VIRGIN STAKEHOLDER PENSION INDEPENDENT GOVERNANCE COMMITTEE

Chairman's Report for the year ending 5 April 2017

The Committee encourages you to read this report

Executive Summary

In April last year, the Independent Governance Committee (IGC) for the Virgin Stakeholder Pension scheme sent you its first report on how we believe your pension provider (Virgin Money) is managing your pension.

Our report contained feedback on things we like about your pension, and the way it is managed, as well as some areas where we believe improvements should be made by the provider. This is our second report and we provide an update for the year to 5 April 2017.

Last year the IGC developed a scorecard to assess whether your pension is delivering value for money. We have updated our scorecard, a summary of which is provided below. A more detailed version is available later in the report.

Value for Money factor	Update	RAG status April 2016	RAG status April 2017
Default strategy	The provider has reviewed the default strategy but has decided not to make any changes at the present time. The IGC would encourage the provider to revisit this decision. The IGC believes that the current default strategy is not as diversified as it should be and still targets an annuity at retirement, whereas evidence suggests that most members are likely to choose another option, such as drawdown or cash. We believe the 'annuity' objective of the default strategy should be more clearly communicated to members.	R	R
Fund performance and characteristics	Based on external comparisons, we believe the fund performance is mid-pack. In terms of fund characteristics, the provider has taken on-board the IGC's concern regarding the appropriateness of the Income Protector Fund name and has agreed to revise it.	A	A
Account servicing	The operation would appear to be fit for purpose within the limits of the IGC's oversight capacity. When problems do occur they are managed rigorously. The provider has recently made improvements to offer additional support for vulnerable customers. Transactions appear to be processed promptly and within acceptable limits.	G	G
Costs, charges and benefits	The provider continues to be compliant with the auto-enrolment scheme AMC fee cap (0.75%) but fees are relatively high compared to other passively managed schemes. This can have a significantly detrimental effect on the value of your pension fund over the long term. On a positive note we continue to believe the simplicity of the scheme is a benefit.	A	A

Red indicates that urgent attention is required, **Amber** that there is room for improvement, and **Green** that performance is satisfactory.

An explanation of our findings and what it means for you

The colour coded scoring system of Red, Amber and Green is used on the scorecard to demonstrate how your pension has been assessed with regards to value for money for members. The scoring system is our assessment of suitability, not an assessment of regulatory compliance. Red indicates that urgent attention is required, Amber that there is room for improvement, and Green that performance is satisfactory.

We have provided further detail later in the report on the Amber and Red items to help explain what these mean for you.

Default Strategy

Your pension will automatically be invested in the "default strategy" unless you have told the provider you wish to invest differently. Many members leave their pension in the default strategy, meaning the provider chooses how your pension is invested on your behalf. Given the importance of the default strategy it should be reviewed regularly to ensure that it continues to meet your needs.

The provider has now conducted a review but has decided not to make changes to the strategy at the present time. A consequence of this is that the default strategy continues to be concentrated in UK equities and is not as diversified as we believe it should be, which may lead to higher volatility of returns compared to more diversified schemes. In addition, the design of the strategy still targets annuity purchase, which does not appropriately accommodate the new pension freedoms introduced in April 2015. Evidence suggests that most members in this scheme are likely to choose another option, such as drawdown or cash at retirement. Finally, there is no cash fund in the default strategy to further de-risk your pension when approaching retirement.

Fund performance and characteristics

The performance of the funds where your pension is invested will significantly impact how much you'll have to retire with. The IGC has used external benchmarking to determine how well your funds are performing compared to other schemes. A summary of this analysis is included on pages 5-7.

Costs, charges and benefits

As pensions are a long term investment the impact of annual charges can have a significant impact on the overall value of your fund. Whilst the 0.75% AMC is compliant with the charge cap, it is towards the high end of the spectrum when compared to similar schemes, and this will have an impact on the value of member funds.

Background on the IGC – and sources of additional help

What does the IGC do?
The IGC is here to represent your interests as pension scheme members. The IGC operates independently of the provider, in accordance with our terms of reference which are set out in the appendix.

The primary responsibility of the IGC is to assess whether you receive value for money from your pension, and to raise any concerns we identify with the provider. The IGC is also required to issue an annual report on how we think your pension is performing. This is the report that we have produced.

I'm not sure which pension I have or how it works?

Your pension is with Virgin Money and you can contact them directly with any questions you have, on 03456 10 20 30. Alternatively, please refer to information Virgin Money has sent to you.

How can I estimate the size of my pension pot at retirement?

Virgin Money has introduced a pension calculator on its website which can be used for this purpose. You can access the calculator at the following address:
http://uk.virginmoney.com/virgin/pension/personal/pension-calculator.jsp

Can I contact the IGC if I have questions?

Of course. We would welcome you to get in touch with any feedback or questions.
You can contact the IGC at workplacepensionsfeedback@virginmoney.com.

Chairman's Statement

A year on from writing our first report I feel the IGC has made progress and there are a number of areas where the provider has taken action. Nevertheless, there remain areas of concern and we comment on these where appropriate. We have given the provider the opportunity to respond and their comments can be seen on pages 12 and 13 of this report.

Default strategy

Whilst the IGC disagrees with the outcome of the default strategy review, which advocates no change to the strategy, we are pleased that the provider has now done a review. The provider has indicated that it may undertake a further review once the FCA's Retirement Outcomes Review has been published and we welcome this.

"Income Protector" Fund

We note that the provider has agreed to rename the fund to something more suitable, after the IGC raised concerns.

Provider comparison

The IGC asked Hymans Robertson, who are independent investment consultants, to carry out some independent work. This focused on gathering information about other providers of workplace pension schemes so that the IGC could build a picture of how the Virgin Stakeholder Pension compares with them. The IGC believe this was a worthwhile piece of work, as it provided the IGC with useful context and the findings further supported the concerns raised by the IGC. Findings can be found on pages 5-7.

Provider's Board composition

The Board which oversees the provider's management of your pension has been bolstered with the addition of Jayne-Anne Gadhia, Virgin Money's Chief Executive Officer, and Virgin Money's Chief Financial Officer, Peter Bole. The appointment of Glen Moreno and Colin Keogh (both non-executive directors of the VM plc Board), is encouraging given their investment background and experience.

Sir David Chapman
5 April 2017

Listening to members – member research

The IGC was pleased that the provider took part in an industry wide research exercise to capture members' views on a variety of subjects.

In order to better understand what members see as 'value-for-money' in workplace pensions, Virgin Money collaborated this year with ten other UK pension providers in an extensive research programme. In summary, the research showed that members generally see workplace pensions as important and would like to improve their understanding of them, but for a variety of reasons find them hard to engage with.

According to the research results, the top three indicators of value-for-money in workplace pensions for members are:

- Good returns (see overleaf);
- Security (e.g. controls and safeguards);
- Clear communications, especially about how contributions from members, employers and tax relief work.

The IGC will use the detailed findings of this research to continually refine our assessment of value-for-money in your workplace pension. In particular, we now have a better appreciation that a good-value workplace pension will not only provide good outcomes at retirement, but the provider must communicate effectively to members during the many years they are scheme members.

This year we also conducted informal research to get feedback on last year's annual report, so that we can improve the way we communicate our findings to you. In the main, the results were positive and any changes suggested have been incorporated into this report where possible.

Fund performance – comparisons

We explained in the executive summary that the performance of the funds where your pension is invested will significantly impact how much you'll have to retire with.

The IGC has used external benchmarking to determine how well your funds are performing compared to other schemes/providers. We commissioned independent research and the following information is a summary of the findings.

Comparing default fund performance

The IGC asked our investment consultants, Hymans Robertson, to gather information about how the performance of this fund compares broadly to other pension schemes with similar aims.

Hymans Robertson collected returns from eleven providers. Of these, Virgin Money and two others continue to design their default fund assuming members will buy an annuity (i.e. a guaranteed income for life) when they retire. The remaining eight have changed their default funds to cover the new options available since pensions freedoms were introduced in April 2015: many now offer a range of funds targeting drawdown, cash, and annuity when a member retires.

Please note: while the other funds offer a variety of different investment approaches, their purpose is broadly similar; to provide high growth in the early years of your pension, followed by a gradual reduction of risk as retirement approaches.

Growth phase performance

In the Virgin Money default option, your pension is invested 100% in the Virgin Money Pension Growth Fund until you are ten years away from retirement. The returns during these years are therefore very important to the size of your retirement pot. See below for the assumptions used for this comparison.

Returns from growth funds of default pension schemes	1 year to 31 December 2015 % per annum	1 year to 31 December 2016 % per annum	5 years to 31 December 2016 % per annum
Highest	4.0	22.5	11.9
Median	1.4	18.0	9.3
Lowest	-0.1	12.6	8.5
Virgin Money Pension Growth Fund	0.2	15.6	9.1
Ranking	8th/10	9th/13	5th/8

Source: Financial Express and Providers. Performance of all funds shown after the deduction of an indicative 0.75% p.a. charge. Charges may vary depending on the terms of individual policies.

Performance at retirement

Once you reach ten years before your expected retirement date, Virgin Money gradually reduces investments in the VM Growth Fund and increases investment in the Virgin Money Income Protector Fund. When you reach retirement, you are 100% invested in the Income Protector Fund which is suitable for you if you intend to purchase an annuity.

The table below shows the returns for the last five years for members retiring on 31 December 2015 and 2016 with Virgin Money compared to other default pension schemes also targeting annuities at retirement. See below for the assumptions used for this comparison.

Returns to retirement from 10 other pension schemes targeting annuities at retirement	**1 year to 31 December 2015 % per annum**	**1 year to 31 December 2016 % per annum**	**5 years to 31 December 2016 % per annum**
Highest	1.4	14.4	8.7
Median	-0.1	13.2	6.3
Lowest	-2.5	8.1	5.6
Virgin Money Default Strategy	-0.4	8.1	5.7
Ranking	7th/10	10th/10	8th/10

Source: Financial Express and Providers. Performance of all funds shown after the deduction of an indicative 0.75% p.a. charge. Charges may vary depending on the terms of individual policies.

Observations

From the above tables and other analysis, the IGC has observed that the Virgin Money default fund has in recent years performed broadly in line with the median of its peers. Investment returns for members far from their retirement have been boosted by the strong performance in share markets, both in the UK and overseas, in 2016, which in many ways was an exceptional year; note the performance in 2015. We will continue to monitor performance and refine the way in which we compare returns of the Virgin Money pension to its peers.

Assessing Value for Money - IGC Scorecard

Last year the IGC developed a scorecard to assess whether your pension is delivering value for money, which contained a set of objectives aligned to the FCA's Terms of Reference for IGCs*. We have maintained the same scoring method in this year's scorecard to so that you can compare it with our previous report.

As a reminder, the colour coded scoring system of Red, Amber and Green is used on the scorecard to demonstrate how your pension has been assessed with regards to value for money for members. *As mentioned previously the scoring system is our assessment of suitability.*

1. Default Strategy **IGC objective:** Ensure default investment strategies are designed in the interests of scheme members, with a clear statement of aims, objectives and structure appropriate for scheme members	**RAG status April 2016**	**RAG status April 2017**
Summary of progress since last report: The provider has reviewed the default strategy but has decided not to make any changes at the present time. The IGC would encourage the provider to revisit this decision. The IGC believes that the current default strategy is not as diversified as it should be and still targets an annuity at retirement, whereas evidence suggests most members are likely to choose another option, such as drawdown or cash at retirement. Cash and drawdown are new options available since 'pension freedoms' were introduced in April 2015.	R	R

Additional detail - scoring criteria for the default strategy:
(a) Is the default strategy designed in the interests of members? The provider has just completed a review of the default strategy but has decided not to make any changes. The IGC believes that scheme members should have access to the greater pension freedoms introduced in April 2015 rather than the annuity strategy the current default targets. We also believe the default strategy is too concentrated in UK equities and should be more diversified. The provider is aware of our concerns and will re-visit the default strategy once the FCA's Retirement Outcome Review is published, currently scheduled for mid-2017. Of the 11 providers in our independent comparison, Virgin Money and two others have not modified their default fund design in light of new pensions freedoms.
(b) Is there a clear statement of aims and objectives? Yes, aims and objectives for the pension scheme and the default funds are documented, and shared with members in the "Key features" documentation. However, we believe the annuity objective of the default strategy should be more clearly communicated to members.
(c) Is the default strategy reviewed regularly? The strategy is reviewed annually for regulatory and compliance purposes and has just undergone a strategic review by the provider (see above).

Red indicates that urgent attention is required, **Amber** that there is room for improvement, and **Green** that performance is satisfactory.

*As outlined in FCA Policy Statement 15/3. There is no set definition of "Value for Money" provided in the FCA's final rules, so the IGC has reviewed Value for Money through a number of lenses, summarised in the scorecard.

2. Fund Performance and characteristics **IGC objective:** Consider whether the characteristics and net performance of investment strategies are aligned to the interests of scheme members and are regularly reviewed by the provider, and take action to make changes as appropriate (including non-default strategies / funds)	RAG status April 2016	RAG status April 2017
Summary of progress since last report: The IGC has conducted external benchmarking to assess fund performance. Based on this benchmarking we believe that fund performance is mid-pack. In terms of fund characteristics, the provider has taken on-board the IGC's comments and has agreed to rename the "Income Protector" Fund.	A	A

Additional detail - scoring criteria for fund performance and characteristics:
(a) How does net performance compare to comparable funds? The IGC has undertaken an independent benchmarking exercise to compare fund performance to comparable provider performance. A summary of this analysis has been made available on pages 5-7, but in brief, the performance of the funds is in line with median performance. We do not believe this requires urgent attention, but there is room for improvement.
(b) What are the fund characteristics and are these aligned to member interests? The IGC expressed a concern over the name of the "Income Protector" Fund given that it does not include a cash-fund as members approach retirement. We are pleased that the provider has agreed to re-name the fund for greater clarity, which we hope will be within a reasonable period of time.

Red indicates that urgent attention is required, **Amber** that there is room for improvement, and **Green** that performance is satisfactory.

Scorecard continues on the following page.

3. Account Servicing **IGC objective:** Review timescales and accuracy of transactions undertaken on behalf of scheme members and assess whether these are conducted within acceptable tolerances	**RAG status April 2016**	**RAG status April 2017**
Summary of progress since last report: The provider continues to make improvements to the administration and has recently implemented additional support for vulnerable customers. When problems do occur they continue to be managed rigorously by the provider. Transactions appear to be processed promptly and within acceptable limits. The operation would appear to be fit for purpose within the limits of the IGC's oversight capacity. The provider has substantially strengthened the operational part of the business during the year.	G	G

Additional detail - scoring criteria for account servicing:
(a) Are processing timescales within acceptable tolerances? Core transactions generally appear to be processed promptly.
(b) Is processing accuracy within acceptable tolerances? Core transaction processing accuracy continues to appear to be within acceptable limits.
(c) Is the operation fit for purpose? The provider continues to diligently address operational issues as and when they arise. Improvements have been made to offer additional support to vulnerable customers. In addition, a specialist team has now been set up to support members in the unfortunate event of a family bereavement. Overall, the operation would appear to be fit for purpose within the limits of the IGC's oversight capability.

Red indicates that urgent attention is required, **Amber** that there is room for improvement, and **Green** that performance is satisfactory.

Scorecard continues on the following page.

4. Costs, charges and benefits **IGC objective:** Weigh up all the benefits and services delivered relative to their cost to scheme members, in the context of an assessment of whether members need and value each benefit or service	RAG status April 2016	RAG status April 2017
Summary of progress since last report: The provider continues to be compliant with the auto-enrolment (AE) scheme AMC fee cap (0.75%) but fees are relatively high compared to other passively managed schemes. This may significantly impact the value of members' pension funds over the long term. On a positive note we continue to believe the simplicity of the scheme and its fee structure is a benefit.	A	A

Additional detail - scoring criteria for costs, charges and benefits:
(a) Is the provider compliant with the AE cap? Yes, albeit the AMC for capped schemes is set at the maximum possible level (0.75%).
(b) Are the schemes appropriately governed, including the handling of complaints? The information provided to the IGC appears comprehensive and does not give the IGC concern. Complaint volumes continue to be low and response rates prompt.
(c) Is the administration of services, including member communication, fit for purpose? Members appear to receive appropriate communications, both in terms of the number of statements and content. Day-to-day administration of the scheme appears to be fit for purpose. The provider is currently undertaking a review of customer communications.
(d) Are costs and charges incurred by scheme members fair and transparent? Costs are clearly stated although research undertaken by the IGC would suggest that the AMC is higher than comparable passive schemes.
(e) What are the main benefits provided by this scheme? The IGC continues to believe that the simplicity and transparency of the charging structure (with 'no nasties') is attractive and compares favourably to peers. The provider also offers a high degree of flexibility for both members and employers in terms of contributions.

Red indicates that urgent attention is required, **Amber** that there is room for improvement, and **Green** that performance is satisfactory.

Comments from the provider

Over the past year, we've worked very closely with the IGC, sharing full details of our pension performance and operation. We're pleased with the work we've done together and would like to thank the IGC members for their support.

We're particularly pleased the IGC has recognised the improvements we continue to make in our account servicing.

In line with the commitment we made in last year's report, we've carried out a full review of our default strategy to make sure it's still right for those customers who have selected it. As part of this review, we've looked at how customers use their pensions and the impact different default approaches would have, as well as considering a number of legal and regulatory factors. The views of the IGC were taken into account throughout the review.

After completing our review, we concluded that our current default strategy is still consistent with our commitment to offer a simple and straightforward pension. This strategy has also delivered positive investment returns for those customers who have selected it – and we expect this to continue.

Despite the uncertain political and economic backdrop of 2016, we were pleased to see our pension growth fund (used in the growth phase of our default strategy) deliver a 15.6% return to customers. Customers looking for more diversity in their investments can still take advantage of the alternative funds we offer, including our global share fund, but we know the additional risks (for example, currency risk) mean these funds aren't suitable for everyone. While our pension growth fund may focus on UK companies, many of these have global operations, so customers can still benefit from the exposure those companies have to global markets, as well as the UK economy.

The new 'pension freedoms' give customers much greater choice in how they use their pension savings and clearly there isn't one default strategy that could cater for all these options. While it's possible that changing our default strategy would benefit some customers, we think there's a real risk it could have a negative effect on others. In addition, many customers will have pension savings with other providers so any decision they make will be based on their entire pension savings. This makes it even harder to second-guess what customers will do with their savings and in particular, whether they will cash them in.

Given the full review we carried out and the rationale given for our conclusions, we're naturally disappointed that the IGC has given an adverse view of our current default strategy. In 2017 we'll continue to reflect on whether any appropriate changes can be made to benefit all customers – and if so, we'll make them. In the meantime, we recommend customers use either the Government's free and impartial Pension Wise service or seek independent advice if they're unsure whether the default strategy is right for them or whether alternative options would be more suitable.

We were pleased to participate in the industry-wide research to better understand how customers can judge value for money in their pensions. This research highlighted the importance of clear communications to customers and we'll continue to look for ways to enhance ours. We have a number of changes already planned for the coming year.

The IGC's plan for 2017-18

> The IGC will continue to work in a collaborative way with the provider on the findings we have identified. We are pleased that Virgin Money is embarking on a comprehensive review of member communications, with input from member feedback, and we will evaluate progress. In particular, we are interested in communications that add value to members' understanding of the importance and role of contributions to the size of their pension pot and the adequacy of their retirement income. Having only recently received the results of the collaborative member survey, we will be interested in how it can be applied to improve your Virgin Money pension services.

The main focus of the IGC's work for 2017/18 will be:

> To continue to raise our concerns over the suitability of the default strategy and to encourage the provider to implement the findings of the strategic review undertaken during 2016.

> To continue to refine our benchmarking of returns and how these are explained to members, since this factor emerged as a high priority in our research.

The Committee

Your Committee has five members, with a majority of wholly independent members including an independent Chairman. All members were appointed following an open and transparent recruitment and interview process.

The terms of appointment include the duty to act solely in the interests of relevant scheme members, which overrides any obligations to their employer or indeed their duty to shareholders. All members are considered independent in character and judgement.

The Committee considers that it has sufficient expertise, experience and independence to act in Members' interests.

Sir David Chapman Bt. DL. B.Com. – Independent Chairman
Sir David has a Finance and Investment background. He is currently Chairman of the Virgin Money Retirement Savings Scheme, having previously been Chairman of Northern Rock Pension Scheme and Northern Rock Asset Management Pension Scheme. He is a non - executive director of several companies, including an AIM listed manufacturing company, Zytronic Plc. In 1995 he was the London Stock Exchange's nominee on a corporate governance committee, the Greenbury Committee on Directors' Remuneration, representing the interests of small shareholders.

Steve Balmont – Independent Member
Steve has acted as a professional pension trustee with Law Debenture since 2000. He is involved with 17 defined benefit and defined contribution pension schemes of varying sizes and complexity. For a number of these schemes he acts as Chairman and is involved in investment, audit, governance and funding issues. He is a chartered accountant by professional background. He is involved with various pension bodies including an actuarial committee of the Financial Reporting Council, the Pensions Research Accountants Group and the PLSA South London. Steve is also a long-serving director of London South Bank University and chairs the audit committee.

Dianne Day – Independent Member
Dianne is a professional trustee with Independent Trustee Services Limited. She has a wealth of experience in investment, governance and trusteeship in the UK and Australia. She has held senior executive roles with investment firms, including Board accountability for substantial investment portfolios and pension funds. She has been a Pension Trustee since 2007 and has experience serving on both defined benefit and defined contribution schemes. She is particularly interested in effective member communications and engagement strategies. Dianne holds a BA, MBA (Hons) and a Diploma of Applied Finance & Investment. She is a member of the Association of Professional Pensions Trustees and the Pensions Management Institute.

Kieran Ferguson
Kieran has a background in financial services. He is currently Head of Credit Portfolio Management at Virgin Money, and is responsible for protecting the income and capital value of the bank's credit portfolio as part of the Treasury function. Prior to joining Virgin Money he was a consultant at Accenture, specialising in programme management and systems integration across a range of financial services clients. Kieran holds a first class honours degree in Law and Business (LL.B Hons) from the University of Edinburgh.

Simon Norman
Simon has spent his career in financial services. His current role is Head of Strategic Finance at Virgin Money, where he is responsible for strategic planning and corporate finance. Prior to joining Virgin Money, Simon held roles in capital and product management in the investment and retail banking divisions of the Royal Bank of Scotland Group. He holds a first class degree in Mechanical Engineering from the University of Southampton.

Glossary of terms

As this is a regulatory document we have to use some jargon. To help you with any of the words you may not be familiar with we have provided a glossary below:

AMC – Annual Management Charge. Annual charges set by the provider to look after your fund.

Annuity – An annuity is purchased from an insurance company at retirement, using what you have built up in your Virgin Stakeholder Pension to provide you with an income/pension for the rest of your life.

Auto Enrolment (AE) – Employers have a legal duty to enrol all eligible employees into a qualifying workplace pension scheme and to make contributions towards their employees' pension.

Benchmarking – Comparing your provider to other schemes/providers.

Default Strategy – The provider chooses how your pension is invested on your behalf.

Diversified – A wide variety of investment funds.

FCA – Financial Conduct Authority.

IGC – Independent Governance Committee.

Median – The median provider in a rank of all providers is the one in the middle.

Provider – Virgin Money.

RAG status – The colour coded scoring system of Red, Amber and Green is used on the scorecards to demonstrate how your pension has been assessed with regards to value for money for members:

Red indicates that urgent attention is required
Amber that there is room for improvement
Green that performance is satisfactory.

APPENDIX

Terms of Reference for the Virgin Money Unit Trust Managers IGC

These are the Terms of Reference for the Independent Governance Committee (the "IGC") for workplace personal pension members of the Virgin Stakeholder Pension Scheme (VSPS), available for use by UK based employers as a Group Stakeholder Personal Pension and/or an Automatic-enrolment qualifying scheme which is provided and administered by Virgin Money Unit Trust Managers Ltd, an FCA authorised unit trust manager and stakeholder pension operator.

These Terms of Reference have been prepared in line with final rules to be added to the FCA's Conduct of Business Sourcebook (COBS) Pensions supplementary provisions in COBS 19.5 IGCs. Any further amendments to these final rules will be reflected as an update to these Terms of Reference.

When acting in accordance with these Terms of Reference, the IGC will have regard to the relevant FCA guidance contained at Appendix 1 and detailed supporting policies contained in the IGC corporate risk framework.

Definitions

COBS	the FCA's Conduct of Business Sourcebook as amended from time to time
FCA	the Financial Conduct Authority
IGC	the Independent Governance Committee for the Virgin Stakeholder Pension Scheme provided by VMUTM to whom these Terms of Reference apply
Policyholders	all Virgin Stakeholder Pension customers who are active or deferred members of a workplace personal pension scheme administered by VMUTM (including both group stakeholder and automatic-enrolment members)
Scheme	the Virgin Stakeholder Pension Scheme provided by VMUTM
VMUTM	Virgin Money Unit Trust Managers Ltd
VMUTM's governing body	The Board of Directors of Virgin Money Unit Trust Managers Ltd

Terms of Reference

(1) The IGC will act solely in the interests of Policyholders and manage any conflicts of interest that arise;

(2) The IGC will assess the ongoing value for money for Policyholders delivered by the Scheme particularly, though not exclusively, through assessing:

(a) whether VMUTM's default investment strategies;

(i) are designed and executed in the interests of Policyholders; and

(ii) have a clear statement of aims and objectives appropriate for those Policyholders;

(b) whether the characteristics and net performance of investment strategies are regularly reviewed by VMUTM to ensure alignment with the interests of Policyholders and that VMUTM takes action to make any necessary changes;

(c) whether core Scheme financial transactions are processed promptly and accurately;

(d) the levels of charges borne by Policyholders; and

(e) the direct and indirect costs incurred as a result of managing and investing, and activities in connection with the managing and investing of the pension savings of Policyholders, including transaction costs;

(3) the IGC will raise with VMUTM's governing body any concerns it may have in relation to the value for money for Policyholders delivered by the Scheme;

(4) the IGC will escalate concerns as appropriate where VMUTM has not, in the IGC's opinion, addressed those concerns satisfactorily or at all;

(5) the IGC will meet, or otherwise make decisions to discharge its duties, using a quorum of at least three members, with the majority of the quorum being independent;

(6) the Chair of the IGC will be responsible for the production of an annual report setting out:

(a) the IGC's opinion on the value for money delivered by the Scheme, particularly against the matters listed under (2);

(b) how the IGC has considered Policyholders' interests;

(c) any concerns raised by the IGC with VMUTM's governing body and the response received to those concerns;

(d) how the IGC has sufficient expertise, experience and independence to act in Policyholders' interests;

(e) how each independent member of the IGC, together with confirmation that the IGC considers these members to be independent, having taken into account those matters set out at COBS 19.5.12G;

(f) the arrangements put in place by VMUTM to ensure that the views of Policyholders are directly represented to the IGC.

FCA's guidance on Terms of Reference for an IGC – (Appendix 1)

[Words in *italics* are defined in the FCA Handbook Glossary.]

(1) An *IGC* is expected to act in the interests of *relevant policyholders* both individually and collectively. Where there is the potential for conflict between individual and collective interests, the *IGC* should manage this conflict effectively. An *IGC* is not expected to deal directly with complaints from individual policyholders.

(2) The primary focus of an *IGC* should be the interests of *relevant policyholders*. Should a *firm* ask an *IGC* to consider the interests of other members, the *firm* should provide additional resources and support to the *IGC* such that the *IGC's* ability to act in the interests of *relevant policyholders* is not compromised.

(3) An *IGC* should assess whether all the investment choices available to relevant policyholders, including default options, are regularly reviewed to ensure alignment with the interests of relevant policyholders.

(4) Where an *IGC* is unable to obtain from a *firm*, and ultimately from any other person providing relevant services, the information it requires to assess the matters in *COBS* 19.5.5R(2), the *IGC* should explain in the annual report why it has been unable to obtain the information and how it will take steps be granted access to that information in the future.

(5) If, having raised concerns with the firm's *governing body* about the value for money offered to *relevant policyholders* by a *relevant scheme*, the *IGC* is not satisfied with the response of the *firm's governing body*, the *IGC* Chair may escalate concerns to the *FCA* if the *IGC* thinks that would be appropriate. The *IGC* may also alert *relevant policyholders* and employers and make its concerns public.

(6) The *IGC* Chair should raise with the *firm's governing body* any concerns that the *IGC* has about the information or resources that the *firm* provides or about the arrangements that the *firm* puts in place to ensure that the views of relevant policyholders are directly represented to the *IGC*. If the *IGC* is not satisfied with the response of the *firm's governing body*, the *IGC* Chair may escalate its concerns to the *FCA*, if appropriate. The *IGC* may also make its concerns public.

(7) The *IGC* should make public the names of those members who are employees of the provider *firm*, unless there are compelling reasons not to do so. The *IGC* should consult employee members as to where there are such reasons.

Relevant extracts from the FCA glossary

Term	Definition
IGC	(in COBS 19.5) an independent governance committee established by a firm with terms of reference which satisfy COBS 19.5.5R with the purpose, in summary, to represent the interests of relevant policyholders in the firm's relevant schemes.
Relevant policyholder	(in COBS 19.5) a member of a relevant scheme who is or has been a worker entitled to have contributions paid by or on behalf of his employer in respect of that relevant scheme. 'Worker' has the same meaning as in section 88 of the Pensions Act 2008, that is, in summary, an individual who has entered into or works under (a) a contract of employment, or (b) any other contract by which the individual undertakes to do work or perform services personally for another party to the contract.
Relevant scheme	(in COBS 19.5) a personal pension scheme or stakeholder pension scheme in respect of which direct payment arrangements are, or have been, in place, under which contributions have been paid in respect of two or more employees of the same employer. 'Direct payment arrangements' has the same meaning as in section 111A of the Pension Schemes Act 1993, that is, arrangements under which contributions fall to be paid by or on behalf of the employer towards the scheme (a) on the employer's own account (but in respect of the employee); or (b) on behalf of the employee out of deductions from the employee's earnings.

List of IGC meetings and work undertaken at each:

April 2016

Virgin Money/provider update to the IGC:

> Review of VM Stakeholder Pension default strategy
> Market behaviour following pension reforms
> Virgin Money member behaviour
> Re-cap on estimating Virgin Money pension pot sizes at retirement
> Re-cap on design considerations
> Design principles
> Original proposal considered by Hymans Robertson (Advisor)
> Current thinking following Hymans Robertson review
> Update on progress and next steps
> Deloitte review of IFDS (the administrator) pension control framework

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> Hymans Robertson review of VM Stakeholder Pension default strategy
> IGC Chairman's statement
> Value for money benchmarking

August 2016

Virgin Money/provider update to the IGC:

> VM strategic review
> Standard agenda items (Default strategy update/VMUTM Board update/Performance and member updates)
> The appropriateness of a diversified growth fund
> Impact on forecast returns
> Glide-path models
> Emerging market equity weighting
> Rebalancing frequency
> Virgin cash fund pricing Vs competitor cash fund pricing

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> Value for money benchmarking approach
> IGC approach to obtaining member feedback

December 2016

Virgin Money/provider update to the IGC:

> Standard agenda items
> Performance relative to benchmark to end of September 2016

IGC

> Value for money benchmarking
> Focus group sessions – obtaining member feedback
> Member feedback – syndicated research
> Transaction cost disclosure

February 2017

Virgin Money/provider update to the IGC:

> Standard agenda items
> Service improvements
> Planned improvements
> Default strategy performance
> Performance relative to benchmark to end of December 2016

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> Value for money benchmarking
> IGC report for the year ending 5 April 2017

We encourage you to get in touch with any questions or feedback. You can contact the IGC at: **workplacepensionsfeedback@virginmoney.com**

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