Virgin Stakeholder Pension IGC Report 2021

Independent Governance Committee Chair's Report
for the year ending 31 December 2020

At a glance – value for money in your Virgin Money workplace pension

The IGC believes that the Provider offers improved value for money to its workplace pension policyholders. In 2020, we were pleased to report an improved rating on the key area of default design. We look forward to that change being reflected in investment performance in future.

Value for money factors	IGC Rating 2020
Default design, performance and policies • The introduction from 5 November 2020 of the new 'Glidepath' default strategy will result in a higher charge than the previous default. However, this comes with fundamental improvements designed to offer the potential for a better projected outcome on retirement. • We expect to see more progress in the development of Virgin Money's policies on environmental, social and governance investment issues, as well as stewardship, in future.	**Amber (upgraded from Red)**
Costs and charges • Virgin Money has reduced fees to a more competitive level on its choice of funds (to the same level as its default). • Transaction costs are in line with similar funds. We are pleased that, at the IGC's request, Virgin Money paid the transaction costs in transferring to the new Glidepath, not policyholders.	**Green**
Account service and communications • Virgin Money provided good service levels during the 2020 coronavirus pandemic, and continued to complete policyholder transactions promptly and accurately. • For policyholders, the move to the new default investment strategy was well managed. The IGC reviewed the policyholder communications surrounding the transition and found them to be fit for purpose. Feedback suggests communications were clear. • The IGC will review ongoing communications over the coming year. We expect to see further development of enhanced policyholder services, including retirement options once the proposed move to a new policyholder platform takes place in 2022.	**Green**

The IGC uses a colour coded scoring system of **Red**, **Amber** and **Green** on the scorecard. This shows 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** means that there is room for improvement, and **Green** that performance is satisfactory.

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

What does the IGC do?

Each year the IGC produces a report on how we believe your pension Provider is managing your pension. Our report contains feedback on things we like about your pension, the way it is managed, as well as areas where the Provider can make improvements. This is our sixth report and provides an update for the calendar year 2020.

As the name suggests, the IGC is completely independent of Virgin Money and acts solely in the interests of pension policyholders. The IGC has clear terms of reference as set out in Appendix C.

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, Virgin Money.

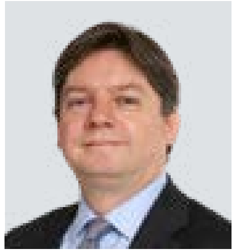
Your IGC has five members, with a majority of wholly independent members, including the Chair.

The terms of appointment of Company nominated members include the duty to act solely in the interests of policyholders. This overrides any obligations to their employer or shareholders. All members are independent in character and judgement.

The Provider pays all costs associated with the IGC, including the fees of the independent members. The IGC believes that it receives appropriate resources from the Provider to carry out its duties.

The IGC considers that it has enough expertise, experience, and independence to act in policyholders' interests.

Sir David Chapman
Chairman



Steve Balmont
Independent Member

Dianne Day
Independent Member

Robert Jefferson
Virgin Money Appointed Member

Jason Sinclair
Virgin Money Appointed Member

Sir David Chapman
Bt. DL. B.Com. – Independent Chair
Sir David has a Finance and Investment background. He is currently Chairman of the Virgin Money Retirement Savings Plan. He was previously Chairman of the Virgin Money Retirement Savings Scheme and the Northern Rock and Northern Rock Asset Management Pension Schemes. In addition, he is Chairman of North East Finance (Holdco) Limited and has held non-executive positions with a number of companies both publicly quoted and private. A former CBI Council member and a director of the London Stock Exchange, in 1995 Sir David was the Exchange's nominee on a corporate governance committee, the Greenbury Committee on Directors' Remuneration, representing the interests of small shareholders.

Steve Balmont
Independent Member
Steve has acted as a professional pension trustee since 2000. As a trustee executive with BESTrustees Limited, he works with defined benefit and defined contribution pension schemes of various sizes and complexity. He has experience in investment, administration, governance and funding. Steve is a Chartered Accountant by professional background. He is involved with various pensions' bodies including the Association of Professional Pension Trustees, the Pensions Research Accountants Group and PLSA South London. He is company secretary at BESTrustees and has had a long association on the Board of London South Bank University and, more recently, the subsidiary Lambeth College.

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.

Jason Sinclair
Jason is an experienced pensions professional having worked for over 30 years at ASI. Jason has professional diplomas in Management, Financial Management and Investment Management. During his career, he has worked in a number of client facing roles covering defined benefit and defined contribution pension arrangements. In his current role with ASI, Jason is responsible for the pension and benefit arrangements for all colleagues as Head of Pensions and Benefits. Jason also chairs the ASI Group Flexible Retirement Plan forum. This forum aims to help colleagues understand and engage in their pension arrangements.

Robert Jefferson
Robert has over 20 years' experience in Financial Services – mainly across digital and marketing roles. He is a huge advocate of simplicity and transparency. Robert's personal mission is to help customers understand their financial products and feel confident in making decisions. In his current role with Virgin Money, Robert heads up all marketing for mortgage, insurance, investments and pensions customers. He is also an active member of the bank's extended leadership team. Robert holds an MBA from Newcastle Business School

Need help with your Virgin Money pension?
I'm not sure which pension I have or how it works?
You can contact Virgin Money directly with any questions you have about your pension 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 a pension calculator on its website, which you can use. You can find the calculator at the following address: http://uk.virginmoney.com/virgin/pension/personal/pension-calculator.jsp

Can I contact the IGC?
The IGC is there for your benefit. We encourage you to contact us with any queries you have about this report or on our assessment of your pension scheme. Feedback is always welcome.

You can contact the IGC at workplacepensionsfeedback@virginmoney.com

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Chair's Statement

2020 was extraordinary and challenging. Investment markets, pensions and life generally has been impacted by Covid, Brexit and the US Presidential elections. Hopefully Covid vaccines and greater certainty following Brexit and the US election will allow life to return to something more normal during 2021.

Covid had a huge effect on all businesses and Virgin Money was no exception. Although the VM call centre in Essex was located in a virus hot spot with many of the team working from home, it is to their great credit that they were able to limit the fall in service standards and there were few customer complaints. The IGC will continue to monitor service standards closely. This will be particularly important in the run up to the change to a new platform provider, FNZ, which is expected to take place early in 2022.

There have been positive developments in 2020. A major piece of good news was the introduction of a substantially improved Default Strategy (DS) for policyholders. The new DS recognises that the introduction of pension freedoms in April 2015 gave policyholders options to take their pensions in different ways other than by simply purchasing an annuity. The IGC, supported by our investment consultants, argued for five years that the former DS was not fit for purpose and we are pleased that a new and substantially improved DS has finally now been introduced. We are also pleased that Virgin Money has listened to our concerns that investments in default funds were too concentrated in the UK, by diversifying and investing more in global markets.

Changes to the investment "Glidepath" for default strategy policyholders in the years before retirement were completed in the fourth quarter of 2020 after an extensive communications exercise. It successfully concluded with the majority of policyholders making the transition. Importantly, policyholders now have the option to target pension drawdown at retirement, if they so wish, rather than being restricted to taking an annuity. Policyholders are encouraged to take professional advice about their retirement options.

Early signs are that the new funds, which are managed by ASI Virgin Money's joint venture partner, will benefit many policyholders but the full effect of the change in strategy will not be known until 2021. Simulated returns for the new Glidepath funds showed that the new strategy performed better than the previous UK funds. However, as the Glidepath includes some more growth assets than previously for policyholders approaching and in retirement, there will be a higher risk of asset values moving up and down.

Policyholders invested in Self Select funds received a welcome Christmas present from Virgin Money with the announcement of reduced charges from December 2020.

While 2020 has seen some positive progress there is still more work to be done. Importantly, we believe the foundations are now in place for significant progress from 2021 onwards. The partnership with ASI should prove very beneficial and lead to improved investment performance. The proposed change of platform provider, although not without risk, has only been agreed after substantial due diligence as you would expect, and should have positive benefits. Relationships with the Provider are good and we are confident that the changes that have taken place together with those in the pipeline augur well for the future.

I hope that you notice – and approve – a change in the format and style of this year's Annual Report. It was felt that after five years a change of approach would be appropriate. We hope that you will find the Report more interesting and readable. We would very much welcome your feedback.

In closing, I hope that you will remain healthy and safe for the remainder of 2021 and beyond. May I again remind you how important it is that you should contribute as much as possible to your pension. Even a small lift in your pension contributions today can make a big difference to your future retirement pot. The Bank of England reports that as a result of the pandemic, households in the UK generally have very high levels of disposable income. If you are in the fortunate position of having excess savings, a top up of your pension contributions is worth considering. You can increase your pension savings at any time, by either making a regular contribution or a one-off payment. You can do this on-line, by sending Virgin Money a cheque or by calling their contact number 0345 102040. Remember you will receive tax relief on your contribution.

Sir David Chapman
1 June 2021

Value for Money – conclusions

The IGC believes that the Provider offers improved value for money to its workplace pension policyholders. In 2020, we were pleased to report an improved rating on the key area of default design. We look forward to that change being reflected in investment performance in future. While the new default strategy will result in a higher charge than the previous default – this is justified by several improvements designed to give a better outcome on retirement. The IGC has developed a scorecard to assess whether your pension is delivering value for money.

Value for Money Factors	Assessment	2020	2019
Default Design, Performance and Policies		**Amber**	**Red**
Default design	• Virgin Money moved Policyholders to a redesigned multi-asset default strategy in late 2020. The new Glidepath offers an acceptable level of diversification across a wide range of assets, with a more active management style. At retirement, the investment mix is better suited to policyholders seeking flexibility rather than annuities.	**Green**	**Red**
Performance	• The IGC considers the new design fit for purpose. The IGC expects the Provider to revise performance reporting to reflect the new default investment design. We will report on the Provider's progress. Given the major changes to investment strategy, future performance cannot be directly compared to past performance.	**Amber**	**Amber**
ESG/ Stewardship polices	• The Provider is currently developing formal policies on how it takes into account Environmental, Social and Governance (ESG) considerations and stewardship (e.g. voting rights) when making investment decisions. The IGC has reviewed ASI's capability in this area and looks forward to receiving more details.	**Amber**	**N/A**
Costs and Charges		**Green**	**Green**
Ongoing policyholder charges	• The total costs for policyholders of the new Glidepath default investment strategy have increased from 0.6%pa to 0.85%pa for most policyholders (and to 0.75%pa for former auto-enrolment policyholders). Policyholders receive better value for money in the new default compared to the previous one, despite increased costs. This is due to the improved design and active management of the new default. The fee levels are at the high end of the range of workplace pensions, but within acceptable tolerances compared to peers.	**Green**	**Green**
Transaction charges	• IGC requested the Provider to pay the costs of moving to the new default investment strategy and they agreed. The Provider did this by adding extra units to Policyholders' accounts. • The IGC will monitor transaction costs going forward. We expect these to be higher in actively managed multi-asset portfolios compared to the previous tracker approach.	**Green**	**Green**
Account Service and Communications		**Green**	**Green**
Account service	• The Provider maintained service levels and customer service access to a good standard. This was despite the challenges of operating during the pandemic, which began in March 2020. • Core financial transactions were completed promptly and accurately.	**Green**	**Green**
Communications	• The IGC carefully monitored the move to the new investment strategy. The move went smoothly, despite the challenges of staff working from home. • The IGC reviewed the communications around the move and found them to be fit for purpose. The Provider tailored the messages based on the age and preferences of Policyholders. Feedback suggests communications were clear and no significant policyholder concerns were raised. • The IGC will review ongoing communications for the new investment design over the coming year.	**Green**	**Green**

The IGC uses a colour coded scoring system of **Red**, **Amber** and **Green** on the scorecard. This shows 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** means that there is room for improvement, and **Green** that performance is satisfactory.

Your provider's response to this report

Comments from provider

We are pleased to see a positive trend in your IGC's rating of our service this year. This is the outcome of significant effort and change. We successfully launched new funds and a new default lifestyle approach which addressed matters raised by your IGC previously. The response was very encouraging with most members retaining the default solution and, therefore, switching to the new 'Glidepath' approach.

As the new 'Glidepath' funds are widely diversified across global markets, members are already benefiting from reduced exposure to single markets and asset classes: for example UK Bonds and Gilts that have reduced in value since the switch (end Nov '20 to end March '21). The Glidepath approach invests in growth assets for longer, aiming to give the flexibility to provide for an income at retirement. We will monitor its performance as a long term strategy for members.

This was the first step in a significant programme of change to enhance our proposition to members and we look to deliver further enhancements next year. We also intend to introduce access to a range of retirement income options and services. These retirement options will allow members to be serviced by us throughout their retirement. We will keep you informed of these developments and are collaborating with your IGC to ensure communications remain of a high standard.

We are also working hard to further embed environmental, social and governance criteria into our fund range and we want to give you confidence that these matters are central to our plans.

We carry out an annual review of value for money in the Stakeholder Pension Scheme and the funds the pension invests in (you can find statements of value in the annual report and accounts on our website). December 2020 we reduced the annual management charge (AMC) for three of the multi-asset funds in our range from 1% to 0.85%. We are pleased with the comments of the IGC in this regard which recognise that value is more than just the headline fund price.

The IGC continues to be challenging and acts strongly on your behalf. We undertook our first effectiveness review of the IGC for the year ended 31 December 2020. This concluded that the IGC was effective but also identified ways in which we could improve further for the continued benefit of you as members. We believe the relationship is stronger than ever and will support your interests during our continued transformation.

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.

Value for money – in detail

1. Default design performance and policies

1.1 Default design: Transition to the new Glidepath

In November 2020, Virgin Money updated their default investment strategy, the "Automatic Fund Selector" (AFS) to a new default called "Glidepath". They did this to give policyholders a more flexible approach to retirement and better funds.

The IGC welcomes this new default strategy having asked for some time for changes to be made. Glidepath uses two new funds, developed in partnership with ASI. Virgin Money gave all policyholders advance warning of the changes and the chance to opt out. The IGC supported Virgin Money by reviewing and providing feedback on policyholder communications.

Like the old default (AFS), Glidepath moves policyholders from a growth fund to a more defensive fund as policyholders approach retirement age. This happens over an extended time so that policyholders stay invested in growth for longer. In fact, even after policyholders reach 65, a third of their pension pot is in Virgin Money's Growth Fund 3. See chart opposite for how this works.

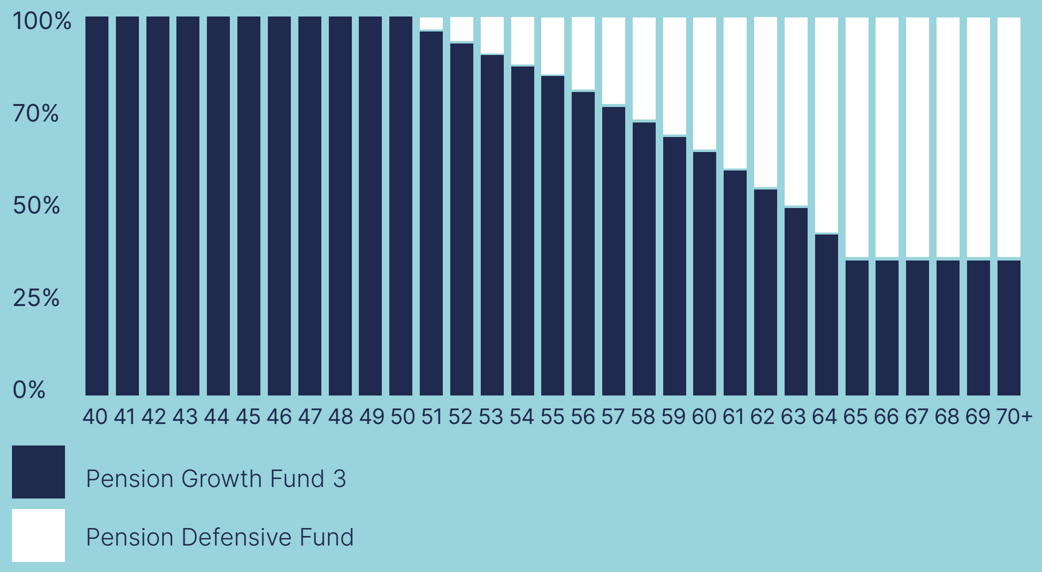
At retirement, policyholders can choose to continue investing for growth by taking an option known as "income drawdown" rather than choosing cash or buying an annuity.

The new Glidepath funds are invested across global investment markets. This diversification means that policyholders benefit from lower expected risk compared to investing in single markets and investment classes.

All policyholders using the old AFS are now on the new Glidepath, unless they opted out.

Virgin Money also plans to introduce new choices for policyholders taking their pension pot. These changes, coming in 2022, will allow members to stay with Virgin Money throughout their retirement – avoiding the need to transfer to other providers.

How the Glidepath moves your money over the years



1.2 Performance

Comparison of default fund (or 'automatic fund selector') returns

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. Again this year, the IGC asked Hymans Robertson LLP to look at how the returns of your default fund compared to other pension schemes with similar aims.

This is the last time the IGC will look back on the AFS, the old default fund, to assess its performance against peers. Due to the move to a new and very different default fund (the Glidepath) in November 2020, the comparison will change from 2021 onwards. The usual warning provided to pension investors is more relevant than ever: past performance is not an indicator of future performance! The performance of the Growth Fund shown below is therefore a mix of the two strategies. The Virgin Pension Growth Fund (100% UK shares) 1 January to 5 November, and the new Pension Growth Fund 3 from 6 November to 31 December 2020.

Hymans Robertson collected returns from nine providers. Of these, only Virgin Money continued to use a default strategy assuming policyholders will buy an annuity (a guaranteed income for life). That is, until the move to Glidepath in November 2020 (page 10). The remaining eight had already changed their default strategy to cover the new options available since pensions freedoms were introduced in April 2015. Many providers now offer a full range of investment strategies targeting annuity purchase, full cash withdrawal or flexible income drawdown when a policyholder retires.

Please note: While the other strategies offer a variety of different investment approaches, their purpose is broadly similar. That is 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 – retirement is still some way off

In the Virgin Money default strategy, the old AFS, your pension was invested 100% in the Virgin Pension Growth Fund until ten years away from retirement. The returns during these years are therefore very important to the size of your pension pot.

Overseas stock markets performed well in 2020 on average. Despite the ups and downs of the markets in the middle of the year in reaction to the unknowns of the coronavirus pandemic international markets returned over 12%. This boosted all default funds in the group we surveyed, leading to solid returns in 2020. However, the UK stock market performed poorly, due to a mix of Brexit uncertainty and the greater impact of the pandemic on sectors that the UK market has significant exposure to, such as energy. The returns for the UK market was -10%, leaving Virgin Money ranked last in the group out of nine for 2020.

You can see from the table on the next page that returns in individual calendar years go up and down a lot, reflecting the nature of stock market investing. That is why the IGC believes it is important to diversify beyond UK shares alone, as it can provide some diversification benefits to smooth returns over time. Over the five years to 31 December 2020, Virgin Money is ranked at the bottom within the survey, due in part we believe to its narrower focus on UK shares only. The more diversified approach taken from November 2020 by the new Glidepath offers a much greater spread of investments.

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 any one single calendar year.

Returns from growth funds of default pension schemes	1 year to 31 Dec 2015	1 year to 31 Dec 2016	1 year to 31 Dec 2017	1 year to 31 Dec 2018	1 year to 31 Dec 2019	1 year to 31 Dec 2020	5 years to 31 Dec 2020
Highest	4.0%	22.5%	14.6%	-3.4%	23.2%	8.3%	10.0% pa
Median	1.4%	18.0%	10.3%	-5.3%	16.3%	3.5%	8.4% pa
Lowest	-0.1%	12.6%	8.7%	-10.2%	13.2%	-14.5%	3.3% pa
Virgin Pension Growth Fund*	0.2%	15.6%	11.9%	-10.2%	18.4%	-14.5%	3.3% pa
Ranking**	8th/10	9th/13	2nd/10	10th/10	2nd/9	9th/9	8th/8

Source: Financial Express through Trustnet and Providers, Virgin Money Team. Performance of all funds is shown after the deduction of standard charges, but the actual level of fund charges may vary depending on the terms of individual policies

*This combines the previous Virgin Pension Growth Fund (1 January – 5 November 2020) and the new Virgin Money Pension Growth Fund 3 (6 November – 31 December 2020), due to the move part way through the year to the new Glidepath.

**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's old AFS gradually moved you from the Virgin Pension Growth Fund to the Virgin Money Pension Bond and Gilt Fund. By the time you reached your final year before retirement, the AFS put 100% of your retirement pot in the Pension Bond and Gilt Fund. This investment mix is designed to broadly provide a match with annuity rates on retirement. Although since 2015, we observed that most policyholders are more likely to access their pensions in a more flexible way.

Due to the reduced popularity of annuities at retirement, the number of comparable schemes in this category is small and shrinking. More providers use default strategies that focus on flexible income drawdown options at retirement. In 2020, all schemes in this category produced increases in the value of policyholder's pension pots, with Virgin Money ranked 6th=/9 for the year and 7th/7 for five years.

The table below shows annual returns for policyholders reaching their nominated retirement date on 31 December 2015-2020 and for the five years to 31 December 2020. It compares Virgin Money with other pension schemes 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 Dec 2015	1 year to 31 Dec 2016	1 year to 31 Dec 2017	1 year to 31 Dec 2018	1 year to 31 Dec 2019	1 year to 31 Dec 2020	5 years to 31 Dec 2020
Highest	1.4%	14.4%	7.3%	-0.1%	12.3%	11.5%	9.5% pa
Median	-0.1%	13.2%	3.5%	-1.5%	9.3%	8.3%	6.7% pa
Lowest	-2.5%	8.1%	1.6%	-5.4%	5.0%	1.6%	4.9% pa
Virgin Money Default strategy (AFS)*	-0.4%	8.1%	1.6%	-0.5%	5.0%	8.1%	4.9% pa
Ranking**	7th/10	10th/10	9th/9	3rd/10	8=/9	6th/9	7th/7

Source: Financial Express. Performance of all funds is shown after the deduction of standard charges, but the actual level of fund charges may vary depending on the terms of individual policies.
*This combines the previous Virgin Pension Growth and Pension Bond and Gilt Fund (1 January – 5 November 2020) and the new Virgin Money Pension Growth Fund 3 and Virgin Money Defensive Fund (6 November – 31 December 2020), due to the move part way through the year to the new Glidepath.
**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.

Looking at risk

As a general investment rule, over the long term the more investment risk taken, the higher the return. Investment risk means different things to people, including the risk of losing your money and the risk that comes with investments whose value and returns go up and down a lot, especially over the short term.

In reviewing the above returns from the old default strategy (AFS), it is important to look at whether the risk taken with policyholders' investments was in line with the returns generated. In this sense, risk is measured by the ups and downs or volatility seen in the fund's value in each year. The returns and risk (volatility) of the eight default pension schemes in our peer survey suggest that the above 'risk and return' rule has generally applied over the 5 years ending 31 December 2020 – the median return of the group was 8.4%pa and the median risk was 10.4%pa.

Growth funds of default pension schemes	5 years to 31 Dec 2020 Returns	5 years to 31 Dec 2020 Volatility
Highest	10.0% pa	15.4% pa
Median	8.4% pa	10.4%pa
Lowest	3.3% pa	8.2%pa
Virgin Pension Growth Fund	3.3% pa	15.4%pa
Ranking*	8th/8	8th/8

With the lowest return within the peer group, the Virgin Pension Growth Fund might be expected to also show the lowest volatility. But in fact, it was the highest. Policyholders were not rewarded adequately for the level of risk taken (as measured by annual price fluctuations or volatility).

As noted in the past, the IGC considers a more diversified investment (beyond UK shares) makes for a better-designed default fund giving potential for policyholders to be rewarded in line with the risks taken. The IGC is therefore supportive of the move to the new Glidepath, which is more diversified in its investment strategy.

For the pre-retirement section of the old AFS, however, the picture is much more positive in terms of the risk/return equation.

In the lead up to retirement, when the investment mix in the default strategy of the Virgin Pension Plan became more defensive, the returns were the lowest in the group at 4.9%pa. However this is still a healthy margin above inflation, for example. Consistent with that return, the strategy also achieved the lowest volatility. So policyholders' returns were much better aligned to the risk they took. From this perspective, the AFS performed as designed in the lead up to retirement – producing solid returns at low risk (volatility), suitable for policyholders who were looking to buy annuities at retirement or even access benefits directly in cash or transfer to another plan.

Up to retirement on 31 December 2020 from pension schemes targeting annuity purchase	5 years to 31 Dec 2020 (higher is better)	5 years to 31 Dec 2020 Volatility (lower is better)
Highest	9.5% pa	8.2% pa
Median	6.7% pa	7.7% pa
Lowest	4.9% pa	4.1% pa
Virgin Money Default strategy (AFS)	4.9% pa	4.1%pa
Ranking*	7th/7	1st/7

Timing risks and benchmark comparison– AgeWage

In September 2020, your IGC met to review a report by AgeWage, a firm of data analysts who take an independent look at returns against an AgeWage benchmark. Their analysis examined in detail the investment returns experienced by each policyholder in the Virgin Money Stakeholder Plan over time. In particular, it looked at the specific returns of each policyholder depending on when they invested contributions over time, how much was invested, and then calculated an individual return (called an Internal Rate of Return). This way of looking a performance takes each unique policyholder experience and compares it to a typical industry benchmark. It takes into account the timing of when monthly contributions were placed into investment markets and the prices that prevailed at that time.

It was very useful to see this analysis which verified to your IGC some long held views and challenges regarding your Plan's default investment design weaknesses, namely that a focus on UK Equities only in the growth phase provided insufficient diversification and higher volatility. This led to underperformance – as well as high cost. The IGC found the AgeWage analysis gave a useful and different perspective to our work and provided confirmation of the need for a review by the Provider that occurred in 2020.

Inflation risk
Another way of looking at risk is to consider whether your pension savings are staying ahead of inflation. A return above inflation means that your pension should keep pace with increases in the prices of goods and services you are likely to buy in retirement. Over the five years to 31 December 2020, the CPI inflation rate was 2.7% per annum. Therefore, both the Virgin Money Pension Growth Fund and the AFS as a whole have outperformed inflation over this period.

1.3 Environmental, Social and Governance, Stewardship policies

From April 2020, the IGC was required by the Financial Conduct Authority to consider and report on:

- The adequacy and quality of Virgin Money's policy (if any) relating to Environmental, Social and Governance ("ESG") financial considerations and ESG non-financial matters;
- How these have been taken into account in Virgin Money's investment strategy and decision-making; and
- The adequacy and quality of Virgin Money's policy (if any) relating to stewardship.

During 2020, and in the period to the date of this report, Virgin Money has not finalised its new ESG policies in these areas. As a result, the IGC must instead consider and report on Virgin Money's reasons for not having these policies in place.

Virgin Money has shared with the IGC some details of its proposed new approach to ESG considerations and plans for implementation during 2021. We have noted their aim to work with their Joint Venture Investment Adviser partner, ASI. They plan to redefine investment principles and to create a responsible investment policy which is both ambitious and feasible, and which is aligned with ESG capability. ESG policies are a "high priority and of fundamental importance to the business" of Virgin Money. We also note Virgin Money's wish to establish robust new policies, which will be valued by policyholders.

It is disappointing that new ESG policies were not in place during 2020, but the IGC is assured that this will be fixed in 2021. Based on information available, the IGC has no cause to believe there has been any material, adverse impact for policyholders because of the delay. Investing for retirement is a long-term strategy. However, the sooner policies are established the sooner policyholders will be able to benefit. Details of the approach to ESG by Virgin Money in 2020 are set out below.

The IGC will continue to monitor progress and escalate any concerns where appropriate.

ESG in 2020
In 2020, Virgin Money has continued to manage investments on behalf of policyholders from a return perspective and according to the long-term financial risks and opportunities presented by ESG factors. Workplace pension funds are index-tracking funds. This means that rather than a fund manager choosing which companies to invest in (and which not), each Fund invests in the companies that are included within each stock market index. For example, the 600+ companies in the FTSE All Share index, which the Virgin Money Pension Growth fund invests in. So the decision whether to invest or not in a company is driven by representation within an index, not by a fund manager. However, as shareholders of these companies, it is the Fund Managers' responsibility to engage with them over ESG issues on your behalf.

ASI is the Investment Adviser to the funds within the Virgin Money Stakeholder Pension scheme. ASI is a signatory to the UK Stewardship Code. This code encourages engagement by investors, the exercise of voting rights and constructive influence on the companies in which they invest. The ASI policy on Stewardship details how Stewardship and ESG factors integrate into investment processes can be found at:

https://www.aberdeenstandard.com/docs?editionId=bfcb3d9c-0a6e-4e14-8eb2-26ee56d3a45d

By engaging with companies, ASI is able to hold them to account on risks and opportunities arising from ESG factors. This includes how those companies are working to meet the UN Sustainable Development Goals (SDGs). ASI will seek to improve long-term value through engagement and has a process of escalation if they have concerns. ASI has voting policies to underpin engagement and emphasise views as a shareholder. Information on key voting is disclosed publicly on a quarterly basis. Virgin Money has a Shareholder Engagement Policy, which they review on an annual basis. You can find it at: **https://uk.virginmoney.com/virgin/service/investments/investor-engagement-policy/** Detail is provided on the website, of company engagement in action. It shows some of the key votes taken over the previous year, where a vote has been cast against management – with the view to encourage better behaviour / practice, which includes ESG related matters.

2. Costs and charges

In this section, we look at the ongoing charges you pay and the transaction costs incurred when buying and selling investments. We compare 2020 against the charges and costs in 2019. We consider that they are reasonable given the types of funds and strategy your pension invests in.

As mentioned on page 10 earlier in the report, policyholders moved in November 2020 to the new default strategy, called Glidepath. The new default offers several improvements designed to produce a better outcome in retirement. These include a better spread of investments, more active management and a strategy better suited to the way most policyholders are expected to take their benefits at retirement. However, these enhancements come at a higher ongoing charge than the old default. They are also likely to result in higher transaction costs in future years. This is because the investment mix is altered by the manager, ASI, to optimise expected risk-adjusted returns.

2.1 Ongoing Policyholder Charges

2.1.1 The default strategy – where most policyholders are invested

In previous annual reports, we stated our views that the previous AFS Default Strategy did not represent good value for money and needed urgent attention. The AFS was made up of two tracker funds: Virgin Pension Growth Fund and the Virgin Money Pension Bond and Gilt Fund. Tracker funds are generally available at low cost. The costs below, while reduced substantially since January 2019, were still towards the higher end of the market. The table below shows the Annual Management Charge for policyholders. Turning percentages into pounds, for every £10,000 you hold in your pension, an annual fee of 0.6% means you paid £60 per year in ongoing charges.

Funds in the old AFS Default Strategy 1 Jan to 5 Nov 2020

	Virgin Money Pension Growth Fund		Virgin Money Pension Bond and Gilt Fund	
	2020	2019	2020	2019
Annual Management Charge	0.6% pa	0.6% pa	0.6% pa	0.6% pa
Annual Management Charge – Auto-enrolment	0.6% pa	0.6% pa	0.6% pa	0.6% pa

The new Glidepath combines two significantly different funds relative to the funds in the old strategy. The mix is actively managed over time based on the manager's expectations of return and risk. Virgin Money believes that these more sophisticated funds, combined in a better-designed Glidepath, offer improved value for money. This is despite the higher fee levels shown below. Turning percentages into pounds, for every £10,000 you hold in your pension, an annual fee of 0.7% means you pay £70 per year in ongoing charges. An annual fee of 0.85% means you pay £85 per year in ongoing charges for every £10,000 in your account.

We agree with the view that these actively managed, diversified funds and the new default strategy are a much better fit for policyholders. However, we remain of the view, that the increased fees are at the high end of the spectrum. It will be up to the new investment manager, ASI, to show that the risk-adjusted returns justify these higher fees.

In fact, these new fee levels are closer to those on personal pension funds than workplace pensions. The planned move to a new platform provider during 2022 will effectively move policyholders from a workplace to a personal pension environment. This move comes with the promise of enhanced services. We will continue to monitor these new funds and strategy as they progress. We will also consider the value provided within the fees below in both returns and services.

Funds in the new Glidepath – 6 Nov – 31 December 2020

	Virgin Money Pension Growth Fund 3	Virgin Money Pension Defensive Fund
	2020	2020
Annual Management Charge	0.85% pa	0.7% pa
Annual Management Charge – Auto-enrolment	0.75% pa	0.7% pa

To see how Glidepath gradually moves your money over the 15 years to retirement, take a look the table below. The annual ongoing charges are also shown for each year.

	Up to 50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65+
Growth Component Growth Fund 3 (GF3)	100%	97%	94%	91%	88%	85%	81%	77%	73%	69%	65%	60%	55%	50%	43%	36%
Defensive Component Defensive Fund (DEF)	0%	3%	6%	9%	12%	15%	19%	23%	27%	31%	35%	40%	45%	50%	57%	64%
Charges Standard Class	0.85%	0.85%	0.84%	0.84%	0.83%	0.83%	0.82%	0.82%	0.81%	0.80%	0.80%	0.79%	0.78%	0.78%	0.76%	0.75%
Charges Auto-enrolment Class	0.75%	0.75%	0.75%	0.75%	0.74%	0.74%	0.74%	0.74%	0.74%	0.73%	0.73%	0.73%	0.73%	0.73%	0.72%	0.72%

2.1.2 Other funds – for policyholders to make their own choices

Policyholders who wish to select their own funds can mix and match the funds above with the three other funds in the table below. The design and fees of these funds were unchanged in 2020 from previous years. While the old default strategy invested only in UK shares during the growth phase, it was important for policyholders to have the option to invest more widely, especially into overseas shares. Once again, the costs of these funds were considered by the IGC to be at the higher end of the range compared to peers for optional funds, especially since their components are tracker funds.

Following a value assessment of these three funds, Virgin Money reduced their annual fee from 1% to 0.85% on 30 December 2020. This brings the fee in line with the newly launched Growth Fund 3. It also means that Virgin Money has reduced the charges on all their funds in recent years.

Other Funds available to Workplace Pension Policyholders – Year ending 31 December

	Virgin Pension Bond, Gilt and UK Share Fund		Virgin Pension Bond, Gilt, UK and Overseas Share Fund		Virgin Pension Global Share Fund	
	2020	2019	2020	2019	2020	2019
Annual Management Charge*	1%	1%	1%	1%	1%	1%

*From 30 December 2020, the AMC on all funds reduced to 0.85% pa.

2.2 Transaction Costs

We are pleased to report that Virgin Money gave us a full outline of various costs and charges in a timely fashion again this year.

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

As mentioned in section 1, in November 2020 policyholders were offered the new default strategy, called Glidepath. Your IGC requested that Virgin Money pay the transaction costs in moving to the new default investment strategy. The move to a better default design is something we have sought since 2015 when the IGC was formed. Given the delay, in our view, policyholders deserved to make this move without cost. We can report that Virgin Money agreed to our proposal. So policyholders were compensated for any move costs within their pension accounts. We would like to acknowledge Virgin Money's positive response to our request, in the interests of policyholders.

A detailed breakdown of the total transactions costs for the old default funds and the optional investment funds is in Appendix A. A summary of the total transaction costs is in the tables below.

During 2020, policyholders in the default were invested in the old investment strategy for over 10 of the 12 months. For this reason, we report transaction costs in those old funds here. Next year, we will have a full year under the new default, Glidepath, to examine and report to policyholders.

In 2020, transaction costs fell in the Virgin Money Growth Fund. For the Virgin Money Pension Bond and Gilt Fund, 2020 was broadly in line with 2019. Due to the way providers are required to calculate the costs of buying and selling investments, the transaction costs in the Virgin Money Growth Fund were -0.150%, which means that they added a small amount of value to your account. This somewhat strange result reflects the impact of timing within the calculations.

Transaction costs are expected to vary from year to year, and these costs are low as a proportion of your fund value. Our adviser, Hymans Robertson, has reviewed the detailed transaction costs reported by Virgin Money for 2020 and concluded that they are reasonable for the type of funds used (i.e. tracker funds).

Given that the underlying funds are tracker funds and closely follow a share index, we would generally expect transaction costs to be low and this is the case.

Funds in the old AFS Default Strategy – Year ended 31 December 2020

	Virgin Money Pension Growth Fund		Virgin Money Pension Bond and Gilt Fund	
	2020	2019	2020	2019
Total Transaction costs	-0.150% pa	0.049% pa	0.048% pa	0.055% pa

We are also including the transaction costs for the optional funds available to you.

For the Global Share Fund, transaction costs were in line with the previous year.

For the other two funds, transaction costs were higher than 2019. This was due to extra costs incurred during the volatile trading conditions experienced in 2020. Both funds invest in a range of asset classes and rebalancing in rapidly shifting markets can incur costs.

Transaction costs are expected to vary from year to year. Our adviser, Hymans Robertson, has reviewed the detailed transaction costs reported by Virgin Money for 2020 and concluded that they are reasonable for the type of investments used within the funds below.

Other Funds available to Workplace Pension Policyholders – Year ended 31 December 2020

	Virgin Pension Bond, Gilt and UK Share Fund		Virgin Pension Bond, Gilt, UK and Overseas Share Fund		Virgin Pension Global Share Fund	
	2020	2019	2020	2019	2020	2019
Total Transaction costs	0.286%	0.056%	0.349%	0.058%	0.081%	0.092%

A detailed breakdown of the year's transaction costs and their various components is in Appendix A.

2.3 How ongoing and transaction costs could impact the size of your pension pot

Value for money in pensions means policyholders paying costs that are in line with the investment strategy design and mix used to achieve their retirement goals. Examining fees is important as over the course of many years, they reduce pension savings.

The table below shows the impact that both ongoing annual charges and transaction costs can have on your pension over the years you are invested. The first column shows the value before charges are deducted and the second shows the value after fees and transaction costs.

This is not a promise of a return and your outcome will be different. But it illustrates why it's important to consider fees and why the IGC focuses heavily on these as part of our value-for-money assessment.

Projected pension pot in today's money*

	Default Arrangement (the Automatic Fund Selector)	
Years	Before charges + costs deducted	After all charges + costs deducted
1	£15,353	£15,227
3	£21,226	£20,923
5	£27,657	£27,120
10	£46,458	£45,053
15	£69,747	£66,991
20	£98,382	£93,680
25	£133,368	£125,994
30	£175,886	£164,953
35	£227,315	£211,488
40	£289,269	£265,925

*Calculated according to COBS 19.5.15

Assumptions:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £10,000.
3. Inflation is assumed to be 2.5% each year.
4. Values shown are estimates and are not guaranteed.
5. The default fund (Automatic Fund Selector) is expected to grow by 2.5%pa above inflation.
6. The annual management charge for the AFS Funds (Virgin Money Bond and Gilt Fund and the Virgin Money Growth Fund) was 0.6%pa.
7. Average salary £29,120 pa, contributions 8% pa and annual salary increase 2.5%pa.

3. Account service and communications

The IGC are pleased with Virgin Money's account servicing, administration and communications over the last year – particularly considering how the pandemic disrupted many organisations. We rated this section as Green – maintaining the score from 2019.

We understand that your pension fund is a significant asset that you have worked hard to build up. So when you deal with your pension provider you expect a prompt response, accurate information and the confidence that your money is being well looked after. The IGC's role is to monitor service levels and check communications are fit for purpose. We regularly speak with Virgin Money and assess how they are performing on service standards. In the last year we worked closely with them on the communications for the move to the new default investment strategy.

Maintaining service through the Pandemic

In our regular meetings with Virgin Money, we review a broad range of services. This includes how they administer accounts, handle enquiries and fix complaints. Our role is to challenge if we feel performance is slipping and suggest areas for improvement.

Throughout the pandemic, we were happy that Virgin Money quickly adapted to a remote working approach for many key admin roles and maintained a good level of service for core transactions. Virgin Money report that 99.75% of transactions were processed accurately for the year.

One area that was placed under stress was the telephone helpline. This saw a dip in the time to answer calls when compared to usual service standards. At times, this was due to illness linked to the pandemic and the impact of all call handlers working from home. Overall, 85.1% of calls were answered in 20 seconds, with no material change in the volume of customers hanging up. We feel that this is an appropriate level of service through the pandemic.

This general level of good service is also seen through the complaints levels. 2020 was again a low year for Pension complaints (281 received, compared to 273 in 2019). We are pleased that 92% were resolved within ten days.

However, one item to watch is pension transfers. This has been the most featured complaint category during 2020, and we will seek further reassurances from Virgin Money that their processes are robust and suitable.

Transition to Glidepath
During November 2020, scheme policyholders moved to an improved default investment strategy (Glidepath). This was done with the full support of the IGC, as we had campaigned for the changes for some years.

The IGC carefully monitored the move to the new investment strategy. We are happy to report that it went very smoothly – largely due to detailed planning and risk management. This was despite the challenges of the staff working from home.

The IGC reviewed the communication strategy for the move, and gave feedback to Virgin Money on the various communications to policyholders. We found Virgin Money's approach, of delivering tailored messages based on policyholder's life stage and investment mix, was useful. So we considered the communications to be fit for purpose. The bespoke messages helped policyholders to decide if the new Glidepath suited their needs and objectives. Feedback suggests communications were clear and no significant policyholders concerns were raised.

Forward looking improvements
Virgin Money have advised the IGC that they plan to move the pension portfolio to a new platform during the early part of 2022. We are keen to understand how the move will be communicated to policyholders, with particular focus on enhanced services. We also plan to focus on a more detailed review of standard policyholder communications in 2021, now that the move to the new Glidepath and investment manager is complete.

The IGC's plans for 2021-22

The IGC will continue its constructively challenging relationship with the provider, which we believe works in the interests of policyholders.

The main focus of the IGC's work for 2021 will be to continue monitoring value for money provided to policyholders through the following :-

- Monitoring the new default strategy and the investment returns of your pension.
- Monitoring the migration to the new platform provider.
- Monitoring the provider's ESG, ethical and stewardship policies.
- Understanding how Virgin Money communications are fit for purpose and help support policyholders at key stages in their pensions journey.
- Encouraging policyholders to give their views on the Virgin Money Stakeholder Pension.
- Encouraging the provider to consider its policyholder proposition leading up to and in retirement, including investment pathways.
- Continuing to monitor the effectiveness of the IGC.

Appendices

Appendix A
Transaction Cost Reporting
Transaction Cost Summary – Full Year Results

		Transition Costs 2020 (full year)					2019 (full year)				
		Default Funds (Jan-Oct)		Funds of Funds			Default Funds		Funds of Funds		
Transactions Cost	**Notes**	**Virgin Money UK Tracking Trust (Tracker)**	**Virgin Money Bond and Gilt Fund (B&G)**	**Virgin Bond, Gilt and UK Share Fund (VBGUK)**	**Virgin Bond, Gilt,UK and Overseas Share Fund (VBGOS)**	**Virgin Global Share Fund (Global)**	**Virgin Money UK Tracking Trust (Tracker)**	**Virgin Money Bond and Gilt Fund (B&G)**	**Virgin Bond, Gilt and UK Share Fund (VBGUK)**	**Virgin Bond, Gilt, UK and Overseas Share Fund (VBGOS)**	**Virgin Global Share Fund (Global)**
Lending & Borrowing Cost	Costs associated with stock lending – calculated accordingly to COBS 19.8.17R	0.000%	0.000%	0.001%	0.001%	0.002%	0.004%	0.002%	0.007%	0.004%	0.001%
Explicit Taxes	Transaction taxes – such as stamp duty and financial transaction taxes	0.019%	0.000%	0.000%	0.000%	0.000%	0.029%	0.000%	0.000%	0.000%	0.000%
Explicit Fees & Charges	Broker commission and other explicit transaction costs	0.001%	0.000%	0.009%	0.007%	0.006%	0.004%	0.000%	0.003%	0.002%	0.004%
Implicit Costs	Transaction costs calculation for buying and selling transactions (Slippage Cost) –calculated according to COBS	-0.188%	0.047%	0.235%	0.294%	0.024%	0.014%	0.068%	-0.003%	0.010%	0.053%
Indirect Costs	Transaction costs incurred in an underlying investment vehicle (Look Through)	0.018%	0.000%	0.040%	0.047%	0.049%	0.011%	0.000%	0.049%	0.042%	0.034%
Anti-dilution Offset (taken away from other costs)	Reduction to total transaction costs, either levy or adjustment for dual price funds – calculated according to COBS 19.8.21	0.000%	0.000%	0.000%	0.000%	0.000%	0.014%	0.014%	0.000%	0.000%	0.000%
Total Transaction Costs		**-0.150%**	**0.048%**	**0.286%**	**0.349%**	**0.081%**	**0.049%**	**0.055%**	**0.056%**	**0.058%**	**0.092%**
AMC%*		0.6%	0.6%	1%	1%	1%	0.6%	0.6%	1%	1%	1%

Funds of Funds* AMC reduced to 0.85% 30th December 2020

Fund Level Commentary

Transaction Cost	Notes	Commentary 2020 (full year)				
		Default Funds (Jan-Oct)		Funds of Funds		
		Virgin Money Tracking Trust (Tracker)	Virgin Money Bond and Gilt Fund (B&G)	Virgin Bond, Gilt and UK Share Fund (VBGUK)	Virgin Bond, Gilt UK and Overseas Share Fund (VBGOS)	Virgin Global Share Fund (Global)
Lending & Borrowing Cost	Cost associated with stock lending – calculated according to COBS 19.8.17R	Costs of securities lending and overdraft expenses which are marginal for 2020 and below prior year.	N/A	Costs for overdraft expenses, which are marginal and below prior year.	Costs for overdraft expenses, which are marginal and below prior year.	Costs for overdraft expenses, which are marginal and below prior year.
Explicit Taxes	Transaction taxes – such as stamp duty and financial transaction taxes	SDRT costs on buy transactions, costs lower than the prior year.	N/A	N/A	N/A	N/A
Explicit Fees & Charges	Broker commission and other explicit transaction costs	Broker commission and other explicit transaction costs are marginally lower than the prior year.	Broker commission and other explicit transaction costs are marginally lower than the prior year.	Broker commission and other explicit transaction costs are marginally lower than the prior year.	Broker commission and other explicit transaction costs are marginally lower than the prior year.	Broker commission and other explicit transaction costs are marginally lower than the prior year.
Implicit Costs	Transaction costs calculation for buying and selling transactions (Slippage Cost) – calculated according to COBS 19.8.9R – 19.8.16R	Slippage costs calculated in accordance with COBS rules. This year's costs were negative resulting from market conditions during trading. The prior year was a marginal positive cost.	Slippage costs calculated in accordance with COBS rules. This year's costs were marginal based on market conditions.	Slippage costs calculated in accordance with COBS rules. This year's costs were higher than the previous year and were a result of market volatility during Feb-May trading.	Slippage costs calculated in accordance with COBS rules. This year's costs were higher than the previous year and were a result of market volatility during Feb-May trading.	Slippage costs calculated in accordance with COBS rules. This year's costs were marginal based on market conditions, and lower than the prior year.
Indirect Costs	Transaction costs incurred in an underlying investment vehicle (Look Through)	Look through costs of underlying investment vehicles, costs are marginally higher than prior year.	N/A	Look through costs of underlying investment vehicles, costs are in line with prior year	Look through costs of underlying investment vehicles, costs are in line with prior year	Look through costs of underlying investment vehicles, costs are in line with prior year.
Anti-dilution Offset (taken away from other costs)	Reduction to total transaction costs, either levy or adjustment for dual price funds – calculated according to COBS 19.8.21	N/A	N/A	N/A	N/A	N/A
Total Transaction Costs 2020		-0.150%	0.048%	0.286%	0.349%	0.081%
Total Transaction Costs 2019		0.049%	0.055%	0.056%	0.058%	0.092%
Difference from prior year		Transaction costs are lower resulting from negative slippage costs.	Transaction costs are in line with prior year.	Transaction costs are higher resulting from slippage costs during volatile trading period.	Transaction costs are higher resulting from slippage costs during volatile trading period.	Transaction costs are in line with prior year.

Appendix B

List of Meetings and work undertaken at each IGC

February 2020	
Virgin Money update to the IGC: • Virgin Money Board meeting update • IGC review items • Progress on Joint Venture with ASI • Investment performance, Strategic asset allocation • Policyholder update • Service update • Service improvements • Regulatory	**IGC:** • IGC draft report 2019 • Transaction costs
May 2020	
Virgin Money update to the IGC: • Virgin Money Board meeting update • Updated IGC Terms of Reference • Transition to Navigator Glidepath • Online pensions Journey	**IGC:** • 2020/21 IGC Plans
July 2020	
Virgin Money update to the IGC: • Virgin Money Board meeting update • Value Assessment of New Funds & Glidepath • Glidepath Communications • Stewardship & ESG Integration • Growth & Defensive Funds	**IGC:** • FCA IGC Effectiveness Review Feedback
September 2020	
Virgin Money update to the IGC: • Value for Money Report prepared by AgeWage	**IGC:** • FCA's effectiveness review into IGCs and proposed new responsibilities
November 2020	
Virgin Money update to the IGC: • Virgin Money Board meeting update • IGC review items • Glidepath Transition • Investment performance, Strategic asset allocation & Policyholder Update • Service update • Regulatory update	**IGC:** • IGC report 2020 planning IGC Effectiveness Evaluation

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

Appendix C

Terms of Reference for the Virgin Money IGC

These are the Terms of Reference for the Independent Governance Committee (the "**IGC**") for ex-workplace personal pension members of the Virgin Stakeholder Pension Scheme (VSPS), which is provided and administered by Virgin Money Unit Trust Managers Ltd (Virgin Money), an FCA authorised unit trust manager and stakeholder pension operator.

These Terms of Reference have been prepared in line with final rules added to the FCA's Conduct of Business Sourcebook (COBS) Pensions supplementary provisions in COBS 19.5 IGCs.

These Terms of Reference have been updated following amendments to final rules to reflect updates to COBS 19.5. Extending the remit for IGCs (PS19/30) and in relation to publishing and disclosing costs and charges (PS20/2).

When acting in accordance with these Terms of Reference, the IGC will have regard to the relevant FCA guidance contained in Appendix 1, FCA definitions in Appendix 2 and FCA glossary in Appendix 3.

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 Virgin Money to whom these Terms of Reference apply
Policyholders	All Virgin Stakeholder Pension customers who are deferred members of an ex-workplace personal pension scheme administered by Virgin Money (including both ex-group stakeholder and ex-automatic enrolment members)
Scheme	The Virgin Stakeholder Pension Scheme provided by Virgin Money
Virgin Money	Virgin Money Unit Trust Managers Ltd
Virgin Money's governing body	The Board of Directors of Virgin Money Unit Trust Managers Ltd

Terms of Reference
[Words in *italics* are defined in the FCA Glossary see Appendix 3].

1 The IGC will act solely in the interests of:

(a) *relevant policyholders* and any other members or customers Virgin Money asks the IGC to consider; or

(b) *pathway investors*.

2 The IGC will assess the ongoing value for money for *relevant policyholders* delivered by a relevant scheme particularly, though not exclusively, through assessing:

(a) whether Virgin Money'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 Virgin Money to ensure alignment with the interests of Policyholders and that Virgin Money 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 relevant *policyholders*;

(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 relevant policyholders, including transaction costs; and

(f) whether the communications to *relevant policyholders* are fit for purpose and properly take into account the *relevant policyholders'* characteristics, needs and objectives.

3 The IGC will assess the ongoing value for money for *pathway investors* delivered by a *pathway investment* particularly, though not exclusively, through assessing:

(a) whether the *pathway investment* offered by Virgin Money:
  (i) is designed and managed in the interests of *pathway investors*; and
  (ii) has a clear statement of aims and objectives;

(b) whether the characteristics and net performance of the *pathway investment* are regularly reviewed by Virgin Money to ensure alignment with the interests of *pathway investors* and that Virgin Money takes action to make any necessary changes;

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

(d) the levels of charges borne by *pathway investors*;

(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 *drawdown fund* of *pathway investors*, including transaction costs; and

(f) whether the communications to *pathway investors* are fit for purpose and properly take into account the *pathway investors'* characteristics, needs and objectives.

4 Where Virgin Money has an investment strategy or makes investment decisions which could have a material impact on the relevant policyholders' or pathway investors' investment returns, the IGC will consider and report on:

(a) the adequacy and quality of Virgin Money's policy (if any) in relation to ESG financial considerations;

(b) the adequacy and quality of VMTUM's policy (if any) in relation to non-financial matters;

(c) how the considerations or matters in (a) and (b) are taken into account in VMUTU's investment strategy or investment decision making; and

(d) the adequacy and quality of Virgin Money's policy (if any) in relation to stewardship.

5 Where VMTUM does not have a policy in relation to ESG financial considerations, non-financial matters or stewardship, the IGC will in each case consider and report on the reasons for not having a policy.

6 Where VMTUM has not already adequately taken into account, in its investment strategy or investment decision making, other financial considerations that pose a particular and significant risk of financial harm to the *relevant policyholders* or *pathway investors*, the IGC will also:

(a) consider and report on the adequacy and quality of Virgin Money's policy (if any) in relation to those other financial considerations, and whether and how those considerations are taken into account in VMUTU's investment strategy or investment decisions; or

(b) consider and report on Virgin Money's reasons for not having a policy in relation to those considerations.

7 The IGC will consider and report on the extent to which Virgin Money has implemented its stated policies in relation to the considerations and matters in **4**, **5** and **6**.

8 In relation to the IGC's remit of review, the IGC will raise with Virgin Money's governing body any concerns it may have:

(a) in relation to any of the matters it has assessed or considered; or

(b) where the IGC is unable to obtain or has difficulties obtaining from Virgin Money the information it requires.

9 Once a decision has been made by Virgin Money to offer a *pathway investment*, the IGC must raise any concerns under **8**:

(a) in good time to give Virgin Money's governing body a proper opportunity to consider and address the IGC's concerns, before the pathway investment is offered to retail customers: and

(b) on an ongoing basis in relation to the pathway investment it offers.

10 The IGC will escalate concerns as appropriate where Virgin Money has not, in the IGC's opinion, addressed those concerns satisfactorily or at all.

11 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.

12 The Chair of the IGC will be responsible for the production of an annual report setting out:

(a) the IGC's opinion on;
- (i) the value for money delivered by a *relevant scheme* or a *pathway investment*, particularly against the matters listed under **2** or **3**; and
- (ii) the adequacy and quality of Virgin Money's policies, or reasons for not having policies, in relation to the considerations and matters listed under **4**, **5** and (if applicable) **6**.

(b) how the IGC has considered relevant policyholders' or pathway investors' interests;

(c) any concerns raised by the IGC with Virgin Money's governing body and the response received to those concerns,

(d) how the IGC has sufficient expertise, experience and independence to act in relevant policyholders' or pathway investors' 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 Virgin Money to ensure that the views of relevant policyholders or pathway investors are directly represented to the IGC; and

(g) administration charges and transaction costs information complying with the requirements in 20.

13 The Chair of the IGC will ensure the annual report is produced by 31 July each year, in respect of the previous calendar year.

14 The IGC will ensure the publication of administration charges and transaction cost information complying with the requirements in **18**.

15 The IGC will ensure that all members of each relevant scheme are provided with an annual communication complying with the requirements in **21**.

16 The IGC will make available the annual communication referred to in **15**, on request, to:

(a) relevant scheme members' spouses or civil partners; and

(b) persons within the application of the relevant scheme and qualifying or prospectively qualifying for benefits under the relevant scheme.

17 The IGC will ensure that information is communicated under this rule in a manner that pays due regard to the purpose for which *relevant policyholders* might reasonably use the information.

18 The administration charges and transaction costs information referred to in **2**(e) must, in relation to each relevant scheme:

(a) be published by 31 July each year, in respect of the previous calendar year;

(b) be available for free on a publicly accessible website;

(c) include the costs and charges for each default arrangement and each alternative fund option that a member is able to select; and

(d) include an illustration of the compounding effect of the administration charges and transaction costs, based on either the assumptions contained in COBS 13 Annex 2 or those in Version 4.2 of AS TMI, for a representative range of fund options that a member is able to select.

19 Regarding transaction costs:

(a) the requirements in **18**(c) and **20** apply to the extent that such information is available to the IGC; and

(b) the published information should include a warning giving brief details of any unavailable information that the IGC is aware of.

20 The administration charges and transaction costs information in the IGC's annual report referred to in **12**(g) must, in relation to each relevant scheme:

(a) at a minimum, include the costs and charges for each default arrangement;
(b) explain how a relevant scheme member can access the costs and charges information for each default arrangement and each alternative fund option that a member is able to select, including providing a link to the website required by **18**(b); and

(c) be published alongside any information in the IGC's annual report relating to the relevant scheme's default investment strategy and value for members.

21 The annual communication referred to in **15** must:

(a) include a brief description of the most recent transaction costs and administration charges information that has been published in accordance with **18**, and an explanation of how that information is relevant to the relevant scheme members; and

(b) explain how a relevant scheme member can access the information referred to in (a), including providing a link to the website required by **18**(b).

Appendix 1

FCA's guidance on Terms of Reference for an IGC.

[Words in *italics* are defined in the FCA Handbook Glossary see appendix 2].

Specific Objectives of IGC:

1 Assess whether a firm provides value for money for *relevant policyholders* or *pathway investors*

2 Provide an independent consideration of a firm's policies on:

a. *ESG financial considerations;*
b. *Non-financial matters;*
c. Stewardship; and
d. Where applicable, *other financial considerations* to the extent that they pose a particular and significant risk of financial harm to the *relevant policyholders* or *pathway investors*.

3 An *IGC* is expected to act in the interests of *relevant policyholders* or *pathway investors* 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 or *pathway investors.*

4 The primary focus of an *IGC* should be the interests of *relevant policyholders* or *pathway investors* in accordance with COBS 19.5.5R(1). If a *firm* asks an *IGC* also to consider the interests of other members or customers, 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* or *pathway investors* is not compromised.

4 An IGC should assess whether all the investment choices available to *relevant policyholders* or *pathway investors*, including default options, are regularly reviewed to ensure alignment with the interests of *relevant policyholders* or *pathway investors*.

5 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 or to consider and report on the matters in the IGC's remit of review, 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.

6 If, having raised concerns with the firm's *governing body* about the matters in the IGC'S remit of review, 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* or *pathway investors* and employers and make its concerns public.

7 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* or *pathway investors* 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.

8 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.

9 The IGC should only consider and report on other financial considerations as set out in COBS 19.5.5R(2D) where it considers that:

(a) they are likely to pose a particular and significant risk of financial harm to the relevant policyholders or pathway investors; and

(b) the firm has not already adequately taken those other financial considerations into account in its investment strategy or investment decision making.

10 When an IGC is considering the adequacy and quality of a firm's policies regarding ESG financial considerations, non-financial matters, stewardship or other financial considerations, the IGC should form a view as to whether:

(a) a policy sufficiently characterises the relevant risks or opportunities;

(b) it considers that a policy seeks to appropriately migrate those risks and take advantage of those opportunities;

(c) a firm's processes have been designed to properly take into account those risks or opportunities;

(d) a policy is appropriate in the context of the expected duration of the investment; and

(e) A policy is appropriate in the context of the main characteristics of the actual or expected *relevant policyholders* or *pathway investors*.

11 Where an IGC is considering whether a firm has adequately taken other financial considerations into account for the purposes of COBS 19.5.5R(2D), it should also take into account the factors in COBS 19.5.6(10)G, whether or not contained in a policy.

12 An example of the type of illustration referred to in COBS 19.5.13R(4) is shown below. The assumptions in the notes should reflect the actual assumptions used.

Projected pension pot in today's money
Fund choice

Years	Default Arrangement		Fund A		Fund B		Fund C	
	Before charges +costs deducted	After all charges +costs deducted	Before charges +costs deducted	After all charges +costs deducted	Before charges +costs deducted	After all charges +costs deducted	Before charges +costs deducted	After all charges +costs deducted
1								
3								
5								
10								
15								
20								
25								
30								
35								
40								

Example notes:
1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £10,000.
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed from age 22 to 68 and increase in line with assumed earnings inflation of 2.5% to 4% each year.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rate for each fund are as follows:
   Default fund: 2.5% above inflation
   Fund A: 2% above inflation
   Fund B: 1% above inflation
   Fund C: 1% below inflation

13 The annual communication may be included with any other annual communication from the operator to the member of the relevant scheme.

14 The annual communication provided to a relevant scheme member may also include the particular transaction costs and administration charges that have been incurred by that member.

15 In communicating information in compliance with COB 19.5.5R11, the IGC should ensure, for example, that it is straightforward for a relevant scheme member to compare the transaction costs and administration charges between fund options that are available for them to select.

Appendix 2
FCA Definitions

Term	Definition
Drawdown Fund	Capped drawdown pension fund or a flexi-access drawdown pension fund
Offer	Where a firm (F1) makes a pathway investment available for investment in the drawdown fund which F1 operates, where the pathway investment is either: (a) manufactured by F1; or (b) manufactured by another firm (F2)
Pathway firm	Firm offering a pathway investment
Pathway investor	Retail client investing in a firm's pathway investment
Referring	Firm which arranges for a retail client to invest in a pathway investment available through a transfer to the drawdown fund operated by another firm (F2), where F2 offers its own manufactured pathway investment;
Stewardship	Firm's exercise of rights or engagement activities in relation to the investments attributable to the firm's relevant policyholders or pathway investors, and may include: (a) the exercise of a firm's voting rights in those investments; and (b) monitoring and engaging on matters such as strategy, performance, risk, culture and governance of the investments

Appendix 3
Relevant extracts from the FCA glossary

Term	Definition
ESG financial considerations	Environmental, social and governance factors (including climate change) that are material to the sustainability of an investment
Non-financial matters	Factors which may influence a firm's investment strategy or decision, and which are based on the views (including ethical concerns regarding environment, social and governance issues) of the firm's clients or relevant policyholders.
Other financial considerations	Factors (other than ESG financial considerations) that are material to the financial performance of an investment or investment strategy.
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: (a) relevant policyholders in the firm's relevant scheme; or (b) retail clients investing in a pathway investment offered by the firm.
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.