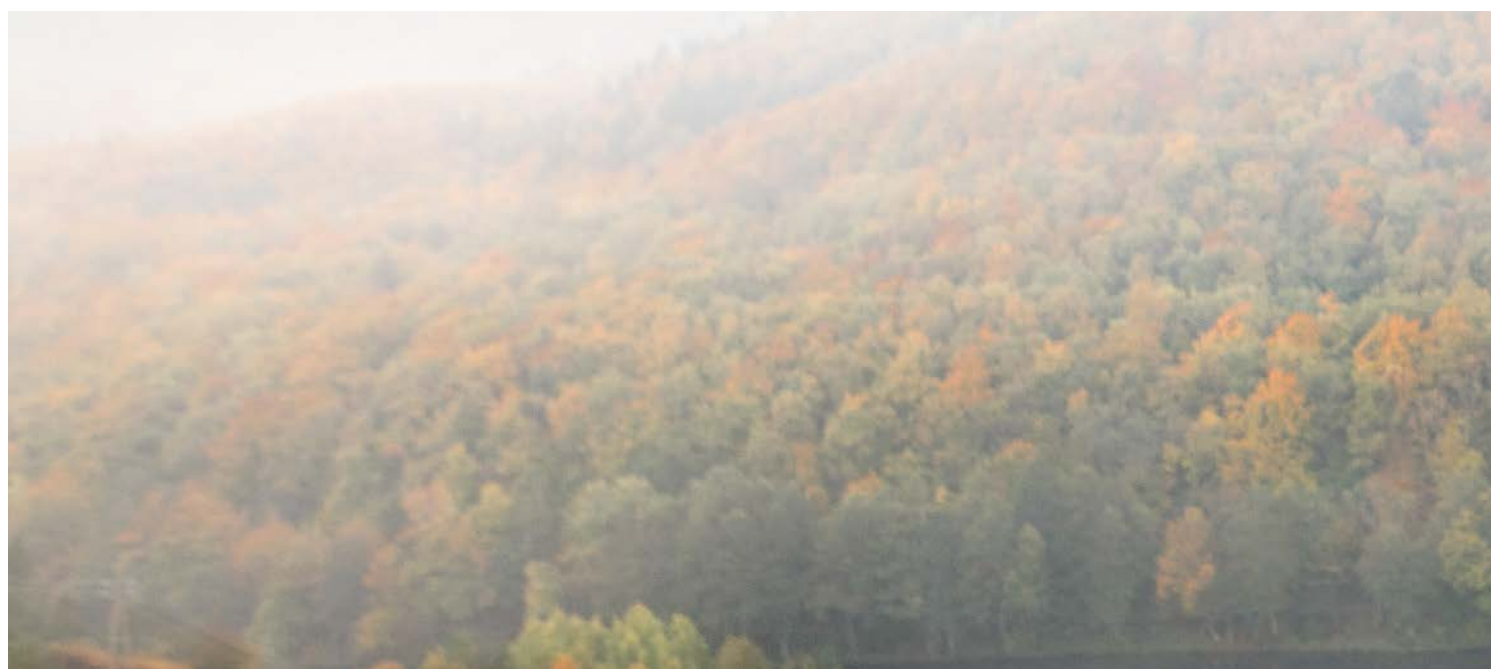
Overall, our assessment is that HL has a good reputation and has an effective internal process to manage it.

### Cyber Security and Robustness of IT Systems

HL needs to provide secure and resilient IT infrastructure to keep your savings and the administration processes they use safe from cyber-attacks.

We were provided with a variety of evidence to show the robustness of HL's approach to cyber security, such as adhering to external standards and external reviews of HL's approach. This external assessment has been reviewed at the most senior level of HL's management, showing the seriousness with which they take cyber security.

We're confident HL manages cyber security well and have been impressed by how this increased further during 2023, but this is a complex area and HL is unable, for reasonable commercial reasons, to be as transparent with us as they are



on some areas, reducing the scrutiny we are able to provide. We're considering whether to ask an independent external expert to help us to review HL's approach to cyber security to gain additional assurance next year.

In respect of 2023, we were provided with more evidence on HL's approach to ensuring the robustness of their IT systems. In our opinion they rely heavily on an aged IT system, which, while sufficiently robust, creates some risks to their ability to manage your savings in a timely and efficient way. As set out above, however, they have committed to a £175m 5-year investment plan to improve and modernise their IT system.

### Security of your funds

HL is a stock exchange listed company managing or administering around £150 billion in assets. HL ensured the security of your assets through robust financial practices and regulatory compliance.

HL is regulated by the **FCA** and has to comply with strict rules on how they look after your money and investments. HL holds more reserve capital than they are required to and maintain a conservative and prudent approach to accounting. They submit regular financial reports to the **FCA**.

Furthermore, any client cash balance that is on deposit with HL is held in trust separate from HL funds and deposited with UK banks covered by the **FSCS**. The **FSCS** protects up to £85,000 per investor in case of bank defaults.

HL do not act as a bank, does not lend client stocks, and most of the assets they hold are easily tradable. Additionally, HL's senior management and CASS (client assets) Committee oversee the safeguarding of client investments. Finally, HL's procedures for managing workplace pensions are independently assessed by HM Revenue & Customs.

If HL were to cease trading, what you would get back would depend on the financial position of HL. Further details can be found [here](#) and on the [FSCS website](#).

### CONCLUSION

We're satisfied with these additional features add value for you.

We'll be monitoring the following in 2024:

- Whether HL intends to set out a broader development plan, with a firm timeline, which will benefit the parts of the propositions that will improve the **VFM** you get.
- HL's progress on considering the merits or otherwise of achieving wider external accreditation.
- In respect of cyber security, we're considering whether to ask an independent external expert to help us to review HL's approach to cyber security to gain additional assurance next year.

### COSTS AND CHARGES

HL uses what can be considered to be low-cost funds for pathways 1,2 and 3. For Pathway 4, HL has selected cash as being appropriate. While there's no explicit charge on cash, HL does take some of the interest earned on it which is, in our view, in effect, a charge.

### CONCLUSION

Our assessment is that the pathway costs and charges were reasonable for pathways 1, 2 and 3.

Pathway 4 investments are held in a variety of banks. The management of this money prioritises the security of client money first, followed by liquidity so money is always available to clients, and then the yield received. HL keeps some of that interest to cover their costs, to contribute towards their profits or to strengthen their balance sheet. The amount they keep, the difference between the interest the cash earns and what they pay you, is called the net interest margin.



The net interest margin is calculated using a formula and the total amount deducted will vary from time to time to reflect the varying underlying interest rates.

The number of clients in Pathway 4 as of 31 December 2023 (with a non-zero balance) was 268. The average client in this population, as of 31 December 2023, had a cash balance of just under £45,000, earning interest of 2.95% after HL had taken a net interest margin of 1.46%.

The **FCA** has said: “We did not set a charge cap for investment pathways but suggested that firms use the charge cap on qualifying schemes for pension accumulation of 0.75% as a point of reference”.

In the context of the **FCA's** point of reference of 0.75%, we don't believe that an effective charge of 1.46% represents **VFM**. We've pressed HL hard on this point. HL's response is that the 0.75% cap is not mandated by regulation, that the client interest rates are highly competitive when compared to other providers and high-street-bank easy access accounts and that the 1.46% meets the criteria that HL applies within its “Client Interest Fairness Policy and Framework” which was established as part of HL's recent work on Consumer Duty.

Details of HL's fees can be found in appendix 4, along with the charges and **transaction costs** for the pathways.

We recognise that of importance to you in getting a good outcome is not only the level of the costs and charges but also how appropriate the fund selected is for meeting its objectives. This is an area that we intend to pursue HL further on.

We'll be monitoring the following in 2024:

- The net interest margin applied by HL for Pathway 4
- How appropriate the fund selected is for meeting its objectives

## COMPARISON WITH OTHER PROVIDERS OF INVESTMENT PATHWAYS

The rules set out by the regulator require us to compare HL's pathways with similar arrangements offered by other providers of **Investment Pathways**. We've undertaken a number of activities in order to fulfil this requirement – we have:

- conducted some of our own research into the market,
- reviewed market surveys produced by HL at our request and
- participated in the **Redington study**, which analysed data across a number of providers of **Investment Pathways**.

While we believe this has all been helpful in drawing some high-level comparisons, we're mindful that more work needs to be done in this area to make the analyses more meaningful and directly comparable.

As noted above, in order to select each investment fund, HL has had to make assumptions about the characteristics of the people likely to choose each of the four pathways. Other providers of **Investment Pathways** have had to make similar assumptions. The evidence indicates that different providers have used different assumptions. This isn't surprising given pathways are a relatively recent development and, so, limited real data is available on which assumptions can be based.

This being so, any comparison of investment strategies and performance cannot be based solely on the investment fund selected by each pathway provider. Account also needs to be taken of the assumptions they have made around the characteristics of the people likely to choose each pathway and this isn't easily accessible or, indeed, necessarily publicly available. This has made it almost impossible to compare pathways on a like-for-like basis.

For similar reasons, any comparisons of costs and charges across providers of **Investment Pathways** have to be treated with some caution.

We very much recognise the importance of communications in supporting you in your decision-making process. We were not, however, able to compare customer communications with those of other providers as these aren't generally publicly available. We were, however, able to directly compare the information available on other providers' websites, and our findings in this respect are as follows:

- there's a large variance in how information is being displayed and what tools are being made available to potential investors in pathways to help them with their decision-making,
- there's a big difference between the ease of locating the pathway pages in the first instance with some having pathways as a link from their website home page and others having buried it deeper in their retirement pages,
- the ability to obtain the relevant information on the pathways once they'd been located on the website proved surprisingly challenging in some cases, with no obvious links to the investment strategy, risk or charges information from the headline descriptions of each of the pathways and
- the area of greatest divergence is in how the risks related to each pathway are communicated in order to support clients in making informed decisions – there's evidence of over-reliance on standardised risk descriptions (for example those found in the key investor information document) and statements such as “The market may fall as well as rise which means you could lose some or all of your investment” which appear to go little way in helping clients make a proper informed decision.

Overall, based on the high-level comparisons we've been able to make, there's nothing to suggest that HL is significantly out of step compared to other providers of **Investment Pathways**.

## CONCLUSION

Our overall conclusion is that HL's **Investment Pathways** provide you with **VFM**. However, as noted above, there are a number of areas that we continue to pursue.

## LIMITATIONS OF OUR ASSESSMENT

While we've assessed the **VFM** provided by the pathways, we have not, unless you're invested in an HL workplace pension, assessed the **VFM** of your pension policy (that is the pension you were invested in immediately prior to choosing an investment pathway).

If you're in a workplace pension, you should read the earlier part of this report which sets out our assessment of its **VFM**. If you aren't in a workplace pension, you can speak to a financial adviser to help you do this.



# What we considered when doing the investment policies assessment

In this section we'll tell you how we went about assessing the quality and adequacy of HL's investment policies on Environmental Social and Governance (or "ESG") matters, Non-financial matters and Stewardship.



We have a duty to consider and report on the adequacy and quality of HL's policies on Environmental, Social and Governance (or "ESG") financial considerations, non-financial matters, stewardship and other financial considerations, as well as how these policies have been implemented. If HL doesn't have these policies, we need to examine the reasons for that.

Let's start by first looking at what these terms mean.

## ESG

**ESG** financial considerations are factors related to the way companies operate. This is important because your savings are invested in funds which invest in companies and those companies need to operate in a sustainable way if they're to give you a good return over time. Examples of **ESG** criteria include:

- Environmental factors: a company's impact on climate change, its carbon emissions and its conservation efforts
- Social factors: a company's attitudes to human rights, equal employment opportunities and community development
- Governance factors: a company's anti-corruption policies, the diversity of its board members and approach to executive remuneration.

## NON-FINANCIAL CONSIDERATIONS

Non-financial matters are factors which might influence investment decisions that are motivated by ethical concerns, such as improving quality of life or showing disapproval of certain industries. Although the financial case for making an investment is a vital part of the decision-making process, non-financial factors can also be important to some people.

## STEWARDSHIP

Stewardship relates to the way a pension provider or fund manager engages with the companies in which they're investing to encourage positive change, such as on matters involving corporate strategy and culture, their efforts on reducing climate change and workplace policies and practice.

## OTHER FINANCIAL CONSIDERATIONS

When saving into a pension, it's likely you'll be invested for a long time and so will be exposed to longer-term financial risks. References to other financial considerations may include risks in relation to interest rates, liquidity (how easy it is to buy and sell the asset or investment), concentration (avoiding having too many eggs in one basket), currency exchange rates, politics and counterparties (the other parties invested with or through and whether they can deliver what is expected of them).

## CONCLUSIONS

During 2023 HL implemented two policies:

- An **ESG** Investment Policy and
- A Stewardship and Engagement Policy

We've assessed each policy for its adequacy and quality in line with the **FCA's** requirements. These requirements include us forming a view as to whether:

- the policy sufficiently characterises the relevant risks or opportunities;
- the policy seeks to appropriately mitigate those risks and take advantage of those opportunities;
- the firm's processes have been designed to properly take into account those risks or opportunities;
- the policy is appropriate in the context of the expected duration of the investment;
- the policy is appropriate in the context of the main characteristics of the actual or expected relevant policyholders or pathway investors;
- in relation to **ESG** financial considerations, non-financial matters and other financial considerations, the policy is clear how these are taken into account in the firm's investment strategy or investment decision making;
- the policy is sufficiently robust to achieve good consumer outcomes; and
- the extent to which the policies have been implemented.

We spent time this year reviewing the policies, which HL has updated following our feedback and having completed their own internal review. These areas are subject to an ever-increasing number of regulations, a swiftly evolving competitive landscape and an increasing demand from investors, and as such we're pleased that HL's ongoing review process shows their desire to continually improve in these areas

We considered conducting a comparison exercise to understand how HL's policies compare with their peers. This was not available as part of the Redington study and is not an FCA requirement, but we felt this could be helpful in providing some context.

Last year, we told you we considered conducting a comparison exercise to understand how HL's policies compare with their peers. This wasn't available as part of the **Redington study** and is not an **FCA** requirement, but we felt this could be helpful in providing some context.

We made a decision not to do this in 2022 due to the difficulties of attempting to compare policies which are very different, rapidly evolving, constantly being adapted for increased regulation and the time commitment it would involve. We instead utilised the expertise we have within the IGC to provide a broader view. Given the market has yet to settle into a pattern, we didn't change our approach in 2023. We will however continue to consider this during 2024.

Our conclusion of HL's 2023 **ESG** Investment and Stewardship and Engagement policies is that they are adequate and of sufficient quality to deliver good consumer outcomes. We'll monitor future iterations of HL's policies during 2024.

HL doesn't have a policy on "other financial considerations". They have told us this is because they're satisfied such detail is covered within each individual fund prospectus.

# Understanding your views

## BACKGROUND

Over the years, HL's research team has continued to provide us with what they know about your perception of VFM for your workplace pension.

While this has provided us with some helpful insights, we've been keen for HL to carry out research that delves into some particular matters. In particular we wanted to know which elements of the workplace pension you specifically value.

We worked closely with the HL team to devise the research, and the research itself was carried out in May/June 2024.

In this year's report I've highlighted some of the key findings from the research. You'll see that, as a result, there are a number of aspects on which we'll be following up with HL.

The main part of the research was an online survey, designed after having had ten one-hour face-to-face individual member meetings. The survey was sent to all members and more than 3,000 of you completed it. Thank you if you were one of those members.

## KEY FINDING – WHAT VFM MEANS TO YOU

The top three items you told us were important to you were:

- "Seeing my pension grow"
- "A reputable financially strong pension provider"
- "Controls and safeguards for my pension"

These three can really be grouped into one overarching heading – that you value "peace of mind" over all other considerations.

As the IGC, we'll continue to focus on ensuring that HL meets our expectations in these areas. But we also want to explore further how it can best be communicated to you as members that HL is indeed delivering on these important attributes.

## KEY FINDING – COSTS AND CHARGES

The amount that you pay in costs and charges is of course an important component of VFM and is an area that we pay significant attention to.

In terms of the ranking, "Account charges broadly aligned with other pension providers" came in at number 10 of 24. This is consistent with other research and it tells us that VFM to you is much more than just costs, it is about the range and quality of services provided and the "peace of mind" noted above.

As is to be expected, awareness of HL's costs and charges is generally very low, although those members who chose some or all of the investment funds they use usually have a higher awareness.

HL provides access to a very wide range of investment funds which naturally comes at a cost. The research revealed a general perception that HL might be more expensive than others in the market.

Importantly, of those that expressed an opinion, 60% said they would rather keep fees to a minimum and have a narrow investment selection; with 40% saying they'd rather pay a slightly higher fee and have a greater, more diverse investment selection. We'll be reflecting further on this particular finding and will be discussing in detail with HL.

## KEY FINDING – OTHER IMPORTANT THEMES

Three other important themes emerged from the research:

- A lack of financial knowledge is a blocker to understanding pensions in general. This backs up what we know to be an industry-wide challenge.
- Some members are more engaged than others and individuals engage in different ways. Members have differing levels of engagement with HL's different services. It's clear that members value flexibility and a wide selection of options. It might not be that all those members use this flexibility or have used it yet, but they find comfort in knowing they have the ability to do so. Those members who choose to engage with HL through webinars and one-to-one meetings do really value the sessions.
- Some members see responsible investing as important but not quite as important as growing their money. This is a wide-ranging and rapidly developing area covering the likes of ethical investing and the consideration of ESG factors.

We'll continue to explore each of these themes with HL on your behalf.

## CONCLUSION

As indicated above, these various research findings have highlighted a few areas we'll be following up on with HL. We'll report further on these in next year.

Despite this research, we'd still love to hear directly from you on what you think. You can let us know your views by emailing us on [IGC@hl.co.uk](mailto:IGC@hl.co.uk).

## Or by writing to us at;

FAO: IGC  
Freepost  
HARGREAVES LANSDOWN

Please note we cannot deal with complaints or general enquires. These should be raised with HL.



# “Consumer duty”

The **FCA** has introduced “Consumer Duty”, which took effect from 31 July 2023. It introduced a new requirement that all financial services firms (and any firms who distribute financial products) “act to deliver good outcomes for retail customers”. In recognition of the barriers many consumers face to pursuing their financial objectives, the **FCA** wants to see firms deliver a higher standard of customer care and protection, and to go further to equip consumers to make effective decisions in their interests. More information on the Consumer Duty can be found on the **FCA’s** website

<https://www.fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty>

We’ve seen the programme that HL has established to comply with their obligations under Consumer Duty. They’ve established seven separate “frameworks” including an overarching one on Client Outcomes. As your IGC, we’ve been monitoring these developments very closely and inputting our own thoughts. We’ll continue to do so, given the importance of not only meeting the requirements but also ensuring that HL continued to remain compliant and make any necessary changes.

## HL and us

You’ll have seen from elsewhere in this report that we’re independent of HL. That said, we could not have carried out our **VFM** assessment without their support. As well as acting as our secretary, HL has constructively and openly answered the questions we’ve asked and responded to the challenges we raised.

## Limitation of our VFM assessment

Our conclusions are based on performing analysis on features, benefits, service and costs and charges of the workplace pension administered by and investment strategies designed and managed by HL. It hasn’t been possible to look on a member-by-member basis. As a result, you may have a different experience of **VFM** compared to others.



# APPENDICES



# Appendix 1

## Who the committee is and why we're here.

### We're an Independent Governance Committee (or "IGC").

#### WHAT IS AN IGC?

An IGC is a committee whose purpose is to represent the interests of members of workplace pension schemes, including members who are still in the scheme and those who have left, and of pathway investors.

Your IGC is made up of five individuals, four of whom (including the chair) are independent of HL. The fifth is an employee of HL but they still have a duty to represent your interests.

Each of us has extensive knowledge, insight and experience within the pensions and finance industry; and of working with and for members, acting in their best interests and championing good member outcomes.

#### WHAT DOES THE IGC DO?

Our primary objective is to assess the **value for money (VFM)** members of workplace pension schemes and pathway investors get from their pension scheme.

We're committed to assessing **VFM** in a member-focused way, and with an emphasis on ensuring you have the best possible chance of achieving good outcomes at retirement.

#### As a minimum, we have a duty to:

- act solely in the interests of workplace pension members and pathway investors;
- operate independently from HL, in accordance with our **terms of reference**;
- assure ourselves that core financial transactions are processed promptly and accurately;
- assess and, where necessary, challenge HL on whether its workplace pensions and **investment pathways** provide **VFM** for members;
- report on HL's policies on environmental, social and governance (**ESG**) issues, member concerns and stewardship.

This report documents our **VFM** assessment for 2023.

You can find a copy of our IGC **Terms of Reference** and reports for previous years online at: [www.hl.co.uk/igc](http://www.hl.co.uk/igc)

#### WHO SITS ON THE IGC?

You can find information on the current members of the IGC in Appendix 2.

# Appendix 2

## Who is on the committee?

The current members of the committee are shown below.



**RICHARD BUTCHER**  
Zedra Governance Ltd  
Independent chair

Richard is a Client Director for Zedra Governance Ltd (ZGL), a market-leading and award-winning professional independent pension trustee company. Richard has been involved in pension scheme governance since 1985. He is a Fellow of the Pensions Management Institute (PMI) and a Governor of the Pension Policy Institute. Richard is the immediate past Chair of the Pension and Lifetime Savings Association (PLSA), the industry association for pension schemes. He has sat on various working groups and committees for the industry, the regulators, the Bank of England and others in relation to, amongst other things, the disclosure of investment costs and charges, Productive Finance, policy development and **ESG** investment matters. He has also sat on the Council of the PMI, the PLSA DC Council (which he chaired for two years), the Pension Regulators DC Practitioners Panel and the Department of Work and Pensions Trustee Panel. He is a regular contributor to the trade press and has won several awards and accolades.

Richard is qualified to be a member of an IGC by merit of his significant experience in and knowledge of the pensions industry, his expertise in assessing the **value for money** of arrangements such as this (gathered from his role on similar boards) and his knowledge of ESG and underlying investment costs and charges. He is qualified to chair the IGC by merit of his significant experience of and positive track record in chairing similar arrangements as well as other boards and committees.



**HELEN CAREY**  
Independent member

Helen is Compliance & Operations Director at AV Trinity. She has over 25 years' experience working in a variety of roles in the pensions industry, including workplace pensions. This includes supporting employers when making important decisions for their members and directly advising scheme members pre and post retirement. Helen is passionate about good member outcomes and financial education, having played an active role in improving financial understanding in schools and in the workplace. Helen is a Chartered Financial Planner and Fellow of the Personal Finance Society.

Helen is qualified to be a member of an IGC by merit of her extensive knowledge and experience of pensions and investments, her in-depth technical understanding of how these products work, ESG risks and opportunities and the regulations applying to workplace pensions, and her hands-on experience of advising consumers on their retirement planning and in-retirement needs.



**RITA BAJAJ**  
Independent member

Rita is an independent Non-Executive Board Director for several financial services companies and has over 25 years' broad financial services experience. She has held senior investment positions at Global and UK asset managers and is a former Financial Conduct Authority regulator. Currently, Rita serves on the Boards of Fidelity International Life Insurance Ltd, Benefact Group PLC, Wesleyan Assurance, Columbia Threadneedle ACD Boards and London Pension Fund Authority (LPFA). Rita is passionate about improving retirement outcomes and **value for money** for members, including sustainable investing and ESG considerations.

Rita is qualified to be a member of an IGC by merit of her significant direct Global Equity markets investment & ESG expertise and knowledge of the asset management/custody industry, her risk & controls management experience both as a former **FCA** regulator supervising asset management firms and as a controls executive.



**IAN COSTAIN**

Bloomfield Financial  
Consultancy  
Independent member

Ian is a qualified actuary with more than 30 years’ experience in the pensions industry. In the early part of his career he worked for various insurers and the UK’s largest network of financial advisers. His roles covered product development, pricing, marketing, and distribution. From 2003 to 2009 Ian was Head of Policy & Public Affairs for AXA UK. At an industry level he was a founding member of the Association of British Insurers’ Consumer Engagement Committee. Ian has been an independent consultant since 2009 with a strong focus on the regulation of pensions. He has spent a year at The Pensions Regulator leading their strategic thinking on the regulation of the pensions market, and over a year at the Financial Conduct Authority as a special adviser on pension policy.

Ian is qualified to be a member of an IGC by merit of his wide-ranging experience in the pensions industry extending from consumer protection – he has worked specifically on pensions for several regulators – to the technical design and pricing of pension products themselves.



**ELLEN POWLEY**

HL employed member

Ellen joined Hargreaves Lansdown in 2003. She is responsible for managing client assets invested within HL’s Multi-Manager portfolios, specialising in portfolios designed for income as well as ensuring ESG is fully integrated into the investment process. Outside of Hargreaves Lansdown, Ellen chairs the Advisory Committee of Bristol and Bath Regional Capital, a Community Interest Company.

Ellen is qualified to be a member of an IGC by merit of her extensive experience of the fund management industry (including markets, investments and custodian) and a deep passion for ensuring clients are empowered to make suitable financial decisions.

**NOTES**

Our terms of reference state that all members of the IGC must act solely in the interests of workplace scheme members and pathway investors. This applies to HL members, who are free to participate in the IGC without it conflicting with the other terms of their employment.

The members of the IGC were appointed after a robust recruitment process. For the HL employed member this included advertising the role to all HL staff. For the external members, HL advertised the position on their website and other channels. For all positions, multiple rounds of interviews took place which were conducted by panels independent of each other. Richard Butcher, the independent chair, was involved in the interview and selection process for all the members appointed after 2020. The recruitment process was also overseen by HL’s human resources and talent acquisition team.

Our respective histories mean that together, we’ve sufficient expertise and experience to act in your interest.

In addition, we’re sufficiently independent to act in your interest. This is because four of us are independent of HL and the one who is an employee is contractually able to be and has demonstrated their independence during our meetings.

During the year, Ellen Powley replaced Mark Walter as the HL employed member of the IGC.

# Appendix 3

## Our value for money framework.

We've created a framework to analyse the value for money ("VFM") you get.

The framework helps us to make sure we consider the factors that contribute to **VFM** in a robust and consistent way. The framework was developed over several stages. The key stages were as follows:

- We agreed our approach to the assessment
- We developed a "scorecard"
- We agreed the features to be scored in the scorecard
- We individually scored the features based on information given to us by HL
- We compared and, in some cases, amended our individual scores during a moderation meeting
- We aggregated our scores to arrive at group conclusions
- We agreed our result

A full list of the features we considered is below.

### WORKPLACE PENSIONS

#### Benefits: Investments and performance:

- Whether default investment strategies are designed and executed in the interests of relevant policyholders
- Including the approach to de-risking (i.e. whether the approach to de-risking is designed and executed in the interests of relevant policyholders)
- Adaptability of default arrangements (not limited to AE) to changing circumstances
- Gross risk adjusted investment performance (especially default funds)/risk metrics/diversification – consistency with objectives and portfolio volatility
- Net investment performance
- Appropriate range of choice of accumulation funds
- Whether the characteristics and net performance of investment strategies are regularly reviewed and that action is taken to make any necessary changes
- Do HL consider ESG when selecting, retaining or operating a fund?
- Do HL consider other financial considerations when selecting, retaining or operating a fund?
- Do HL consider stewardship when selecting, retaining or operating a fund?
- Do HL consider non-financial matters when selecting, retaining or operating a fund?
- On-going fund governance
- Interventions and actions relating to poor performing funds

#### Benefits: Communications, engagement and support

- Default strategies: clear statements of aims and objectives
- Overall member communications fit for purpose/quality (including education) clarity, visual appearance etc
- Range of comms tools
- Tactical approach i.e. comms at points of susceptibility.
- Real time access and functionality
- On line functionality (update, contribute, transact)
- On line tools (tax planner, modeller etc)
- Additional member support on pension saving (e.g. on-line support, telephone helpline etc.)
- Support through workplace
- Support at retirement – communications
- Vulnerable customers - robust approach
- Alternative form (e.g. brail)/language communications
- Member education tools
- Website quality

#### Benefits: Administration and service

- Whether core financial transactions are processed promptly and accurately
- Relative quality and appropriateness of SLAs
- Performance against SLAs
- Level of automation (STP)
- Scam protections
- Customer satisfaction measures(e.g. NPS)
- Choices at retirements – the range of decumulation choice available
- GDPR
- Auto-enrolment and re-enrolment support
- Levels of complaints

#### Benefits: Additional factors

- Additional governance structures for the benefit of members (e.g. Governance/supervision committees with external/independent members/Operation risk controls/Internal audit function)
- Additional (financial or other) benefits available to members by virtue of being a workplace pension policyholder (such as discounts on other products from the insurer)
- Sustainability of product/provider
- HL's willingness and ability to invest in the proposition
- HL reputation
- IT robustness including management of cyber risk
- Quality of HL risk and control framework (including Independent assurance of controls)

### **Costs and charges**

- Platform charges
- Investment costs
- Transaction costs
- Exit charges
- Other costs (non-elective)
- Other costs (elective)
- Total cost (aggregate cost)

### **INVESTMENT PATHWAYS**

#### **Benefits: Investments and performance:**

- Whether pathway investments are designed and executed in the interests of relevant policyholders
- Gross risk adjusted investment performance/risk metrics/diversification – consistency with objectives and portfolio volatility
- Net investment performance
- Whether the characteristics and net performance of investment strategies are regularly reviewed and that action is taken to make any necessary changes
- Do HL consider ESG when selecting, retaining or operating a fund?
- Do HL consider other financial considerations when selecting, retaining or operating a fund?
- Do HL consider stewardship when selecting, retaining or operating a fund?
- Do HL consider non-financial matters when selecting, retaining or operating a fund?
- On-going fund governance
- Interventions and actions relating to poor performing funds

#### **Benefits: Communications, engagement and support**

- Pathway investments: clear statements of aims and objectives
- Overall member communications fit for purpose/quality (including education) clarity, visual appearance etc and properly take into account the characteristics, needs and objectives of Pathway Investors
- Range of comms tools
- Tactical approach i.e. comms at points of susceptibility.
- Real time access and functionality
- On line functionality (update, contribute, transact)
- On line tools (tax planner, modeller etc)
- Additional member support on pension saving (e.g. on-line support, telephone helpline etc.)
- Support at retirement – communications
- Vulnerable customers - robust approach
- Alternative form (e.g. brail)/language communications
- Website quality

#### **Benefits: Administration and service**

- Whether core financial transactions are processed promptly and accurately
- Level of automation (STP)
- Customer satisfaction measures(e.g. NPS)
- GDPR
- Levels of complaints

#### **Benefits: Additional factors**

- HL's willingness and ability to invest in the proposition
- IT robustness including management of cyber risk
- Quality of HL risk and control framework (including Independent assurance of controls)

#### **Costs and charges**

- Platform charges
- Investment costs
- Administration charges
- Transaction costs
- Other costs (non-elective)
- Other costs (elective)
- Total cost (aggregate cost)

# Appendix 4

## Costs and charges information.

### DEFAULT AND ABC FUND CHARGES

The following charges applied to the investments and cash used as a default and the ABC funds as at 31 December 2023.

	ANNUAL CHARGE	TRANSACTION CHARGE	TOTAL
HL Growth Fund	0.10%	0.07%	0.17%
BlackRock Consensus 85	0.08%	0.07%	0.15%
Schroder Managed Balanced (SMB)	0.33%	0.33%	0.66%
BlackRock MyMap 4	0.17%	0.10%	0.27%
Cash	Tiered interest applies. <a href="#">See rates here.</a> No charges for holding cash (but HL retains some interest)		
Rathbone Global Opportunities	0.52%	0.09%	0.61%
Ballie Gifford Managed	0.25%	0.15%	0.40%
Troy Trojan	0.61%	0.00%	0.61%

Further information about these funds and the others available in the scheme can be found here – [www.hl.co.uk/funds](http://www.hl.co.uk/funds).

### HL ANNUAL PLATFORM FEE

HL applies an annual charge to the value of funds you hold in your pension as follows:

VALUE OF FUNDS	CHARGE
On the first £250,000	0.45%*
On the value between £250,000 -£1m	0.25%
On the value between £1m - £2m	0.1%
On the value over £2m	No charge

No platform fee is applied to cash. Full details of charges are in the tariff of charges on the last page of [HL's Terms and Conditions](#).

\* Some schemes are on a lower charge for this tier. This table shows the number of schemes at each fee level:

PLATFORM FEE ON FIRST TIER OF FUND HOLDINGS	DEFAULT INVESTMENT OPTION	NUMBER OF SCHEMES	PERCENTAGE OF TOTAL
0.45%	HL Growth	513	74.67%
0.42%	HL Growth	2	0.29%
0.4%	HL Growth	30	4.37%
0.35%	HL Growth	33	4.80%
0.3%	HL Growth	12	1.75%
0.25%	HL Growth	79	11.50%
0.2%	HL Growth	1	0.15%
0.17%	HL Growth	2	0.29%
0.15%	HL Growth	1	0.15%
0.45%	Cash	5	0.73%
0.35%	Cash	5	0.73%
0.3%	Cash	1	0.15%
0.25%	Cash	2	0.29%
0.15%	Cash	1	0.15%



## FIND YOUR ILLUSTRATION

How much your pension is worth will depend on a number of factors. The most important one is usually how much you and your employer pay in. How your investments perform, and the impact of charges make a significant difference too. All investments have their own charges. The level of charges will vary in different investments and this will affect your pension value.

Hargreaves Lansdown are required to publish illustrations to help you understand how charges can affect what your pension might be worth in future. They're not a prediction of what might happen – instead they're illustrations based on assumptions that the Financial Conduct Authority requires HL to use.

HL will email you with confirmation of which platform fee applies to your scheme and send you a link to the illustration that applies to your scheme too. Links to all of the illustrations can be found below:

PLATFORM FEE ON FIRST TIER OF FUND HOLDINGS	DEFAULT INVESTMENT OPTION	LINK TO ILLUSTRATION
0.45%	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>
0.42% (on SMB, 0.45% on all other funds)	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>
0.42% (on all default funds)	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>
0.40%	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>
0.35%	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>
0.30%	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>
0.25%	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>
0.20%	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>
0.17%	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>
0.15%	HL Growth Fund	<a href="#">Download Illustration (PDF)</a>

## INVESTMENT PATHWAYS

	FUND	ANNUAL CHARGE*	TRANSACTION CHARGE*	TOTAL
Pathway 1	BlackRock MyMap 4	0.14%	0.09%	0.23%
Pathway 2	Fidelity Pre-Retirement Bond Fund	0.15%	-0.35%	-0.2%
Pathway 3	Baillie Gifford Multi Asset Income	0.25%	0.21%	0.46%
Pathway 4	Cash	Tiered interest applies. <a href="#">See rates here.</a> No charges for holding cash (but HL retains some interest)		

\*Source: Morningstar 27/05/2022.

NB. The negative transaction cost figure on Fidelity is an occasional result of the standardised calculations where trading performance is factored in.

# JARGON BUSTER

## Glossary of certain terms used in this report

### **Aims and Objectives (Investment)**

An investment fund's aims and objectives should set out what the fund intends to achieve and how it intends to achieve it; for example, to grow at x% a year measured over a x year cycle, by taking no more than x risk. The aims and objectives allow you to choose a fund that matches your own aims and objectives.

### **Annuity**

See **Guaranteed income** below.

### **Bold**

When a thicker typeface is used to give the word or words more prominence.

### **Default fund**

How your savings are invested if you or your financial adviser (if you had or have one) didn't make an alternative investment choice.

### **De-risking or lifestyling**

De-risking or lifestyling is a process where, as you get older and so closer to the time you will take money out of the scheme, it automatically switches your investments in a phased way over a period to align them with how you'll take your money. This process generally reduces the risk balance of your investments helping shelter them from stock market falls.

### **ESG (Environment, Social, Governance)**

ESG refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies (return and risk).

### **FCA**

The Financial Conduct Authority, a regulatory body for financial services companies.

### **FSCS**

The Financial Services Compensation Scheme, an independent and free to use body set up by the government to provide compensation if a financial firm has gone out of business and can't pay everything it needs to to its policyholders. More information can be found by clicking this [link](#).

### **Guaranteed income**

This describes using all or part of your savings to buy an insurance policy (an "annuity") that'll continue to pay a guaranteed regular and perhaps increasing amount of pension for the rest of your life. This is available to you after you reach age 55 (57 from 2028).

### **Investment Pathways**

Investment pathways ("pathways") are a set of investment options to help you make investment decisions if you decide to access your pension using a method known as **drawdown**. They're there to help you if you're unsure how to invest, but you don't have to use them.

### **Lifestyling**

See De-risking or lifestyling.

### **Redington study**

Redington were commissioned by a group of IGCs to conduct a comparative data study. They focused on the key areas IGCs use when assessing VFM, including member engagement, investments, access, service, and charges. We have used the study as part of our own VFM assessment to assist with drawing comparisons between the HL workplace pension scheme and Investment Pathways and others available in the market. See the section headed "Comparisons with other pension schemes" for more information.

### **Who are Redington?**

Redington are independent of all of the IGCs and pension providers who took part in the comparative data survey. Their particular expertise is in investment consultancy but, over the last number of years, they have gained significant knowledge of workplace pension providers through supporting IGCs with this sort of analysis.

### **SLAs or Service Level Agreements**

HL's SLAs set out how quickly and accurately they will complete items of work.

### **Terms of reference**

The IGC's terms of reference set out what we will do. Our terms of reference can be found here [www.hl.co.uk/IGC](http://www.hl.co.uk/IGC)

### **Transaction Costs**

Transaction costs are part of the total costs of managing investment funds and are reflected in the return you receive from your fund. They are incurred when investment managers buy, sell, borrow or lend investments. Transaction Costs include such items as tax, stamp duty and dealing commission and custodial fees.

### **Value for Money**

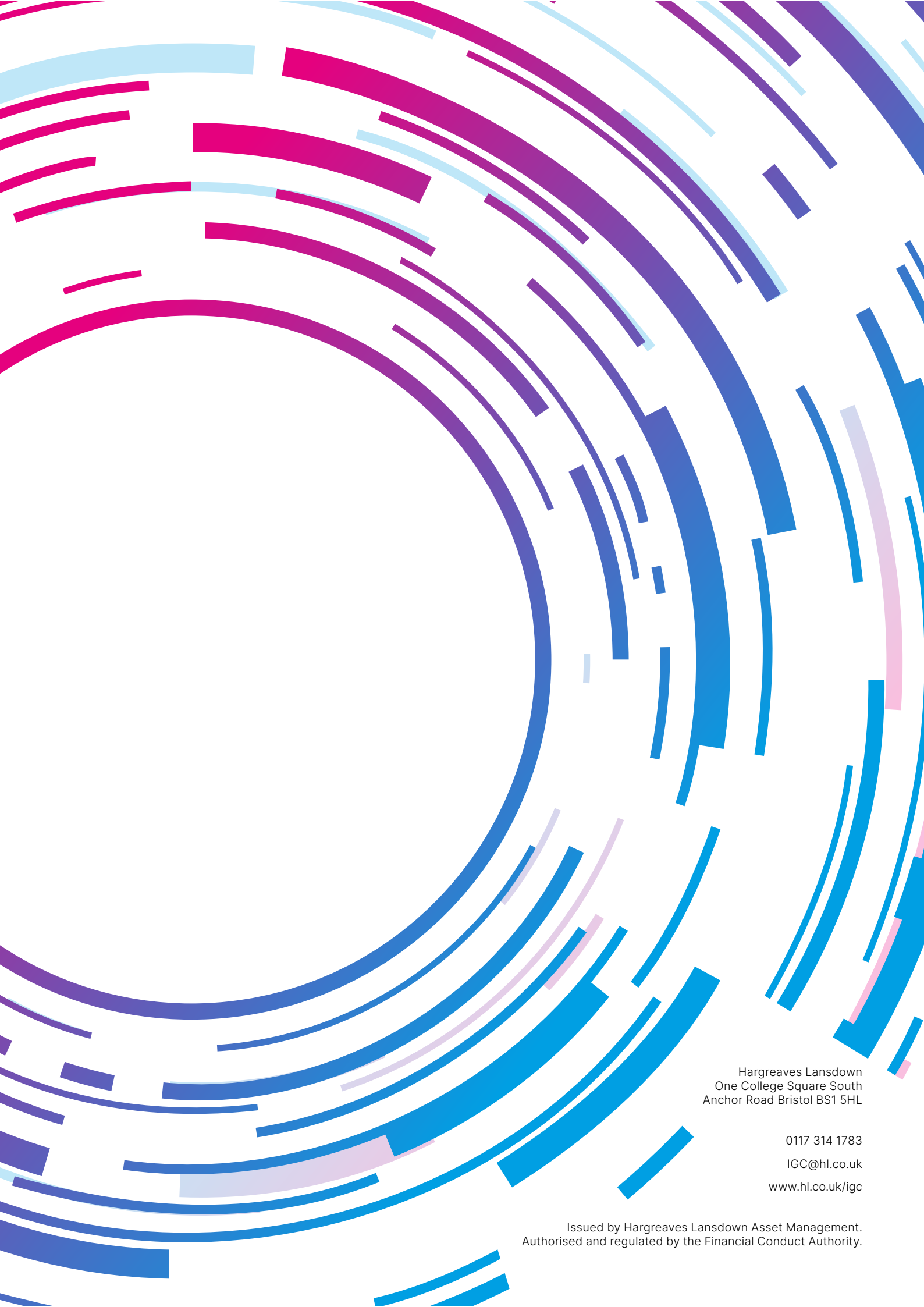
The balance of cost versus benefits.

Value for money has been defined (by the National Audit Office) as "The optimum combination of whole-life costs and quality".

Because, however, there is a lack of perfect information about what's available and at what price and because some parts of the proposition are qualitative, what's "optimum" can only be theoretical.

Nevertheless, a value for money assessment must take account of the quality of the pension proposition as well as its cost and consider how that compares to what's available for equivalent schemes from other providers in the marketplace.





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