Virgin Stakeholder Pension

Independent Governance Committee

Chairman's Report for the year ending 5 April 2019

The IGC encourages you to read this report

Chairman's Statement

Independent Governance Committees (IGCs) were established in early 2015 to safeguard the interests of Workplace Pension Scheme policyholders.

Virgin Money's (The Provider) pension policyholders are primarily employees of small companies and may not have significant investment experience. As a result, your IGC has tried to avoid too much detail or technical jargon in our annual reports when commenting about your pension. Instead, we have used a colour-coded system (Red, Amber and Green) to highlight the issues we believe are important to policyholders when considering value for money. We continue to use this scoring system in this report.

This is my fourth report to members and I am pleased to inform you that, very recently, the Provider has made an improvement to the scheme having announced a reduction in default fund charges. This is a positive move and addresses one of the concerns raised by the IGC in successive previous reports. Year on year this reduction can have a meaningful impact on your returns and the size of your pot.

However, there is ongoing frustration at the lack of progress being made on how the default strategy is invested. You may recall that last year the IGC had found it necessary to involve the Financial Conduct Authority (FCA), the regulator responsible for overseeing stakeholder pension schemes. We expressed our views regarding the difference of opinion between ourselves and the Provider about the suitability of the scheme's default strategy. While we were also concerned about fund costs and fund performance the default strategy was our main area of contention.

After several further communications with the FCA, a series of meetings took place between the Provider and the regulator, initially without the knowledge of the IGC, and these continue. To date there has been no definitive outcome. The IGC is in dialogue with the FCA on the matter and both parties are aware of the urgency of the situation and the need for a speedy resolution to our concerns.

The situation has been complicated by two external events. First, as I mentioned in last year's report, Virgin Money (VM) announced that it proposed to establish a Joint Venture (JV) with Aberdeen Standard Investments (ASI) for the provision of investment services to VM customers. Discussions continued throughout the year between the two parties but until recently the only concrete action that has been announced is a reduction in default fund charges to 0.60% which took place from 25 January 2019.This is a welcome move - and is a significant improvement for policyholders. It brings the Provider in line with the industry average for default fund fees for comparable, passively managed schemes.

The IGC has been informed that the default strategy will definitely change to make it more suitable for members and the Provider has appointed advisers to assist with this review. However, we fear that change may not occur until late 2020 at the earliest. Given that the IGC has been advocating change for four years this is extremely disappointing.

Secondly, last summer's takeover of VM by Clydesdale Yorkshire Banking Group (CYBG), which completed in October, meant that the proposed joint venture with ASI had to be reviewed by the CYBG board. This inevitably caused further delay. The board's decision to approve the joint venture was finally obtained in mid-December. This was a major milestone and resulted in the Sale and Purchase agreement between VM and ASI being signed on 21 December 2018. This was formally announced to the market on 9 January 2019. The IGC recognise that the transaction is still subject to formal approval by the FCA.

Negotiations between the parties continue regarding the future operating model and proposed service agreements. It is hoped that the necessary Change of Control application can be submitted to the FCA by the end of March 2019, around the time you will be receiving this report.

Your IGC will monitor the changes to the operating model and integration with ASI to satisfy itself this will be in the best interests of members. We believe that this should be the case as the intention is to offer members market leading investments and pension propositions. We will continue to monitor progress of the joint venture, in particular, to make sure that as part of any migration, that may result, service levels are maintained and that any teething problems with the transition are kept to a minimum.

In our last report we stated that one of our goals for the year was to make more direct efforts to obtain policyholders' feedback. Sadly events overtook us but soon after receiving this report you will be sent a questionnaire seeking your views which we urge you to complete and return. This is the best way the IGC and the Provider can find out if your interests are being met.

I had hoped to end this report with only positive comments regarding the future but it remains the case that many of our concerns with regard to your workplace pension remain unresolved although they are being addressed. However a start has been made with the reduction in fund charges and this is encouraging and to be welcomed.

If I can use a weather analogy, the immediate outlook is cloudy with some sunny periods. However, once the JV is fully operational I believe that the longer term forecast should be good. Everybody involved is motivated to make sure that the JV is a success. The fact that the CYBG board were willing to sign off on the proposal having done their own due diligence following the takeover of VM is extremely positive. Nevertheless it is likely to be in the latter part of 2020 before members fully benefit. Frankly this is too long a timescale in view of VM's repeated failure to address the IGC's concerns and we will now press the parties to try and accelerate some of the necessary changes and in particular the default strategy. In the meantime I would like to take this opportunity to remind members of the option you have to self-select funds for your pension, thereby turning your default strategy (or automatic fund selector) off.

Sir David Chapman
5 April 2019

Executive Summary

In April each year, the Independent Governance Committee (IGC) for the Virgin Stakeholder Pension scheme send you a report on how we believe your pension Provider (Virgin Money) is managing your pension. Our report contains 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 fourth report and we provide an update for the year ended 5 April 2019.

The IGC has developed a scorecard to assess whether your pension is delivering value for money. A summary of the scorecard is provided below, with the full version available later in the report.

Overall Value for Money assessment
The IGC believes that the Provider offers fair value for money to its workplace pension policyholders. As reported to you in previous years, there are areas where improvement could be made, in particular on costs where fees have been high compared to most comparable passively managed funds. This has finally been addressed with the recently announced reduction in charges with effect from 25 January 2019. However the IGC's concerns that the default strategy (the Provider's 'automatic fund selector') should be revised to make it more appropriate to the needs of policyholders have not yet been addressed, although this will be a priority going forward following the Joint Venture with ASI.

Value for Money factor	Status	RAG status	
		April 2018	April 2019
Default strategy	The Provider has agreed to change its default strategy to make it more appropriate to the needs of policyholders. In previous reports your IGC has highlighted concerns with the default strategy, so we are encouraged by this development. We await clarity on delivery timescales and continue to rate the default strategy Red until tangible progress has been made.	R	R
Fund performance and characteristics	The default strategy comprises two funds and, based on external benchmarking, the performance of these funds is relatively poor. Please see pages 7-9 for more information.	A	A
Account servicing	The Provider continues to pay considerable attention to the servicing and administration of the policyholder's pension. The IGC continues to believe that this is fit for purpose.	G	G
Costs, charges and benefits	The Provider recently reduced default fund charges to 0.60%. The new charge is broadly in line with the average fee for comparable, passively managed schemes. Whilst the IGC would have wished for an even more competitive rate for policyholders, this is a significant improvement of direct value to customers. In terms of benefits, the IGC continues to believe that the simplicity of the scheme is helpful for policyholders.	A	G

An explanation of our findings and what they mean 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 policyholders. 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 below to help explain what these mean for you.

Default strategy - urgent attention required

The Provider has finally agreed to change the default strategy after criticism by the IGC in successive annual reports. This is an important development because your pension will automatically be invested in the “default strategy” unless you have told the Provider you wish to invest differently. Many policyholders leave their pension in the default strategy, meaning the Provider chooses how your pension is invested on your behalf. We will continue to rate this Red until we receive further information on the new default strategy and oversee its successful implementation. We are disappointed, however, that no changes are likely until 2020 at the earliest.

Fund performance and characteristics - room for improvement

The performance of the funds where your pension is invested will have a significant impact on how much pension you’ll have to retire with. The IGC uses Hymans Robertson LLP to conduct external benchmarking to assess how well your funds are performing compared to other schemes. We have included this analysis on pages 7-9.

Account servicing - fit for purpose

The IGC believes the operation is continuing to perform well and is delivering good value for policyholders. The IGC monitors how long it takes for requests to be actioned, the turn-around times for complaints as well as the number of complaints successfully resolved, and service improvements made for policyholders. The IGC has satisfied itself that the operation is working well for policyholders. However the proposed migration to Aberdeen Standard Investments initially carries some risk so we will closely monitor the situation.

Costs, charges and benefits - now fit for purpose

As pensions are a long term investment the impact of annual charges can be significant on the overall value of your fund. The Provider’s previous charges (0.75% AMC for Automatic Enrolment and 1% for others), were high when compared with comparable, passively managed funds. The new charge of 0.60% for default funds, implemented in January 2019, is a significant improvement for policyholders. Further information on returns after costs and charges is included on pages 8 and 9.

The IGC's continued concerns in relation to the Default Strategy

What is a 'default strategy' and why is it important for you?

A 'default strategy' is the way in which payments into your pension will be invested, on your behalf, unless you choose otherwise. It determines the type of assets into which your pension contributions – your retirement fund – will be invested.

It is also known as an 'automatic fund selector' or 'AFS', and in communications from Virgin Money you will have seen this description used. When we speak about default strategy, we mean the same thing.

The default strategy is important because pensions rely on growth – or returns – so that you get the highest possible contribution towards income in your retirement.

As your retirement gets closer, certainty about what your pension will be worth becomes more important. So the way that your money is invested changes over time – targeting more growth (but with more risk) early on, then lower growth (and lower risk) later on.

Growth phase

The growth phase of the default strategy has performed poorly in 2018 when compared to similar growth schemes – falling by 10.2% after fees and charges. Most other providers' default funds also fell, although not by as much (see page 8 for longer term returns).

The growth fund invests in UK shares and – like most share markets around the world – the UK had a volatile year and lost 9.5% in value in 2018. Unfortunately the UK share market was hit harder than many other markets around the world, undoubtedly due in large part to the uncertainty caused by Brexit. In comparison, global shares fell by the lower amount of 3.4% (in Sterling terms) in 2018.

The IGC would like to see more diversification in the growth element of the default strategy, because investment solely in UK equities rather than a wider range of global assets is a more concentrated and more risky strategy. Diversification within an investment strategy is a recognised part of the investment process.

If UK equities do well that is good news, of course, but when UK shares perform poorly the growth of your investment may suffer compared to a more diversified pool of global assets.

The Provider offers a broader range of investments in which you can invest during the growth stage – including global equities – but you need to take those choices yourself. The default strategy will not do that for you.

Retirement phase

As you get closer to retirement, the automatic fund selector or default strategy moves your pension pot into lower risk investments, giving you greater certainty about the value of your pension at retirement. The Provider's default strategy automatically starts to move your money into UK bonds and gilts in the de-risking stage, which begins 10 years from retirement. When you retire it is assumed you will use your pension pot to purchase an annuity or guaranteed regular income for life.

The IGC has two concerns about the retirement phase. Firstly, the performance of the default strategy during this de-risking stage has been poor when compared to the de-risking stage of similar schemes. Secondly, de-risking through investment in UK bonds and gilts might not be right for all members, depending on what they plan to do with their money at retirement. The return of the final year of the retirement phase in 2018 was -0.5%, ranking Virgin Money 3rd out of 10. Over the five years to 31 December 2018, the fund provided a return of 3.6% per annum and was the lowest of the providers surveyed.

Until 2015, most pensions were used to buy an annuity, providing you with a guaranteed regular income for life. The income that you would get from an annuity depends on the size of your pension, and if your pension pot is small, then the annual income from an annuity might be too small to be effective. Accordingly, as you approach retirement you may decide to take your pension pot in cash.

The IGC has long believed the Provider should reconsider the design of the automatic fund selector in the retirement phase. This is more likely to be the case if you intend taking your pension as cash if your pension pot is relatively small, seek to access tax free cash or consolidate pensions to access flexibly, instead of buying an annuity, It is encouraging that this is due to be finally addressed next year.

It is likely that many Virgin Money pension policyholders will have worked for a number of employers over their working life. As a result you may have accumulated pensions with other schemes. If this is the case, it is important that you ascertain the value of any other pensions to properly assess the merits of consolidating them into one pension pot.

Since 2015, your choices about how you can take your pension pot have changed. Ultimately the choice will be yours, but what's important from the IGC's perspective is that you have the right options available to you as you approach retirement. This is why the IGC would like to see the default strategy updated to reflect the new 'pension freedoms', introduced by the government in 2015.

Fund returns – comparisons

One way of assessing the value for money of your pension is to look at returns over time compared to other schemes available on the market. The IGC has used external benchmarking to compare how well your pension performed with other schemes and providers. We commissioned independent research and the following is a summary of the findings.

Comparing default fund (or 'automatic fund selector') returns

Again this year, the IGC asked Hymans Robertson LLP to gather information about how the returns of your scheme compare to other pension schemes with similar aims.

Hymans Robertson LLP collected returns from 10 providers. Of these, Virgin Money and one other continue to design their default strategy assuming policyholders will buy an annuity (or a guaranteed income for life). Since we reported to you last year, one more provider has switched from the annuity strategy. 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 default funds targeting annuities, cash or drawdown 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 savings, followed by a gradual reduction of risk as you approach retirement.

Growth phase returns

In the Virgin Money default strategy 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 pension pot. See below for the assumptions used for this comparison.

Globally, share markets performed well in 2016 and 2017, but last year saw a sharp reversal, with falls across the board. This reversal affected all default funds in the group we surveyed, leading to falls in value in 2018. However, it left Virgin Money at the bottom of the group for both the one year and five year periods, due in part we believe to its narrower focus on UK shares. In contrast to global shares, which fell by 3.4% (in Sterling terms) in 2018, UK shares fell by 9.5%.

In the four years we have been looking at performance of this fund, it provided a return above the median of its peers in only one year (2017). In 2018, it was well below its peers.

The following table shows how returns vary a lot from year to year. Pensions are a long term investment and five year returns are more relevant than single calendar year returns.

Returns from growth funds of default pension schemes	1 year to 31 December 2015	1 year to 31 December 2016	1 year to 31 December 2017	1 year to 31 December 2018	5 years to 31 December 2018
Highest	4.0%	22.5%	14.6%	-3.4%	7.2% pa
Median	1.4%	18.0%	10.3%	-5.3%	5.6% pa
Lowest	-0.1%	12.6%	8.7%	-10.2%	3.1% pa
Virgin Money Pension Growth Fund	0.2%	15.6%	11.9%	-10.2%	3.1% pa
Ranking*	8th/10	9th/13	2nd/10	10th/10	7th/7

Source: Financial Express. Performance of all funds is shown after the deduction of charges, but the actual level of fund charges may vary depending on the terms of individual policies.

*The number of respondents to the survey varied from year to year. Some schemes have not been going for five years so no data was available for them.

Returns approaching retirement

Ten years before your planned retirement date, Virgin Money gradually reduces investments in the Virgin Money Pension Growth Fund and increases investment in the Virgin Money UK Pension Bond and Gilt Fund (previously called the Income Protector Fund). By the time you reach your final year before retirement, the automatic fund selector will put 100% of your retirement pot in the UK Pension Bond and Gilt Fund. This is in line with the assumption that you will purchase an annuity when you retire.

The period towards retirement is where the Virgin Money default strategy's performance has been least competitive over the five years to 31 December 2018. It reflects the investment strategy selected by Virgin Money of an increased allocation to the UK Pension Bond and Gilt Fund as your retirement date approaches. However, the number of comparable schemes is small and shrinking, as more providers move their workplace policyholders to newly-designed default strategies that focus on cash or drawdown options at retirement. In 2018, all schemes in this category produced falls in the value of members' pension pots, with Virgin Money ranked 3rd/10 for the year and 5th/5 for five years.

The table below shows annual returns for policyholders reaching their nominated retirement date on 31 December of 2015, 2016, 2017 and 2018, and for the five years to 31 December 2018. It is compared with other pension schemes also targeting annuities at retirement. See below for the assumptions used for this comparison.

Returns up to retirement on 31 December from pension schemes targeting annuity purchase	1 year to 31 December 2015	1 year to 31 December 2016	1 year to 31 December 2017	1 year to 31 December 2018	5 years to 31 December 2018
Highest	1.4%	14.4%	7.3%	-0.1%	6.5% pa
Median	-0.1%	13.2%	3.5%	-1.5%	4.6% pa
Lowest	-2.5%	8.1%	1.6%	-5.4%	3.6% pa
Virgin Money Default strategy (AFS)	-0.4%	8.1%	1.6%	-0.5%	3.6% pa
Ranking*	7th/10	10th/10	9th/9	3rd/10	5th/5

Source: Financial Express. Performance of all funds is shown after the deduction of charges, but the actual level of fund charges may vary depending on the terms of individual policies.

*The number of respondents in the survey varied from year to year. Some schemes have not been going for five years so no data was available for them.

Transaction costs

Transaction costs are generally the costs involved in the buying and selling of investments. Examples of transaction costs include stamp duty, taxes, broker commission and the effect of timing of investment transactions and member switching. Such costs, along with the Annual Management Charge, can reduce the value of your pension savings.

In 2018, regulations came into force requiring investment managers to provide information about transaction costs when these are requested by the IGC.

The IGC has requested this information and is pleased to see progress towards full disclosure of transaction costs and member charges by the Provider. The Investment Association provided a template for these transaction costs and your Provider has reported using that template.

The following table shows the total fees you pay and the transaction costs incurred during 2018. Given that the underlying funds are tracker funds and closely follow an index, we would generally expect transaction costs to be low and this is the case.

Year ending 31 Dec 2018	Virgin Money Pension Growth Fund	Virgin Money Pension Bond and Gilt Fund
Total Transaction costs	0.053%	-0.15%**
Annual Management Charge*	1.0%	1.0%
Annual Management Charge – Auto-enrolment*	0.75%	0.75%

*From 25 January 2019, the annual management charge was reduced to 0.60% pa.
**Based on the regulator's prescribed method of calculating transaction costs in dual priced funds, the timing of investment transactions produced a small positive benefit to members this year.

The area of detailed cost disclosure is still developing across the investment industry and comparable data is limited, especially for pension schemes. For some fund managers and providers, the processes needed to calculate transaction costs are taking time to put into place, which means that there can be challenges in obtaining comprehensive data. Our adviser, Hymans Robertson LLP, has reviewed the detailed transaction costs reported by Virgin Money for 2018 and concluded that they are reasonable for the type of funds used (i.e. tracker funds).

The FCA has recently published proposals for the IGC to send you an annual communication about costs and charges and to publish such information on a publicly available website. This would include an illustration to show you how costs and charges would build up over time. The IGC will monitor the outcome of these proposals and report on such requirements as and when they come into force.

Environmental, Social and Governance (ESG)

The IGC asked the provider whether sustainability and Environmental, Social and Governance (ESG) responsibilities are considered when selecting the investment funds offered to policyholders.

The funds within the Virgin Money workplace pension are passively managed. This means that rather than 'cherry-picking' individual stocks in an attempt to generate better returns, the funds will ordinarily invest in all of the stocks within the stock market indices (such as the FTSE All-Share index which the Virgin Money Pension Growth fund invests in) that represent the desired mix of shares and or bonds, regardless of any factors such as ESG.

The provider confirmed that ESG factors are considered when voting the ordinary shares owned by the Funds. The structure of the Virgin Money Pension Scheme is that each pension fund is invested in an underlying unit trust. The pension funds do not own individual stocks, and aspects of governance – for example, voting rights – are exercised by the managers of the underlying unit trust funds. Voting rights relate to ESG factors such as the constitution of boards of directors, matters of corporate policy and changes to organisational activities and operations. FCA COLL regulation requires Virgin Money as manager of the pension funds to have appropriate voting rights policy.

Virgin Money outsources the selection of stocks to the Investment Adviser who manage the underlying indices the pension funds invest in. The Investment Advisers have extensive company research capabilities and well developed processes, principles, guidelines and governance. Virgin Money's voting strategy is to review the Investment Advisers' voting policies and determine whether to adopt their policies or whether to instruct them, on a case-by-case or more general basis, to vote in accordance with views that Virgin Money believes to be more closely aligned to the benefits of the unitholders. In general, Virgin Money Unit Trust Managers (VMUTM) believe that the Investment Advisers' depth of research and commitment to protecting and promoting the long-term value of investors will result in an appropriate vote being cast. However, providing such action is for the benefit of unitholders, Virgin Money retains the right to request the Adviser to vote differently in relation to stocks held in the pension funds.

Whilst the VM Pension Scheme only invests in indexes that are weighted according to their size, the market for alternative indexed strategies is growing, including those with an ESG or climate related weighting. VM continues to monitor developments in this market. Outside of the Pension Scheme, the Virgin Climate Change Fund has a specific mandate to consider climate / environmental aspects. This is a concentrated, actively managed fund, priced at a level (1.3%) which precludes it from being held within the Stakeholder Pension.

The FCA will be consulting in early 2019 on rule changes and related guidance for providers of workplace pensions following recommendations made on the 2017 Law Commission report 'Pension Funds and Social Investment'. Your IGC will monitor developments closely.

Background on the IGC – and sources of additional help

What does the IGC do?

The IGC is here to represent your interests as pension policyholders. The IGC operates independently of Virgin Money, in accordance with our terms of reference which are set out in pages 20-23.

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 Virgin Money directly with any questions you have about your pension. Virgin Money can be contacted on **03456 10 20 30**.

Alternatively please refer to documentation the Provider will have 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?

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

Assessing Value for Money – IGC Scorecard

In previous reports your 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 IGC's.* We have maintained the same scoring criteria on this year's scorecard to facilitate comparison with our previous reports.

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 policyholders. The scoring system is our assessment of suitability, not an assessment of regulatory compliance.

1. Default strategy **IGC objective:** Ensure default investment strategies are designed in the interests of policyholders, with a clear statement of aims, objectives and structure appropriate for policyholders.	**RAG status April 2018**	**RAG status April 2019**
Summary of progress since last report: The Provider has entered into a Joint Venture (JV) with Aberdeen Standard Investments, and the Provider intends to make changes to its default strategy as part of the JV. As at the end of February we do not have clarity on the design of the new default strategy, nor the timescales for implementation, although the Provider has committed to keep us updated. Realistically we do not envisage changes being made before late 2020, which is disappointing. However the IGC welcomes acknowledgement by the Provider that the strategy requires changing.	R	R

Additional detail – scoring criteria for the default strategy:
(a) Is the default strategy designed in the interests of policyholders? The IGC has reported in successive annual reports that it believes the Provider's default strategy requires urgent attention. As a reminder, the IGC believes that scheme policyholders should have access to the greater pension freedoms, introduced in April 2015, rather than the annuity strategy the current default targets. The IGC also believes the default strategy is too concentrated in UK equities and should be more diversified. The Provider has now finally agreed to update the strategy, although the IGC cannot comment on whether it is in the interests of policyholders until it has seen the detail of the design.
(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 policyholders in the "Key features" documentation. In the past year the Provider has issued documentation to all policyholders reminding them of the key features and objectives.
(c) Is the default strategy reviewed regularly? The strategy is reviewed annually for regulatory and compliance purposes. The strategy was last reviewed from a suitability perspective in early 2018.

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 policyholders and are regularly reviewed by the Provider, and take action to make changes as appropriate (including non-default strategies / funds).	RAG status April 2018	RAG status April 2019
Summary of progress since last report: The default strategy comprises two funds and based on external benchmarking the performance of these funds is relatively poor.	A	A

Additional detail – scoring criteria for fund performance and characteristics:
(a) How does net performance compare to comparable funds? The IGC has repeated its independent benchmarking exercise for a third year, to compare fund performance to comparable Provider performance. A full breakdown of this analysis has been made available on pages 7-9. As we reported previously, the higher fees and poor default design are making the fund returns less competitive when compared to comparable funds. The funds are performing within their permitted tolerances.
(b) What are the fund characteristics and are these aligned to member interests? We have commented separately on the lack of a cash fund as part of the default strategy, to further de-risk your pension when approaching retirement. The IGC believes a cash fund is an essential element of the default strategy in the run up to retirement. The FCA has previously released details of an analysis of the retirement market since the introduction of pensions' freedoms in April 2015. A key finding was the fact that a majority of pension pots are taken in cash, of which 90% are less than £30,000 in value. This reinforces the IGC's view that in schemes such as Virgin Money where the majority of policyholders are likely to have small pots at retirement the default strategy should have a significant allocation to cash at the point of retirement.

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

Scorecard continues on the facing page.

3. Account servicing **IGC objective:** Review timescales and accuracy of transactions undertaken on behalf of policyholders and assess whether these are conducted within acceptable tolerances.	**RAG status April 2018**	**RAG status April 2019**
Summary of progress since last report: The Provider continues to deliver on its account servicing responsibilities. Customer transactions, for example withdrawals and contributions, appear to be executed timely and accurately. The operation attracts relatively small volumes of complaints, none of which point to underlying systemic issues. Complaint handling is taken seriously with a focus on treating customers fairly and resolving issues quickly. The Provider shares internal management information with the IGC, which provides further evidence of the efficiencies of the process and service.	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 appears to be within acceptable limits.
(c) Is the operation fit for purpose? Overall, the operation appears to be fit for purpose. The Provider continues to address operational issues diligently as and when they arise. We will keep the operation under close scrutiny as the Provider implements its JV with ASI, to ensure customer service levels are not detrimentally impacted by the move.

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 policyholders, in the context of an assessment of whether policyholders need and value each benefit or service.	RAG status April 2018	RAG status April 2019
Summary of progress since last report: The Provider has recently implemented reduced fund charges for the two default funds. The new charge (0.60%) is in line with the industry average for comparable, passively managed schemes. This is a significant improvement on the previous charging structure and more fit for purpose. Whilst the IGC would have wished for an even more competitive rate for policyholders, we believe this move is very much in the interests of policyholders and worthy of recognition, although it has come late in the reporting year.	A	G

Additional detail – scoring criteria for costs, charges and benefits:
(a) Is the Provider compliant with the AE cap (0.75%)? Yes. In addition, the AMC has recently been reduced to 0.60% from 0.75% for the two default funds.
(b) Are the schemes appropriately governed? The information provided to the IGC appears comprehensive and does not give the Committee concern. Complaint volumes, which are relatively low, continue to be in line with tolerances, and there are no concerns to highlight regarding trends or the way complaints are handled.
(c) Is the administration of services, including member communication, fit for purpose? Policyholders 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.
(d) Are costs and charges incurred by policyholders fair and transparent? Costs are clearly stated. Research undertaken by the IGC showed that the previous AMC was high when compared to comparable, passively managed schemes. However in light of the recent change to 0.60% for default funds the costs are more in line with the value provided by such funds.
(e) What are the main benefits provided by *this* scheme? The IGC continues to believe that the simplicity of the charging structure (with 'no nasties' or exit fees) is attractive and compares favourably to peers. The Provider also offers a high degree of flexibility in terms of contributions. Also, as part of the recently revised communications, the Provider reminded policyholders of the benefits available on **myvirginmoney.com**

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

We shared the final draft of our report with the Provider

Comments from provider
We have continued to work closely with the IGC during the past year and have shared our vision for our investment and pension business as we develop our exciting partnership with ASI. We are confident this partnership will address the concerns raised by the IGC and we are working hard to deliver these as quickly as possible. We have recently written to you, our customers, with news on our new partnership and look forward to telling you more as soon as we are in a position to do so.

Market performance in 2018
It was a difficult year for investing with significant global economic uncertainty. Looking back over the calendar year (2018), the All-Share return of -9.5% was the first negative calendar year since 2011, and only the third in the last 15 years. A key focus of markets has been the economic slowdown in China, rising interest rates in the US and prevailing uncertainty around Brexit. Whilst a negative year is never welcome, it does remind us that equity markets have been on a strong run since 2008.

Performance in the bonds and gilt fund has been relatively flat during 2018, this fund adopts a low risk strategy investing in UK government bonds and high quality corporate bonds. Returns have been relatively low over the last 12-18 months in an environment where concerns over interest rate rises and our low credit risk exposure have held back returns. However, we still feel this fund offers the right de-risking approach for our customers in the years leading up to their nominated retirement age. We will investigate opportunities to broaden our bond portfolio to address the matters raised by the IGC as part of our ongoing work to develop our proposition.

Looking forwards
In partnership with ASI, we are actively working on enhancing and improving both the default strategy and de-risking which we hope we can implement next year. As always, we would strongly recommend customers to use either the government's free and impartial guidance service 'Pension Wise' or seek independent advice, to consider both the default strategy and options for using their pension savings.

We were pleased to reduce the charges on our default funds to 0.60% at the beginning of 2019. We would remind members that the charge you pay is an all in charge unlike many of our competitors. We don't charge separately for administration or platform fees so the fund charge is all that you pay. That often makes us look expensive on comparison sites but after taking into consideration typical administration fees we consider that the new charges represent value for money for the service we offer.

We continue to be supportive of the IGC's work and plans looking forward. We believe we have a constructive working relationship which we look forward to developing further during the course of the next year as we substantially enhance our business.

The IGC's plan for 2019-20

The IGC will seek to build a collaborative relationship with ASI to continue working in the interests of members.

The main focus of the IGC's work for 2019/20 will be:

- Engage in discussion with the Provider over their new default strategy.
- Provide policyholders with a more detailed breakdown of the transaction costs and charges associated with your investment funds, which is a regulatory requirement.
- Monitor proposed rule changes by the FCA requiring IGCs to report on the Provider's ESG, ethical and stewardship policies.
- Monitor the investment returns of your pension, especially as investment markets appear more volatile in 2019.
- Provide members with the opportunity to give their views on Virgin Money by carrying out a survey.

The IGC

Your IGC comprises five members, with a majority of wholly independent members including an independent Chairman, all of whom 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 policyholders, which overrides any obligations to their employer or indeed their duty to shareholders. All members are considered independent in character and judgement.

All costs associated with the IGC, including the fees of the independent members are met by the Provider. The IGC believes that it is given appropriate resources by the Provider to carry out its duties.

The IGC considers that it has sufficient expertise, experience and independence to act in policyholders 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. In addition, he is Chairman of North East Finance (Holdco) Limited and has previously held non-executive positions with a number of companies both publically quoted and private. A former CBI Council member and a director of the London Stock Exchange, in 1995 Sir David was the latter'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 since 2000. As a trustee executive with BESTrustees PLC he is involved with defined benefit and defined contribution pension schemes of varying sizes and complexity 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 the SORP Working Party of the Pensions Research Accountants Group and the PLSA South London. Steve is also a long-serving director of London South Bank University.

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 Pension Trustees and the Pensions Management Institute.

Kieran Ferguson, CFA

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 investment portfolio as part of the Treasury function. Prior to joining Virgin Money he was a consultant at Accenture, working with 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 and is a CFA charter holder.

Julian Smith

Before working at Virgin Money as Head of Tax, Julian's background was in providing financial services specialist tax advice at Deloitte. Julian spent more than 15 years in various roles in professional services at Deloitte, the last several years before joining Virgin Money as a Director in the Banking Tax Team. At Virgin Money, as Head of Tax, Julian is responsible for all of Virgin Money's tax obligations with HMRC. Julian holds a degree (MA) in Philosophy, Politics and Economics from the University of Oxford and qualified as a chartered accountant (ACA) with Deloitte.

Terms of Reference for the VMUTM 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, a Financial Conduct Authority (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.

Appendix 1: FCA's guidance on Terms of Reference for an IGC

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 to 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.

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.

AFS – Automatic Fund Selector. Referred to in the report as 'Default strategy'.

AMC – Annual Management Charge. Total 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 – 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.

COLL – COLL is a set of regulations, prescribed by the FCA under the rulebook for New Collective Investment Schemes which all managers were required to adopt by February 2007.

Default strategy – the Provider chooses how your pension is invested on your behalf. The Provider refers to the default strategy as Automatic Fund Selector or 'AFS'.

Diversified – a wide variety of investment funds.

ESG – a generic term used in capital markets and used by investors to evaluate corporate behaviour and to determine the future financial performance of companies. ESG stands for "environmental, social and governance" considerations, which include climate change.

FCA – Financial Conduct Authority.

IGC – Independent Governance Committee.

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

PA – Per Annum. Yearly or annually.

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 policyholders:

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

Appendix 2 – List of meetings and work undertaken at each

April 2018	
Virgin Money update to the IGC: - VMUTM Board meeting update - Security of assets - Fund performance & member update - Service update - Service improvements - Regulatory update	**IGC:** - Adviser Response to Virgin Money's comments on the IGC Report - The IGC's plan and focus for 2018/19

July 2018	
Virgin Money update to the IGC: - VMUTM Board meeting update - IGC review items - Fund performance & member update - Service update - Service improvements - Regulatory update	**IGC – Discussion with the Provider in relation to:** - Review of controls and the completeness and accuracy of member data held - Review of key risks and the internal control environment - Review of complaints handling procedures

November 2018	
Virgin Money update to the IGC: - VMUTM Board meeting update - IGC review items - Fund performance & member update - Service update - Service improvement - Regulatory update	**IGC:** - IGC report 2019 planning - Transaction cost disclosure - Peer analysis as at 31 December 2018

January 2019	
Virgin Money update to the IGC: - VMUTM Board meeting update - IGC review items - Progress on joint venture with ASI	**IGC:** - IGC draft report 2019

February 2019	
Virgin Money update to the IGC: - VMUTM Board meeting update - IGC review items - Progress on joint venture with ASI - Investment performance, Strategic asset allocation - Member update - Service update - Service improvements - Regulatory update	**IGC:** - IGC draft report 2019 - Transaction cost disclosure

We would encourage you to get in touch with any questions or feedback.

You can contact the IGC at:
workplacepensionsfeedback@virginmoney.com

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