Prudential Independent Governance Committees Report 2021

Enter

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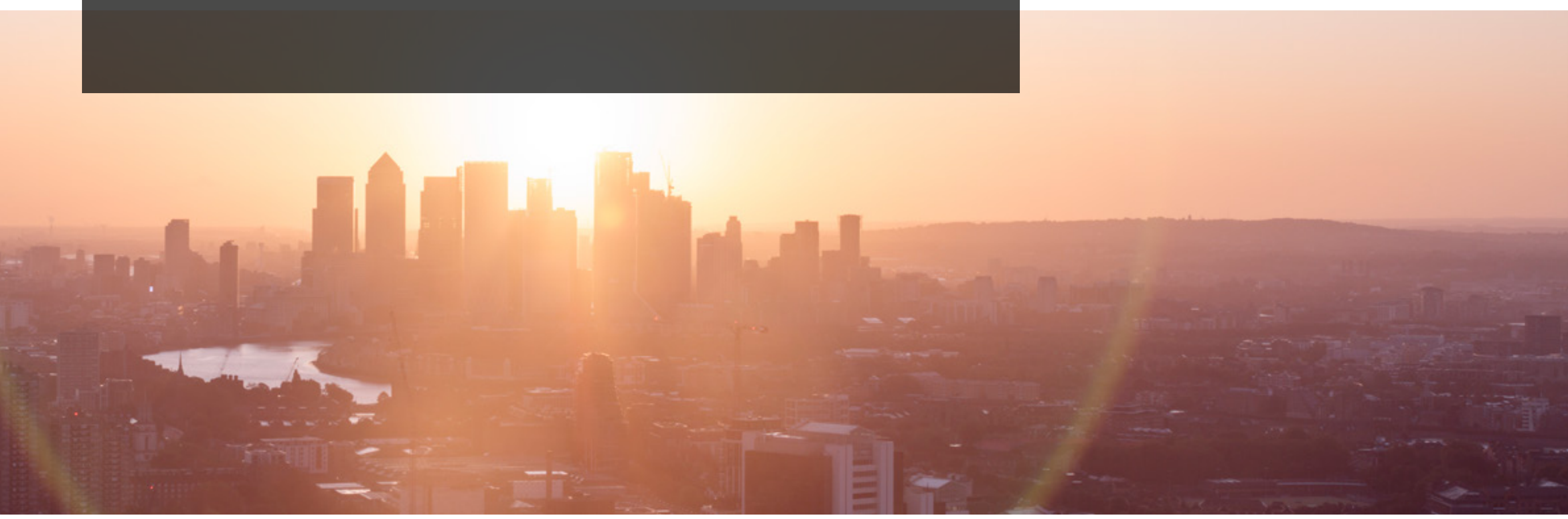


Summary

Bruce Rigby, Chair – Independent Governance Committee

This is my first annual report as Chair of the Independence Governance Committee (IGC) for Prudential, and what a year it has been!

The COVID-19 pandemic has had a profound impact on all of our lives, and its effects have also been felt in workplace pensions.

Investment markets saw significant losses in March 2020 when the pandemic first hit, but then staged a widespread recovery over the rest of the year. Over the whole of 2020, the Prudential Dynamic Growth IV fund in which most members are invested grew by 5.5%, and by an average of 9.5% per annum over the last 5 years. The second most popular fund, With Profits, grew by 6% last year, and by an average of 4.4% per annum over the last 5 years.

So, even in this most difficult of years, your pension pot continued to grow!

Charges are another important factor in assessing Value for Money and you can now access the charges that apply to your scheme by going to the IGC's page of the Prudential website.

The IGC also continued with its ongoing participation in the industry wide syndicated benchmarking which is designed to compare and contrast Provider offerings. This provided the IGC with a good comparison against a significant portion of the market in 2020, highlighting relative strengths and weaknesses of each Provider. Results were broadly positive for Prudential.

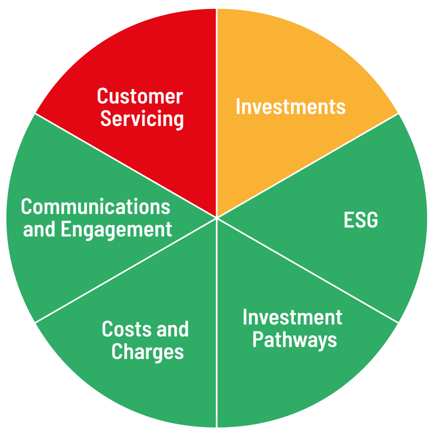
The third area of scrutiny when assessing Value for Money is service levels. Although financial transactions have been processed promptly in the vast majority of cases, Prudential has experienced some significant servicing issues over the last year. These have resulted in part from the impact of COVID-19, especially in staffing call centres, as well as from a major switch to a new administration system for many members. Predictably, there has been a rise in complaints. The IGC has been monitoring the situation and has challenged Prudential robustly on its remediation plans.

Assuming these servicing issues are resolved in the near future, the IGC judges that you continue to receive Value for Money from your Pension.

If you have any questions after you read this report, please leave us your feedback.

Bruce Rigby
Chair, Independent Governance Committee

IGC's VFM Framework and Scores for 2020



Overall Value for Money score:

Members Under IGC Review

£5.3bn FUM

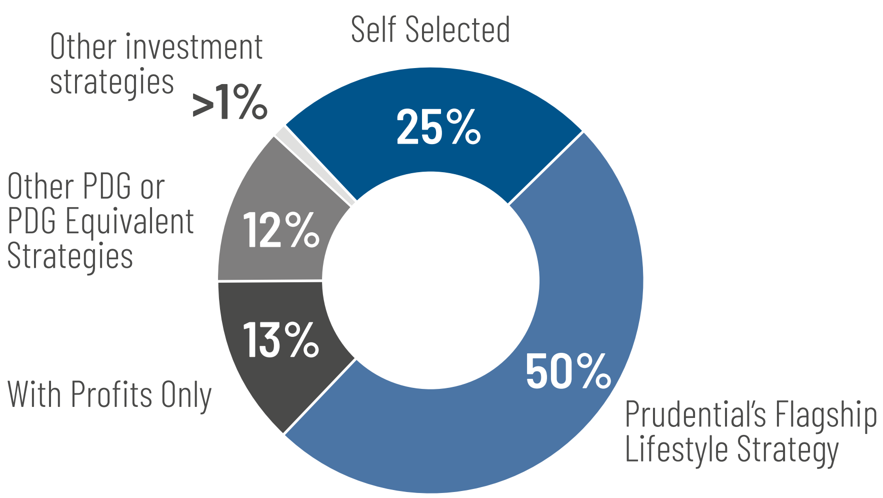
251k Policies

205k Customers

£1.5bn FUM actively paying members

53% of customers are using a default strategy

Where our members are invested:



1. Chairman's Introduction

Despite the inability to meet in person, the IGC was very active in 2020, meeting remotely on a frequent basis, either to cover the whole range of IGC issues, or to look in more depth at particular topics such as transaction costs, investment pathways, and environmental, social & governance issues. I would like to thank all members of the IGC (including Michael Payne who stepped down during the year) for their commitment and dedication in this most testing of times. Biographies of the IGC members can be found here.

I would also like to thank the staff at Prudential for their help and support over what has been a very busy and difficult year. In addition, I would like to pay tribute to Roddy Thomson, M&G's Chief Operating Officer, whose sudden and untimely death shocked all who knew and worked with him. Roddy was a great partner for the IGC and is sorely missed.

The key areas on which the IGC focuses in assessing value for money for members are investment strategy and performance, costs and charges, scheme administration and communications. For each fund in which members invest, we monitor whether:

- Rolling 5-year net investment performance exceeds Consumer Price Inflation (CPI) + 3%pa
- Investment strategy for default funds is appropriate
- Annual management charges for default funds are within the charge cap
- Direct and indirect costs including transaction costs are appropriate
- Core scheme financial transactions are processed promptly and accurately
- Administration service levels meet expectations
- Member engagement and communications are fit-for-purpose

To monitor all of the above, during the year, the IGC split its work over a number of key work streams, each led by one of the Committee's members. These work streams are described in more detail in the following sections.

2. Investments
3. Environmental, Social & Governance (ESG)
4. Investment Pathways
5. Costs & Charges
6. Communications and Engagement
7. Customer servicing
8. Plans for 2021

2. Investments

Overall rating: Amber

Mary Kerrigan, Independent Member

"Value style investing has resulted in underperformance versus the market generally but long term most investments continue to exceed the IGC's benchmark of CPI+3% pa"

2.1 Extension of framework during 2020

During 2020, the IGC maintained its high level focus on whether funds were achieving net returns which exceeded CPI+3% pa over rolling 5-year periods, but also created a number of additional tests to gain a fuller understanding of investment performance.

In particular, the IGC reviewed performance relative to industry benchmarks, the level of risk taken and fees charged. It gave priority to actual outcomes as well as looking at forecast returns for an appropriate risk exposure in the design of default investment strategies

The performance metrics analysed over 1,3 and 5 year periods are:

- Fund net return vs benchmark
- Tracking error vs benchmark
- Net information ratio
- Client share of outperformance
- Fund net return vs UK CPI
- Quartile ranking within ABI sector.

Note: Technical terms are explained in the Glossary.

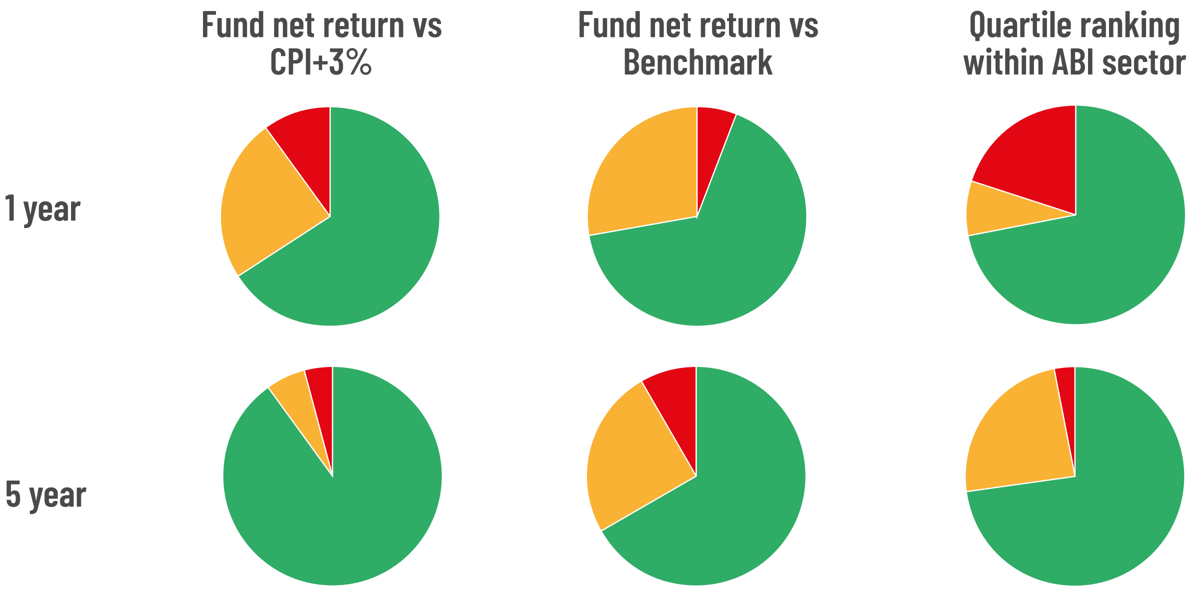
The IGC has used the various performance metrics to challenge Prudential on the returns achieved by all funds. A watchlist process is used to allow the IGC to understand what changes are being made to address underperformance and to monitor their impact.

IGC assign a RAG (red, amber or green) rating to each of these performance metrics in order to clearly highlight whether there are any material issues, concerns or major concerns in relation to each fund being assessed.

2.2 Overall investment performance

Global uncertainty throughout 2020 resulted in turbulent markets across the world. Investment performance throughout the year reflected this and performance was varied with 65% of the funds used by customers under IGC remit performing above IGC's measure of CPI+3% pa. Longer term the picture remains more stable with 91% of funds achieving this performance measure. Most of the assets were invested in funds which met these criteria over a 5 year period. Again, performance in 2020 was more mixed.

Some funds underperformed as they employ a value style approach to investment management. This approach to investment has underperformed generally in recent years. However, when compared against the equivalent value style benchmark, performance is broadly in line with expectations.



Note: Details of the colour coding are given in the appendix

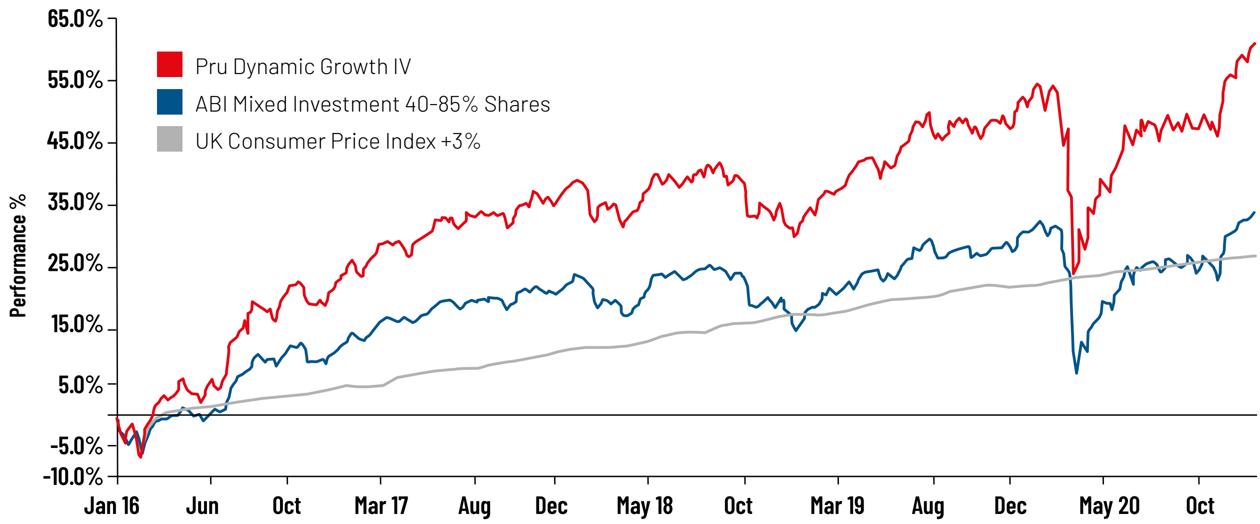
The IGC will continue to monitor the overall style exposure of the key default funds and recommend changes, where necessary. It is pleasing and reassuring to note that the value style has produced much better returns in recent months.

2.3 Investment performance of the main funds used in default strategies

The IGC's key concern is that the default fund retains its value as a minimum. However, as mentioned above, we would like to see additional growth of 3% above inflation per year after charges. This is a long term rate which we believe can be achieved without excessive risk taking.

Prudential's flagship default fund – Prudential Dynamic Growth IV (PDGIV) grew by 5.5% before any charges during the year to December 2020 and has grown at an average rate of 9.5%pa over the last five years. This comfortably exceeds inflation which has averaged 1.7%pa over the last 5 years. Also, in relative terms, performance beat the fund benchmark as shown below:

5 year Gross Performance of Prudential's Dynamic Growth Fund IV



Prudential Dynamic Growth II (PDGII) is also used in the default glide path and is less exposed to risk assets. It grew in value by 7.4% before charges during 2020 and by an average of 8.9%pa over the last 5 years, again producing strong returns against inflation.

Some members in the Scottish Amicable schemes use the Prudential Managed Pension fund as their default. This fund grew by 0.8% before charges in the year when average inflation was 0.7% resulting overall in a slight decrease in purchasing power once charges were taken into account. The fund has averaged growth of 6.6% per year over the last five years, which is ahead of IGC's long term ambition of 3% per year.

The table below shows the performance of the key default funds for the period to 31 December 2020. In general, 1-year returns have been weaker than 5-year returns.

		5 year (ann.)		1 year (ann.)	
Fund name	AUM (£m)	Net Performance vs Benchmark	ABI ranking	Net Performance vs Benchmark	ABI ranking
Dynamic Growth IV S3	2084.1	1.7	1	-0.6	2
Dynamic Growth II S3	363.3	2.4	1	0.1	1
Managed Ser A / Pre A	352.3	-0.5	3	-3.8	4

2.4 With Profits

Over £1 billion of workplace pension funds are invested in the With-Profits Fund. This is designed to be more resilient in turbulent markets and returned 6% during 2020. The longer-term results show, average growth of 4.4%pa over 5 years, compared to CPI of 1.7%.

2.5 Investment strategy for default funds

During 2020, the IGC reviewed the lifestyle strategy employed by the main Prudential Dynamic Growth Fund IV funds targeting cash, annuity and drawdown in retirement. The methodology used to conduct these reviews focuses on four key customer outcomes: right solution; clear, timely and relevant information, good value and trusted provider. Each of the reviews concluded that the key customer outcomes were being met and the lifestyles represented suitable default options. A number of actions that could further improve the proposition were identified and will be developed during 2021.

3. Environmental, Social and Governance (ESG)

Overall rating: Green

John Nestor, Independent Member

"Evidence of strong buy-in to ESG challenges from our investment managers to be monitored by the IGC's evolving Framework"

During 2020, Environmental, Social & Governance (ESG) issues continued to be in critical focus as the FCA extended the IGC's remit to comment on ESG policies and practices, stewardship and how the IGC takes account of the concerns of members.

3.1 ESG Insight

The IGC continued to receive in-depth ESG presentations and progress updates throughout the year and also called for evidence of the deployment of the policies and processes of those organisations which manage the investments of our customers. The involvement of senior management championing all aspects relating to ESG has been very evident to the IGC.

Today's ESG policies do not only seek to exclude investing in companies with certain negative criteria, but rather consider a range of different issues on how a company is governed, its employment practices and how its activities may be contributing to, or affected by, issues like climate change. Also, investment managers now seek to engage with management and companies to drive changes in corporate behaviour.

For more information about Prudential's ESG and Stewardship policies, please have a read of the latest ESG and Stewardship Report.

3.2 ESG Beliefs and Framework

The IGC holds three core beliefs in relation to ESG:

1) That ESG financial considerations should not simply be a measure that is assessed after the fact but should be fully embedded within the management of the in-scope propositions.

2) That active engagement with companies by investment managers is necessary to drive change and encourage better ESG practices.

3) That the IGC and Prudential's ESG and Stewardship policies should be appropriate to the needs of our customers.

The IGC is required to both consider and report on the appropriateness and quality of the Prudential's ESG policies and Stewardship activities. In the first instance, the IGC has decided to largely focus upon three key areas.

- Environment/Climate
- Social impact
- Stewardship

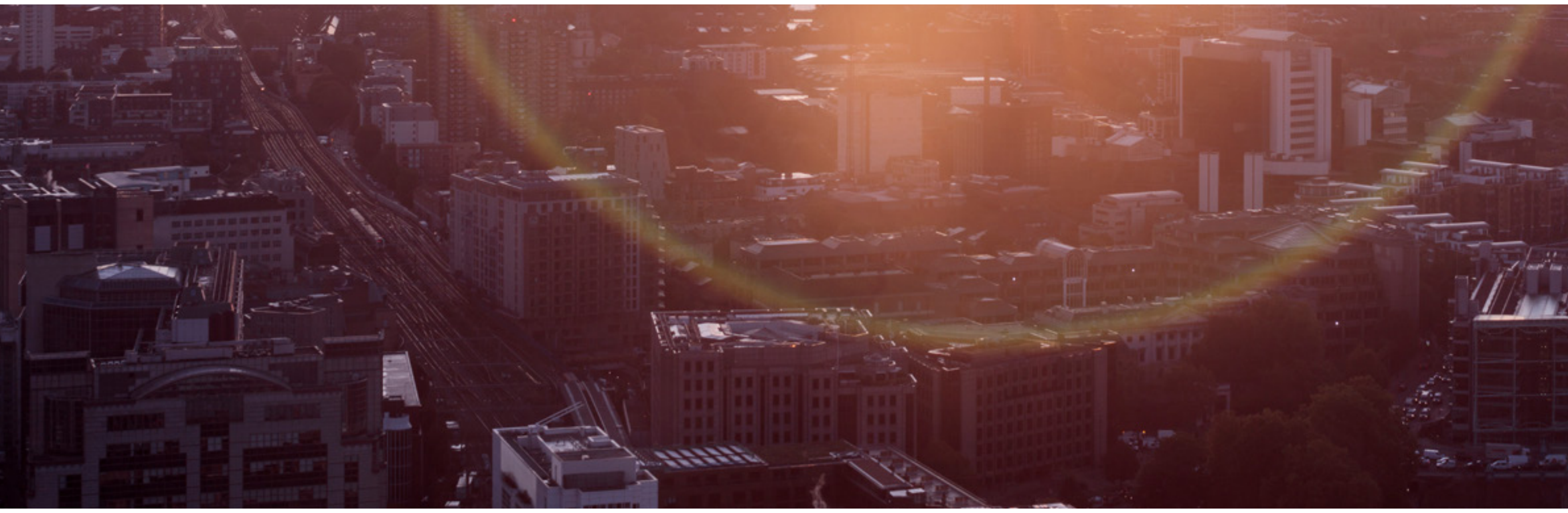
Over the course of the year, the IGC framework took shape and was supported by colleagues in Prudential's Treasury & Investment Office.

Presentations included updates on ESG project workstreams covering the development of reporting on the commitment to Net Zero emissions by 2050(NZ50) and other specific policies (e.g. coal companies, controversial weapons, along with engagement and active ownership to improve impact of corporate activity). In addition, discussions focused on data reporting and more specific data on voting and aligning third party asset managers with the Company's ESG policy and standards. The IGC also received updates on key ESG activity engagement and voting activity of our major asset management providers.

As the role of the IGC expanded in terms of agreeing an ESG framework, an external review was commissioned to (1) confirm that the IGC's framework was in line with the FCA's rules and guidance, (2) provide market benchmarking against other IGCs and (3) adopt, if appropriate, other market participants' best practices. In review of the three key areas on which the IGC are focussed, it was clear that from within the 'Environmental' pillar, climate change is the single largest area that is likely to impact on investment returns and is therefore an appropriate focus for the IGC. In terms of effective stewardship this goes beyond just the exercise of voting rights but also requires close monitoring of, and engagement with, Boards and management. This focus on stewardship forms a vital part in determining the long term investment outcome for our customers.

3.3 Customer Insight

In 2020, customer research was conducted to gain insights from people invested in workplace pensions on the subject of ESG, how it applies to investment, and how they want providers to communicate with them on these issues. This research highlighted that customers hope their asset managers are taking a "responsible" approach to their investments. However, older respondents were generally less sure of the impact of ESG as they had a shorter time horizon to realise potential growth. These are areas where the IGC will remain vigilant.



4. Investment Pathways

Overall rating: Green

Pat Healy, Independent Member

"Considerable work undertaken to develop appropriately designed pathways with effective communication material"

4.1 Background

In July 2019, the Financial Conduct Authority (FCA) published rules requiring providers of retirement products to provide structured investment options to customers who chose not to seek financial advice as they reached the decumulation stage of their retirement products. These structured options are known as Investment Pathways. Providers were required to implement Investment Pathways by end January 2021 and Independent Governance Committees were given extensive responsibilities by the FCA to oversee the introduction and operation of Investment Pathways by the provider.

The IGC worked closely with Prudential during the evolution and implementation of the Investment Pathways and was able to confirm that Pathways were introduced in line with the required timetable and consistent with the regulatory requirements.

4.2 Investment Pathway options

The FCA identified generic approaches to how individual retirement customers might view their future drawdown needs in retirement. They defined these generic approaches as follows:-

Pathway Option 1

I have no plans to touch my money in the next 5 years

Pathway Option 2

I plan to use up my money to set up a guaranteed income (annuity) within the next 5 years

Pathway Option 3

I plan to start taking my money as a long-term income within the next 5 years

Pathway Option 4

I plan to take out all my money within the next 5 years

Prudential was required to build investment solutions that would be appropriate for each of these generic approaches, meeting strict value for money criteria and being capable of clear understanding by customers through a well-constructed communication process.

4.3 The role of the IGC

The role of the IGC in relation to Investment Pathways is similar to its role in relation to workplace pensions in general. The IGC is required to ensure:-

1. That each Pathway option is clearly communicated to customers to enable them to select the appropriate option
2. That the investment solution underlying each Pathway is appropriate to the timeline and risk profile inherent in that Pathway
3. That the total charges associated with each Pathway solution meet regulatory requirements and are reasonable in the context of the specific solution

The IGC engaged in depth with Prudential on each of these themes.

4.4 Communications

Prudential put considerable effort into developing its customer communications around Pathways and took into account input from the IGC on the evolving material. The IGC was pleased to see extensive use of customer panels and the integration of Pathways communication into the on-going development of web-based tools to support good quality print material. The IGC concluded that the holistic communications approach was fit for purpose but recommended that the actual experience of customers going through the Pathways process should be reviewed in the year following the introduction.

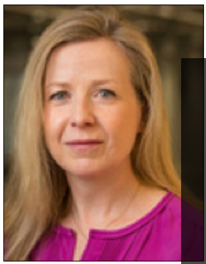
4.5 Appropriateness of the Investment Solutions

The IGC recognises that there is inherent risk in all investment solutions in the context of retirement planning. However, the IGC is comfortable that the existing extensive product range of Prudential, particularly in the areas of risk mitigation and risk smoothing, has enabled a good and appropriate outcome to match the individual Pathway options. The IGC is also conscious that customers' needs and expectations can change through time and it is important that on-going review of the appropriateness of specific Investment Pathways is facilitated.

4.6 Costs and charges

Costs and charges have a significant impact on customer outcomes particularly in a low investment return environment. However, broadly diversified, multi-asset active funds with risk mitigation features are more expensive to construct and manage than simple passive investment vehicles. The Prudential solutions for the longer term oriented Pathways offer customers access to smoothed multi asset funds rather than a passive solution and hence sit at the more expensive end of the range, although they do meet regulatory cost requirements. The IGC examined the charging structure of these products in detail and concluded that they did provide value for money given the comprehensive range of features and service options compared to simpler product offerings. Initially, the IGC was unhappy with the proposed charging level for the shorter-term cash-oriented Pathway solutions and, as a result, an alternative fund was proposed by Prudential with a material reduction in the proposed charges for this option. The IGC was comfortable with the final position but continues to review costs and charges associated with Investment Pathways in the light of developing market practice.

5. Costs and Charges



Overall rating: Green

Jennifer Owens, Company Appointed Member

"All information required by new regulations is fully available and costs and charges are generally appropriate"

5.1 Rules on publishing and disclosing costs and charges

In February 2020, the FCA published final rules on publishing and disclosing costs and charges to contract-based workplace pension scheme members. These require the IGC to:

- Publish information about the transaction costs and administration charges imposed on schemes for each default arrangement in the Chair's report
- Include an illustration of the compounding effect of aggregate costs and charges
- Publish all this costs and charges information, free of charge on a publicly available website

These rules first took effect for the 2020 calendar year with an initial publication deadline of 31 July 2021.

All of these requirements have been met by Prudential and the information can be accessed here.

5.2 Transaction costs

In April 2020, the IGC held a special meeting to gain a much deeper understanding of the make-up, calculation and reporting of transaction costs.

The IGC continues to monitor these costs. Specific attention is given to funds where the transaction costs are outside reasonable expectations (in excess of 30 basis points). A summary of transaction costs reporting during 2020 is as shown in the table below.

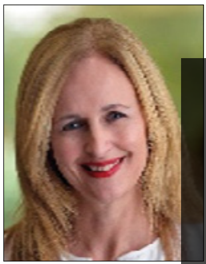
The IGC are satisfied that transaction costs remain appropriate.

5.3 Annual management charges

The IGC continues to monitor annual management charges and are satisfied that annual management charges remain appropriate and the charges for default funds are within the charge cap.

IGC Meeting Date	27 Mar 2020	10 Jul 2020	23 Sep 2020	26 Nov 2020
Period covered	12 months to 30 Sep 2019	12 months to 31 Dec 2019	12 months to 31 Mar 2020	12 months to 30 Jun 2020
Number of outlier funds	11	10	7	2
% of AUM in outliers	c. 1%	c. 1%	< 1%	< 1%

6. Communications and Engagement



Overall rating: Green

Hillary Williams, Company Appointed Member

"Considerable progress on building a robust customer experience strategy, including a focus on vulnerable customers, to be measured by the IGC's framework for assessing value for money in this area"

6.1 Progress in 2020

Prudential has established a customer experience strategy to ensure customers receive the right information at the right time so that they will be able to make properly informed decisions about their pension savings. This strategy aims to not only get the fundamentals right but to build customer relationships and support customers with improved educational information.

In terms of customer experience, a key focus in 2020 has been the development of the Vulnerable Customer strategy which aims to reduce the potential for financial or psychological harm to customers.

Additionally, Prudential has continued to improve the process through which the IGC receives direct feedback from customers with the presentation of regular information and research feedback. This has included the development of the "Voice of the Customer" which captures customers' experience and their levels of satisfaction.

6.2 Transformation and digital enhancements

Work has continued on Prudential's business transformation programme with many of the planned digital enhancements in the areas of bereavements, retirement and claims being speeded up by the impact of Covid-19. In addition, an upgraded online experience on the MyPru platform was developed, providing accessible educational information, useful tools and more self -service opportunities. Enhancements were also made to deliver a smoother registration process for new members.

6.3 Building the Value for Money Framework

Building a robust value for money framework reflecting member feedback, external benchmarking and proactive research, is well underway. More specific metrics are being developed to allow the IGC to make a more consistent assessment year on year.

External benchmarking has also enabled the IGC to ascertain what is most important to customers with the research highlighting a number of areas of strong performance such as succinct communications with good attention to graphic design. Areas for recommended focus included issues on call waiting time (see section 7 below for more on this) and the requirement of more signposting of on-line tools.

The IGC is assured of the company's commitment to focus on areas highlighted as needing improvement, and this will form part of the regular metrics for our framework to monitor delivery of agreed actions. More detailed performance analysis for our members is expected in 2021.

7. Customer Servicing

Overall rating: Red

Bruce Rigby, Independent Chairman

"As a result of the impact of COVID-19 and platform changes, service levels have been unacceptable but appropriate resources are being deployed to improve the position."

In spite of all of the work described in the previous section, 2020 has seen an unacceptable level of servicing for many customers.

Initially, this resulted from the impact of Covid-19 and, particularly, the absence of staff from service centres and the need for remote working. Improvements in service levels were being achieved prior to a major technology project in the Autumn which transferred many members to a new administration platform. This migration represented a key part of Prudential's business transformation strategy and will underpin the digital enhancements described above. However, combined with the return of lockdown after Christmas, this created a situation where service levels deteriorated significantly.

The IGC has closely monitored service levels throughout the year and have continued to receive monthly reports during 2021. We are satisfied that the company is committed to rectifying the situation as quickly as possible and we will maintain a close watch on progress.

Performance of Individual Service Areas vs End to End Targets

Key Telephony Measures	Achieved		Targets
Call Abandon Rate	14.9%		<=5%
Average speed to Answer (minutes)	7 mins 26 sec		<=2min 9 sec

Customer Journey Measures	% closed within target		Target (days)
New Business	96.6%		43
Claims	82.2%		43
Customer Servicing	94%		48
Bereavements	96.6%		154

8. Plans for 2021

The IGC has developed its 2021 business plan which includes the following

- **Costs and charges:** participation in a benchmarking survey with other providers/IGCs, and a project to gain a deeper understanding of the cost/benefit of with-profits investment
- **Investment:** assessment of the appropriateness of performance metrics
- **Customer experience:** a refresh of the IGC's website
- **Investment pathways:** review of Prudential's experience as well as evolving market practice
- **ESG:** further development of the framework and expansion of the metrics being considered

Appendix 1: How do we measure Value for Money (VfM)?

In 2020, the IGC refined its Value for Money framework and its calibration, with the intention of further developing this throughout 2021.

The IGC's current approach to VfM takes account of a range of factors, including investment performance, costs and charges, and service and communications. These have been weighted to reflect our view that what ultimately matters is the outcome for Members.

On the basis that good financial outcomes lead to higher retirement income, we prioritise investment returns and charges as being the most important elements of VfM. We then look at a number of secondary service quality features, placing particular emphasis on the swift and accurate processing of contributions, the level of performance in dealing with complaints, and the quality of communications. With regard to the primary financial components of VfM, it is important to note that:

a) for investment returns the IGC believes it is appropriate to not only look at investment returns compared with CPI (Consumer Price Inflation), but also performance relative to industry benchmarks, the level of risk taken and fees charged. The performance metrics analysed over 1,3 and 5 year periods are:

- Fund net return vs benchmark
- Tracking error vs benchmark
- Net information ratio
- Client share of outperformance
- Fund net return vs UK CPI
- Quartile ranking within ABI sector.

b) For charges, we have continued to use the following reference points to identify where VfM concerns might arise:

- 0.75% per year for default strategy charges in schemes used for auto enrolment (or the equivalent limits set by DWP for schemes with combination charges)
- 1.00% per year for unit-linked schemes not used for auto-enrolment
- 1.25% per year for With Profits investments where the benefits of smoothing and guarantees bring extra value to Members. We review both the cost of the investment and the cost of these guarantees separately, scrutinizing the value offered by both. Our reference point represents the combined cost of both elements.

The IGC's VfM framework:

Acceptable	No material issues. Performance is in line with expectations. However, there may still be some areas for further improvement.
Requires Closer Monitoring	Some concerns. There may be a group of customers for whom improvements are required or specific areas that require attention.
Take Action	Major concerns. Performance is at a level below which the IGC feels is appropriate, or below alternatives available in the market. Urgent action will be considered.

Investment Performance - Retrospective

Return Metric			
Net return vs benchmark	Varies by fund type / asset class (ref below)		
Client share of outperformance	>60%	30-60%	<30%
Tracking error	Varies by fund type / asset class (ref below)		
Net information ratio	>0.2	-0.67 to 0.2	<-0.67
Net return vs UK CPI	>=3%	0 to 3%	<0%
ABI Sector Quartile Ranking	1, 2	3	4

+ Click to reveal further information

Investment Pathways

Is each Pathway Option clearly communicated to customers, enabling them to select the appropriate option?

Yes Materially No

Does each Pathway Option have a clear statement of aims and objectives?

Yes Materially No

The investment solution underlying each Pathway is appropriate to the timeline and risk profile inherent in that Pathway?

Yes Materially No

Do the total charges associated with each Pathway solution meet regulatory requirements and are they reasonable in the context of the specific solution?

Yes Materially No

Investment Strategy Design

Does each Investment Strategy have a clear statement of aims and objectives?

Yes No

Are Default Fund Glide Paths consistent with Pensions Freedoms?

Yes Materially No

Are the Risks/Implied Volatility of the strategy made clear

Yes Materially No

Are the Risk/returns of the strategy close to the Efficient Frontier?

Yes Reasonably Close No

Has the Default Fund Strategy been stochastically modelled?

Yes No

Environment and Social Governance

The IGC will review three key areas of focus, these being Environment/Climate, Social Impact and Stewardship. IGC will select a rating for each key area based on the following:

Yes Materially No

Are ESG financial considerations fully embedded within the management of the in scope propositions?

Yes Materially No

Is there active engagement with companies by asset managers to help drive corporate change and encourage better ESG practices?

Yes Materially No

Are Prudential's ESG and Stewardship policies appropriate to the needs of the customer?

Yes Materially No

Annual Management Charges

- More than 5% of funds under management are above the reference point
- Between 0% and 5% Funds under Management above the reference point
- Most frequent charge applied is less than 0.5%. All member borne charges less than or equal to reference points

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Transaction Costs

- More than 20% of Funds under Management incur costs of more than 0.5%
- 80% of Funds under Management incur costs between 0.2% – 0.5%
- Default fund less than 0.2%
  80% of Funds under Management incur costs of less than 0.2%

Communication and Engagement

Are relevant communications (off line and on-line) provided at an appropriate point (e.g. key life stage/ key event)?

Yes Materially No

Are these communications useful, clear and easy to understand?

Yes Materially No

Do Prudential provide quality self-service and additional support material to suit member's needs and objectives?

Yes Materially No

This is a first iteration of the IGC's Communications assessment framework. IGC plan to continue evolving this throughout 2021 as we further develop the benchmarks and KPIs to support our assessment.

Service Levels

- More than half Service levels not met
- Between 50% – 100% of Service levels met
- All Service levels met

Appendix 2: Jargon Explained

ABI Sector – The 'Absolute Breadth Index '(ABI) Fund Sectors is a system for the classification of unit-linked life and pension funds with similar investment strategies. It is designed to group together funds that are similar, so that they can be compared on a like-for-like basis.

AMC – Annual Management Charge: the charge made over the year by fund managers and product providers to cover the expenses associated with running the investment fund and administering the pension plan. Although shown as an annual percentage figure, the charge is usually taken from the fund daily.

AUM – Assets under Management. Total Market Value of the assets managed by the investment firm for their investors.

FUM – Funds under Management. Sometimes called assets under management (see above).

BPs – Basis points. One basis point is equal to 1/100th of 1%, or 0.01%.

COBS – Conduct of Business Sourcebook (in other words, the FCA's rule book that sets out the requirements for Independent Governance Committees).

CPI – The Consumer Prices Index: CPI is the official measure of inflation of consumer prices of the United Kingdom.

ESG – Environmental, social and governance (ESG) refers to the three key factors when measuring the sustainability and ethical impact of an investment in a business or company.

FCA – The Financial Conduct Authority.

Glide Path – A formula that defines the asset allocation mix of an investment fund. The mix is based on the number of years left until a customer's target retirement date.

Guarantees – An investment guarantee is a special provision designed to protect investors from incurring overall losses.

Growth Funds – Funds that invest in equities, multi assets or property

IGC – Independent Governance Committee.

Investment Pathway – A new initiative from the FCA aimed at providing customers with an investment solution to match a particular objective in drawdown.

Prudential – "Prudential" is a trading name of The Prudential Assurance Company Limited, the provider of the workplace pensions.

Net Information Ratio – The information ratio (IR) is a measurement of portfolio returns beyond the returns of a benchmark.

Net Zero – Refers to the balance between the amount of greenhouse gas produced and the amount removed from the atmosphere. We reach net zero when the amount we add is no more than the amount taken away.

Reference Point – A level of charge for a fund above which IGC believes Value for Money concerns might arise.

Risk Mitigation – The process of reducing risk exposure and minimising the likelihood of an incident.

Risk Smoothing – The financial impact of incurred losses is distributed between members of the risk pool.

Smoothing – The use of accounting techniques to level out fluctuations in investment returns from one period to the next (aiming to 'smooth' the peaks and troughs of market movements).

VfM – Value for Money, see appendix 4 for more information.

Value Style – An investment approach that aims to identify stocks & shares trading below their estimated 'fair value' and then profit as the share price adjusts.

Tracking Error – The tracking error identifies the level of consistency in which a portfolio "tracks" the performance of an index. A low tracking error means the portfolio is beating the index consistently over time. A high tracking error means that the portfolio returns are more volatile over time and not as consistent in exceeding the benchmark.

Transaction Costs – Expenses incurred when buying or selling a good or service. Costs include broker charges and spreads, which are the differences between the price the dealer paid and the price the buyer pays.

Watch List – Funds are added to this watch list if they are under performing or if there are additional causes for concern (e.g. significant unexpected changes in the market). These funds are then monitored closely and reviewed on a regular basis.

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