Virgin Stakeholder Pension

The Report of the Chairman of the IGC,
for the year ending 5 April 2018

The IGC would encourage you to read this report

Executive Summary

In April last year, the Independent Governance Committee (IGC) for the Virgin Stakeholder Pension scheme sent you a report on how we believe your pension Provider (Virgin Money) is managing your pension. The report contained feedback on things we like about your pension, and the way it is managed, as well as some areas where the IGC believe improvements should be made by the Provider.

This is our third report and we provide an update for the period April 2017 to April 2018.

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. There are areas where an improvement can be made, in particular on costs, where fees are high compared to most similar, passively managed schemes. In addition the IGC's concerns on the default strategy (the Provider's 'automatic fund selector') have not been addressed.

Value for Money factor	Status	RAG status April 2017	RAG status April 2018
Default strategy	The IGC continues to press the Provider to change its default strategy. In previous reports your IGC has highlighted its concerns in this regard. In this report we dedicate a section to the default strategy to explain these concerns in more detail (see pages 6-7).	R	R
Fund performance and characteristics	The default strategy comprises two funds and based on external benchmarking the performance of one of these funds is relatively good and the other relatively poor. Please see pages 7-9 for more information.	A	A
Account servicing	The Provider pays considerable attention to the servicing and administration of the policyholder's pension, and has rolled out improved communications to policyholders this year. The IGC continues to believe that this is fit for purpose.	G	G
Costs, charges and benefits	The Provider is compliant with the auto-enrolment scheme AMC fee cap (0.75%) but fees are at the top-end of the scale compared to similar, passively managed schemes. The Provider has been challenged on this point by the IGC. On a positive note, the IGC continues to believe that the simplicity of the scheme is a benefit to policyholders.	A	A

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
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. Given the importance of the default strategy it should be reviewed regularly to ensure it continues to meet the needs of policyholders. The IGC believes action is overdue and explains why on pages 6 and 7.

Fund performance and characteristics - room for improvement
The performance of the funds where your pension is invested will significantly impact how much you’ll have to retire with. The IGC uses Hymans Robertson 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 administrative side of your pension is important. It determines whether you receive timely and accurate information about your pension, how your funds are processed and kept safe, and how your data is protected, amongst other things. The IGC believes the operation is performing well and is delivering value for policyholders.

Costs, charges and benefits - room for improvement
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 0.75% AMC for automatic enrolment and 1% for others, whilst compliant, is high when compared to similar, passively managed schemes and this will have an impact on the value of policyholder funds. A comparison of returns after costs and charges is included on pages 8 and 9.

Chairman’s Statement

Independent Governance Committees (IGCs) were established in early 2015 to safeguard the interests of Workplace Pension Schemes 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 avoided too much detail or technical jargon in our annual reports when commenting about your pension. Instead, we have used a colour-coded scoring system (Red, Amber and Green) to highlight the issues we believe are important to policyholders when considering value for money.

Default strategy

In previous reports, the IGC has drawn your attention to our concerns about the appropriateness of the scheme’s default strategy, which the Provider refers to as the ‘automatic fund selector’ or ‘AFS’, particularly following the introduction of “Pension Freedoms and Flexibilities” by the government three years ago. Consequently in our two previous reports the default strategy has been given a Red rating, signifying that “Urgent attention is required.”

We have continued to raise this matter with the Provider but despite a review being undertaken, as promised, sadly no action has been taken and the situation remains the same today. We explain on pages 6 and 7 why an appropriate default strategy is so important to your retirement benefit.

The IGC meets regularly with the Provider and enjoys good and cooperative relations with them. We continue to believe that policyholders are generally well served by what is deliberately a simple and straightforward pension. However, as mentioned, we continue to have significant concerns regarding the suitability of the default strategy (or AFS) and whether it is aligned with the interests of policyholders. The IGC’s view is supported by an independent investment review we commissioned at the end of 2015.

When the Provider made the decision that no change would be made in 2017, the IGC felt it necessary to share our view with the Financial Conduct Authority (FCA), the regulator responsible for overseeing stakeholder pension schemes. Accordingly we wrote to the FCA in early December 2017, expressing our views regarding the difference of opinion between ourselves and the Provider regarding the suitability of the scheme’s default strategy.

On a more encouraging note, we welcome the Provider’s increasing emphasis on improved communications with policyholders, in terms of quality, content and frequency.

As a result, all service and regulatory communications are being reviewed to ensure that they are engaging, clear and easy to read and understand.

These communications cover important aspects of your pension, such as the default strategy, options at retirement and what Virgin Money offers - and more importantly, what Virgin Money does not offer. The Provider has highlighted that the scheme is designed to provide an annuity (or guaranteed income for life) at retirement, and that to access other options, policyholders will have to transfer out of the scheme. Usefully, the terms and conditions for the Provider's pensions have been refreshed in clear, plain English. The Provider's aim is for them to be market leading in clarity and accessibility.

The Provider uses a third party to administer the scheme and shares information on their performance with the IGC. The IGC recently met with the service provider. Considerable attention is paid to administrative processes and customer service levels, and it is encouraging that the level of customer satisfaction remains high and the number of complaints, already low, has decreased further.

While we believe that the majority of Virgin Money pension policyholders are unlikely to purchase an annuity at retirement. In a worrying development there are clear signs that many annuity providers are leaving the market. As a result people who do want to buy an annuity could face a much less competitive market, increasing the importance of shopping around and seeking financial advice. If you are approaching retirement within the next few years we would strongly urge you to seek guidance on your pension options from either Pension Wise (www.pensionwise.gov.uk) or The Pensions Advisory Service (www.pensionsadvisoryservice.org.uk). Both services are free and they offer impartial advice. Alternatively, of course, you can pay to take financial advice from an Independent Financial Adviser (IFA), although often the initial consultation is free.

The IGC emphasises the importance that regular contributions will have on the size of your retirement pot and would encourage you to increase them whenever possible.

Recent news about Virgin Money

As we finalise this report in late March 2018, Virgin Money has announced that it proposes to establish a new joint venture with Aberdeen Standard Investments for the provision of investment services to Virgin Money customers. The joint venture is expected to transform Virgin Money's investment proposition and is likely to be completed by the end of 2018.

At this time, given that the announcement is very recent, the IGC is yet to be briefed by Virgin Money on how this might impact you as a policyholder of the Virgin Stakeholder Pension Plan. We will continue to monitor progress of this proposed joint venture, which is subject to regulatory and other relevant approvals, in the interests of your rights and benefits as a member of this pension plan.

Sir David Chapman
5 April 2018

The IGC's 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 may 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 well in 2017 when compared to similar growth schemes - growing by 11.1%. The growth element invests in UK equities and - like most global equity markets - UK equities grew strongly in 2017.

However, 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.

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

The Provider does provide 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 ten 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. The return of the last year of the retirement phase in 2017 was 0.8% and was the lowest of all the providers surveyed.

The IGC believes the Provider should reconsider the design of the automatic fund selector in the retirement phase. It is not appropriate particularly if you intend taking your pension as cash, instead of buying an annuity, which could be more likely if your pension pot is relatively small.

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 in cash.

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. This may be relevant for anyone with a modest pension pot – as drawing a cash lump sum might be more meaningful, or tax efficient than buying an annuity. 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

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 to gather information about how the returns of your scheme compare to other pension schemes with similar aims.

Hymans Robertson collected returns from ten providers. Of these, Virgin Money and two others continue to design their default strategy assuming policyholders will buy an annuity (or a guaranteed income for life). This is the same as last year. The remaining seven 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 either 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.

The Virgin Money Pension Growth Fund had a relatively poor year in 2016 (9th out of 13 funds) and a very good year in 2017 (2nd out of 10 funds), due to strong price rises in the UK share market. Globally, most share markets performed well in 2017. Compared with other providers the Virgin Money returns have improved and are now around median over five years. The following table shows how returns vary a lot from year to year. Pensions are a long term investment and five year returns are of greater relevance.

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	5 years to 31 December 2017
Highest	4.0%	22.5%	13.9%	9.1 % pa
Median	1.4%	18.0%	9.5%	8.4% pa
Lowest	-0.1%	12.6%	8.0%	7.6% pa
Virgin Money Pension Growth Fund	0.2%	15.6%	11.1%	8.4% pa
Ranking*	8th/10	9th/13	2nd/10	3rd/6

Source: Financial Express and Providers. Performance of all funds is shown after the deduction of an indicative 0.75%pa charge. 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.

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 last five years. 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.

The table below shows annual returns for policyholders reaching their nominated retirement date on 31 December of 2015, 2016, 2017 and for the five years to 31 December 2017. 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	5 years to 31 December 2017
Highest	1.4%	14.4%	6.6%	6.6% pa
Median	-0.1%	13.2%	2.8%	6.0% pa
Lowest	-2.5%	8.1%	0.8%	3.5% pa
[redacted]				
Virgin Money Default strategy (AFS)	-0.4%	8.1%	0.8%	3.5% pa
Ranking*	7th/10	10th/10	9th/9	5th/5

Source: Financial Express and Providers. Performance of all funds is shown after the deduction of an indicative 0.75%pa charge. 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.

Environmental, Social and Governance (ESG)

The IGC asked the Provider whether they incorporate sustainability, or Environmental, Social and Governance (ESG) responsibilities when considering the investment funds they offer.

The funds within the Virgin Money workplace pension are passively managed. This means that rather than 'cherry-picking' individual securities in an attempt to generate better returns, the funds will ordinarily invest in all of the securities within the stock market indices that represent the desired mix of shares and or bonds, regardless of any factors such as ESG.

The provider confirmed that ESG is a consideration in terms of voting rights afforded to the ordinary shares owned by the funds. The structure of the Virgin Money pension scheme is that each pension fund is a feeder to an underlying unit trust. The pension funds do not directly own any individual securities, and thus aspects of governance, for example voting rights, are acted upon by 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. COLL regulation requires VMUTM to have appropriate voting rights policy.

VMUTM outsources the selection of securities. The investment advisers have extensive company research capabilities and well developed processes, principles, guidelines and governance in relation to proxy voting and issuer engagement. VMUTM'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 VMUTM believes to be more closely aligned to the benefits of the policyholders. In general, 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 exclusive benefit of policyholders, VMUTM retains the right to request the Adviser to vote differently in relation to securities held on behalf of VMUTM.

Whilst the Virgin Money pension scheme only invests in market cap indexed strategies, the market for alternative indexed strategies is growing, including those with an ESG or climate related tilt. 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.

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 22-23.

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 Chairman of the IGC issues this annual report on how the IGC thinks your pension is performing.

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 at 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*. The same scoring criteria has been maintained 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 an 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 2017**	**RAG status April 2018**
Summary of progress since last report: The IGC continues to believe that the default strategy is not as diversified as it should be, does not contain a cash fund to help de-risk your investment close to retirement, and still targets an annuity purchase at retirement rather than accommodating the new 'pension freedoms' introduced in April 2015. The IGC has continually encouraged the Provider to update its default strategy, and the Provider has now committed to undertake a further review of the default strategy in 2018.	R	R

Additional detail - scoring criteria for the default strategy:
(a) Is the default strategy designed in the interests of policyholders? The Provider last completed a review of the default strategy in 2016 but decided not to make any changes. The IGC continues to press the Provider to change the default strategy as the IGC believes that 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 is well aware of the IGC's concerns but no changes have been made to date. However the Provider has committed to undertake another review of the default strategy in 2018.
(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.
(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 2016. The Provider has committed to undertake a further review of the default strategy in 2018.

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 2017**	**RAG status April 2018**
Summary of progress since last report: The default strategy comprises two funds and based on external benchmarking the performance of one of these funds is relatively good and the other 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 second year, to compare fund performance to comparable Provider performance. A full breakdown of this analysis has been made available on pages 8-9. As we reported last year we do not believe this requires urgent attention, but there is room for improvement. 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. Last year the FCA 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 at retirement to cash.

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.

Scorecard continues on the following 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 2017	RAG status April 2018
Summary of progress since last report: Virgin Money has shared data with the IGC which confirms our view that the process is efficient and as such the operation would appear to be fit for purpose. Considerable attention is paid to the administrative aspects of the process. Transactions appear to be processed promptly and within acceptable limits. The Provider regularly shares internal management information with the IGC, which provides further evidence of the efficiencies of the process and service. The Provider has rolled out a range of improved communications to policyholders this year including a pension checklist and an easier-to-understand fund performance summary.	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 address operational issues diligently as and when they arise. The Provider has rolled out improved communications to policyholders, including a pension checklist and an easier-to-understand fund performance summary, which includes an update on regulatory and product changes. The Provider has also updated its “Key features” brochure. Overall, the operation appears to be fit for purpose.

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 2017	RAG status April 2018
Summary of progress since last report: The Provider is compliant with the auto-enrolment scheme AMC fee cap (0.75%) but fees are at the top-end of the scale compared to similar, passively managed schemes. The Provider has been challenged on this point, but has elected to take no action. On the other hand, we continue to believe that the simplicity of the scheme 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 level of the cap (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, which are relatively low and decreasing, 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, and the Provider has implemented improved customer communications as detailed previously.
(d) Are costs and charges incurred by policyholders fair and transparent? Costs are clearly stated although research undertaken by the IGC shows that the AMC is high when compared to similar, passive schemes. A comparison of returns after costs and charges is included on pages 8 and 9.
(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 and invited their comments.

The Provider's response

2017 provided another good year for equities both in the UK and globally. This is the sixth consecutive calendar year of positive returns for our pension growth fund delivering an 11.9% return in the year for customers. The IGC, however, noted the relatively weak performance of our bond and gilt fund when compared with similar funds used to reduce risk as customers approach retirement.

Performance in our bonds and gilt fund has been relatively flat during 2017, but members should note this fund intentionally adopts a very low risk strategy, investing in UK government and high quality corporate bonds. However, we maintain that this fund plays an important role in reducing risk and volatility for our customers in the years leading up to their nominated retirement age.

Early 2018 has seen the return of volatility in equity markets, however the growth fund continues to offer a long-term opportunity to grow pension funds. For customers seeking more diversity or exposure to global markets, our broader range of pension funds is available for self-selection.

We believe it is critical for customers to understand their pension to receive the right outcome during retirement. As such, we are glad that the IGC have recognised our work on making improvements to customer communications alongside striving to deliver an excellent level of service and administration. We aim to continue our strong track record in these areas in the year ahead.

Following our review of the default strategy last year we concluded that our current strategy was consistent with our commitment to offer a simple and straight-forward pension. We will carry out a further review of the pension default strategy in 2018, which will reflect on customer behaviour as well as regulatory and market analysis as to how people are using their pensions.

Whilst we recognise the importance of getting the default strategy right for you, we appreciate that each of our customers may have different priorities and circumstances. As such, we would always recommend that you assess our default strategy against your own circumstances and, where required, use either the government's free and impartial guidance service 'Pension Wise' or seek independent advice to make informed decisions.

We recognise the IGC's comments on our fund charging, however we believe our straight-forward charging approach still offers value for money. In line with new regulation we will be delivering even greater transparency on charging, particularly in the disclosure of transaction costs related to the buying and selling of underlying assets within the funds.

We have continued to work closely with the IGC during 2017, developing further our reporting of information on the performance, operations and regulatory outlook for our pension funds. We have been pleased with the dialogue with the IGC and feel that some good progress has been achieved providing a good foundation for 2018.

On 20 March 2018, we announced our intention to enter an exciting new partnership with Aberdeen Standard Investments which we trust will bring further benefit to our pension product. We look forward to telling you more about this development over the coming months.

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 two company representatives are also members of this pension scheme.

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. He is a non - executive director of several companies, including an AIM listed manufacturing company, Zytronic plc. 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 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 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 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 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 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 has passed Level II of the Chartered Financial Analyst (CFA) designation.

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.

The IGC's plan for 2018-19

The IGC will continue to work in a collaborative way with the Provider on the findings we have identified.

The main focus of the IGC's work for 2018/19 will be:

- Engage in discussion with the Provider regarding its concerns over the default strategy and continue to encourage them to review charges.
- Provide policyholders with a more detailed breakdown of the transaction costs and charges associated with your investment funds.
- Monitor the investment returns of your pension, especially as investment markets appear to be turning more volatile in 2018.
- Seek more direct efforts to obtain policyholder's responses and feedback this year, as in 2016, since voluntary feedback through the channels provided has been low to date.
- Encourage the Provider to conduct its promised review of default strategy in 2018 and to implement core findings in the interests of policyholders.

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. Please refer to the Terms of Reference for additional definitions.

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 Auto 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.

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.

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, 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.

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 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.

Appendix 2 - List of meetings and work undertaken at each

April 2017

Virgin Money update to the IGC:	IGC:
- VMUTM Board meeting update	- Adviser Response to Virgin Money's comments on the IGC Report
- Security of assets	- The IGC's plan and focus for 2017/18
- Fund performance & member update	
- Service update	
- Service improvements	
- Regulatory update	

July 2017

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

November 2017	
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 2018 planning - Transaction cost disclosure - Peer analysis as at 31 December 2017 - VMUTM's plans by way of communications to policyholders and employers for the increase in auto-enrolment contributions occurring in April 2018, in order to minimise opt-out.

February 2018	
Virgin Money update to the IGC: - VMUTM Board meeting update - IGC review items - Investment performance, Strategic asset allocation - Member update - Service update - Service improvements - Regulatory update	**IGC:** - IGC report 2018 - Meeting with service provider

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

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

VM23356V1 04.18