Annual Report

for Standard Life Workplace Personal Pensions

2018 – 2019

INDEPENDENT
GOVERNANCE COMMITTEE

Contents

Appendices

Dear Plan Policyholder

I chair Standard Life Assurance Limited's ("SLAL's") Independent Governance Committee ("IGC"). We are an independent body and oversee the governance of Standard Life's Workplace personal pension plans covering:

2.3 million
individual policies for current and former policyholders in
32,265
employer arrangements, with total assets under management (AUM) of
£39.74 billion[1]

All of the major UK Workplace personal pension providers have Independent Governance Committees. Our duty is to act solely in the interests of policyholders, and to independently review and challenge SLAL. Our most important duty is to review their products to see whether they are providing policyholders with Value for Money ("VfM").

We have just produced our fourth annual report. The full report runs to 85 pages including Appendices so we also provide a summary report. The reports which are attached explain the work we have completed in our fourth year.

In addition to our on-going monitoring of the VfM provided to Standard Life policyholders, we have focussed on three significant issues, which we cover in these reports. These are the efforts to modify pension strategies to make them more appropriate for a post pension freedoms world; our challenge as to the risk levels and implementation of Standard Life's core default strategies; and improving policyholder access and engagement.

This report also sets out how we assessed VfM and incorporated the results of these pieces of work into our assessment of whether or not SLAL's pensions policies provide VfM.

As our last report was being finalised, Standard Life Plc. announced its intention to sell SLAL to Phoenix Group. The transaction, which closed in August 2018, resulted in all of the activities overseen by the IGC transferring to the ownership of Phoenix Group. However, the personnel and operations which administer the SLAL workplace pensions business remain largely unchanged and continue to operate under the Standard Life brand.

If you are unsure of which type of pension plan you have with Standard Life (and therefore how you are affected by this review) please refer to your plan documentation, or phone Standard Life on 0345 266 5833.

If you would like to contact the IGC in relation to the report or anything else, you can email us from the IGC home page https://www.standardlife.co.uk/c1/independent-governance-committee.page

[1] Information correct as at 31 December 2018 (source: Standard Life)

As this report was being finalised, Phoenix Group informed the IGC of its intention to align the membership of the IGCs responsible for both its SLAL and Phoenix workplace pensions. As a result this will be my last report to you as Chair of the SLAL IGC. The report has not been redrafted and as such the decisions as to whether to continue the future activities of the SLAL IGC as laid out in the report will be the responsibility of David Hare, the new Chair of the Standard Life IGC.

I would like to thank my IGC colleagues and the many Standard Life employees whose co-operation has enabled the IGC to contribute to the improvement of VfM across the range of services provided to you in your workplace pension with Standard Life. I would also like to wish every success to David Hare, the new IGC Chair.

Thank you for reading this report.

Rene Poisson
IGC Chair

Policyholder's Report

1. Why an Independent Governance Committee?

In 2015, the Financial Conduct Authority ("FCA") required Standard Life and other pension providers to appoint Independent Governance Committees ("IGCs"). Their objective was to achieve better Value for Money ("VfM") for workplace contract pensions. The Committee must have at least five members, and a majority independent of Standard Life. We must review how Standard Life provide Workplace pensions; assess whether those pensions represent VfM; and, challenge Standard Life where we think they do not. Our authority for this is set out in a Terms of Reference document, based on the FCA's rules (see **Appendix 3** of the main report).

If we are not satisfied with Standard Life's products, proposals or their response to any concerns we raise, we are authorised to escalate those matters to the Standard Life Board; to discuss our concerns with the FCA; and/or to write to you.

In 2018/19 the IGC has been responsible for reviewing the value for money received by 2.3 million policyholders with £39.7 billion of investments across the pension schemes run by 32,265 employers

The IGC intends to meet at least four times a year. In the year to 27th March 2019, the IGC met on ten separate occasions.

2. Who are we?

Standard Life's IGC has five members. Four are independent of Standard Life, and were appointed after an open market search, using a market leading recruitment firm. Once appointed as Chair, I was involved in reviewing a long list of candidates and interviewing prospective independent members.

I am satisfied that the IGC, as formed, brings a wide range of relevant knowledge and understanding to our work.

The fifth member is employed by Standard Life. He is required to ignore Standard Life's interests when acting as a member of the IGC. Our names and backgrounds can be found in **Appendix 2** of the main report.

2.1 THE PHOENIX TRANSACTION

In February 2018, Standard Life Aberdeen announced that the Phoenix Group ("Phoenix") would acquire Standard Life Assurance Limited in return for a 19.99% shareholding in Phoenix and a payment of £2.28 billion. Phoenix is a specialist pensions business that has acquired closed pension books from UK Life companies and that prior to this transaction had administered some 5.6 million policies and £74 billion of assets under some 100 legacy brands. The entire pensions business including your investments and substantially all of the people, systems and assets were transferred to Phoenix. The transaction closed on August 31st 2018 and Phoenix now administers 10.4 million policies and assets of £240 billion across three business segments: UK Heritage, UK Open and Europe.

Phoenix tell us they intend to continue to invest and grow the workplace pensions business under the Standard Life brand, retain an operational hub in Edinburgh and maintain the quality of support and service available to employers and policyholders. Aberdeen Standard Investments ("ASI") will be the strategic investment provider.

The IGC was concerned that the transaction involved moving 3,500 people across six buildings in Edinburgh and ensuring that on Day one customer service could continue seamlessly. We met with the new Chief Executive, Susan McInnes, and other senior members of her management team to understand their plans to achieve a smooth transition. The IGC considers the transition to have been well managed with no noticeable impact on the quality of overall service.

The IGC understands that Phoenix intends to align the membership of the Standard Life and Phoenix IGCs during 2019. As such this report will be the final report of the current Standard Life IGC.

I would like to express my thanks to my fellow members of the IGC and to those we have worked closely with in Standard Life over the last four years. I would also like to wish every success to David Hare, my successor as IGC Chair.

3. What did we do in our first three years

3.1 POLICY CHARGES

When we began work, of your 1,300,000 policies, 266,684 policies or 20.51% paid charges in excess of 1% for a variety of reasons[2]. As a result of our discussions with Standard Life, your charges were reduced to a maximum of 1% unless you chose a higher price fund or reconfirmed your decision to pay a financial adviser through your charges.

We asked Standard Life to write to those of you investing in higher priced funds in October 2016 and August 2017, prompting you to reconsider whether those options remained the right choice for you and to ensure you remained satisfied that they continued to meet your needs.

As a result of these actions, of the 2,331,941[3] of you currently paying charges as active or deferred policyholders, only 55,835 or 2.39% continue to pay charges in excess of 1%. 55,536 because you have chosen more expensive funds; 148 because you have chosen to pay for advice; and, 151 because you have chosen to pay for advice and have also chosen more expensive investment options.

Total number of policyholders – **2,331,941**

Total number of policyholders paying over 1% – **55,835**

[2] As at 31.12.15 – source Standard Life
[3] As of 31.12.18 – source Standard Life

3.2 EXIT CHARGES

When the IGC began its work in 2015, Standard Life had some 2.6 million pension policies (of which 1.3 million were within scope for the IGC). Some 17,000 policies (1,201 within scope for the IGC) were potentially subject to Exit Charges in excess of 5%[4]. As a result of our discussions with Standard Life, charges for all 17,000 policies were capped at 5% from 13th January 2016 and subsequently reduced to 1% as at 15th February 2017.

3.3 DEFAULT STRATEGY EVALUATION AND DESIGN

The IGC, with the help of its advisers at Redington, has reviewed the effectiveness and value of the Standard Life and employer developed lifestyle strategies and the investment funds used in the construction of those strategies in each of the last three years.

In our reports we identified eight default strategies used by employers that used a single fund. We concluded that these did not provide VfM.

During 2017/18 Standard Life engaged with the relevant employers and their advisers to seek their support for change and wrote to those of you affected to offer you the opportunity to move to a more appropriate investment design.

As a result of that work, a small number of employer bespoke strategies have been closed. The IGC also raised concerns that the majority of employer designed strategies, which were designed for those purchasing annuities, were no longer appropriate because few policyholders purchased annuities. This has now been addressed by changes to the construction of the component funds used in the strategies and by modifications to the scheme rules which now allow Standard Life to make appropriate changes. The impact is set out below.

In our last report we challenged Standard Life to review the objectives of the defaults you invest in and how they invest to meet those objectives.

We are pleased that Standard Life intend to make changes during 2019 in response to our challenge. Details are set out in Section 2.5 and 3.1.2 of the main report.

3.4 SERVICE AND ACCESSIBILITY

The IGC has spent considerable time reviewing the service you receive from Standard Life across the full range of transactions you might make during your savings relationship with Standard Life. Standard Life has made significant improvements to: your ability to access assistance both by phone (through extended opening hours) and by secure messaging; both your access to and range of digital transactions; and the speed of transaction processing where that is not an automated task. We believe the service as a whole is robust and delivers well for you.

[4] As at 31.12.15 – source Standard Life

4. What have we done in 2018/19

4.1 YOUR INVESTMENTS

In our 2016/17 report we reported that "the short term performance of the growth component of Standard Life's risk based strategies had suffered" and that the IGC would "continue to monitor performance during 2017". While 2017/18 performance improved, we continued to challenge Standard Life to consider the construction and implementation of the core default strategies to improve the Value for Money you receive.

In the light of disappointing performance of the core defaults in 2016 and 2018, the IGC has reviewed the longer term performance of Standard Life's core default strategies.

While we are satisfied that over the longer term these have provided good outcomes for those who have saved consistently over their working lives (see Section 3.1.2 of the main report), we are pleased that Standard Life has recently announced that they will make a number of changes to the core defaults during 2019.

We consider these changes are likely to improve Value for Money over your savings lifetime and are satisfied that other than in respect of the issues highlighted above, the default investment strategies available to policyholders have been designed in your interests and continue to provide Value for Money.

2018 has seen the completion of a series of changes resulting from our engagement with Standard Life over the last four years.

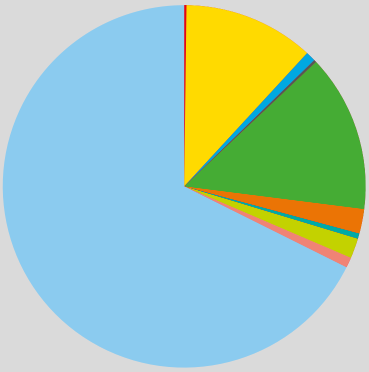
765,000 of you were invested in older style strategies which assumed you would purchase an annuity at retirement. Standard Life have amended the funds which are used in these strategies to make them more suitable for those choosing cash or drawdown at retirement. This will immediately benefit 65,000 of you already within ten years of retirement (with £600 million invested) and over time benefit a further 700,000 currently more than ten years from retirement.

The IGC also asked Standard Life to write to employers who had specified a default strategy targeting an annuity. 59 employers agreed to change their default to a Standard Life core profile. As a result, a further 34,300 policyholders are invested in more modern default strategies.

During 2019, Standard Life expects to modify 54,241 policyholders' plans with AUM of £963.4 million pursuant to scheme rule changes.

Previously we have met with Share Action, Client Earth and a small number of Standard Life policyholders to discuss the approach to Environmental Social and Governance issues. We have continued our discussions with Standard Life and note that they are updating their Responsible Investment policy and require their managers to operate within that policy. The IGC would be happy to hear your views on this area of investment, which can be sent to us via the IGC web page at https://www.standardlife.co.uk/c1/independent-governance-committee.page

Top IGC insured funds by Workplace AUM, excluding With Profits and Bespoke Trust Based Funds*



- Standard Life Active Plus II Pension Fund – £32.4m (AUM)
- Standard Life Active Plus III Pension Fund – £2,339m (AUM)
- Standard Life Active Plus IV Pension Fund – £174.5m (AUM)
- Standard Life Passive Plus II Pension Fund – £43.1m (AUM)
- Standard Life Passive Plus III Pension Fund – £2,992m (AUM)
- Standard Life Passive Plus IV Pension Fund – £302.4m (AUM)
- Standard Life MyFolio Managed II Pension Fund – £65.9m (AUM)
- Standard Life MyFolio Managed III Pension Fund – £281.5m (AUM)
- Standard Life Managed IV Pension Fund – £174.5m (AUM)
- Standard Life Managed Pension Fund – £10,252m (AUM)

*Source: Standard Life as at 22.3.19

5. Your service from Standard Life

5.1 SERVICE TIMELINESS AND ACCURACY

The IGC has closely monitored developments over the last 12 months and is satisfied that the steps previously taken together with further process improvements during 2018 (particularly in respect of the settlement of claims for death benefits) have significantly improved transaction timeliness. We expect these improvements to continue into 2019 and will continue to keep timeliness and accuracy under review.

5.2 OPERATING HOURS AND CONTACT CHANNELS

In our previous reports we have challenged Standard Life to improve your ability to deal with them at a time and in a way that suits your needs. As a result, a number of improvements have been agreed and are being introduced. In particular, improvements have been made to enable you to access the online site more easily; secure messaging allows you to ask for what you require at any time, with a 24-hour turnaround for a response; and telephone access hours have been extended from 8am-6pm to allow contact outside of normal office hours for those of you unable to contact Standard Life while at work.

6. Your costs

The IGC has again sought to review the transaction costs taken within the investment funds used in your policies. We have received costs calculated in accordance with the requirements set out by the FCA for some of the investments used in your strategies and report on them in **Appendix 13** of the main report.

Unfortunately, not all investment managers yet provide the information we need to provide meaningful comparisons.

The IGC continues to press for that information so that we can benchmark Standard Life against other providers. We expect to be able to benchmark these costs once all pension providers publish transaction costs on a consistent basis using the FCA methodology.

7. Other matters

7.1 DATA SECURITY

The issues of Data Security and the protection of personal information have grown in importance over the last few years. The IGC has received in depth presentations during 2018 from Standard Life's Chief Information Security Officer ("CISO") and from the team responsible for compliance with the General Data Protection Regulation ("GDPR") which came into force in May 2018. We recognise that Standard Life are investing significant resources to ensure the safety of your assets and information. We will continue to review Standard Life's work on cyber security in 2019/20.

7.2 MEMBER MEETINGS

The Standard Life IGC held member meetings in both London and Edinburgh during 2018. Unfortunately, only a few of you attended the meetings, but those who did told us they found them useful and would attend future meetings. The IGC had intended to hold similar meetings in 2019 (this will now be subject to the decision of the new IGC as discussed below).

7.3 VULNERABLE CUSTOMERS

Many of you at one time or another may find yourself less able to deal with your financial affairs because of illness, bereavement or other issues. Standard Life have briefed the IGC on the significant investment that they are making in staff training (for which they have won an award), to help in these circumstances. If for any reason you feel that extra assistance would be helpful, you should explain this to those you are dealing with at Standard Life.

7.4 RETIREMENT

For those of you approaching retirement, the IGC has been briefed on the development and roll out of the new retirement webinar and seminar programmes. These together with the online retirement journey provide considerable assistance as you decide on how you wish to access your benefits. The IGC is pleased to note that in response to our challenge in last year's report there is no longer a £495 charge for a telephone retirement consultation.

8. Our conclusions

The IGC has concluded overall that Standard Life's various Workplace Personal Pension products continue to offer policyholders value for money; are of good quality; benefit from well-designed investment solutions (subject to the execution of the changes discussed above); have good administration and governance; and comprehensive policyholder support and have communications materials which continue to evolve to deliver a better service to policyholders.

IGC
March 2019

Main Report

1. Introduction

This is the fourth Annual Report of the SLAL Independent Governance Committee ("IGC") and sets out how the IGC has met the governance obligations laid down by the Financial Conduct Authority ("FCA").

The IGC recognises the importance of good governance by SLAL as the provider of Workplace pension plans and the importance of independent oversight of that governance. This Annual Report reflects the findings of the IGC as a whole, although it is the responsibility of the Chair to ensure its production.

We explain the background to the creation of IGCs in **Appendix 1**; the membership of the Standard Life IGC and the process by which it was appointed in **Appendix 2**; the IGC's revised Terms of Reference in **Appendix 3**; and the scope of the business and products overseen by the IGC in **Appendix 4** of this report.

This year has been one of substantial change. Following the merger of Standard Life and Aberdeen Asset Management in August 2017 to form Standard Life Aberdeen plc ("SLA"), the pensions business of SLA was acquired by Phoenix Group in August 2018 ("Phoenix" and "the Phoenix transaction").

THE PHOENIX TRANSACTION

In February 2018, as last year's report was being finalised, Standard Life Aberdeen announced its intention to enter an "enhanced strategic partnership" with Phoenix. Phoenix would acquire Standard Life Assurance Limited ("SLAL" or "Standard Life") in return for a 19.99% shareholding in Phoenix and a payment of £2.28 billion. The entire pensions business and substantially all of the people, systems and assets used in that business were to be transferred to Phoenix. Prior to sale certain non-pension businesses that operated under the Standard Life brand would be spun out of SLAL and retained by SLA. The transaction completed on August 31st 2018.

Prior to the acquisition of SLAL, Phoenix was a specialist acquirer of closed pension books from UK Life companies and administered some 5.6 million policies and £74 billion of assets under some 100 legacy brands. Standard Life represents a substantial change in focus for the Phoenix Group, being an open book business of significant scale. Phoenix now administers 10.4 million policies and assets of £244 billion across three business segments: UK Heritage, UK Open and Europe.

Details of the transaction and what it means for the policyholders of SLAL are set out below.

The Strategic Partnership contemplates that Phoenix commits to investing and growing the Workplace pensions business under the Standard Life brand, will retain an operational headquarters in Edinburgh, maintain the quality of support and service available to employers and policyholders and continue to utilise Aberdeen Standard Investments ("ASI") as the strategic investment provider. As part of that investment relationship a forum, "The Investment Proposition Forum", has been created with participants from both Phoenix and SLA (See also Section 2.3.5 below). The IGC views this forum as a valuable tool to address some of the investment challenges identified in this report.

The complexity of the transaction, which involved moving 3,500 people across six buildings in Edinburgh and ensuring that on Day one customer service could continue seamlessly, was a matter of some concern to your IGC. We met with the new Chief Executive of SLAL, Susan McInnes, and other senior members of her management team (most of whom we had previously engaged with at SLAL) to understand how the transition was being managed. You can find detail of the service delivery provided up to and following the transaction in Sections 2.6 and 4.7.1 below. The IGC considers the transition to have been well managed with no noticeable impact on the quality of overall service.

Notwithstanding the commitment to maintaining the operations and technology in Edinburgh, the IGC recognises that there will be opportunities in the medium term for Phoenix to rationalise its dual life company structure and utilise best practice across SLAL and its heritage businesses. The IGC continues to engage with management to understand how the transaction might impact Value for Money ("VfM") and expects to continue to challenge SLAL to further improve VfM in the future.

The Phoenix transaction has absorbed significant time and resource within the organisation. This has required prioritisation of activities to ensure both the successful completion of the transaction and the delivery of a seamless service to policyholders, and has resulted in some IGC and business initiatives being delayed to an extent. These elements will need to be focussed on in 2019/20.

As discussed in last year's report, the work of the IGC has continued to evolve. Initially we concentrated on legacy products, investment and how to assess VfM. We now assess the wider aspects of VfM, such as quality and clarity of communications, access to information and support, digital developments and policyholder experience as a whole. We also consider the ongoing monitoring and review of the investment propositions that are available to policyholders, and any proposed changes to those propositions.

The IGC understands that while there will continue to be separate IGCs for Standard Life and Phoenix Life respectively, Phoenix intends to align the membership of the Standard Life and Phoenix IGCs during 2019. As such this report will be the final report of the current Standard Life IGC. I would like to express my thanks to my fellow members of the IGC and to those we have worked closely with in Standard Life over the last four years.

This report covers the period 27th March 2018 to 27th March 2019.

2. Actions arising from prior reports

2.1 IMPROVING POLICYHOLDER ACCESS

In our first report, the IGC challenged Standard Life on the access available to policyholders who wish to contact Standard Life by telephone. We said *"The service support offered by Standard Life is of a good standard, but the IGC challenge Standard Life management to consider whether the current 9am-5pm weekday opening times for phone enquiries could be extended to make access easier for policyholders."*

In 2018, after a trial period, Standard Life agreed to extend the telephone service opening hours from 8am to 6pm. Over the nine months to December 2018, 11,510 calls were received before 9am or after 5pm.

During 2017, Standard Life introduced an enhanced "secure messaging" service that allows policyholders to contact Standard Life at a time and place that suits them, either through their Smartphone (via the SL App) or online through the Customer Dashboard, and receive a response within 24 hours. During 2018, 21,000 secure message enquiries were received from policyholders, a 50% increase on 2017.

Digital improvements have also seen an increase in engagement (See Sections 2.7 and 3.6).

IGC COMMENT:

These changes, which provide alternative channels and extended hours, make it more convenient for over two million workplace customers to contact Standard Life and transact or access their pension savings. The IGC considers that usage to date demonstrates the incremental value that extended telephone hours in conjunction with secure messaging has delivered to policyholders.

2.2 RETIREMENT GUIDANCE CHARGE

In our last report we challenged Standard Life over the £495 charge for telephone consultation on moving into drawdown. The IGC viewed this charge, which was not levied on those who said they could not access the free online service, as an impediment to policyholders making good decisions. Its VfM was in our view questionable and we challenged Standard Life to remove the charge.

Standard Life as part of its review of the retirement proposition, and recognising the relatively low number of customers who were actually charged for this service, decided to remove this charge in September 2018. The IGC welcomes that decision.

2.3 EXIT CHARGES

In our last report, we asked Standard Life to review all plans not included in the earlier Exit Charges audit, to ensure no policyholder was charged over 1% on exiting their policy with Standard Life.

Standard Life have reviewed all plans where customers over 55 transferred out or took benefits and where initial units applied. 6,300 plans, some of which were not within scope for the IGC, were terminated between February 2017 and September 2018. Of these, 973 plans had an Exit Charge, one of which was in excess of 1% and required remediation of £51.18 which was applied.

Standard Life has informed the IGC that a further review of those plans terminated after September 2018 is planned for April 2019.

2.4 CHALLENGES ARISING FROM OUR REVIEW OF INVESTMENT OFFERINGS

2.4.1 THE CHALLENGE OF MOVING POLICYHOLDERS TO MORE MODERN OFFERINGS

In our first report, we wrote: *"The IGC has raised a concern with Standard Life that the historic default strategies either do not have a lifestyle design or have a design which remains targeted at annuity purchase despite the introduction of the pension freedoms. We have asked Standard Life to amend these default strategies to match the lifestyle profiles incorporated in the current pension products."* Standard Life's response identified the legal and regulatory constraints preventing the company from transferring policyholders to products with a more modern design, despite its belief that policyholders would be better served by such a move.

In our second report we outlined both some specific exercises undertaken by Standard Life as well as two more widely applicable strategies; changes to the Annuity Purchase Fund and changes to scheme rules that were under consideration. The changes to the Annuity Purchase Fund were actioned in December 2017 resulting in the modification of 610 lifestyle profiles. To date, this change has affected 76,000 savers with about £790 million invested. Over time these changes will impact a further 685,000 policyholders. The IGC however remains concerned that, even after these changes, a substantial number of policyholders will remain in unchanged legacy strategies offering poorer VfM. This explains the importance the IGC attaches to the progression of scheme rule changes.

2.4.2 SCHEME RULE CHANGES

In our last report, we noted that Standard Life expected to modify the five sets of scheme rules during 2018. The amendments would allow Standard Life to unilaterally modify profiles from Annuity Targeting lifestyle profiles into alternatives better aligned with the retirement options available following pensions freedoms.

The complexity of the programme meant that it was delayed. However, all scheme rules governing relevant policies overseen by the IGC were updated in December 2018 with the remaining rules updated in Q1 2019.

The scheme rule changes allow Standard Life to switch profiles for the remaining 161 bespoke schemes. These schemes use 189 annuity targeting lifestyle profiles, have a total of 129,537 members and assets of £3.166bn which will be transitioned to more modern profiles. Standard Life will now work with employers to close bespoke solutions that target annuities and move policyholders to more appropriate solutions. Depending on the scheme, this will result in members moving to new employer designed bespoke solutions or to one of Standard Life's core Universal solutions.

Due to the size of the population involved and the diverse nature of policyholders' investments it is not possible to move all customers at one time. It is estimated that it will take approx. 18–24 months to conclude the exercise which will be executed in phases.

Work has commenced with a number of employers regarding the first of these phased switches. Communication with the initial cohort of policyholders began in Q1 2019, and the first switches will begin in Q2 2019. Around 40% of policyholders will have been switched by the end of 2019, with the remaining phases completed by the end of 2020.

IGC COMMENT:

The IGC recognises both the complexity of effecting the changes in Scheme rules and the reasons for the delay in implementation. The IGC notes that Standard Life is now moving to implementation, and expects Standard Life to move policyholders as expeditiously as possible. The IGC will continue to monitor and report on progress.

2.4.3 SPECIFIC EMPLOYER SCHEMES

In our last report we highlighted action taken in relation to two Employer bespoke schemes which in the IGC's view provided questionable VfM. The first scheme was closed and members transferred to a core Standard Life default offering. In relation to the second scheme, we noted that *"The second employer has moved to a QWPS with a different provider, leaving 127 policyholders with £3.1m AUM in the strategy"*. Standard Life intends to move these policyholders in Q2 2019 to the core Standard Life Default Strategy with an investment approach most comparable to the bespoke default.

2.4.4 PROGRESS IN RELATION TO SINGLE FUND STRATEGIES

In 2017, the IGC noted that there were eight default strategies used by multiple employers that invested in a single fund through the life of the plan, and questioned whether these provided VfM due to the lack of any form of lifestyle profile. The IGC asked Standard Life to write to the relevant employers and/or their advisers to raise these concerns.

Standard Life wrote to the employers who used one of the eight "single fund" strategies for their Workplace scheme in December 2017, and in 2018 Standard Life issued Direct Offer proposals to policyholders in 41 schemes. After further analysis, 4 of the remaining 7 schemes required no further action. The remaining 3 will receive Direct Offers in 2019.

Direct Offers make it easier for policyholders to act and when made in conjunction with employers have previously seen 30%+ response rates. The 2018 offers were made to 1,506 members with £59 million of investments; however, only 89 members (5.9%) contacted Standard Life to switch their investments.

IGC COMMENT:

While we note Standard Life's attempt to address our concerns on single fund defaults, the current poor response rate to the Direct Offers suggests that further work is required on this issue. We understand that the Scheme rule changes will not assist and have challenged Standard Life to consider alternative approaches to address member inertia on this matter.

2.4.5 APPROPRIATENESS OF POLICYHOLDER CHOICES

In our last report we noted that *"in a small number of cases and for relatively small levels of assets, the fund choices selected by policyholders raised questions as to whether the policyholder had made an appropriate choice."* The IGC recognises that neither we nor Standard Life can know with certainty the circumstances of the individual policyholder nor whether their choices are appropriate for them.

Standard Life agree that there may be circumstances in which some policyholders make inappropriate choices due to lack of knowledge or engagement, or have made appropriate decisions in the past which no longer remain appropriate. They agree that in such cases, policyholders should be prompted (with appropriate guidance) to review whether their current investment choices remain appropriate. Standard Life, through the new Investment Proposition Forum, have identified a set of indicators which might suggest a need for the policyholder to review their decisions. These include:

- Asset Class Concentration
- High or very Low risk portfolios
- Previously advised customers with bespoke portfolios
- Policyholders not in a lifestyle profile
- Customers over 55 or not engaging at all with their pension

Analysis has been done on a product by product basis to identify those customers who may require prompting to review their choices. Standard Life intend to develop an action plan for such customers in 2019 and will report to the IGC on progress.

2.5 INVESTMENT PERFORMANCE

The IGC continues to monitor the performance of the 40 largest funds used by DC contract policyholders every quarter in addition to our annual review of all funds and profiles used by workplace schemes (see section 3.1 below). These represent £26.8 billion of the £39.7 billion of workplace DC contract assets held in schemes within the scope of the IGC.

In our 2017 report, the IGC noted the poorer investment performance exhibited by the core Standard Life offerings during 2016 and commented that if that performance were to continue, it might have a detrimental impact on the IGC's assessment of VfM. While absolute performance improved somewhat in 2017, 2018 performance has again disappointed.

Standard Life's default offerings differ from those of other large providers in targeting performance at given risk levels to deliver a smoother investment experience to policyholders rather than seeking to maximise return in and of itself.

They offer a range of both Active and Passive funds which target five differing risk levels and seek to achieve returns commensurate with or better than those risk levels when implemented through a traditional default portfolio utilising equities and bonds. Standard Life will allow Employers and their EBCs to choose risk levels 2-4 for their default and offer risk level 3 for their off the shelf default offering. The efficient frontier charts (see **Appendix 5a**) demonstrate how the risk levels have performed – both against each other and against the equity bond mix – in 2018 and reflect the poorer investment performance of 2018 versus 2017 (see **Appendix 5b**).

In periods of booming markets and low volatility one would expect absolute performance to compare unfavourably with the default offerings of competitors with a heavier equity weighting while performing relatively better in market downturns and periods of volatility.

Risk adjusted performance using industry standard measures of return for given levels of risk is shown in **Appendices 6a and 6b.** Standard Life's core default funds can be seen to perform competitively over three years albeit less strongly than over the three-year period shown in last year's report.

Appendix 6(c) shows relative performance of Active and Passive Plus level 3 funds in the periods September -October 2017, February-March 2018 and October 2018 during periods of significant market weakness. It demonstrates that these funds did indeed moderate the scale of drawdowns in periods of market weakness. However, the IGC continues to question whether sufficient risk has been taken to achieve good outcomes for policyholders over full market cycles.

In our last report, we concluded that while a risk-based objective could be appropriate for the design of a Default investment strategy with potentially a 40-year savings horizon, we challenged Standard Life with two key questions;

(i) did the current Default offerings target the appropriate level of risk to achieve good policyholder outcomes?
(ii) was the implementation of the risk based objectives optimal?

We further challenged Standard Life to consider whether, in the light of these questions, the Core Default offerings should be modified to improve VfM and the likelihood of good outcomes for policyholders. .

The strategy deployed within the Standard Life risk-based defaults is one that can really only be measured over the longer term. Other options in the market that take more risk will have periods of outperformance, but also periods of underperformance.

Given the short term volatility of investment markets and the lack of a long term performance history for Standard Life's current default offerings, it is difficult to properly examine the success of these defaults over a period reflective of their long term aims.

As part of our challenge, the IGC considered whether the risk managed approach utilised by Standard Life had led to good outcomes for those policyholders who had invested consistently over the last 25 years.

To help assess whether the returns generated by Standard Life Workplace products have produced a return that would equate to good outcomes for members, the IGC requested some analysis of the performance a typical member would have experienced if they were in Standard Life's core default over the last 25 years of their savings journey to end December 2018.

To fulfil this request, Standard Life has provided the returns that a cohort of members who were invested in the traditional Managed Lifestyle Profile would have achieved over 25 years to retirement in 2018, and separately those of a cohort who would have been in the same profile, but switched into the Active Plus III Universal profile when it became available (see **Appendix 7**).

The figures use the historic returns of the strategies in question and assume monthly contributions equivalent to £200 in today's terms, (i.e. adjusted historically for inflation). The results, which incorporate derisking in the years leading up to retirement, show annualised returns for both cohorts of 5.6 per annum after fees of 75bp.

This would be sufficient, based on Standard Life's recent analysis (see 3.1.2 below) to achieve a good outcome in retirement (CPI + 3.5%) which over the same period was 5.5%. This is positive considering the disproportionate impact on return that derisking will have had from analysing the last 25 years of the investment period rather than the full 40 years of saving used for the Standard Life analysis.

The results of our discussions and the changes to be made to the core Default propositions are discussed in Section 3.1.3 below.

2.6 REVIEW OF SERVICE LEVELS AND TARGET TURNAROUND LEVELS

During 2018, the improvement in turnaround times noted in our last report has continued such that overall service level targets have been met or exceeded over the full calendar year and the previous system problems have been fully resolved (see **Appendix 8a**.) Service quality levels have also improved in 2018 (see **Appendix 8b**.)

The IGC has previously challenged the appropriateness of a single service level target of completing 90% of non-straight through transactions and enquiries within a 10-day period. Standard Life has reviewed all service target levels and will make a few changes to reflect the nature and complexity of the individual actions. Service target levels effective Q1 2019 can be found at **Appendix 8c**, but see the IGC comment below.

In our last report we noted Standard Life's introduction of process changes in response to our concern as to the extended time periods experienced by some death benefit claimants, although we recognise that in many cases the delay is not within Standard Life's control.

The process changes appear to have been effective; the proportion of death claims completed within target has risen significantly versus 2017 and 2018, but most importantly the total elapsed time experienced by claimants has dropped significantly (see **Appendix 8d**).

IGC COMMENT:

The IGC continues to benefit from quarterly meetings with senior operations management to review performance and the customer experience. We have also spent time listening to customer calls in the operations centre.

The IGC is encouraged to note that Standard Life is now measuring the end to end time taken to complete transactions in the case of death claims and has challenged Standard Life to adopt this approach across the various transaction types. While we recognise the impact that third party inaction can have on this measure, we consider that a focus on the customer experience will also impact the approach to prompting third parties to expedite their actions and to keeping the policyholder/beneficiary informed as to the reason for delays.

The IGC will continue to monitor service quality and timeliness as an important part of the VfM received by policyholders.

2.7 POLICYHOLDER ENGAGEMENT

Over our last reports, the IGC has challenged Standard Life to expand and test the impact of its various engagement efforts. We asked three "exam" questions:

1. What do policyholders need to stimulate engagement?
2. What is the best way to deliver this and how does that change over the policyholder's journey?
3. How will Standard Life measure the outcome of its initiatives and any increase in policyholder engagement?

To make it easier for policyholders to engage with Standard Life and their pension in the manner they find most useful, available channels have been expanded to include secure messaging, expanded telephony hours and a more functional mobile app. Access to the digital channels has been made easier with simplified registration and forgotten password processes and access to the mobile app can now use finger print, facial or pin security.

The research we reported on previously has now been implemented in a new Employee Engagement Programme. Whereas historically policyholder communications (other than those required by law or regulation) could be switched off by an employer and tended to be issued as bulk (non-personal) communications, Standard Life will now deliver information to individual customers when appropriate and relevant from a suite of "Outcome Based Communications". The communications will be automated to be executable at any point in time rather than by ad hoc campaigns, and focussed on providing policyholders with support to help them achieve good outcomes. The information will be delivered at key points in the policyholder's life at "Moments that matter" to maximise the likelihood of policyholder action.

Moments that matter include inter alia: the point of joining, (Welcome email); after a few contributions have been paid (general information on the benefit of the pension); milestone birthdays (49/54/59/64 and 69); and the period leading up to the policyholder's Notional Retirement date (24/18/1 month prior to NRD).

2.7.1 EMPLOYER ENDORSED COMMUNICATIONS

Research has identified the value employees place on their employer's involvement with their pension. The Edelman Trust Barometer[1] reports that globally 75% of people trust "my employer". This provides valuable help in employee engagement. Previous reports have highlighted the "Campaign in a Box" programme available to Employers at no cost, as a channel for improving policyholder engagement with their pension through the workplace. Standard Life extended and enhanced the campaign materials and range of campaigns as part of the renamed "Ready to Go" offering in November 2018 and have promoted the availability of these materials more actively.

This appears to be improving employer engagement. 168 different employers ordered 900 campaigns between January and October 2018. Since the launch of the new materials, 125 employers had ordered 932 campaigns between November 2018 and January 2019.

The IGC has asked Standard Life to monitor policyholder behaviour where an Employer uses Ready to Go materials, to help us assess the extent, if any, to which these are enhancing VfM.

2.7.2 TESTING THE SUCCESS OF ENGAGEMENT

An initial set of metrics has been proposed by Standard Life to test policyholder engagement and the impact of these outcome based communications. These include both positive and negative measures, including:

- Numbers of policyholders who are digitally enabled (see 3.6 below)
- Number of active customers – those logging on, making contact or using the mobile app
- Those taking positive action such as updating details, making additional payments and using tools
- Those taking steps which might be viewed as detrimental to good outcomes such as opting out or unsubscribing from communications

These measures will be tested against ongoing research to understand Customer awareness, perception of their products and the options available to them.

The IGC will receive reports on the results on an ongoing basis and will engage with Standard Life to develop and respond to the metrics over time. Example reporting can be seen in **Appendix 10.**

2.7.3 MEMBER MEETINGS

As highlighted in our last report, the IGC held member meetings in London and Edinburgh in September and October 2018. While overall attendance was disappointing, those attending were overwhelmingly positive and supportive of both attending and encouraging colleagues to attend similar meetings in future.

[5] https://www.edelman.com/sites/g/files/aatuss191/files/2019-02/2019_Edelman_Trust_Barometer_Global_Report.pdf

As has been discussed before, it is challenging to persuade policyholders to engage with the IGC or more widely with their pensions. The IGC considers that member meetings can play a valuable role in bringing areas of concern to our attention as well as helping policyholders and their governance committees understand the work of the IGC and we would intend to hold similar meetings in 2019.

2.7.4 LEGACY SCHEMES

As outlined in our prior reports, Standard Life provided an opportunity for all employers who had not reached their staging date for auto-enrolment by 6 April 2015 to upgrade their non-QWPS schemes to a modern QWPS-compliant scheme benefiting historic assets as well as future contributions. All employers reached their staging date by 1 February 2018. Standard Life ceased to offer the upgrade option on 30 June 2018. As at 31 December 2018 there were 22,141 Non QWPS schemes, 382,787 policyholders and £9.54bn assets remaining in legacy offerings which access investments for a fee capped at 1% as previously agreed with Standard Life.

The IGC intends to discuss with Standard Life what alternative options could be made available to policyholders in such legacy arrangements.

2.7.5 VOICE OF THE CUSTOMER

The IGC has previously questioned whether the customer feedback received from the Rant and Rave system and reflected in the NPS and NEasy scores was reliable, given that the Customer Operations representative could elect whether or not to provide the policyholder with the option to provide feedback. Standard Life has now implemented a new Voice of the Customer programme which removes the optionality, provides greater confidence in the output and allows Standard Life to proactively contact customers expressing dissatisfaction with the service received.

3. New Activity in 2018/19

3.1 INVESTMENT REVIEW

Over the last three years, the IGC, with its adviser Redington, has developed a methodology to assess performance at both individual fund and strategy levels for the core Standard Life offerings as well as the other funds and strategies available to Workplace customers. Last year, we expanded our testing to include funds which have a target for which there is no investable benchmark (for example CPI or cash plus targets) and to provide a more granular analysis better suited to the flexible use policyholders are making of their pension savings.

The methodology is designed to flag funds and strategies for further analysis where a VfM issue might exist but importantly does not definitively identify a VfM issue. A description of the methodology can be found at **Appendix 11** and has not changed since our last report.

The IGC considered enhancing the VfM methodology to include Transaction Cost information in 2018. As described in 3.2 below we concluded that this was not practical at present but should be considered again in 2019/20.

3.1.1 FUNDS

This year's review covered 162 funds. 84 Funds were identified for further investigation. Of those, 45 had also flagged in 2017. Heat maps showing the results of the funds review can be found in **Appendix 12a**.

Funds triggering further investigation fell into five main categories:

- Index tracking funds exhibiting tracking error (5 funds)
- Money Market funds exhibiting tracking error (7 funds)
- Risk based and Absolute Return Funds (39 funds)
- Bespoke Client funds (23 funds)
- Other (10 funds)

After investigation, the IGC was satisfied that there were no matters of concern in relation to any of the Index Tracking and Money Market funds initially flagged. We were also satisfied that seven of the ten "Other" funds raised no cause for concern. The remaining three have experienced poorer performance in 2018 and the IGC has asked Standard Life to investigate this and provide regular updates.

Of the remaining 62 funds investigated, 39 were flagged due to their use of Aberdeen Standard Investment's ("ASI") Global Absolute Return Strategies Fund ("GARS") or a similar third party fund. GARS after many years of considerable success has had several years of weak performance due to poor tactical positioning (in common with a number of its peers) and was itself flagged under our methodology.

17 of the 22 Bespoke Client funds were flagged due their use of GARS, the related Absolute Return Global Bond Strategy or third-party absolute return funds.

Seven of these have already decided to restructure to remove GARS or a third-party absolute return fund from their bespoke offering and a further seven have informed Standard Life that they have commenced a review of their funds.

A further eight, of which six were also flagged in 2017, have not indicated any decision to review their bespoke offering. Most also incorporate GARS or the Absolute Return Global Bond Strategy.

The IGC has asked Standard Life to write to those Employers drawing their attention to our concerns and suggesting they review their current offering to ensure it continues to meet the needs of their members and offers VfM.

One further bespoke fund was flagged for poor relative performance and relatively high exposure to Emerging Markets and Property, raising questions as to its suitability for a default. The IGC has asked Standard Life to keep this fund under review and discuss its suitability with the relevant employer.

The IGC will monitor what action is taken in respect of the 16 bespoke funds highlighted and consider what further action if any may be necessary.

3.1.2 LIFESTYLE STRATEGIES

This year's review covered 170 lifestyle profiles. 9 profiles were identified for further investigation. Heat maps showing the distribution of flagged funds across the Growth, Early Derisking, Late Derisking and End point phases can be found in **Appendices 12b to 12e.**

Of the nine profiles, six are not used as defaults or quasi defaults, one was flagged in error and two which had been flagged for cost caused no concern once charges were limited by the Charge Cap.

Six apparently single fund profiles were also flagged. After review, we have concluded that these are multi asset portfolios which after further review passed as defaults.

3.1.3 DEVELOPMENT/MODIFICATION OF DEFAULT STRATEGIES

In our 2018 report the IGC challenged both the risk targets and implementation of the Core Defaults. In response, Standard Life told us they were already considering these issues and agreed that the IGC challenges would be incorporated by Standard Life in its review of the investment propositions available to policyholders, including the optimisation of the risk levels targeted by the core default propositions, and that Standard Life would keep the IGC abreast of their work.

Standard Life has recently concluded their review, which will lead to modification of the risk targets and componentry of the 'off the shelf' defaults. The IGC has been briefed on the review and the actions which Standard Life propose to take.

Our first challenge was to review whether the level of risk taken by the off the shelf defaults was appropriate. Standard Life has concluded that, whilst the level of risk taken, historically, resulted in sufficient return to deliver a good outcome for policyholders, today an increase in risk taken is required given lower expected asset returns in the future. They have also adjusted the methodology to determine the risk level used for their "off the shelf" default strategies which now starts with their assessment of the long term returns required to provide a good member outcome in retirement.

To identify what a good outcome looks like, Standard Life considered how much a member would need to accumulate over a 40 year savings period to fund the gap between the state pension and a level of income which should provide a reasonable standard of living in retirement. They used a selection of independent data; insight from work conducted by the DWP; the Pensions Commission's work on replacement rates; and ONS data on retirement spending behaviour.

Standard Life have concluded that a good outcome for the majority of policyholders can be met by an income replacement rate of between 60% and 75% including the state pension (nb target income replacement rates for members with very high and very low in work incomes may fall outside this range). With the "good outcome" replacement range as the target, Standard Life have modelled the required growth rate a member would need in order to provide a return within this range.

This requires numerous assumptions governing the likes of future asset returns, salaries, salary rises and importantly annual pension contributions. In an attempt to simplify this process, they developed a forward looking deterministic model which sought to identify a required average growth rate taking into account parameters such as inflation, member salary, state pension payments, annual contribution rates and sustainable levels of in retirement withdrawal rates.

They conclude that a real return of CPI +3.5% should provide an outcome within the required range of retirement income replacement rates at a contribution level of 10% over a saving period of 40 years. This return target has been used within the portfolio construction process, and requires a slight increase to the risk levels of the Active and Passive Plus ranges albeit this risk adjustment remains within the range already permitted for these funds.

Our second challenge related to the componentry by which Standard Life implemented their risk targeted portfolios, and whether any improvements should be made.

Standard Life has reviewed the underlying investment componentry used within its core off the shelf defaults and has concluded that the Absolute Return element of the portfolio should be removed. They have told us that this has been a difficult decision; however, while they value the diversifying benefits of Absolute Returns as part of a diversified portfolio, especially during periods of enhanced market volatility, they have balanced this against performance and uncertainty around the asset class in general and the options available for investment while remaining within the constraint of the Charge Cap.

At the time of writing this report, the finer details of fund selection and tactical asset allocations were progressing through internal Standard Life governance. The IGC have had sight of final proposals, including the full strategic asset allocations and fund selections and are comfortable that the changes are responsive to the challenge we raised. A transition plan is being created that takes into consideration current market conditions and the intent to minimise any impact for customers. This will be implemented from Q2 2019. Standard Life have indicated that this will likely be a phased transition to ensure that market volatility will not unduly impact fund values.

Standard Life have committed to formally review the impact of these changes in 2020 to ensure they are having the required impact, or to implement further changes if required. This is in addition to the regular monitoring and review that Standard Life and the IGC undertake.

IGC COMMENT:

As evidenced by our challenges in last year's report, we were concerned that while a less volatile risk-targeted approach may lead to better outcomes and more engaged policyholders over long saving journeys and differing economic cycles, sufficient risk also needs to be taken to provide policyholders with a realistic prospect of a good outcome.

The IGC welcomes this review and response to our challenge. Standard Life and the IGC will review these changes which may well need further adjustment as market conditions continue to evolve. We welcome Standard Life's commitment to review the impact of the first round of changes in 2020.

3.2 TRANSACTION COSTS

Standard Life has again provided detailed transaction costs for the key defaults and underlying funds. These are published in the **Appendix 13** in a similar fashion to previous years.

During 2018 Standard Life have reported that there has been an increase in engagement from fund managers, and some improvement in their willingness and ability to provide transaction cost information to meet their obligations. Standard Life told us that they had believed this information, which is a key input to their own calculated transaction costs, would have become commoditised and distributed through the industry's major data vendors, but that this is still evolving and is yet to mature.

For the published transaction costs at the end of 2018, Standard Life have engaged Financial Express, a major third party data vendor, to gather and provide external fund manager transaction cost data through the standard 'DCPT' template. Coverage for the end of 2018 was approximately 43%. To give an indication of the rapidly evolving position, by the end of February that number had increased to 77%. Unfortunately, this increase was provided after the cut off to be included in Standard Life's Q4 2018 data and this report. Standard Life expect the coverage of external fund manager data to increase significantly through 2019.

While the industry has focussed on providing an overall transaction cost figure, this has meant there has been restricted progress on providing arrival prices to effectively calculate 'slippage costs'. For Standard Life's own directly invested unit linked funds where Aberdeen Standard Investments are the fund manager, they have not as yet managed to obtain arrival prices for this calculation. The IGC is told that this data will be available by the end of Q1 2019. In line with Standard Life's interpretation of the PS17/20 regulations, and consistent with the data published by the IGC in 2018, a proxy asset class spread has not been used to estimate the slippage cost (which the PRIIPS methodology allows), to maintain as close to a compliant position as possible with the PS 17/20 regulations.

Of the external fund managers who have provided data, circa 60% have included slippage costs based on arrival prices and approximately 40% have provided an estimate based on proxy asset class spreads in line with the PRIIPS methodology not the PS17/20 regulations.

For Standard Life funds where a 'fund of funds' type structure is in place, the slippage methodology for transacting in other funds requires a mid-price which is then compared against the actual price used for transacting. This data has been included for all funds managed by Aberdeen Standard Investments but to date has not been included for any external fund managers due to the mid prices not being published. Again, to give an indication of the improving situation post the end of 2018, Financial Express have now received and are processing circa 19% of the data for the external funds in scope.

IGC COMMENT:

The poor coverage of compliant transaction cost reporting by the investment management industry is disappointing. During 2018/19, the IGC engaged with Redington to establish if it would be possible to develop a model which incorporated transaction cost data to assess VfM.

The key challenges encountered were the fragmented nature and poor coverage of the data provided, and the lack of any individually meaningful data prior to the end of this reporting period. Without historic data, and little breadth by way of coverage across providers, it would be difficult to make any meaningful assessment or challenge were that to be required.

Even when a fuller data set is available and anomalies or outliers in the data are identified it will be difficult without extensive analysis to identify the root causes of these anomalies, and reach any meaningful conclusions, including those around Value for Money. It should be noted that while the IGC looks forward to receipt of reliable and comparable transaction cost data, our VfM analysis is conducted on returns net of all such costs.

The IGC notes that the costs shown this year for Standard Life's main defaults are lower than last year and in one case negative. This type of result is a natural consequence of the prescribed methodology but tells us little about the efficiency with which transactions are executed. While we anticipate that it will be relatively straightforward to build a model for the first stages of this process, to identify outliers or anomalies, once a robust data set is available, the methodological issues may provide challenges to reaching meaningful conclusions around transaction cost VfM. However, this is an area the IGC believes should be undertaken in 2019/20 once the data set for both Standard Life and other providers is available.

3.3 WITH PROFITS REVIEW

With Profits funds, a popular choice for policyholders in older-style products, have been excluded from the Redington assessment due to their unique nature. The IGC notes the recent performance of the three main variants of With Profits fund available to policyholders within the remit of the IGC was:

With Profit Fund	Products	Quarterly Performance in period ending			
		31/03/2018	30/06/2018	30/09/2018	31/12/2018
Pension With Profits Fund	GPPP	-1.3%	1.7%	-0.4%	-1.7%
Other Pension Unitised With Profits Funds[6]	GPPOne GPPFlex GPPLE	-3.3%	4.9%	0.6%	-7.1%
Stakeholder With Profits Fund	Group Stakeholder Corporate Stakeholder	-4.5%	5.8%	0.4%	-9.4%
Stakeholder With Profits 2006 Fund	Group Stakeholder Corporate Stakeholder	-4.5%	5.7%	0.4%	-9.3%

Source: Standard Life – "Heritage With Profits Fund Investment Report: UK Pension Business Q4 2018" & "UK Smoothed Managed Fund With Profits Investment Report Q4 2018".

With Profit Fund	Products	Investment returns last five calendar years				
		2014	2015	2016	2017	2018
Pension With Profits Fund	GPPP	9.9%	1.7%	8.8%	3.4%	-1.6%
Other Pension Unitised With Profits Funds[5]	GPPOne GPPFlex GPPLE	8.3%	3.2%	12.2%	7.9%	-5.1%
Stakeholder With Profits Fund	Group Stakeholder Corporate Stakeholder	6.6%	0.8%	16.6%	9.9%	-7.9%
Stakeholder With Profits 2006 Fund	Group Stakeholder Corporate Stakeholder	6.5%	0.9%	16.5%	9.8%	-7.9%

Source: Standard Life – "Heritage With Profits Fund Investment Report: UK Pension Business Q4 2018" & "UK Smoothed Managed Fund With Profits Investment Report Q4 2018".

These funds do not form part of a lifestyle profile but benefit from smoothing of volatility in returns over the many years of the typical With Profits contract and in some cases investment growth rate guarantees ranging from 0% to 4% per year. For example, GPP policyholders investing in the Pension With Profits Fund benefit from a 4% unit growth rate guarantee provided they hold their plan until retirement. This guaranteed rate of return applies even if the investment return on the underlying assets is below 4% in any one year (as was the case in the 12 month period ending 31 December 2018).

The differences in investment returns experienced by the different groups of With Profits policyholder reflect the asset mix of their underlying fund, the level of guarantees (if any) and, where applicable, the deductions made by Standard Life to cover the cost of guarantees.

During 2017, the IGC conducted a review of the mechanics of the With Profits funds and how Standard Life seeks to ensure that payouts remain fair across different types of product and between different generations of With Profits policyholders. Examples of

[6] Covers the following unitised WP funds: Pension With Profits One Fund; Pension 2 With Profits 2 Fund; Pension Millenium With Profits Fund; Pension With Profits One 2006 Fund; Pension 2 With Profits 2 2006 Fund; Pension Millenium With Profits 2006 Fund

the types of question and challenge raised by the IGC included the following:

- The fairness of the allocation of assets and returns to each policyholder/product group.
- The appropriateness of the guarantee deduction framework that is deployed for UK, Irish and German With Profits policyholders and in particular
  - The appropriateness of the normal levels of guarantee deductions.
  - The appropriateness of uniform adjustments to guarantee deductions as a mechanism by which all policyholder/product groups would participate in increases or reductions in guarantee costs arising in any one group.

The IGC recognises that the With Profits Committee ("WPC"), which is independent of Standard Life and whose sole purpose is the oversight of With Profits governance, has greater expertise than the IGC in With Profits issues.

The IGC has therefore sought and received assurance from the WPC that it is satisfied with the fairness of the charges, deductions and returns allocated to the different classes of With Profits policyholders, and that the mechanics of the With Profits funds and how Standard Life seeks to ensure that payouts remain fair across different types of product and between different generations of With Profits policyholders have not changed since our review in 2017.

While the IGC acknowledges the specific role and responsibilities of the WPC, we continue to take a close interest in the VfM received by policyholders from their With Profits investments.

3.4 SYNDICATED BENCHMARKING RESEARCH

In our last report we discussed a market-wide benchmarking programme which Standard Life and six other providers had retained Redington to run. Notwithstanding our data quality concerns Standard Life and the IGC were eager to build on that programme in 2019. Unfortunately, we were unable to garner sufficient support to run a new benchmarking programme in time for this report. We are hopeful that a further programme will run later in 2019 such that the IGC can use the results in its VfM dialogue with Standard Life and report in the 2019/20 report.

3.5 PENSION TRANSFORMATION PROGRAMME

In our 2017/18 Annual Report, the IGC made reference to Standard Life's Pension Transformation Programme. This multi-year programme was designed to modernise Standard Life's technology infrastructure for its pensions business and subsequently undertake an "upgrade" of policyholders' plans onto the new platform.

The upgrade approach was designed to ensure that policyholders' existing plan type and terms & conditions were maintained, while providing immediate benefits, including:

- Simpler and more transparent plan-level charges.
- Re-designed annual benefit statements that allows policyholders to understand better how their plan is performing.
- An improved digital offering that allows policyholders to check on their plan or make changes to their plan online.

During 2018, the IGC received regular programme updates, including deep-dive sessions on the programme approach and the preparations for the upgrades of policyholders' plans onto a modern platform.

In our previous report, we noted that upgrade activity was due to commence in 2019 and was expected to be completed for all plans by the end of 2019. Since then, the programme has experienced significant delays in the execution of the planned upgrade activity. The IGC has been informed that this is due to higher than expected levels of complexity in developing the features and functionality required to meet the design principles.

As a result, Standard Life has been considering alternative approaches to accelerate the availability of the new annual benefit statement to policyholders without the need to first go through the upgrade process. Standard Life believes it may be possible to accelerate the roll out of the new statement to policyholders with newer-style Workplace personal pension plans (including Group Flexible Retirement Plan and Group SIPP) and has told the IGC that investigations are continuing to ascertain the timescale and costs of this approach. Further analysis is required to determine when the new statements could be made available to policyholders with older-style plans.

While these investigations are underway, the Executive and Board of Standard Life Assurance Limited have decided to pause the Pensions Transformation Programme to allow the work on statements and other propositional enhancements to be brought forward and to focus on the more immediate priorities of policyholders and employers.

IGC COMMENT:

The IGC notes the decision to pause the Pensions Transformation Programme. We also note Standard Life's intention to investigate options for accelerating the availability of the new annual benefit statements without the requirement for policyholders' plans to be upgraded onto the new platform. We welcome this as we believe it will further help policyholders understand their plan benefits and the retirement outcomes that are currently forecast.

We are concerned, however, that policyholders in older products may not receive either the new benefit statements or access to the other benefits the Pensions Transformation Programme was intended to deliver. The IGC has requested regular updates on how Standard Life intends to address the needs of those in legacy products.

In our 2017/18 report, the IGC noted that there were 35,799 policyholders who may have been overcharged amounts of less than £1 per person. These charges were to be corrected following the implementation of the Pensions Transformation Programme. Standard Life is investigating alternative solutions to correct these plans and will report to the IGC later in 2019/20.

3.6 POLICYHOLDER'S DIGITAL ENGAGEMENT

The improved ease of access to digital, and especially mobile, channels appears to be effective in engaging more policyholders with their pensions. Changes made in 2017 to ease policyholder registration and authentication appear to be bearing fruit and 2018 has seen a significant improvement in levels of digital registration and usage including increasing use of the digital channel for transactions. (See **Appendix 9c**.)

Enhancements include the upgrading of the mobile app to offer secure messaging, plan performance and fund price changes. The app was also upgraded in April 2018 to allow 24/7 access. This extension of access time is clearly valued by policyholders with 148,000 customer sessions taking place between midnight and 7am, which was previously the period during which the app was closed. The IGC also notes that, during Q4 of 2019, 29% of policyholders who used the customer dashboard accessed the retirement income tool on this dashboard.

Plans for 2019 include rolling out charges and discount information across both the dashboard and mobile app, increased transactional functionality in the app, improvements to the retirement journeys and increased focus on speeding up the rate of digital adoption.

3.7 VULNERABLE CUSTOMERS

The IGC recognises that it may be more difficult for many policyholders to achieve good outcomes due to their background, circumstances or underlying conditions, whether short or longer term ("Vulnerable Customers"). The IGC believes that identification of Vulnerable Customers and the level of support provided is an important component of VfM both for those Customers and for all policyholders, many of whom will suffer periods of vulnerability over the 40 or more years of saving for retirement.

The IGC has reviewed Standard Life's progress and plans for identifying and supporting Vulnerable Customers. Standard Life launched a Vulnerable Customer policy and programme in June 2017. Since then 9,400 customers have been identified as vulnerable with more being added every month. It is difficult to identify vulnerability in a population that does not interact regularly with Standard Life. Some of the vulnerabilities identified to date are illness, lack of financial understanding, hearing impairment and language barriers. The objective of the programme is to record what the policyholder needs Standard Life to do differently to support them in future interactions.

Standard Life are developing management information to help identify patterns of policyholder behaviour which may indicate vulnerability and allow assistance to be provided. They are also planning to work with the Money Advice Trust to review the work done to date with the Vulnerable Customer Policy in Q2 2019.

As at 31st December 2018, 95% of customer-facing Operations staff dealing with customers have received specific training on vulnerability and helping those who are vulnerable. The training should also benefit all policyholders regardless of vulnerability. Future plans include expanding training with the assistance of external charities with relevant expertise.

3.8 AUTO ENROLMENT PHASING

Auto enrolment has had considerable success in opening up pension savings to a far larger population than was previously the case and opt outs have been lower than expected.

Standard Life has seen opt out rates of between 5.2% and 5.6% across different products (versus a DWP reported national level of between 8% and 12% depending on employer size). Opt outs since April 2018 when the first contribution increases were phased in have been considerably lower than expected.

Standard Life engaged with employers and policyholders ahead of the April 2018 increase and is doing so again for the April 2019 increase. Standard Life has informed the IGC that it *"has seen no evidence to suggest that our workplace customers are opting out in significant numbers due to AE phasing".*

IGC COMMENT:

For policyholders to achieve good outcomes and VfM, they need to save consistently over their working life. The more policyholders who can be supported to remain in their scheme the greater the prospect of VfM and good outcomes. We will review the impact of the 2019 increases in assessing next year's VfM.

3.9 DEATH IN SERVICE INSURANCE COVER

Policyholders in workplace schemes may also benefit from Death in Service ("DIS") cover. This can be provided on an incremental basis paid separately by the employer or on an integrated basis with the premium for life cover deducted from the contributions paid by employer and policyholder. Integrated Death in Service Benefit has not been sold by Standard Life since 2001.

Recent analysis has identified that as of January 2019, some 165 customers in 84 schemes (64 policyholders in 22 QWPS schemes) have integrated DIS. These customers have an average age of 55 years. While the charges for DIS are set out in the Annual Benefit Statement, many of the policyholders, pay a substantial part of their regular pension contributions for the DIS benefit and seven policyholders (none in QWPS schemes) pay in excess of 100% of their regular contributions for the DIS benefit leading to a reduction in the value of the ultimate pension benefit received.

This is a matter of concern but is complex to manage. Removal of the benefit might cause substantial hardship to a member who both dies while in service and who has arranged their financial affairs in reliance on the DIS benefit. On the other hand, members, who may not value the benefit, risk significant erosion of their retirement benefits.

The IGC has reviewed Standard Life's plans for engaging with those policyholders with DIS benefits. Those policyholders paying in excess of 100% have already been contacted, with the remainder to be contacted in Q2 2019. Policyholders will be provided with information on the costs and benefits they currently experience, and offered the opportunity to cancel, modify or retain their current DIS cover.

The IGC will engage with Standard Life to review the outcome of their engagement with this cohort of policyholders.

3.10 CYBER SECURITY

In 2017/18, the IGC received an overview of Standard Life's cyber security measures from the Chief Information Security Officer ("CISO") covering the Governance and Standards used, the Capabilities and Resources both internal and external available to the CISO and the Multi-Layer Security Controls in operation. Standard Life's cyber security policy and standards were aligned with industry good practice and the UK Government's 'Cyber Essentials' scheme.

The IGC received updates in December 2018 and February 2019. Given the rapidly evolving nature of Cyber risk, Standard Life uses numerous approaches to evolve controls. The process incorporates data points gained from several sources:

- Daily response to live activity within the SLAL environment and threat intelligence received through commercial sources and government agencies.
- Reviews of significant external Cyber related events to identify lessons learned pertinent to the control environment within SLAL.
- Participation in annual benchmarking of SLAL controls against industry peers. In 2018 SLAL participated in three external control benchmarks.
- Participation in regulatory thematic control reviews.
- External expert testing of SLAL's security controls and observation of response capabilities.

- Annual external audit reviews and regular internal audit reviews of key risk areas.
- Feedback from Workplace client due diligence reviews of SLAL security controls.
- Development of the SLAL team to ensure they maintain continuous professional education and participate in knowledge sharing forums.

3.10.1 2018 EXPERIENCE

The Phoenix transaction has required an increased focus on cyber security both because announcement of the transaction resulted in an increased level of attempted cyber-attacks and because post completion of the transaction, it will be necessary to undertake significant IT change in order to segregate complex IT and data operations shared with SLA.

3.10.2 2018 ACTIONS

Improving SLAL's security controls is a daily activity with over 1,300 IT changes made in 2018. The most significant upgrades were:

- The upgrade of one, of the two, firewalls to a newer version with improved control capabilities and replacement of the second with an improved technology offering.

- A refresh of the Web Application Firewall which monitors the specific content of internet traffic and prevents a number of well-known attacks

- A new cloud-based email security service which replaced the previous email security solution.

The new solution allows better control of the risks associated with malicious emails through improving spam and phishing protection. Each of these upgrades uses solutions rated as market-leading by the Gartner group.

Through reviews of external security events in other firms, SLAL recognised an increasing trend where external security events had been undetected for a significant period of time. In order to reduce risk in this area they have implemented an advanced threat detection capability across all end user devices within Standard Life to continuously collect information about what is happening on the device and search for forensic evidence of malicious activity.

In response to the IGC's challenge as to whether Standard Life has achieved recognised independent certification of their cyber security defences, Standard Life have told the IGC that: *"We have recognised a growing requirement for both the UK government backed "Cyber Essentials" certification and the international benchmark "ISO27001" certification. We are looking to appoint an external certification partner, by April 2019, to formally benchmark our existing processes and controls in line with the requirements for each of these certifications…by the end of Q3 2019, we will recommend the next steps and overall plan in order to achieve these certifications."*

3.11 ENVIRONMENT, SOCIAL & GOVERNANCE (ESG) AND RESPONSIBLE INVESTMENT

Following on from our engagement with Standard Life and a small number of members in 2017/18, the IGC challenged Standard Life to articulate more clearly its approach to ESG considerations in investment generally and specifically whether an ESG/Ethical default might become available. This is particularly relevant given the transition of ASI from an in-house manager to a third party strategic provider.

While it is not the role of the IGC to direct investment offerings or dictate policy (as opposed to testing what is offered for VfM), we recognise both the importance some aspects of ESG can have for investment outcomes and the increased focus amongst some groups of policyholders on the investments in which their funds are allocated. This leads us to conclude that a thoughtful approach to these issues has the potential to improve investment results and contribute to a more engaged policyholder community.

Standard Life have told us that they: *"believe that companies demonstrating good management of risk and opportunities, including environmental, social and governance ("ESG") and financial, are likely to enjoy comparative reputation, innovation and financial advantage in the long run, and that companies who do not manage these aspects well are open to increased risk and potential damage to the fundamentals of their business, as well as to their reputation and their brand."*

Standard Life state that they expect investment managers both to reflect this philosophy and apply it when selecting investable companies for their funds. Standard Life has told the IGC that consideration of ESG factors is already part of the investment strategy adopted within the actively managed funds managed by ASI, including those within the core default strategies. Therefore, one of Standard Life's priorities with regard to ESG is to ensure that the approach adopted by their managers is fully articulated for clients and members. Standard Life have been developing a draft ESG policy on which the IGC has been briefed but which still requires formal governance approvals. The Policy articulates Standard Life's approach across the following areas of investment activity:

1) Alignment to (Standard Life's) values
2) (ESG) Policies, codes and principles
3) Unacceptable investments and strategies to divest from them
4) Environmental risk and stranded assets
5) Governance framework
6) Embedding risk management, including ESG
7) Active (share) ownership

In terms of the development of a values based strategy (i.e. where there is a focus on addressing specific ethical or environmental factors or issues either through exclusion or other means) which could be used as part of a default, the IGC understands that Standard Life continue to consider offering a values based strategy but conclude that a number of technical, practical and commercial issues would need to be addressed before they could launch a sufficiently robust solution from both a member outcome and values based perspective.

Standard Life cite challenges around the lack of componentry which would allow them to i) create a sufficiently diversified portfolio; ii) have a consistent values profile across asset classes (i.e. if a range of managers are used, they may have different approaches/values); and, iii) most values based strategies have been unable to fit within the charge cap fee level, although this is improving as a wider range of lower cost components are being developed.

They also note that while there may be interest in a wide variety of issues (climate change is perhaps the most widespread) there is no agreement on the values factors that should be incorporated or the approach adopted to dealing with them in such a strategy or whether a blended values strategy would meet the aspirations of individual policyholders. Finally, while they recognise that there is an increased level of interest in values based approaches being reported in the market, this interest has not as yet been evidenced by direct demand from employers or advisers.

3.12 GDPR

The new GDPR regulations came into force on the 25th of May 2018. The IGC received regular briefings on the substantial change programme through which the new regulations were to be implemented and received assurances that Standard Life's processes and procedures were compliant at the inception date.

The programme covered seven main work streams: compilation of an inventory of all locations in which personal data is held or processed and the lawful basis for that activity; documentation of those limited cases in which the lawful basis for holding and processing data is consent together with processes to ensure that data is destroyed should consent be withdrawn; review of all third party suppliers and associated contracts to ensure GDPR compliance; publication of privacy policies and issuance of fair processing notices to over 2 million customers; development of processes to comply with individual rights requests; processes to deal with the enhanced timelines for breach reporting; and expanded governance and accountability policies.

Following the Phoenix transaction, further work is being undertaken to integrate and harmonise data privacy processes across the wider group.

In 2017, Standard Life received a total of 104 Data Subject Access Requests (DSARs).

In 2018, SLAL received 340 DSARs (up to mid-December):

- In the first part of 2018 (January-April) SLAL received 68 DSARs, an increase of 65%.
- Between May and December 2018 SLAL received 272 DSARs, an increase of 331% on the same period in 2017.

- SLAL experienced two short-term peaks in demand, first in June 2018 immediately after GDPR implementation and the second in October 2018.
- The June peak was at a similar seasonal time to a spike in demand in 2017.
- The October demand emanated from multiple DSARs submitted by one legal firm.

SLAL have increased resources to deal with the anticipated higher demand, increased the amount of data being provided in response to requests and reduced response times.

3.13 RETIREMENT EXPERIENCE

Standard Life has continued to evolve its retirement proposition in 2018. As discussed in last year's report the IGC has no jurisdiction beyond the point at which policyholders take their benefits. However, the IGC considers how Standard Life's proposition supports policyholders in the run up to taking benefits as their decisions in that period can significantly impact outcomes and thus the VfM received from their years of saving with Standard Life. The IGC has received briefings on and held discussions with Standard Life on:

- Pre-Retirement – how Standard Life helps in the run up to accessing benefits.
- At Retirement – how Standard Life helps initial access to benefits.

3.13.1 PRE-RETIREMENT SUPPORT:

COMMUNICATIONS:

New pre-retirement engagement communications have been introduced at five yearly intervals from age 49 (just before key milestone birthdays which research suggests focusses policyholders' minds). Communications are also sent at two years, 18 months and one year prior to the policyholder's selected retirement date as well as the ten week and 31 week regulatory wake up packs. The objective of the communications is to help customers understand their options and key considerations for accessing their pension savings.

FACE TO FACE RETIREMENT EVENTS:

Standard Life recently piloted an in-the-workplace retirement seminar to test that as a means of helping more customers with their retirement planning, in addition to running face to face retirement roadshows. This year 44 events in 19 locations were attended by just under 2,000 customers and their guests:

- 97% thought that the overall experience was excellent or good.
- 95% strongly agreed or agreed that information was clear and informative.

DIGITAL RETIREMENT EVENTS:

To widen the audience for and impact of retirement planning support, Standard Life has rolled out the retirement webinars for customers aged 50+ that were trialed in 2017. 18 webinars were delivered between April and February attracting c. 2,100 participants. Feedback has been positive and Standard Life plans to increase these events next year:

- 90% thought that the overall webinar experience was excellent or good.
- 86% thought that the information was relevant to their needs.
- 72% are extremely interested or very interested in attending another webinar.

SUPPORT FOR MOVING TO DRAWDOWN:

Customers can choose to move to drawdown either by phone or online. Marginally more customers chose to use the online process. As noted in Section 2.2 above, there is no longer a charge for using the telephone journey.

Standard Life are working with external consultants to evolve the telephone retirement journey and improve the experience for those using it and will be testing improvements to the journey on a test and learn basis during 2019. Improvements have also been made to the online first move to drawdown journey, including the introduction of new functionality to allow customers to 'save and replay' the journey while making their decisions. Policyholders can save the journey for up to 24 hours if, for example, they want to call with a question or need time to consider what they wish to do.

3.13.2. AT RETIREMENT SUPPORT:

In Calendar 2018, Policyholders' decisions on how to access their savings were broadly consistent with behaviours observed in 2017 (see below and **Appendix 9a**).

Retirement activity	Percentage by count 2018	Average Pot Size 2018	Percentage by count 2017	Average Pot Size 2017
Full Encashment and Triviality	28.0%	£12,234	27.6%	£12,429
Internal Transfer (Including move to AMPP drawdown)	25.3%	£61,500	24.3%	£64,190
OMO Annuity	3.8%	£54,314	3.8%	£50,978
SL Annuity	0.4%	£102,199	0.4%	£90,011
External Xfer	42.5%	£59,077	44%	£61,464

- 2018 behaviour is consistent with 2017.
- While Full Encashment and Triviality accounted for 28% of retirement actions in 2018, the average pot size is low at £12,234.
- The percentage of customers moving to drawdown with SL (internal transfer) has remained level with last year at approx. 25%.
- The number of customers taking either an OMO Annuity or SL Annuity remains low.
- The higher average pot size of customers choosing a SL Annuity reflects policyholders with safeguarded benefits such as Guaranteed Annuity Options (GAO) and Guaranteed Minimum Premiums (GMP).

In 2018, of those policyholders transferring to Standard Life's non advised AMPP drawdown proposition, over two thirds of policyholders only accessed the tax free lump sum (TFLS) and a further 20% have accessed the TFLS with subsequent ad hoc withdrawals (See below).

59% of those taking their first drawdown action were aged 60 or under which suggests that these actions do not yet reflect the long term use of drawdown by policyholders. It is unclear whether policyholders may ultimately purchase annuities at a later age than was traditionally the case, begin to access an income by regular withdrawals or are expecting to bequeath some amount of their savings to their ultimate beneficiaries.

	2018	
DD Type	**Percentage**	**Average Pot size (move to AMPP drawdown)**
TFLS Only	68.51%	£73,873
TFLS and Adhoc Withdrawals	20.16%	£51,603
TFLS and Regular Income	9.97%	£78,788
Adhoc Withdrawals Only	0.88%	£67,110
Regular Income Only	0.48%	£95,698
Total	100%	£69,960

4. VfM Assessment

The IGC has continued to use the VfM framework first used in our 2015/16 report. The original framework identified a need to focus on: Quality; Risk; Relevance (including policyholder engagement); and Cost (see **Appendix 14**).

4.1 FCA REQUIREMENTS

- In its Conduct of Business Sourcebook ("COBS") regulations the FCA identifies five elements that IGCs should consider in evaluating VfM (see **Appendix 15**). The IGC's analysis of each of these five elements is set out in the subsequent sections of this report.

4.2 REVIEW OF THE DESIGN AND EXECUTION OF DEFAULT INVESTMENT STRATEGIES ("OFF THE SHELF" OPTIONS)

The IGC has again reviewed the suitability and appropriateness of the core default solutions offered by Standard Life, which include traditional With Profits and Managed Fund solutions for older style products and risk-based multi-asset funds for more modern products. Following our updated analysis, undertaken with Redington, the risk-based default solutions continue to meet our threshold for VfM, albeit the poorer performance highlighted in Section 2.5 has impacted absolute VfM.

The older-style products feature more traditional investment approaches in the design of the plan default. The use of Managed Funds is particularly common, typically as part of a lifestyle profile. The updated investment analysis undertaken with Redington has indicated that the core underlying Managed Fund components of the strategies continue to meet our threshold for VfM and have benefited from the changes to the Annuity Purchase fund outlined in section 2.4.

With Profits funds, which were also a popular choice for policyholders in older-style products have been excluded from the Redington assessment due to their unique nature. As noted previously these funds do not benefit from a lifestyle structure and as such do not meet more modern standards for default strategies; however, these funds smooth the policyholders' exposure to investment volatility and in many cases carry valuable guarantees protecting the policyholder from market downturns. These benefits depend upon the policyholder remaining invested to the maturity of the policy. The IGC has not revisited the structure and operation of the With Profits Fund but we have sought assurance from the With Profits Committee regarding Standard Life's fair treatment of policyholders invested in the With Profits Fund (see 3.3 above.)

IGC CONCLUSIONS:

The design of Standard Life's risk-based default solutions and the proposed changes arising from the challenges outlined in our last report are discussed in detail in Section 3.1.3 above. The IGC welcomes the changes proposed by Standard Life. Notwithstanding the need for these changes, the IGC considers that Standard Life's core default options for their modern products remain appropriate for the majority of Workplace policyholders.

The changes introduced during 2017/18 in the asset mix of the Annuity Purchase fund used within the Managed Fund Lifestyle Profiles means they remain an appropriate option for those policyholders with older-style products and who are unsure of their future retirement choices.

While the With Profits funds are not used in the construction of any current default strategies, they are a significant component of the Legacy products still being utilised by many policyholders. In the report year 158,807 policyholders and assets of £1.78 billion were outstanding (2017 216,766 policyholders and £1.82 billion*).

The IGC continues to believe that in the circumstances and given the structure and benefits of such policies it would be inappropriate to seek changes and they remain an acceptable component of those legacy products.

* The IGC notes an error in last year's report on the 2017 level of policyholders and assets in With Profits Policies

4.3 REVIEW OF THE DESIGN AND EXECUTION OF DEFAULT INVESTMENT STRATEGIES ("SCHEME-SPECIFIC" OPTIONS)

As well as the "off the shelf" Default Investment Solutions covered above, Standard Life facilitates the use of "scheme-specific" default strategies that have been designed by employer sponsors on behalf of their respective workforces, typically with the help of an Investment / Employee Benefit Consultant or Independent Financial Adviser.

During the period of this report, the IGC has reviewed the VFM offered by the 162 different funds which are deployed by Standard Life and different employers in their default options. The IGC has also assessed the suitability and appropriateness of 170 bespoke and Core Investment Strategies and investigated further those strategies flagged for review.

The initial high level results were as follows:

- Of the 162 funds, 84 were flagged by the Redington process as potentially not providing VfM and requiring further investigation.
- Of the 170 strategies, nine were flagged by the Redington process as potentially not providing VfM.
- Seven were Standard Life strategies of which 1 was flagged in error and the remaining six are not used in any default or quasi default arrangement.
- The two other flagged strategies were flagged for cost and by virtue of the Charge Cap rebates met our VfM test.

Our more detailed findings and recommendations are set out below:

4.3.1 FUNDS

As described in Section 3.1.1 above, the majority of funds flagged for further review (including 17 of the 22 Bespoke Client funds) were flagged due their use of GARS, the related Absolute Return Global Bond Strategy or third-party absolute return funds.

The implementation of the Default Strategy changes described in section 3.1.3 will directly impact 11 of the Standard Life funds flagged by the Redington review and indirectly further funds as the impact of the change in approach is carried through to other parts of Standard Life's proposition.

Six of the bespoke funds have already decided to restructure to remove GARS or a third-party absolute return fund from their offering. A further 7 have informed Standard Life that they have commenced a review of their fund.

A further eight, of which six were also flagged in 2017, have not indicated any decision to review their bespoke offering. Most also incorporate GARS or the Absolute Return Global Bond Strategy.

One further bespoke fund was flagged for poor relative performance and relatively high exposure to Emerging Markets and Property, raising questions as to its suitability for a default.

The IGC has asked Standard Life to write to those Employers drawing their attention to our concerns and suggesting they review their current offering to ensure it continues to meet the needs of their members and offers VfM.

The IGC will monitor what action is taken in respect of the 16 bespoke funds highlighted and consider what further action if any may be necessary.

4.4 STRATEGIES

4.4.1 ANNUITY TARGETING STRATEGIES

Of the 54 annuity targeting strategies reviewed, two were identified as requiring further investigation. Neither of these strategies is available as a QWPS default and only two policyholders (investing a total of £4,000) have self-selected one of these options with the other not used by any policyholder.

4.4.2 CASH LUMP SUM TARGETING STRATEGIES

Of the 20 cash targeting strategies reviewed, three were again identified as requiring further investigation. All three were flagged in 2016/17 and 2017/18. None are available as a QWPS strategy as Standard Life does not permit risk levels 1 or 5 to be utilised for that purpose. 108 policyholders (investing a total of £1.89 million) have chosen one or more of these strategies on a self-select basis.

4.4.3 DRAWDOWN TARGETING STRATEGIES

Of the 25 drawdown targeting strategies reviewed, two were identified as requiring further investigation. The first is used by some 10,000 policyholders as a QWPS default but by virtue of the Charge Cap meets the VfM test; the second strategy has been self-selected by two policyholders (investing a total of £17,137). The latter strategy has been flagged as there are potentially lower cost options available for these policyholders to consider. One of these policyholders has been previously contacted by Standard Life but chose to take no action, the second selected the strategy after the communication exercise conducted by Standard Life in 2018. Standard Life is in discussions with the adviser to the second policyholder's scheme.

4.4.4 UNIVERSAL TARGETING STRATEGIES

Of the 25 universal strategies reviewed, two were identified as requiring further investigation. Both were flagged in 2016/17 and again in 2017/18. One of the strategies (in which three policyholders are invested (c£26k in total), was modified by the changes made in 2017/18 to the Annuity Purchase fund, is subject to the charge cap and as a result the IGC is satisfied that no further action is needed. The other strategy is not a QWPS default option but has been self-selected by 240 policyholders (investing a total of £8.2m). The strategy has been flagged as there are potentially lower cost options available for those policyholders to consider. The IGC has requested that Standard Life give further consideration to making policyholders aware of this (see IGC conclusions below).

4.4.5 FUND ONLY PROFILES

There were six strategies flagged which use a single fund as a default option for their Workplace policyholders, however they are multi-asset funds which after further analysis appear suitable for use as a default strategy.

In H1 2018, Standard Life issued Direct Offer proposals to policyholders in 41 of the 53 schemes mentioned in the IGC's report where single fund strategies were being used. This captured a population of 1,506 policyholders with £59m AUM. Standard Life elected to use a Direct Offer approach as it provided a stronger call to action for the policyholder and presented them with a specific switch option to choose from. To participate there was a pre-populated reply slip included in the letter that policyholders had to sign and return to Standard Life. Of the 1506 policyholders written to, 89 (5.9%) responded accepting the switch.

Despite the low response, Standard Life intends to issue Direct Offers or an alternative form of communication for the remaining 12 schemes total policyholders 1,143 during 2019.

IGC CONCLUSIONS:

The IGC considers that the majority of scheme-specific default investment strategies have been designed in the interests of relevant policyholders with clear statements of aims and objectives.

While Standard life has followed through on the actions identified in our 2017/18 report, policyholder engagement remains low. It remains unclear to the IGC why some policyholders have chosen particular strategies, albeit on a self-select basis, where better value may be available elsewhere. We note the work of the Investment Proposition forum (see Section 2.4 above) and will monitor the impact of their interventions.

As such, the IGC has requested that Standard Life give further consideration on how policyholders invested in funds or strategies in respect of which the IGC continues to have concerns are communicated with, particularly in respect of the poor response rate to the direct offers discussed above, and that they understand that alternative options are available. In doing so, the IGC recognises the regulatory boundaries that exist between the provision of information, guidance and advice, and also that ultimately policyholders have the freedom to choose any of the fund options made available by Standard Life.

4.5 STANDARD LIFE'S REVIEW OF THE CHARACTERISTICS AND NET PERFORMANCE OF INVESTMENT STRATEGIES

The IGC is required to "assess whether the characteristics and net performance of investment strategies are regularly reviewed by the firm to ensure alignment with the interests of relevant policyholders and that the firm takes action to make any necessary changes".

As previously reported, Standard Life has an internal investment governance team (independent of SLA and ASI) which is charged inter alia with reviewing the performance of all investment managers including ASI. That team remains part of Standard Life after the Phoenix Transaction.

Their process and policies ensure a regular and systematic review of the investment options available to policyholders of Workplace personal pension plans including bespoke plans requested by employers and their employee benefit consultants. This tests whether investment strategies are being managed in line with the expectations set with policyholders and with their stated investment objectives (which include the net performance of the underlying fund(s)), and that they continue to meet the needs of the customer groups for whom they were designed. There is evidence of Standard Life addressing issues identified by the in-house governance function through making changes to investment strategies. These policies and processes remain unchanged following the Phoenix transaction.

The team also produces a quarterly performance monitoring report for the IGC described in section 2.4 to allow the early detection of any negative trends in performance.

Over the past 12 months, senior representatives from Standard Life's governance function have continued to regularly attend IGC meetings to highlight any findings or funds, which might provide cause for concern. The Standard Life team has been responsive to all requests from the IGC for additional information and has continued to work closely with Redington and the IGC using the VfM methodology referred to previously in this report.

A particular focus of the IGC and the governance team has been the performance of the core "off the shelf" default investment strategies, including the range of risk-based funds that form the lifestyle profiles used in Standard Life's newer-style products. A component of these funds is the GARS fund which the IGC commented on at length in the 2017/18 report and which has featured again in section 3.1 of this year's report.

In our 2017/18 report the IGC challenged Standard Life with two key questions:

(i) Did the current Default offerings target the appropriate level of risk to achieve good policyholder outcomes?
(ii) Was the implementation of the risk based objectives optimal?

We further challenged Standard Life to consider whether in the light of these questions, the Core Default offerings should be modified to improve VfM and the likelihood of good policyholder outcomes.

4.6 STANDARD LIFE'S RESPONSE TO OUR 2017/18 INVESTMENT CHALLENGE

Standard Life has engaged with the IGC as it considered a number of possible changes to the current design of the core default strategies. In particular, the IGC has been briefed on the following:

- Fresh analysis of the return policyholders would require to achieve a good outcome over a savings lifetime.
- The risk and return characteristics of the risk-based portfolios - in particular, whether more investment risk was required to increase the probability of achieving the returns necessary for a good retirement outcome.
- The changes which Standard Life was considering in asset allocation, asset class selection and underlying components.
- The extent to which exposure to Absolute Returns might reduce or be removed as a core component of the strategies.
- Other potential enhancements/additional features which could further enhance the default strategies. An option might be the addition of exposure to Impact investing which might help improve engagement among policyholders.

The outcome of this review is that Standard Life are modifying the risk levels and componentry of the Active Plus and Passive Plus portfolios. The risk level will now be set by taking into account the analysis of member outcomes and associated growth requirements. This means that the risk level of the core defaults will increase marginally going forward. Standard Life's analysis has shown that the historic returns of the core defaults have been above the level required over a savings cycle to achieve good outcomes.

Separately, the componentry used will also be amended, with the Absolute Return allocation being removed, and other diversifying componentry, such as emerging market debt being included. The North American equity exposure in the Active Plus funds will now also include a passive element. These changes will be reviewed in 2020 to ensure they have been effective, and to assess if further change is required. The IGC has been told that implementation will be undertaken over the course of 2019, rather than on a single date, to mitigate the potential impact of market volatility.

IGC CONCLUSIONS:

The IGC is pleased that changes to Standard Life's core default strategies are to be made in response to recent performance and the challenges raised by the IGC.

The IGC remains satisfied that Standard Life's internal governance function has reviewed the characteristics and net performance of Default and non-default investment strategies offered on Standard Life's book of Workplace personal pension plans in the period covered by this report.

The IGC remains satisfied that the Standard Life governance processes used to review and, where appropriate, modify investment strategies are effective.

4.7 REVIEW OF ADMINISTRATION PROCESSES AND CORE FINANCIAL TRANSACTIONS

As part of our assessment of VfM, the IGC reviews Standard Life's administration performance over the 12 months of the reporting period, particularly in respect of the processing of core financial transactions, including:

- The receipt by Standard Life of regular and ad hoc Contributions.
- The receipt by Standard Life of transfers in.
- The processing by Standard Life of fund switches.
- The payment by Standard Life of funds being transferred out.
- The payment by Standard Life of benefits on death, retirement or exercise of the pension freedoms.

The IGC has met with management of the Edinburgh-based Customer Operations department, and a senior representative from the area regularly attends IGC meetings to report on the administration performance over the previous quarter.

4.7.1 SERVICE TIMELINESS IN 2018

During 2018, Standard Life dealt with over 19 million transactions, a 45% increase on 2017. The vast majority (98.8%) were processed on an automated Straight Through Processing ("STP") basis (2017:97.2%). 92.3% of non STP transactions were completed within one working day (2017: 91.5%).

For many years, Standard Life has had an internal target to complete 90% of all non-STP transactions within ten working days, the ten days being exclusive of time outside Standard Life's control. As reported in our 2017/18 report, the IGC challenged Standard Life to review its internal targets and, where necessary, refine these to reflect variances in policyholders' expectations and industry practice across different transaction types. Standard Life has now determined a new set of targets (see **Appendix 8c**) which are to come into effect from Q1 2019.

In 2018, performance against the current (ten days 90%) standard for non-STP transactions averaged 93.4%, an improvement on 2017 when it averaged 89.1%. As a percentage of all transactions, 99.4% were completed within ten days (2017:99.2%).

Transactions where the turnaround times did not meet the service target included the processing of transfers to another pension provider and the settlement of death claims (SLA to be revised) where the percentages completed within ten working days were 78% (2017:94%) and 47% (2017:48%) respectively.

In our last report we noted Standard Life's introduction of process changes in response to our concern as to the extended time periods experienced by some death benefit claimants. The process changes appear to have been effective: the proportion of death claims completed within the revised SLA target has risen significantly versus 2016 and 2017, but most importantly (given that for death claims Standard Life is dependent on third parties providing information in a timely manner) the total elapsed time experienced by claimants has dropped significantly see **Appendix 8d.**

The performance deterioration in processing transfers was due to an unexpected spike in demand particularly from policyholders with small pots with Standard Life. Standard Life reviewed their demand/resource planning and provided additional headcount. The IGC is informed that in the most recent period, while transfer activity has remained at higher levels, performance has returned to within target performance.

During 2018, Standard Life has continued to take a more focussed approach in dealing with cases which have been outstanding for significantly longer than ten working days.

The table below shows the percentage reduction in the numbers of non-STP transactions completed over ten working days. In total, there were 25,126 fewer such transactions in 2018 representing a 38% improvement relative to 2017 and a 65% improvement on 2016.

Days	Older Case Reduction 2018 v 2017	Older Case Reduction (%) 2018 v 2017
11-20	20,760	65%
21-50	3,642	58%
51-75	568	67%
76-100	144	70%
101-150	81	66%
151-200	44	80%
> 201	14	37%

4.7.2 SERVICE ACCURACY

In 2017, Standard Life introduced a new measurement methodology for reporting service accuracy. This meant that it was not possible for the IGC to make a meaningful comparison of performance in last year's report. The IGC is pleased to report that this has been addressed in this year's report.

In the 12 months to 31 December 2018, Standard Life reported "right first time" accuracy in processing "new monies" (incorporating Regular Contributions, Ad hoc and Single Contributions and Transfers in) of 94.9% (2017:92.1%) for transactions not processed on an STP basis. There was a 97.3% (2017:98.4%) accuracy level for processing fund switches and a 96.7% (2017:94.8%) accuracy for processing "monies out" (covering Transfers out, retirement claims and death settlements). (**Appendix 8b**) provides a breakdown.)

The approach taken by Standard Life to correct any inaccuracies remains unchanged from that reported in our 2016/17 and 2017/18 reports. In particular, Standard Life makes any corrections necessary to ensure that a policyholder suffers no detriment. For example, if there is any delay or inaccuracy in processing within Standard Life, the original date of settlement will apply. For lengthy delays a "best price" basis will apply; this involves determining whether or not the policyholder has been financially disadvantaged as a result of the delay and using a fund price that ensures no disadvantage. If there is a delay or inaccuracy in processing due to an external party e.g. policyholder, employer, adviser, solicitor or other authorised individual, the date of receipt within Standard Life will apply i.e. Standard Life will not assume responsibility for the third party's delay.

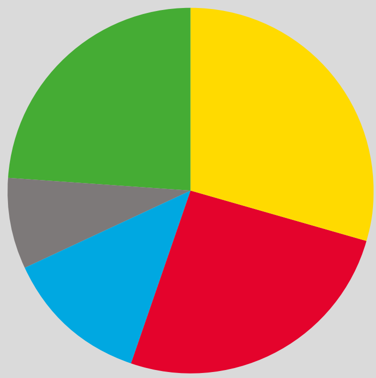
4.7.3 COMPLAINTS

During 2018, Standard Life received a total of 1,320 complaints from customers saving in a Workplace personal pension plan. The overall complaint volumes for 2018 were up by 24% compared with 2017 (1,068).

As stated in our 2016/17 report, from 1 July 2016 the basis of recording and reporting complaints was amended following a FCA rule change. 2018 was the second full year in which the new basis applied. While the overall complaint volumes relative to the total population of Workplace personal pensions remains low (0.09%), it is disappointing to note the increase in complaints in 2018.

The most common reasons for complaint among policyholders during 2018 are set out in the chart below:

Complaints Breakdown by Type



The reasons highlighted in our 2017/18 report, namely (i) the length of time taken to answer the phone (ii) the length of time taken to deal satisfactorily with the customer's demand and (iii) processing errors and/or inaccuracies in the information given to customers continue to make up a significant proportion 69% (2017:44%) of overall complaint volumes. The increased volatility in investment markets during 2018, particularly during the final quarter of the year, led to an increase in the number of complaints in 2018 relating to investment performance (reflected in the "Other" category of the chart above).

The Customer Relations team is tasked with making an impartial assessment of the complaint and recommending an appropriate course of action, including the amount of any compensation payments to be made to the customer.

Of the 1,320 complaints received during 2018, 709 (54%) were upheld by Standard Life and 662 (46%) were rejected. The equivalent percentages in 2017 were 62% of complaints upheld and 38% rejected. A total of eight complaints were referred to the Financial Ombudsman Service (FOS) during 2018 (2017:2). Four of these complaints were subsequently upheld by FOS, while four were declined. Standard Life reviews all FOS overturns to consider whether any changes in stance or processes are required.

Based on information published by FOS for all of Standard Life's life and pension products for the six months to 30 June 2018[7], the Ombudsman agreed with Standard Life's assessment in 88% (2017: 76%) of cases. The industry average for the life and pensions complaints category is 70% (2017: 74%).

IGC CONCLUSIONS:

Based on the management information that has been made available by Standard Life, the IGC is satisfied that core financial transactions have generally been processed promptly and accurately. Where this is not the case, procedures are in place to ensure that policyholders are not disadvantaged as a result of processing delays or inaccuracies.

The volume of complaints, while up on 2017, continues to remain low relative to the number of policyholders and the number of transactions processed. Customer complaints appear to be treated fairly.

The IGC supports the proposals to amend the internal targets from 1 April 2019 to more appropriately reflect the nature of the transactions. Performance against these amended targets will continue to be a focus of the IGC as part of its VfM assessment.

4.8 THE LEVEL OF CHARGES BORNE BY POLICYHOLDERS

All Workplace products have an annual management charge that is calculated as a percentage of the plan value. Additional expenses may also be deducted to cover the administration and custodian fees arising from the management of the funds. The sum of these charges is referred to by Standard Life as the Total Annual Fund Charge ("TAFC").

In addition to the explicit charges outlined above, the funds in which policyholders' contributions are invested are subject to indirect and implicit "transaction" costs. (See section 3.2).

The actual charges incurred by policyholders may be higher or lower than the TAFC for the fund(s) in which the policyholder is invested. For example, if policyholders have an adviser, their total plan charges may include the cost of the adviser's commission or fees. Conversely, plan charges may be lower as a result of a rebate negotiated by the sponsoring employer. Furthermore, any plans, which are used for Auto-Enrolment, have a maximum TAFC of 0.75% where the pension savings are invested in the scheme's default arrangement.

As in previous reporting periods, the IGC has re-assessed the distribution of charges incurred by policyholders across different products and sizes of employer arrangements. There has been no material change in the distribution of scheme-level discounts offered by Standard Life compared with 2017. In particular, we note that scheme discounts for all but the very largest employer arrangements (excluding "Good to Go" auto-enrolment employer arrangements) typically fall within a range of up to 0.2%. The auto-enrolment "Good to Go" proposition receives more generous discounts to reflect the fee paid by the employer and the requirement to ensure that total member borne charges in the scheme's default arrangement do not exceed the 0.75% charge cap. Employers with many thousands of employees and larger assets under administration receive the highest rebates reflective of the economies of scale that they bring to Standard Life.

[7] Most recent information available at the time of writing

IGC CONCLUSIONS:

Prior to the implementation of the management actions set out in the 2015/16 IGC report, the distribution of charges paid by policyholders showed that approximately 67% of total policyholder assets incurred an effective TAFC of 0.75% or less and approximately 17% of total policyholder assets were levied charges in excess of 1%. This latter figure reduced to 5%[8] after the various management actions implemented during the 2016/17 and the 2017/18 reporting periods. Over the past 12 months, there has been a reduction in the number of policyholders who have chosen on a self-select basis to invest in funds with total charges above 1% (from 57,715 in 2017, to 55,835 in 2018).

The IGC recognises that policyholders have a range of over 300 funds to select from and some customers may prefer to select a higher charging fund which they consider to be more appropriate for their individual needs. The IGC also notes that 77% (2017:74%) of Workplace personal pension policyholders (some 1.793m (2017:1.596m) in total) are incurring charges at or below 0.75% per year (See **Appendix 4.1** for more detail).

The IGC remains satisfied that the range and distribution of charges and discounts is reasonable across different products and sizes of employer arrangements.

[8] Source: Standard Life

5. Overall Conclusions

The IGC has concluded overall that Standard Life's various Workplace Personal Pension products continue to offer policyholders VfM; are of good quality; benefit from well-designed investment solutions; have good administration and governance; and have comprehensive policyholder support and communications materials which continue to evolve.

The IGC notes that the operational challenges Standard Life faced in 2016 and early 2017 have been addressed and that recent performance shows substantial improvement.

In 2017 we noted that while *"we do not consider the investment performance of a single year is an appropriate basis for changing our view as to the quality of the investment components of Standard Life's offerings we have discussed with Standard Life the risk that future underperformance could threaten that view and will monitor performance closely during 2017/18".*

While 2017/18 investment performance improved, investment performance over the last year has disappointed and has impacted our assessment of VfM. Absent the proposed changes set out in this report, and our expectation that they will result in more positive performance, we would be concerned as to our ability to reach the same VfM conclusion.

The IGC continues to be satisfied that the difference in pricing between modern QWPS and the legacy products is reasonable and that when comparing the aggregate cost of such products, schemes of equivalent scale, achieve broadly similar price points and that Standard Life does not extract extra profit from legacy products. However, the IGC was unable to review the position of members who remained in legacy schemes once the final auto enrolment staging date passed and the option to upgrade legacy schemes to modern QWPS schemes closed. This is an area the IGC would intend to review to going forward.

The IGC has again reviewed the VfM offered by the large number of default arrangements designed by employer and their advisers. We conclude (subject to our comments below) that these offer policyholders VfM; are of good quality; benefit from well-designed investment solutions; have good administration and governance; and have comprehensive policyholder support and communications materials. The restructuring of the Annuity fund discussed in last year's report and the Scheme rule changes discussed in Section 2.3 have provided an effective means of modernising many of these arrangements without the need for individual policyholder consent. While we continue to have concerns on a small number of strategies we are satisfied that Standard Life is moving to address those concerns.

The IGC wishes to place on record its appreciation of the level of resource and constructive engagement provided by Standard Life in assisting us to fulfil our duty to challenge Standard Life to improve the VfM provided to policyholders.

IGC
March 2019

APPENDICES

Appendix 1
Background

IGCs were introduced as a result of pension legislation, which came into effect on 6th April 2015 following a market review by the Office of Fair Trading. Most providers of Workplace personal pension plans are required to establish an IGC to represent policyholders' interests and assess the Value for Money ("VfM") provided by that provider's Workplace personal pension products.

The OFT market review resulted in an audit of all Workplace pension plans established prior to April 2001 (referred to as the Legacy Audit), conducted by an Independent Project Board (IPB). The IPB's brief was to review plans where policyholders might incur a Reduction in Yield (broadly charges) greater than 1% per year.

The IPB published its findings in December 2014. This set out the actions to be taken by pension providers and governance bodies, including IGCs, by 31st December 2015. The IPB sent each provider a report, which on a specific set of assumptions estimated the number of policyholders potentially at risk of charges in excess of 1% per year and who might therefore not receive Value.

The IGC had responsibility for reviewing and challenging the proposals advanced by Standard Life to address the issues raised by the IPB report and agreed a number of improvements which Standard Life committed to implement by November 2016. The IGC has monitored the implementation of the proposals details of which can be found in our last report in Section 5.1 and **Appendix 4** https://www.standardlife.co.uk/c1/independent-governance-committee.page.

The primary purpose of IGCs is to seek to ensure that Value is received on an ongoing basis by relevant policyholders in Workplace personal defined contribution pension products. They are required to act solely in the interests of those policy holders and to focus in particular, although not exclusively, on:

- Default investment strategies.
- Investment governance arrangements.
- Core financial transactions.
- Charges.
- Direct and indirect costs.

In doing so, the IGC takes into account the results (broadly fund size) that policyholders can reasonably expect as a result of their membership of, and contributions to, their pension policy. The IGC considers the value provided to policyholders up to the point at which they encash (in full) their pension savings, secure a regular income or start to draw down on their savings.

Many policyholders of Workplace personal pension arrangements, and in particular policyholders of legacy arrangements, will be invested in whole or in part in With Profits policies. With Profits investments have unique features and managing them involves considerations that do not apply to other types of investment. All companies that provide With Profits investments are required by regulation to have special governance arrangements for them and Standard Life's arrangements include a With Profits Committee that provides independent oversight to protect the interests of With Profits investors.

For Workplace pension plan policyholders whose investments include With Profits the proper management of the With Profits fund, for example in setting investment strategies and bonus rates, is a crucial component of the overall quality and Value of their pension arrangements. The IGC has therefore sought reassurance by liaising directly with the With Profits Committee to understand how it carries out its work and has engaged on specific issues with Standard Life's With Profits Actuary who attends certain IGC meetings.

Other aspects of pension scheme arrangements, for example charges and service standards, affect policyholders in essentially the same way whether they are invested in With Profits or in other funds.

The IGC's Terms of Reference are set by Standard Life and are consistent with the regulations established by the FCA. The updated Terms of Reference can be found at **Appendix 3.**

The IGC is not responsible for providing an oversight function once policyholders have taken advantage of the new pension freedoms, for remediation of historic matters, or for overseeing workplace occupational pension arrangements established under trust which are the responsibility of the relevant scheme trustees rather than the IGC.

Appendix 2
IGC Members

Standard Life established its IGC in April 2015 in accordance with regulatory requirements after conducting a robust recruitment process. The IGC is required to have a minimum of five members, the majority of whom (including the Chair) must be independent of the provider. Standard Life's IGC has five members of whom four are independent.

The independent members were appointed using an external recruitment agency and following interviews with the Independent Chair. They have no prior affiliation with the Standard Life group of companies or any material business relationships (direct or indirect) with any Standard Life company (other than in the case of two members who are directors of the Standard Life Master Trust the responsibilities of which largely mirror those of the IGC.)

In identifying potential candidates, candidates with experience in pension administration, investment, governance, legal, regulatory and large DC schemes design were interviewed. The five individuals who are members of Standard Life's IGC have many years of experience in the pensions and related industries and are familiar with many of the issues that are faced by IGCs through their other trustee and business experience. Their identity and experience are set out below.

The Standard Life representative is an experienced manager and pension scheme trustee and does not hold an executive position within the business. Furthermore, he has been provided with a side letter to his contract which makes it clear that he must act solely in the interests of relevant policyholders and put aside the commercial interests of Standard Life and any duties he owes to Standard Life shareholders when acting on the IGC. The independent members of the IGC are satisfied that the Standard Life representative continues to conduct himself on this basis.

Both the IGC members and Standard Life consider this significantly independent majority to be the optimal combination to fulfil the IGC's terms of reference while still benefitting from access to corporate knowledge and an understanding of the complex history of Workplace pension plans and charging structures.

Meet the Committee Members

RENE POISSON

INDEPENDENT COMMITTEE CHAIRMAN

Rene retired after a 30 year career with JP Morgan, latterly as Managing Director and Senior Credit Officer for EMEA, in September 2012. He has a number of non-executive appointments including as an Independent Director and Chair of the Remuneration Committee of the Universities Superannuation Scheme (USS), Chair of the JP Morgan UK Pension Plan, Chair of the Standard Life Independent Governance Committee, Director of the Standard Life Master Trust and Chair of the Advisory Committees of Five Arrows Credit Solutions and Five Arrows Direct Lending.

RICHARD BUTCHER

INDEPENDENT MEMBER

Richard is Managing Director of PTL. Richard joined PTL in 2008 and he became Managing Director in 2010. Richard has been involved in pension scheme governance since 1985. PTL have also been appointed chair of Standard Life's Master Trust board, and Richard acts as their representative. Richard is a Fellow of the Pensions Management Institute (PMI). He is chair of the Pensions and Lifetime Savings Association (PLSA).

INGRID KIRBY

INDEPENDENT MEMBER

Ingrid is an independent trustee and investment specialist with Capital Cranfield Pension Trustees Ltd, after 30 years' experience of pension fund investment including 25 years working at Hermes Investment Management for the BT Pension Scheme and other third party clients. She now has a portfolio of trustee roles acting as Sole Trustee, Chair of Trustees, and Co-Trustee encompassing large and small DB/DC arrangements in both commercial and not-for-profit organisations, bringing extensive and in-depth investment expertise to trustee boards and their Investment and DC sub-committees. She is a Fellow of the Chartered Institute for Securities & Investment and a member of the Association of Professional Pension Trustees.

ROGER MATTINGLY

INDEPENDENT MEMBER

Roger is a past President of the Society of Pension Professionals having spent his entire career in the pensions industry. He has been with PAN Trustees Limited since 2013 having previously served on the board of what was HSBC and Consultants for over 20 years. He has been a member of various industry groups including the Pensions Regulators' Stakeholder Advisory Panel, the PLSA's DB and DC Multi employer committees, the House of Commons Pensions Leadership Group and has been a member of several DWP Policy Engagement groups.

MICHAEL CRAIG

STANDARD LIFE REPRESENTATIVE

Michael joined Standard Life as a trainee actuary in 1986 and has held a number of management positions during his career. He is currently the business sponsor for the Pensions Transformation Programme, and a director of Standard Life Trustee Company Limited. Outside of Standard Life, he is a non-executive director of the Royal Blind charity and trustee chair of the ABI staff pension scheme.

Appendix 3
Terms of Reference

Independent Governance Committee

Standard Life Assurance Limited – Defined Contribution

Workplace Personal Pensions

Constitution and Terms of Reference

1. ROLE AND DUTIES

- The Committee's role is to advance the Financial Conduct Authority's (FCA) statutory objectives of securing an appropriate degree of protection for consumers by assessing the value for money of relevant schemes, raising concerns, where necessary, and reporting on the value for money of the relevant schemes operated by Standard Life Assurance Limited (SLAL). The Committee acts solely in the interests of relevant policyholders by providing credible and effective challenge on the value for money of relevant schemes.
- The Committee's key duties are:
- to act solely in the interests of relevant policyholders;
- to assess the ongoing value for money that relevant policyholders obtain from SLAL's relevant schemes;
- where the Committee has concerns with value for money, to raise those concerns (as it sees fit) with the SLAL Board;
- after giving the Board an opportunity and time to address those concerns, to escalate any remaining concerns to the FCA, alert relevant policyholders and employers, and make its concerns public as it sees fit; and
- to produce an annual report by 5 April each year.

2. MEMBERSHIP

2.1 The Committee shall consist of a minimum of five members, the majority of whom, including the Chairman, must be independent (as defined in COBS 19.5.11 and 19.5.12). Any Standard Life Assurance Limited employee appointed to the Committee shall have a term in their contract of employment that they are free, in their capacity as a member of the Committee to act within these Terms of Reference and to do so solely in the interests of relevant policyholders.

2.2 Members of the Committee shall be approved by the Nomination Committee and the Chairman on the recommendation of the Chief Executive Officer following an open and transparent recruitment process.

2.3 Where an independent Committee member is an individual, their appointment shall be for a fixed period of no longer than five years, which may be extended to a cumulative maximum of ten years. Where an independent Committee member is a corporate member, an individual must be appointed as their representative and the maximum period that they can act as that representative is ten years. Any vacancies that arise within the Committee should be filled as soon as possible and, in any event, within six months. The appointment and removal of a Committee member should involve the Chairman but, in the absence of a material breach of their contract for services, SLAL shall not remove a Committee member unless it receives a request to do so from the Chairman. Before submitting a request to remove a member, the Chairman shall consult the other members of the Committee.

3. COMMITTEE MEETINGS

3.1 The Committee shall meet quarterly although ad-hoc meetings can be held as necessary, if called/ agreed by the Chairman.

3.2 Any independent member of the Committee can be delegated Chairmanship of a meeting at the discretion of the Chairman.

3.3 The Secretary to the Committee shall be appointed by the Company Secretary in consultation with the Group Holding Company Company Secretary.

3.4 Three members shall constitute a quorum for the Committee meetings, provided at least two are independent members. In the event that a Committee meeting is not quorate, decisions can only be proposed, with a further quorate meeting required for approval.

3.5 Meetings of the Committee may take place in person or by telephone or video conference.

3.6 Decisions of the Committee (with respect to the duties in section 6) shall require approval by a majority of its members participating in the relevant meeting.

3.7 Decisions of the Committee can be made by written agreement by all members of the Committee and such agreement may be given by electronic communication.

4. NOTICE OF MEETINGS

4.1 Meetings of the Committee shall be summoned by the Secretary at the request of any of its members, in each case with the agreement of the Chairman.

4.2 Adequate notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers shall be forwarded to each member of the Committee and any other person required to attend.

5. MINUTES OF MEETINGS

5.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee.

5.2 Draft minutes of each Committee meeting shall be circulated as soon as practicable to all members of the Committee, the SLAL Board and the SLAL parent company Board after they have been approved by the Chairman. The minutes shall be approved (with updates on previously agreed actions provided) at the following meeting of the Committee and re-circulated.

6. DUTIES

6.1 The duties of the Committee are to:

6.1.1 act solely in the interests of relevant policyholders both individually and collectively. Where there is the potential for conflict between individual and collective interests, the Committee should manage this conflict effectively. The Committee is not required to deal directly with complaints from individual policyholders;

6.1.2 assess the ongoing value for money for relevant policyholders delivered by relevant schemes particularly, though not exclusively, through assessing:

(a) whether the default investment strategies within those schemes are designed and executed in the interests of relevant policyholders with a clear statement of aims and objectives;

(b) whether the characteristics and net performance of investment strategies are regularly reviewed by the firm to ensure alignment with the interests of relevant policyholders and the firm 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; 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 relevant policyholders, including transaction costs.

6.1.3 monitor the effectiveness of the changes made for relevant policyholders who were potentially exposed to high charges identified by the Independent Project Board (IPB) investigation; the legacy audit. These changes were made on 1 November 2017 following recommendations from the Committee and the agreement of the SLAL Board.

6.1.4 raise with the SLAL Board any concerns it may have in relation to the value for money delivered to relevant policyholders by a relevant scheme.

6.2 If, having raised concerns with the SLAL Board about the value for money offered to relevant policyholders by a relevant scheme, and also having made the SLAL parent company Board aware of any such concerns, the Committee is not satisfied with the response of the SLAL Board, the Chairman may escalate concerns to the FCA if that would be appropriate. The Committee may also alert relevant policyholders and employers and make its concerns public.

LIAISON AND INTERACTION

6.3 The SLAL Board must take reasonable steps to address any concerns raised by the Committee under its terms of reference or provide written reasons to the Committee as to why it has decided to depart in any material way from any advice or recommendations made by the Committee to address any concerns it has raised;

6.4 Through the FCA significant-influence holder appointed under 8.2.5, the Committee will liaise and interact with the appropriate members of the Executive Team as well as the Board and the SLAL parent company Board and, in particular, will do so prior to communicating any concerns to employers, pension scheme members or the FCA, or making them public in terms of 6.2.

7. REPORTING RESPONSIBILITIES

7.1 The Chairman is responsible for the production of an annual report, which shall be made available publicly and which shall set out:

7.1.1 the Committee's opinion on the value for money delivered by relevant schemes, particularly against the matters listed under 6.1.2;

7.1.2 how the Committee has considered relevant policyholders' interests;

7.1.3 any concerns raised by the Committee with the SLAL Board and the response received to those concerns;

7.1.4 how the Committee has sufficient expertise, experience and independence to act in relevant policyholders' interests;

7.1.5 how each independent member of the Committee has taken account of COBS 19.5.12, together with confirmation that the Committee considers these members to be independent;

7.1.6 where the Committee is unable to obtain from SLAL, and ultimately from any other person providing relevant services, the information that it requires to assess the matters in 6.1.2, why the Committee has been unable to obtain the information and how it will take steps to be granted access to that information in future;

7.1.7 after consulting with a member who is an employee of a company in the Standard Life group of companies, the name of such a member unless there are reasons not to do so;

7.1.8 the arrangements put in place by SLAL to ensure that the views of relevant policyholders are directly represented to the Committee.

7.2. At least three working days prior to the release of the annual report, the Chairman will also make the SLAL Board and SLAL parent company Board aware of its content.

8. AUTHORITY

8.1 The Committee is authorised by the SLAL Board:

8.1.1 to seek, via the secretary, any information it requires from any employee or director of the Company in order to perform its duties;

8.1.2 to call on via the secretary, any employee to attend a meeting of the Committee as and when required;

8.1.3 to be provided with sufficient administrative and analytical support to fulfil its duties effectively and carry out its role independently;

8.1.4 to make the decisions it deems appropriate concerning the carrying out of its responsibilities; and;

8.1.5 to constitute sub-committees and taskforces, as appropriate. The constitution and terms of reference of such bodies shall be defined by the Committee.

8.2 The SLAL Board shall assist the Committee in the performance of its duties by:

8.2.1 taking reasonable steps to provide the Committee with all information that the Committee reasonably requests for the purposes of carrying out its duties;

8.2.2 providing the Committee with sufficient resources as are reasonably necessary to allow the Committee to carry out its role independently;

8.2.3 making arrangements to ensure that the views of relevant policyholders can be directly represented to the Committee;

8.2.4 making the terms of reference and the annual report of the Committee publicly available;

8.2.5 appointing an FCA significant-influence holder as the individual responsible for managing the relationship between SLAL and the Committee.

8.3 Any member of the Committee is authorised, after consultation with the Chairman, to obtain, at the Company's expense, such external legal or other independent professional advice as is necessary and proportionate, including from an independent investment adviser, on any matter falling within the Committee's terms of reference. The Chairman may do so without reference to the other members of the Committee.

8.4 The Committee is authorised to communicate to employers or relevant policyholders or to the FCA, or to make public, any concerns regarding the value for money offered to relevant policyholders or the arrangements SLAL has in place to ensure that the views of relevant policyholders are represented to the Committee if it is not satisfied with the response from the SLAL Board to escalating its concerns.

8.5 The Committee will review regularly its performance and its Terms of Reference, which will be made public on the Committee's webpage, and recommend any appropriate changes to the Board and to the SLAL Nomination Committee for approval. Changes to the Committee's Terms of Reference may be recommended by the Committee to improve the effectiveness of the Committee's performance.

Glossary

Board	The Board of Standard Life Assurance Limited.
Committee	The Independent Governance Committee.
Company	Standard Life Assurance Limited.
Group Holding Company	The ultimate holding company of the companies carrying on the business of the Group and each of its and their respective subsidiaries, subsidiary undertakings and associated companies from time to time and a "member of the Group" shall be construed accordingly.
Legacy audit	An audit of high cost and legacy schemes carried out by the ABI and those of its members that provide workplace personal pensions, overseen by an independent project board and concluded in December 2014.
Relevant policyholder	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	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 4
Scope of Business/Products Subject to IGC Oversight

Standard Life has provided Workplace pension arrangements for many years.

The IGC considers current and former policyholders of Workplace pension arrangements who are, or have previously been, saving in one or more of the following products (other than in a Trustee governed arrangement) to be relevant policyholders:

NEWER-STYLE PRODUCTS

- Group Self Invested Personal Pension (GSIPP)
- Group Flexible Retirement Plan – Good to Go
- Group Flexible Retirement Plan (GFRP)

OLDER-STYLE PRODUCTS

- Group Personal Pension (GPPP)
- Group Personal Pension One (GPPOne)
- Group Personal Pension Flex (GPPFlex)
- Group Personal Pension for Large Employers (GPPLE)
- Group Stakeholder Pension (GSHP)
- Corporate Stakeholder Pension (CSHP)

PRODUCTS, POLICIES AND ASSETS UNDER MANAGEMENT AS AT 31.12.2018

POLICY NUMBERS AND AUA FOR WORKPLACE PERSONAL PENSION PLANS

Current and former workplace members	Policies 31/12/17	Policies 31/12/18	AUA (£m) 31/12/17	AUA (£m) 31/12/18
Newer style products				
Group Flexible Retirement Plan (GFRP) and Group Self-Invested Personal Plan (GSIPP)	796,331	906,948	17,795	18,039
Group Flexible Retirement Plan – Good to Go	332,353	396,147	891	1,246
Older style products				
Group Personal Pension (GPP)	482,114	477,303	11,164	10,108
Group Personal Pension One (GPPOne)	101,970	101,812	1,924	1,767
Group Personal Pension Flex (GPPFlex)	139,700	141,664	2,881	2,648
Group Personal Pension for Large Employers (GPPLE)	22,069	21,967	642	582
Group Stakeholder Pension (GSHP)	241,655	242,263	4,515	4,184
Corporate Stakeholder Pension (CSHP)	52,603	51,988	1,301	1,160
Total (All products)	**2,168,795**	**2,340,092**	**41,113**	**39,737**

The figures in the table above include self-invested assets and those members and former members in drawdown

APPENDIX 4.1

DISTRIBUTION OF MEMBER CHARGES

The tables below show the number of members with total charges above 1.00% at 31 December 2018. The first table shows the split between current and former workplace members. The second table shows the number split by the type of higher charge (commission or fund choice or both).

Total member charge	Estimated number of workplace personal pension members	Estimated number of former workplace personal pension members	Total
>1.48%	8,611	6,420	15,031
1.01% to 1.48%	23,134	17,670	40,804
	31,745	**24,090**	**55,835**

	Estimated number of workplace and former workplace personal pension members			
Total member charge	Higher commission but no higher charge funds	Higher commission and higher charge funds	Higher charge funds only	Total
>1.48%	91	121	14,819	15,031
1.01% to 1.48%	57	30	40,717	40,804
	148	**151**	**55,536**	**55,835**

The figures in all the tables above exclude self-invested assets and those members and former members in drawdown.

The table below shows the overall distribution of charges across the book of workplace personal pension plans.

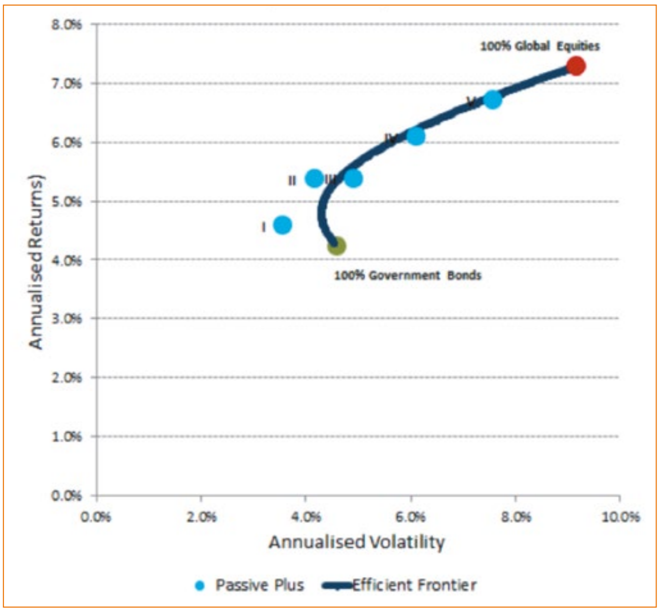
Total member charge	Number of members and former members of workplace personal pension schemes	Percentage	Assets (£m)	Percentage
>1.48%	15,031	0.6%	393	1.0%
1.01% to 1.48%	40,804	1.7%	1,544	3.9%
0.76% to 1.00%	482,818	20.7%	7,983	20.4%
<=0.75%	1,793,288	76.9%	29,246	74.7%
	2,331,941		**39,166**	**100%**

Appendix 5
Efficient Frontier and Performance Charts

APPENDIX 5a

ANNUALISED VOLATILITY VS ANNUALISED RETURN: 31/12/2013 TO 31/12/2018

PASSIVE PLUS

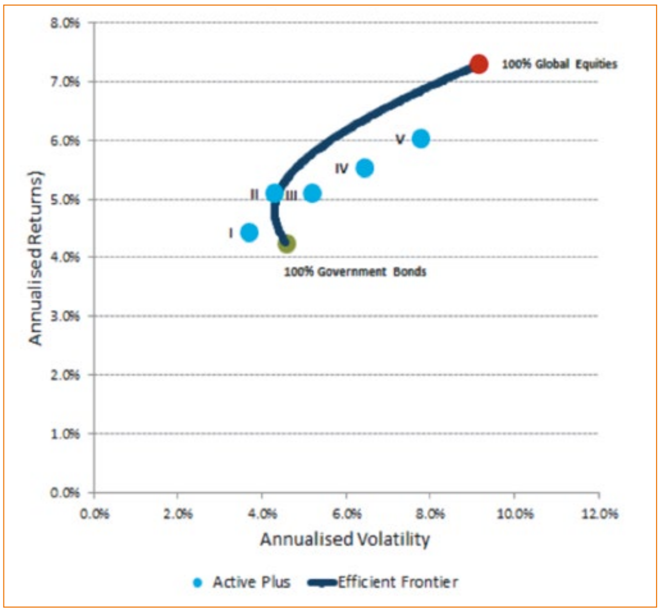


Fund	Annualised return	Annualised volatility
I	4.58	3.58
II	5.37	4.16
III	5.38	4.92
IV	6.09	6.11
V	6.70	7.58

RISK RETURN RATIO

I	II	III	IV	V
1.28	1.29	1.09	1.00	0.88

ACTIVE PLUS

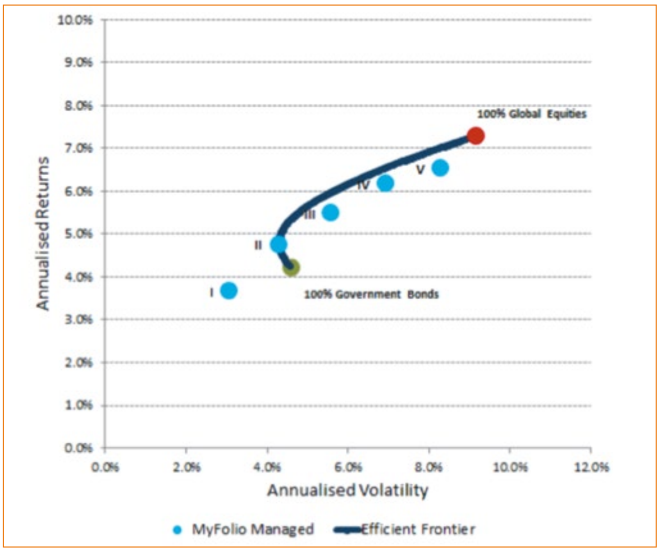


Fund	Annualised return	Annualised volatility
I	4.42	3.71
II	5.09	4.32
III	5.08	5.22
IV	5.52	6.46
V	6.03	7.79

RISK RETURN RATIO

I	II	III	IV	V
1.19	1.18	0.97	0.85	0.77

MYFOLIO MANAGED



Fund	Annualised return	Annualised volatility
I	3.67	3.08
II	4.76	4.30
III	5.48	5.59
IV	6.17	6.95
V	6.52	8.29

RISK RETURN RATIO

I	II	III	IV	V
1.19	1.11	0.98	0.89	0.79

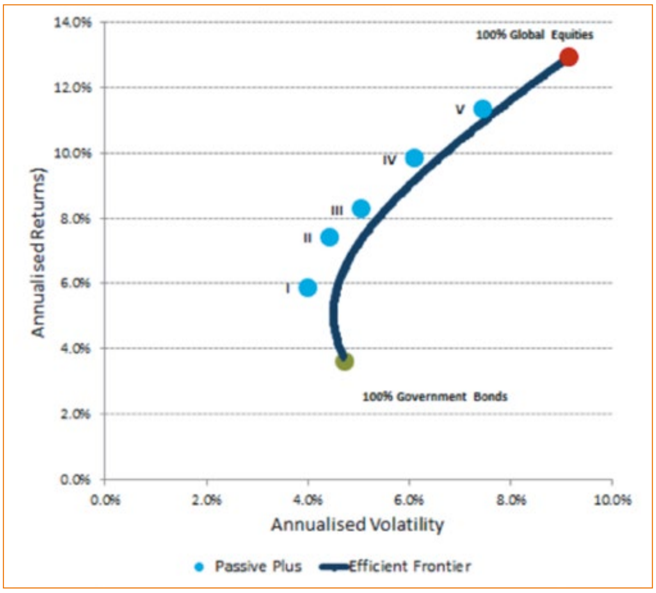
Source:
Efficient frontier underlying indices: FTSE All Share Index and ICE BofAML UK Gilts All Maturities Index, MSCI AC World Index and ICE BofAML Global Government Index (£ Hedged); Source Thomson Reuters Eikon Fund returns (adjusted for AMC and additional expenses); Fund Returns and Volatility source Financial Express.

Methodology:
All returns calculated Total Return in GBP. Fund returns calculated on Series 4 (with AMC and additional expenses added back). The efficient frontier displays the historic risk and return characteristics of over 100 sample portfolios, ranging from 100% allocation to equities (split 50:50 UK and Global) at one end (red dot) to a 100% allocation to government bonds (split 50:50 UK and Global) at the other (green dot) and all possible combinations in between.

APPENDIX 5b

ANNUALISED VOLATILITY VS ANNUALISED RETURN: 31/12/2012 TO 31/12/2017

PASSIVE PLUS

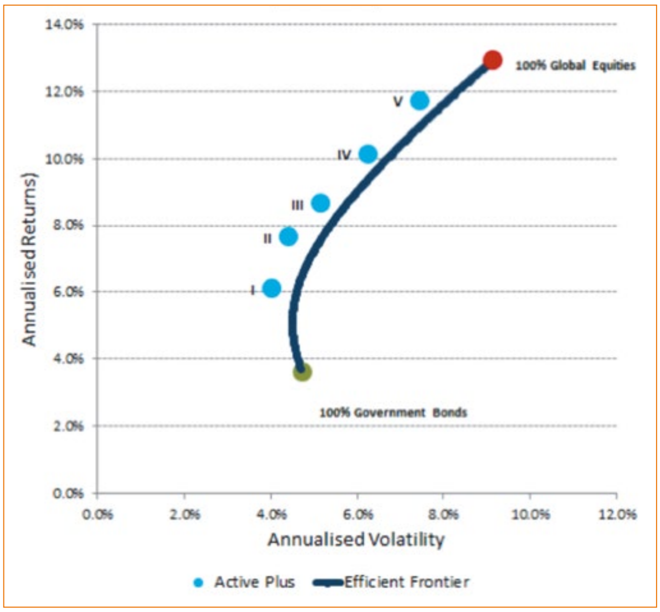


Fund	Annualised return	Annualised volatility
I	5.87	4.00
II	7.41	4.44
III	8.25	5.05
IV	9.81	6.11
V	11.34	7.44

RISK RETURN RATIO

I	II	III	IV	V
1.47	1.67	1.64	1.61	1.52

ACTIVE PLUS

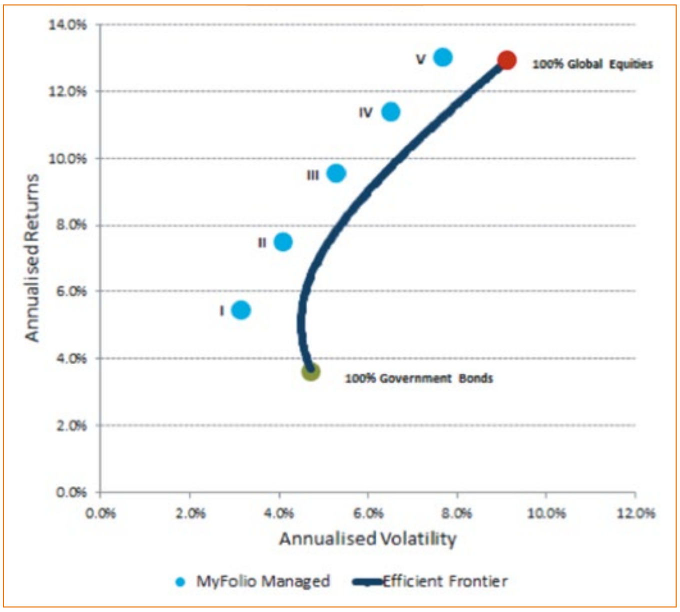


Fund	Annualised return	Annualised volatility
I	6.10	4.03
II	7.65	4.44
III	8.65	5.18
IV	10.12	6.27
V	11.71	7.47

RISK RETURN RATIO

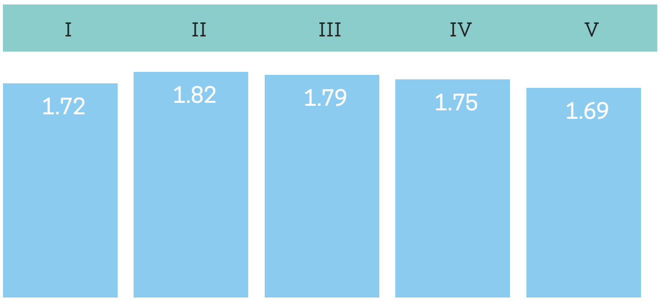
I	II	III	IV	V
1.51	1.72	1.67	1.61	1.57

MYFOLIO MANAGED



Fund	Annualised return	Annualised volatility
I	5.44	3.16
II	7.49	4.12
III	9.53	5.32
IV	11.39	6.52
V	13.00	7.70

RISK RETURN RATIO



Source:
Efficient frontier underlying indices: FTSE All Share Index and ICE BofAML UK Gilts All Maturities Index, MSCI AC World Index and ICE BofAML Global Government Index (£ Hedged); Source Thomson Reuters Eikon.

Fund returns (adjusted for AMC and additional expenses); Fund Returns and Volatility source Financial Express.

Methodology:
All returns calculated Total Return in GBP. Fund returns calculated on Series 4 (with AMC and additional expenses added back). The efficient frontier displays the historic risk and return characteristics of over 100 sample portfolios, ranging from 100% allocation to equities (split 50:50 UK and Global) at one end (red dot) to a 100% allocation to government bonds (split 50:50 UK and Global) at the other (green dot) and all possible combinations in between.

Appendix 6
Performance Adjusted Sharpe and Sortino Ratios

APPENDIX 6a

PERFORMANCE ADJUSTED SHARPE RATIOS

COMPETITOR ANALYSIS – CUMULATIVE 3 YEAR RISK ADJUSTED PERFORMANCE – SHARPE RATIO

	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Active Plus III	1.27	1.41	1.39	1.48	1.44	1.46	1.38	1.4	1.36	1.32	1.39	1.24	1.34	1.23	1.01	0.78	0.9	0.92	1.16	1.19	1.47	1.64	1.07	1	0.8
Passive Plus III	1.4	1.51	1.52	1.57	1.51	1.5	1.46	1.47	1.44	1.38	1.44	1.29	1.42	1.28	1.1	0.89	0.99	1.04	1.34	1.37	1.69	1.85	1.32	1.26	1.03
Competitor fund 1	1.03	1.23	1.21	1.27	1.23	1.22	1.2	1.22	1.18	1.18	1.18	1.06	1.18	1.04	0.88	0.68	0.83	0.87	1.22	1.26	1.61	1.69	1.13	1.1	0.87
Competitor fund 2	1.23	1.31	1.33	1.38	1.32	1.31	1.28	1.31	1.28	1.22	1.3	1.15	1.22	1.13	1	0.74	0.89	0.95	1.2	1.22	1.55	1.74	1.29	1.28	1.06
Competitor fund 3	1.19	1.26	1.26	1.34	1.27	1.28	1.27	1.32	1.3	1.27	1.36	1.21	1.32	1.14	1.01	0.83	0.96	0.98	1.32	1.35	1.67	1.82	1.32	1.23	1.1
Competitor fund 4	1.15	1.26	1.23	1.26	1.14	1.16	1.1	1.15	1.09	1.06	1.07	0.91	1	0.81	0.66	0.43	0.63	0.69	0.92	0.94	1.27	1.31	0.81	0.86	0.7
Competitor fund 5	0.86	0.97	0.95	1.02	0.94	0.93	0.94	0.94	0.92	0.91	1.05	0.91	1.06	0.97	0.81	0.58	0.73	0.79	1.06	1.12	1.43	1.56	1.06	1.08	0.87
Competitor fund 6	1.32	1.44	1.45	1.46	1.41	1.4	1.36	1.37	1.35	1.34	1.34	1.21	1.32	1.11	1.06	0.87	1	1.06	1.38	1.43	1.67	1.8	1.38	1.39	1.22
Competitor fund 7	1.18	1.33	1.29	1.37	1.28	1.31	1.26	1.28	1.23	1.22	1.32	1.19	1.28	1.16	0.97	0.73	0.89	0.92	1.21	1.19	1.53	1.71	1.17	1.09	0.8
Competitor fund 8	0.89	0.99	0.98	1.08	1.01	1.01	1.01	1.03	1.02	1	1.13	0.99	1.1	1	0.86	0.61	0.75	0.8	1.01	1.08	1.33	1.52	0.97	1	0.81
Competitor fund 9	0.96	1.2	1.21	1.21	1.19	1.1	1.04	1.06	0.99	1.03	1.09	1.01	1.1	1.09	0.79	0.65	0.73	0.73	0.92	0.93	1.55	1.6	1.12	1.26	1.19

APPENDIX 6b

PERFORMANCE ADJUSTED SORTINO RATIOS

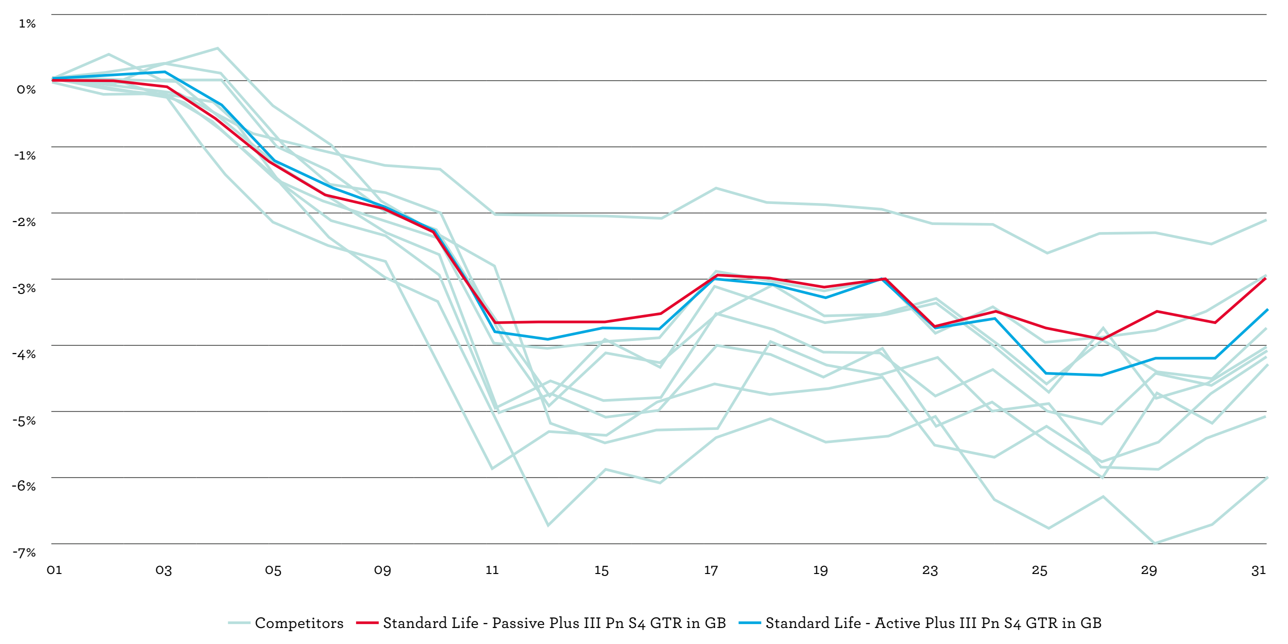
COMPETITOR ANALYSIS – CUMULATIVE 3 YEAR RISK ADJUSTED PERFORMANCE – SORTINO RATIO

	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Active Plus III	1.29	1.37	1.35	1.37	1.39	1.42	1.34	1.37	1.32	1.27	1.35	1.23	1.29	1.16	0.97	0.76	0.86	0.88	1.19	1.22	1.57	1.85	1.01	0.95	0.71
Passive Plus III	1.3	1.34	1.36	1.4	1.42	1.42	1.38	1.38	1.35	1.28	1.34	1.25	1.32	1.22	1.09	0.89	1.01	1.06	1.51	1.55	2.09	2.42	1.44	1.37	1.05
Competitor fund 1	1.08	1.28	1.25	1.25	1.27	1.25	1.23	1.25	1.2	1.19	1.19	1.05	1.13	0.98	0.84	0.66	0.79	0.83	1.36	1.4	1.97	2.13	1.17	1.14	0.83
Competitor fund 2	1.28	1.31	1.33	1.32	1.33	1.31	1.29	1.31	1.28	1.21	1.31	1.13	1.13	1.04	0.96	0.72	0.84	0.9	1.24	1.25	1.64	1.98	1.3	1.29	0.99
Competitor fund 3	1.31	1.4	1.39	1.42	1.4	1.43	1.41	1.41	1.37	1.34	1.44	1.32	1.38	1.21	1.11	0.92	1.04	1.07	1.68	1.73	2.47	2.88	1.71	1.64	1.39
Competitor fund 4	1.17	1.3	1.25	1.23	1.15	1.17	1.11	1.11	1.05	1.02	1.02	0.89	0.94	0.77	0.65	0.42	0.62	0.69	0.99	1.02	1.51	1.57	0.85	0.9	0.7
Competitor fund 5	0.89	0.99	0.96	0.98	0.95	0.93	0.94	0.95	0.92	0.91	1.02	0.88	0.98	0.89	0.77	0.55	0.69	0.74	1.03	1.09	1.57	1.75	1.06	1.07	0.82
Competitor fund 6	1.57	1.66	1.67	1.68	1.69	1.67	1.63	1.64	1.6	1.59	1.59	1.48	1.55	1.32	1.25	1.04	1.17	1.24	1.91	1.98	2.63	3.04	2	2.02	1.63
Competitor fund 7	1.13	1.23	1.17	1.18	1.16	1.2	1.15	1.16	1.11	1.1	1.21	1.12	1.16	1.09	0.93	0.71	0.87	0.91	1.29	1.27	1.77	2.07	1.21	1.13	0.75
Competitor fund 8	0.96	1.04	1.02	1.08	1.05	1.06	1.06	1.08	1.06	1.04	1.14	1.02	1.1	0.99	0.87	0.63	0.75	0.8	1.09	1.16	1.46	1.77	0.97	1	0.77
Competitor fund 9	0.85	1.06	1.07	1.07	1.1	0.98	0.96	0.99	0.92	0.95	1.02	0.92	0.96	0.95	0.69	0.59	0.63	0.64	0.83	0.83	1.65	1.72	1.09	1.18	1.1

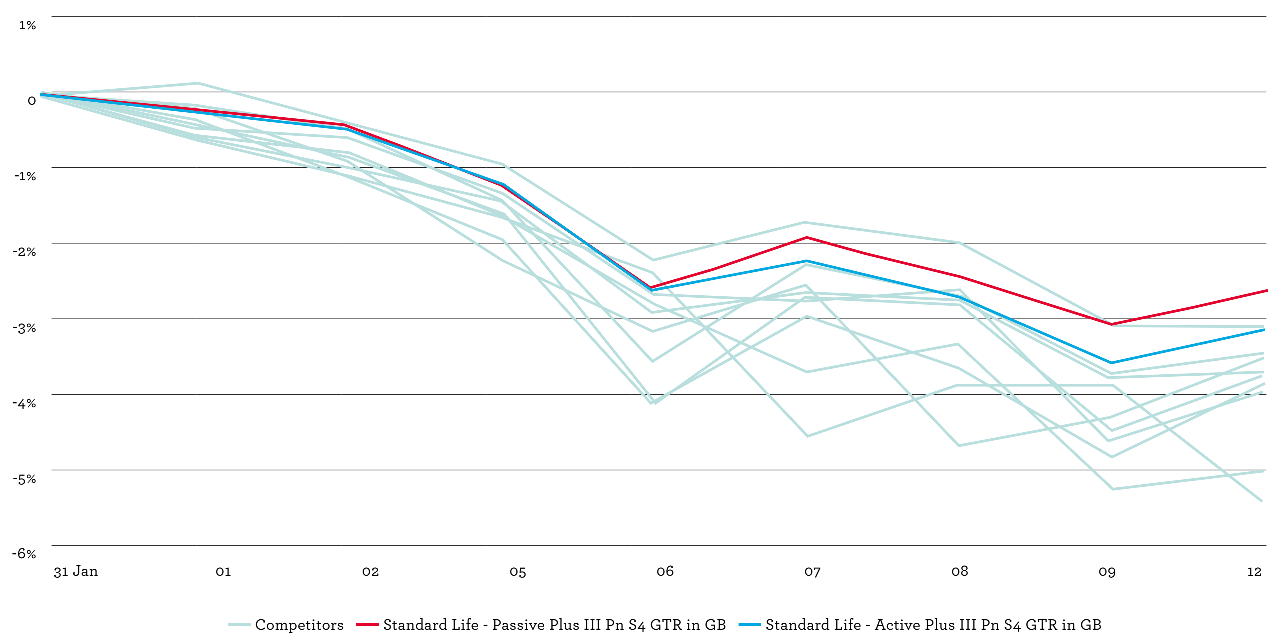
APPENDIX 6c

PERFORMANCE DURING MARKET DOWNTURNS

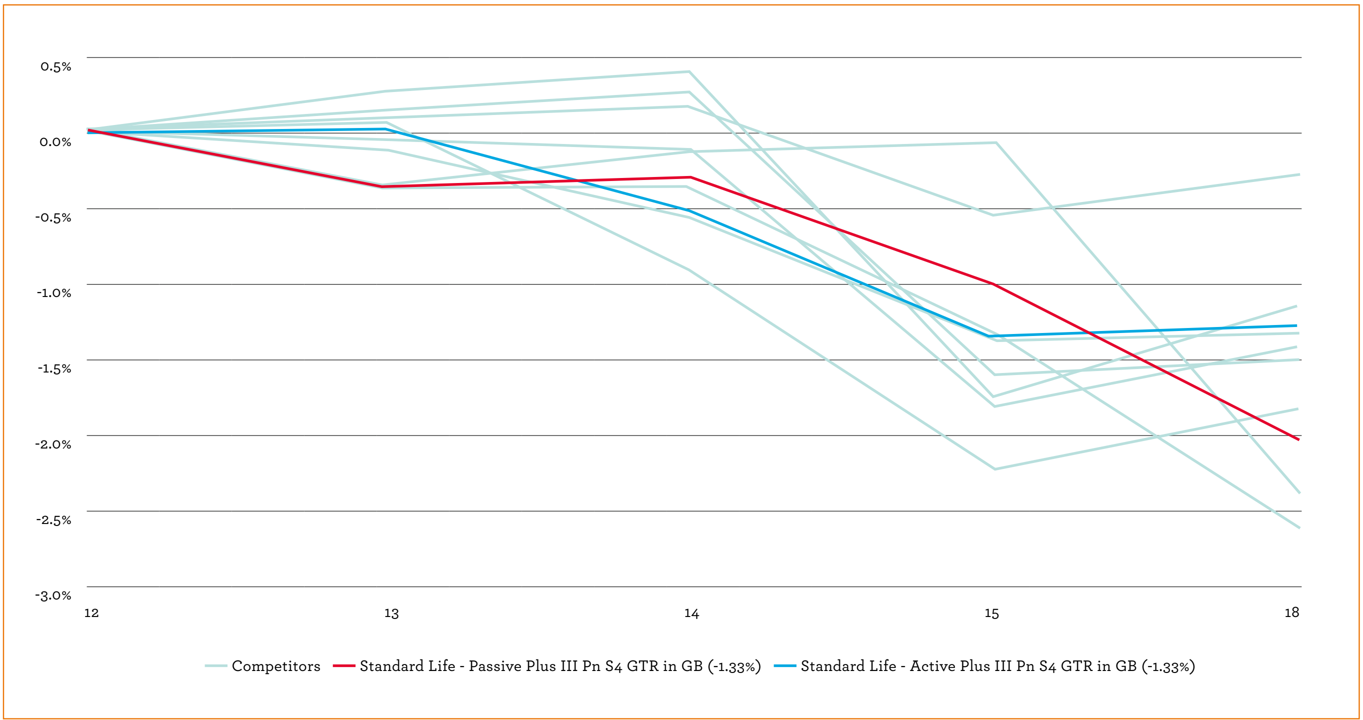
OCTOBER 2018



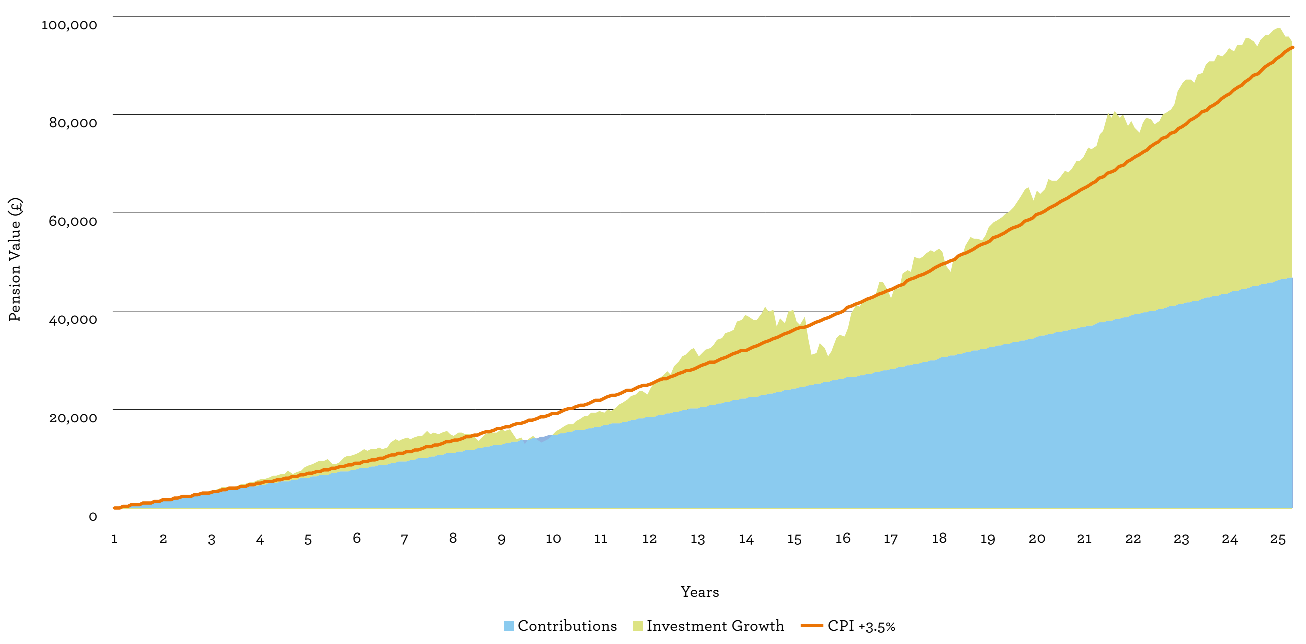
JANUARY 2018



SEPTEMBER 2017



Appendix 7
Managed Fund Performance over 25 Years



	Annualised adjusted performance over a 25 year investment period*
Profile 1 – 4Bal moving into Active Plus Universal	5.6%
Profile 2 – 4BAL	5.6%
CPI +3.5%	5.5%

*Performance adjusted to reflect 0.75% charge cap for default investment strategies.
Source: Financial Express FinXL 26/02/2019 with performance shown for the period 31/12/1993 - 31/12/2018.

Appendix 8
Transaction Volumes and Performance

APPENDIX 8a

	Percentage of Total Core Financial Transactions					Total (2018)
Core Financial Transaction	Same Day	Next Day	2 to 5 days	6 to 10 Days	Over 10 Days	
Regular Contributions	91.5%	5.5%	2.2%	0.2%	0.6%	16,601,832
Ad hoc Contributions	91.7%	4.9%	0.8%	1.5%	1.1%	92,969
Single Contributions	87.6%	5.4%	4.0%	1.5%	1.6%	22,290
Transfers In	91.2%	2.6%	3.2%	1.7%	1.3%	15,552
Fund Switches	99.4%	0.2%	0.1%	0.03%	0.2%	2,485,079
Transfers Out	64.4%	5.4%	11.4%	6.9%	11.9%	53,291
Retirements	31.5%	43.5%	13.3%	9.5%	2.%	22,999
Death Settlements*	8.5%	3.6%	8.0%	13.5%	66.5%	1,830
Total	**92.3%**	**4.9%**	**2.0%**	**0.2%**	**0.6%**	**19,295,842**

Source: Standard Life.

*The measurement of death settlement is notification of date of death to final settlement date.

CORE TRANSACTIONS NOT PROCESSED "STRAIGHT THROUGH"

Process	Total Processed Non – STP	Total No. Processed within 10 working days	% within 10 working days
Contributions Allocated (excluding online payments)	4,974	4,831	97.13%
Allocate Transfer of Benefits In	15,459	12,803	82.82%
Information Requests Issued	67,344	65,079	96.64%
Updates to Records	101,506	97,042	95.60%
Leavers Processed	4,646	43,59	93.82%
Change or Switch Investments	18,069	17,957	99.38%
Pay Transfer of Benefits Out	18,139	14,070	77.57%
Pay Benefits on Retirement	5,627	5,310	94.37%
Pay Benefits on Death	2,523	1,198	47.48%
Total	**238,287**	**222,649**	**93.44%**

Source: Standard Life.

APPENDIX 8b

QUALITY OF TRANSACTIONS

Core Financial Transaction	Average Quality % (Accuracy)	
	2017	**2018**
Regular Contributions		
New Joiner & Increment Set-Up	92%	95.19%
Transfer of Benefits In		
Investment Changes (Non – Lifestyle)	98%	97.39%
Transfer of Benefits Out		
Retirement Settlement	95%	96.88%
Death Settlement		

Source: Standard Life.

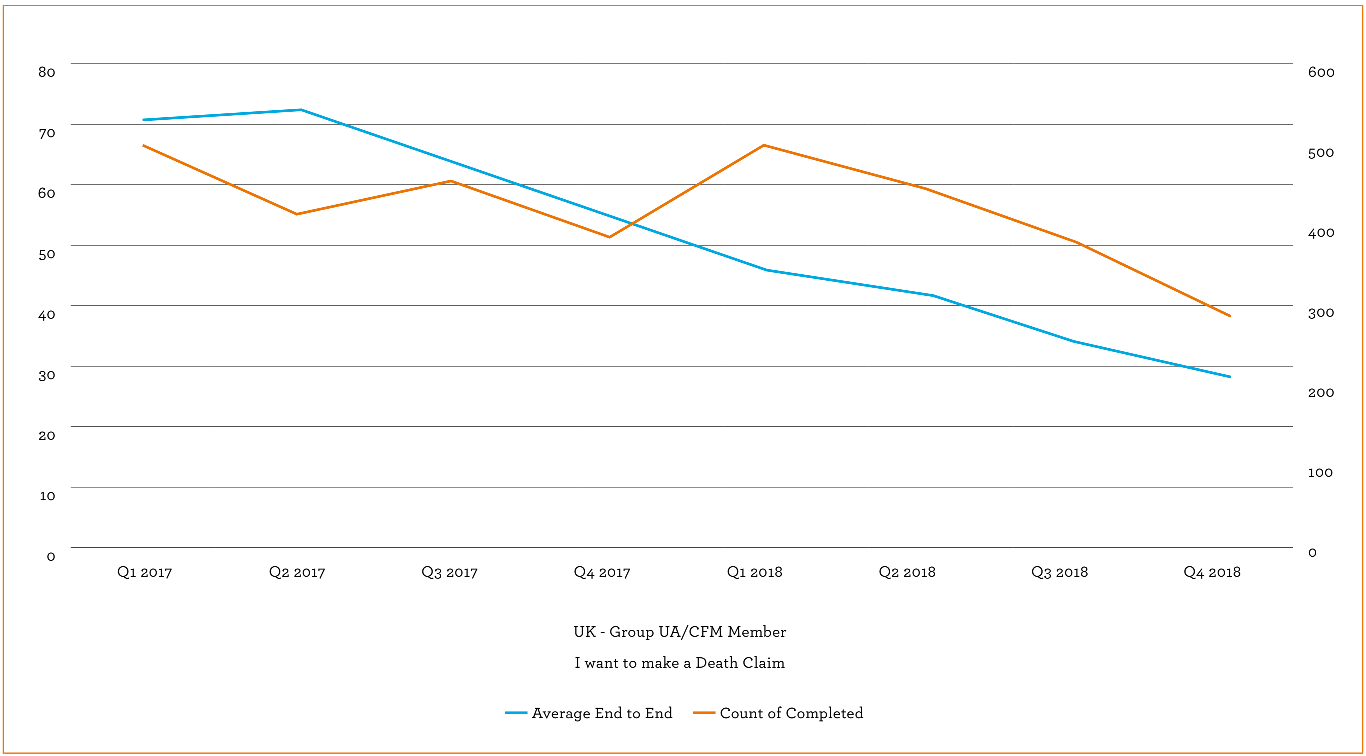
APPENDIX 8c

SERVICE LEVEL TARGETS FROM Q1 2019

Demand no./ Category	Demand No.	Demand Type	Proposed Service Level Target (days)
1. Contributions Allocated	1.1.	Process Regular Scheme Payments	10
	1.2.	Top Up	5
2. Transfer In			10
3. Provide Information	3.1.	General Information	10
	3.2.	Provide Retirement Quote	5
4. Update Records	4.1.	General Updates (5 Day SLT)	5
	4.2.	Set Up Plan	10
	4.3.	General Updates (10 Days SLT)	10
	4.4.	Change My Normal Retirement Date	8
	4.5.	Group Pension Zone Manual Updates*	8
	4.6.	Legal Miscellaneous	10
5. Fund Switch/Redirection			3
6. Leaver			10
7. Short Service Refund			10
8. Retirement	8.1.	Orchestration Administration	20
	8.2.	Process Health Claim	15
	8.3.	Settlement Retirement Benefits	5
9. Transfer Out			10
10. Death Settlement			20

* Group Pension Zone is Standard Life's extranet platform used by employers and administration to add new joiners, pay contributions and maintain records.

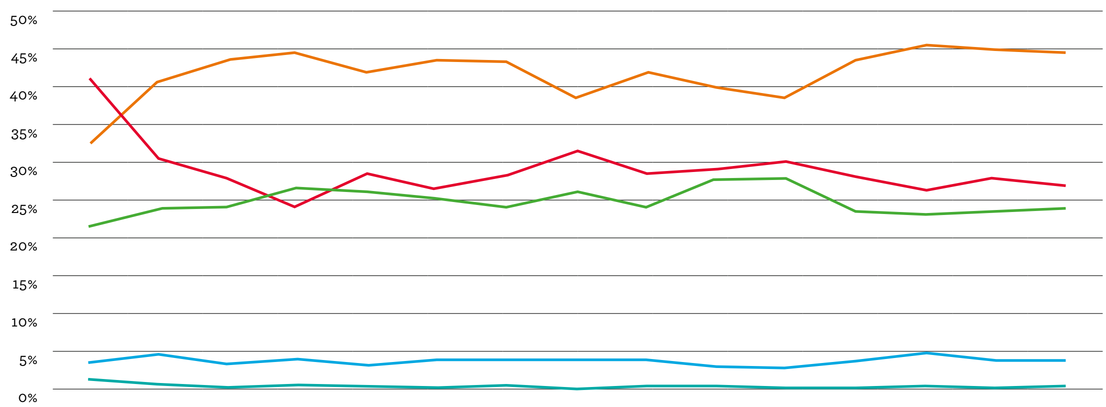
APPENDIX 8d


80
70
60
50
40
30
20
10
0
600
500
400
300
200
100
0
Q1 2017
Q2 2017
Q3 2017
Q4 2017
Q1 2018
Q2 2018
Q3 2018
Q4 2018
UK - Group UA/CFM Member
I want to make a Death Claim
Average End to End
Count of Completed

Appendix 9
Customer Behaviour and Satisfaction Statistics

APPENDIX 9a

OVERALL CUSTOMER BEHAVIOUR



	2015 avg	2016 avg	2017 avg	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018
OMO Annuity	4%	5%	4%	3.8%	3.4%	3.8%	3.8%	4.0%	4.1%	3.3%	3.2%	4.0%	4.4%	3.7%	3.9%
Full Encashment and Triviality	41%	31%	28%	24%	28%	27%	28%	31%	29%	29%	30%	28%	27%	28%	27%
Internal Xfer (inc to AMPP)	22%	23%	25%	27%	26%	26%	24%	26%	25%	28%	28%	24%	23%	23%	24%
External Xfer	33%	41%	44%	44%	42%	44%	43%	39%	42%	40%	39%	44%	45%	45%	45%
SL Annuity	1%	1%	0%	0.5%	0.2%	0.3%	0.5%	0.4%	0.4%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%

APPENDIX 9b

NPS AND NEASY SCORES

NPS	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Drawdown	68	67	63	65	62	65	67	70	65	71	69	74	66	66	63	68	70
Annuity	70	62	51	66	49	75	73	58	61	67	75	45	65	61	63	64	70

Neasy	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Drawdown	61	50	54	52	53	55	59	57	56	68	67	67	58	55	53	57	68
Annuity	76	71	44	61	55	74	64	58	56	68	74	45	64	64	63	59	70

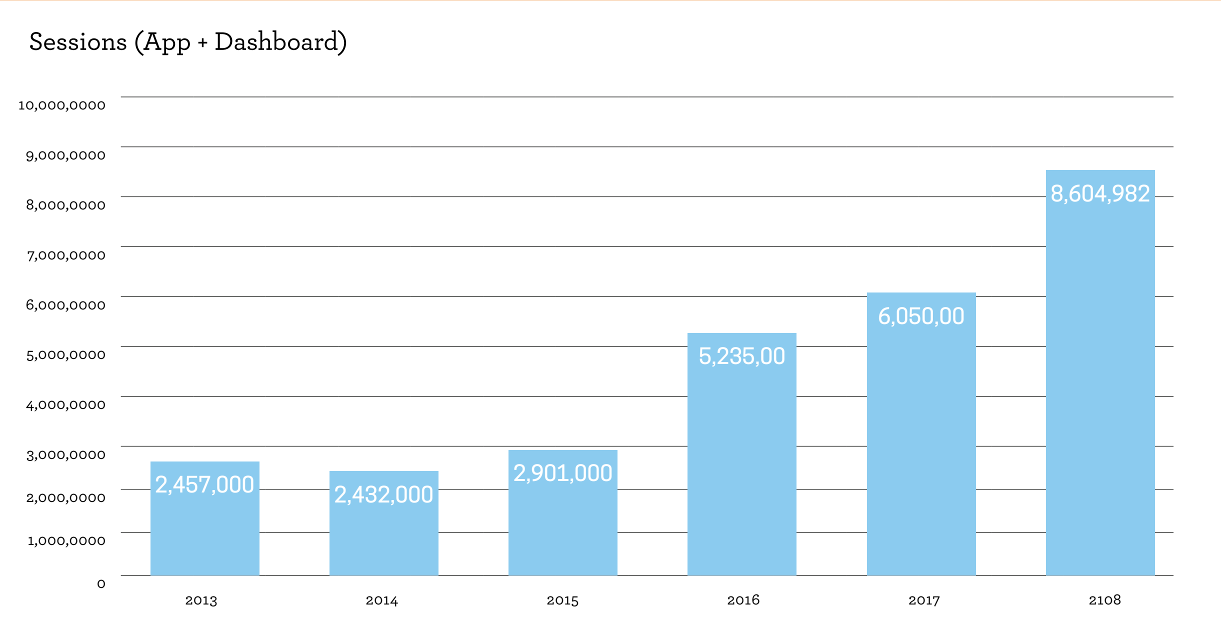
PSAT	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Drawdown	96	96	96	96	97	96	96	97	96	97	97	97	96	96	96	96	97
Annuity	97	96	98	98	96	97	97	95	98	98	97	97	97	97	97	97	97

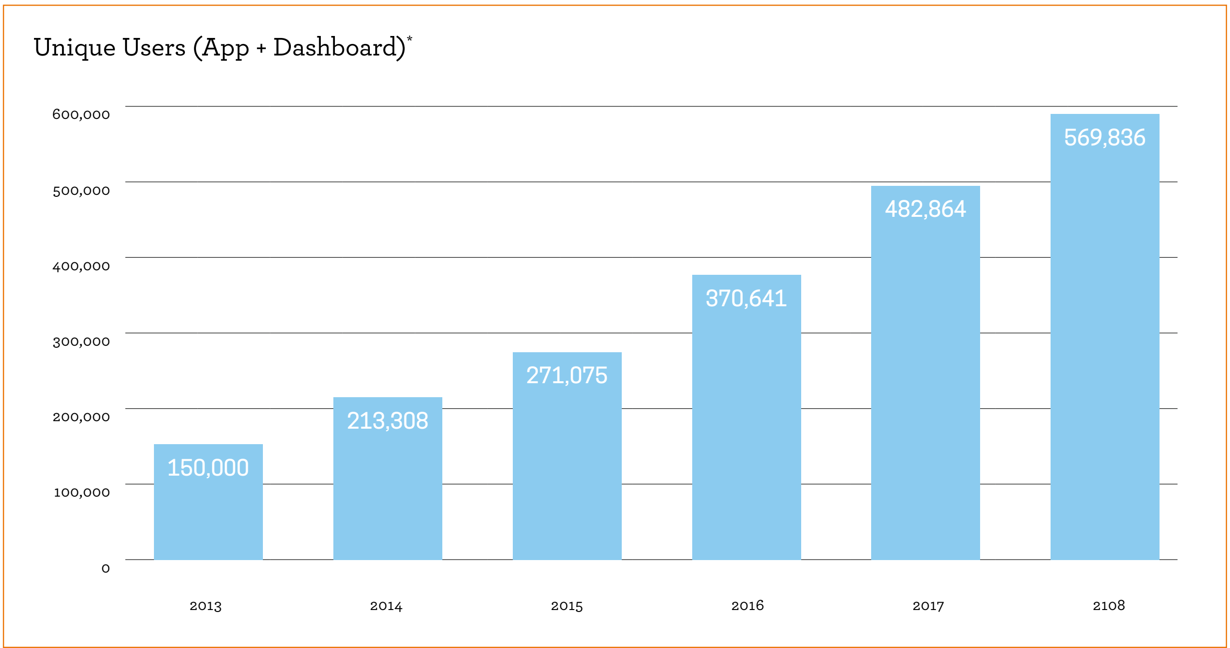
Total Survey Volumes	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Drawdown	784	551	775	772	691	640	652	663	600	649	622	202	7601	2110	2103	1915	1473
Annuity	94	69	78	86	85	77	105	101	113	105	101	19	1033	241	248	319	225

Source: Standard Life.

APPENDIX 9c

ONLINE USAGE TRENDS





*Unique users = total number of unique customers who have logged into either the app or dashboard at least once throughout the year.

Transaction Type	2017	2018	% change
Retirement*	29,242	48,138	64.6% increase
Consolidation	13,178	18,000	36.5% increase
Update Details	233,684	301,038	28.8% increase
Payments**	31,651	37,941	19.8% increase

*Retirement includes full encashment, first time and subsequent withdrawals. **Payments other than via payroll.

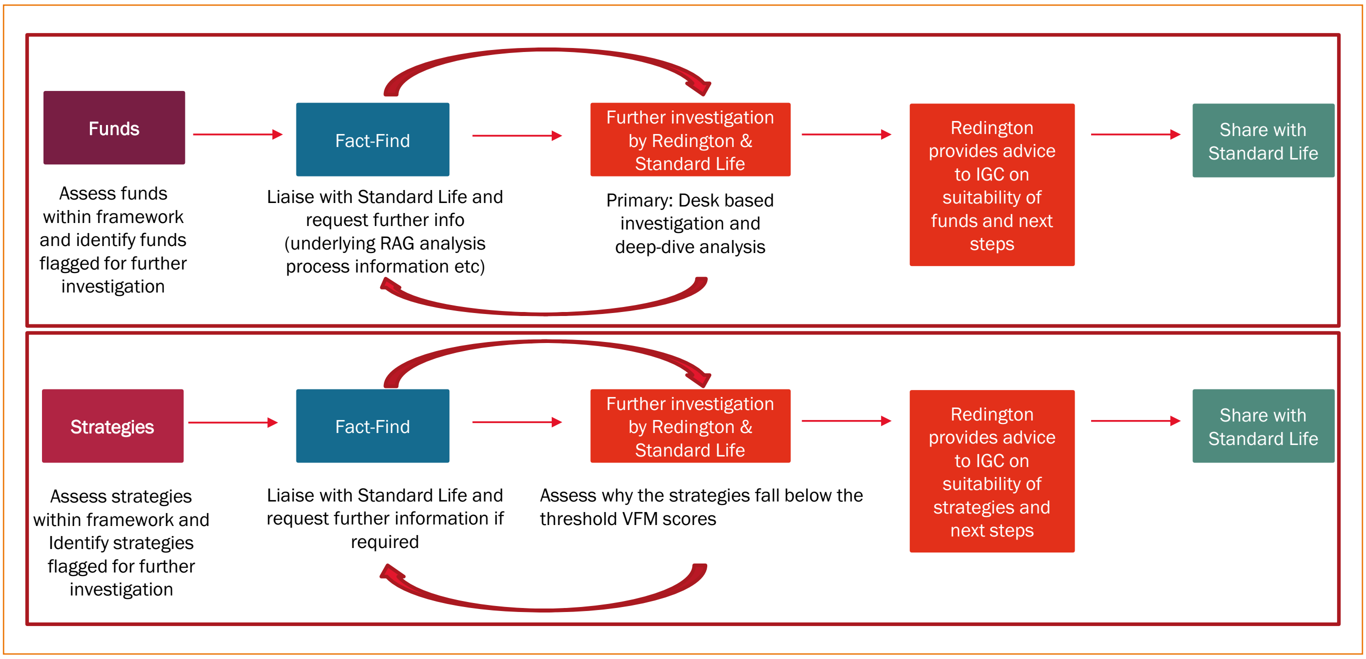
Appendix 10
Engagement Metrics

	Starting Out		Growth		Preparation		Retiring	
				Average opt out rates %				
		% Contributing customers | % Customers actively interacting with SL | % Digitally enabled customers						
		Metric		Metric		Metric		Metric
Customer Interaction	Using Online Dashboard	%	Using Online Dashboard	%	Using Online Dashboard	%	Using Online Dashboard	%
	Using Mobile App	%	Using Mobile App	%	Using Mobile App	%	Using Mobile App	%
	Inbound - calls	%	Inbound - calls	%	Inbound -calls	%	Inbound -calls	%
	Inbound - secure messaging	%	Inbound - secure messaging	%	Inbound - secure messaging	%	Inbound - secure messaging	%
	Email communications [Open/CTR]	%	Email communications [Open/CTR]	%	Email communications [Open/CTR]	%	Email communications [Open/CTR]	%
	MoneyPlus [Open/CTR]	%	MoneyPlus [Open/CTR]	%	MoneyPlus [Open/CTR]	%	MoneyPlus [Open/CTR]	%
	Using Online Dashboard	%	Using Online Dashboard	%	Retirement event attendance	%	Retirement event attendance	%
		Metric		Metric		Metric		Metric
Customer Action	Registered online (new registrations)	%	Registered online (new registrations)	%	Registered online (new registrations)	%	Registered online (new registrations)	%
	Updated beneficiary | beneficiary coverage	%	Updated beneficiary | beneficiary coverage	%	Updated beneficiary | beneficiary coverage	%	Updated beneficiary | beneficiary coverage	%
	Updated contact details	%	Updated contact details	%	Updated contact details	%	Updated contact details	%
	Updated SRD	%	Updated SRD	%	Updated SRD	%	Updated SRD	%
	Fund switch - under development	TBC	Fund switch - under development	TBC	Fund switch - under development	TBC	Fund switch - under development	TBC
	Contributed in the last 12 months - single or regular	%	Contributed in the last 12 months - single or regular	%	Contributed in the last 12 months - single or regular	%	Contributed in the last 12 months - single or regular	%
	Consolidate - under development	TBC	Consolidate - under development	TBC	Consolidate - under development	TBC	Consolidate - under development	TBC
	Use of online tools	%	Use of online tools	%	Use of online tools	%	Use of online tools	%
		Metric		Metric		Metric		Metric
Perceptions of SL	Over All Satisfaction	%	Over All Satisfaction	%	Over All Satisfaction	%	Over All Satisfaction	%
	Satisfaction with communications	%	Satisfaction with communications	%	Satisfaction with communications	%	Satisfaction with communications	%
	Satisfaction customer service	%	Satisfaction customer service	%	Satisfaction customer service	%	Satisfaction customer service	%
	Satisfaction online/ digital services	%	Satisfaction online/ digital services	%	Satisfaction online/ digital services	%	Satisfaction online/ digital services	%
	Satisfaction with information to support decision making	%	Satisfaction with information to support decision making	%	Satisfaction with information to support decision making	%	Satisfaction with information to support decision making	%
	Standard Life is a company I trust	%	Standard Life is a company I trust	%	Standard Life is a company I trust	%	Standard Life is a company I trust	%

Appendix 11
The IGC/Redington Investment Review Process

APPENDIX 11.1

OVERALL METHODOLOGY



APPENDIX 11.2

REVISED FUND METHODOLOGY

The IGC uses a dual fund performance assessment and scoring approach for each of the 170 funds. The first method is a simple three year analysis of historic returns (performance vs benchmark) and risk (tracking error vs benchmark); the second is a quarterly 'corridor' performance analysis (used by Standard Life) that, while more complex, addresses some of the issues of using a single period model.

For those funds with non-investable benchmarks (such as CPI or cash+ targets) the funds are compared against their stated benchmarks; the corridor test is not used as those funds would be expected to deviate from the benchmark over the short term; instead an absolute cap on volatility is used to assess whether the manager is taking too much or too little risk in seeking to meet their target benchmark.

If a fund is flagged for attention using either approach, it is then investigated further to assess whether some remedial action might be required. Both methodologies are explained below, however there are some shared principles that apply throughout the fund analysis which are:

CATEGORISATION: The analysis begins by recognising the different types of fund strategies being analysed and categorising them. The four distinct categories used are Passive, Active-Core, High Alpha, and Unconstrained.

This is a necessary step as the acceptable pattern of performance vs benchmark for each of these categories is obviously very different. For instance, a passive fund out-performing its benchmark significantly is a bad thing. But a high alpha fund doing the same thing would be a good thing. Using the same measurement for all fund strategies is therefore inappropriate.

SCORING MATRIX: Reflecting the nuances above, a matrix to score each category has been developed. This rewards passive funds for being close to the benchmark, but penalises them for diverging significantly away from it (either positively or negatively).

Actively managed core funds are rewarded for positive returns vs benchmark, but not for negative or significantly highly positive returns, as that would be an indication of the fund not doing what it is supposed to do.

High Alpha and Unconstrained strategies are rewarded for significantly positive returns and are penalised for being close to or under-performing the benchmark.

FLAGS: In addition to the scoring output, there are a small number of flags that are designed to capture very specific behaviours:

- High Alpha or Unconstrained funds that are 'closet trackers'.
- Trackers that do not track the benchmark.

Funds demonstrating these behaviours are passed straight through to the list of funds to be investigated further, regardless of their overall or relative score.

Three-year risk and return:

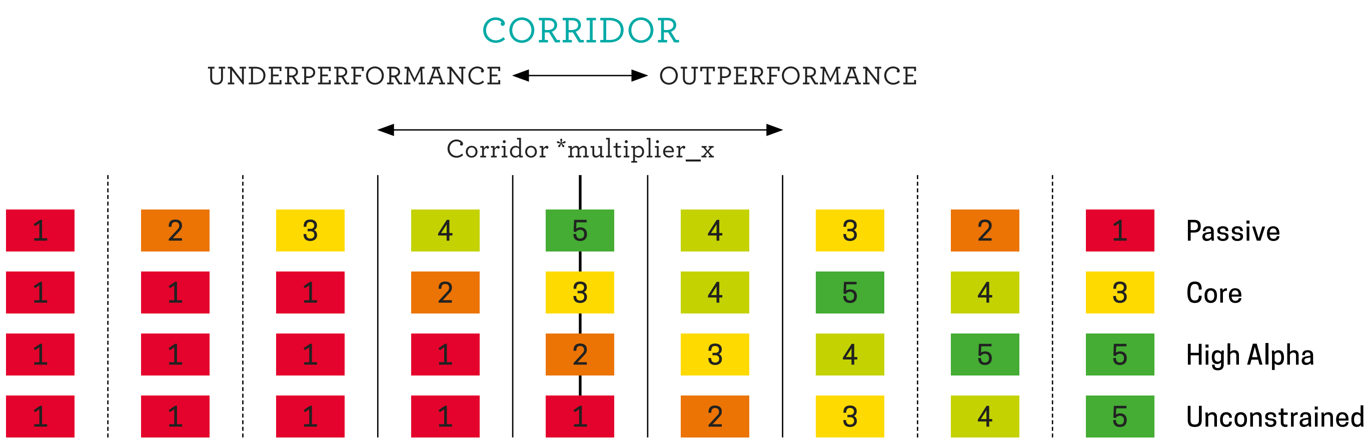
The three year out or underperformance vs benchmark, and three year tracking error figures are inputs to the analysis. They are inputs to the scoring matrix and create a score for each fund that determines those for further review.

The quarterly corridor approach:

This analysis uses discrete quarterly periods over three years to analyse 'how' the funds performed over that period. This helps demonstrate whether the funds are performing as expected through each distinct time period, not just if the fund has managed to get to an acceptable place at the end of the period.

For each fund its return above or below its benchmark each quarter for the last three years is captured. Depending on the strategy type (e.g. passive), the scoring matrix is then used to turn these returns into a score to allow for comparison.

The scoring for this approach uses three different tolerance levels around the benchmark that are described as a series of 'corridors'.



For instance, Passive funds should not deviate significantly from the benchmark, and should not periodically perform either positively or negatively beyond the first tolerance or 'corridor'. The passive funds scoring matrix rewards passive funds within the first corridor, and penalises those that deviate significantly, i.e. into the second or third wider tolerance levels or 'corridors'.

Conversely, High Alpha active funds are penalised if they are too close to the benchmark, and rewarded if they achieve positive returns within the outer tolerances or 'corridors'.

The corridors and scores for each category can be calibrated to take into account market conditions and to allow more or less funds to pass or fail. The calibration used has been validated by Standard Life, Redington and the IGC.

OTHER POINTS OF NOTE:

- Fund returns used are 'gross' of charges.
- Benchmark returns of indices are naturally gross of charges, and any peer group sector averages used as benchmarks have also been adjusted to be gross of charges, except where the impact was not material (less than 10% of a composite index).
- The comparator benchmarks for each fund have been captured from the fund management groups directly.
- The period chosen for comparison is three years, given this is the longest period most of the funds have available .
- Funds with less than one year history are excluded from the analysis.
- Funds with between one and three year history have been included via their quarterly scores being averaged, and the overall numbers being annualised.
- The performance data used has been sourced from Standard Life and Financial Express, and runs to the end of September 2018.

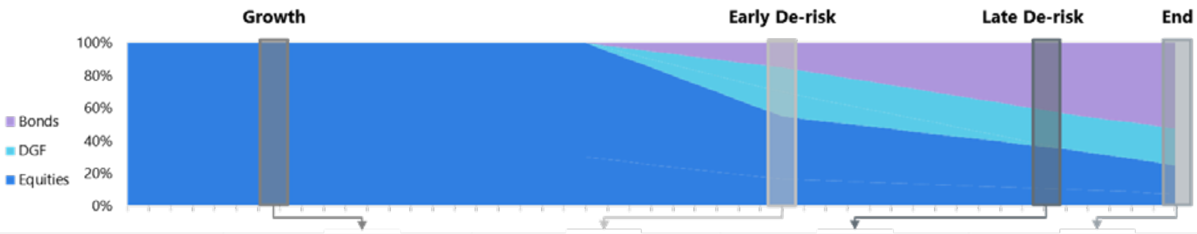
APPENDIX 11.3

DEFAULT STRATEGY METHODOLOGY

The strategy methodology adopted in 2017 and shown in the table below is that used for our last report. It is intended to reflect changes in default design and changes in member behaviour as to the timing and method of taking benefits.

Strategy design is evolving from the traditional single derisking phase typified by an annuity end point to more sophisticated multi-stage derisking paths more suited to those members choosing cash or drawdown rather than annuity end points, or electing to access their benefits prior to their Notional Retirement Date while continuing to work.

To reflect these developments, the IGC uses a methodology which test strategies at four points of the member journey as illustrated below:

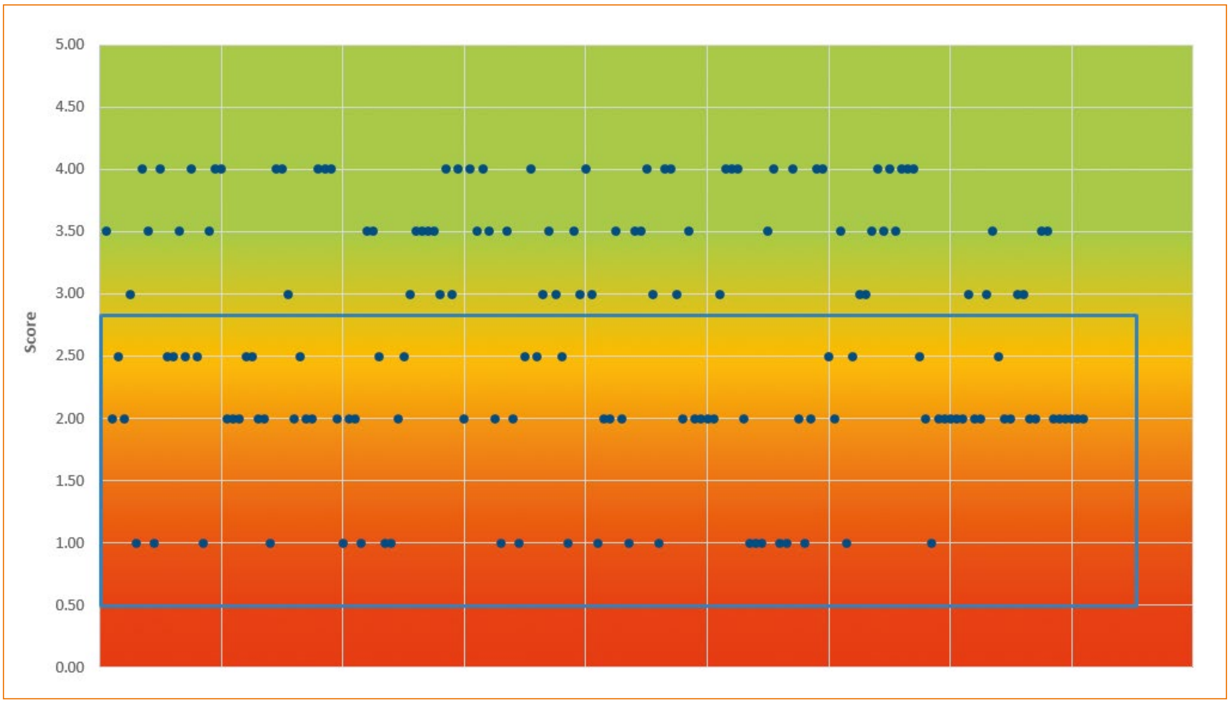


	Growth Slice	Early De-risking Slice	Late De-risking Slice	End Slice
Year of assessment	NRD - 30	NRD - 13	Middle of de-risking glidepath as determined by SL	NRD - 0
What is the objective that members are looking for?	Main concern is to grow DC pot size and continue to contribute into the scheme. Members can typically sustain relatively large drawdowns due to continued contributions, low pot size and long time period until money is taken out.	Propensity for members to access their pot early (age 55), therefore some downside risk management approaching this point appears to be appropriate. However, given that there is still c.20 years to NRD, investment returns remain important.	As members approach NRD, it is appropriate to de-risk as there is limited time and incoming contributions to make up losses if a significant drawdown is experienced.	Ensure that the investment strategy matches the chosen retirement option.
Therefore, what should be flagged by the framework?	Strategies that do not deliver sufficient returns in a risk (and cost) efficient manner.	Strategies that either do not manage the downside risk appropriately, or do not provide sufficient risk-adjusted returns.	Strategies that continue to run high investment risk as the member approaches NRD.	Strategies with terminal allocations that are not aligned to the member's desired retirement option.

Appendix 12
Redington Results for 2018

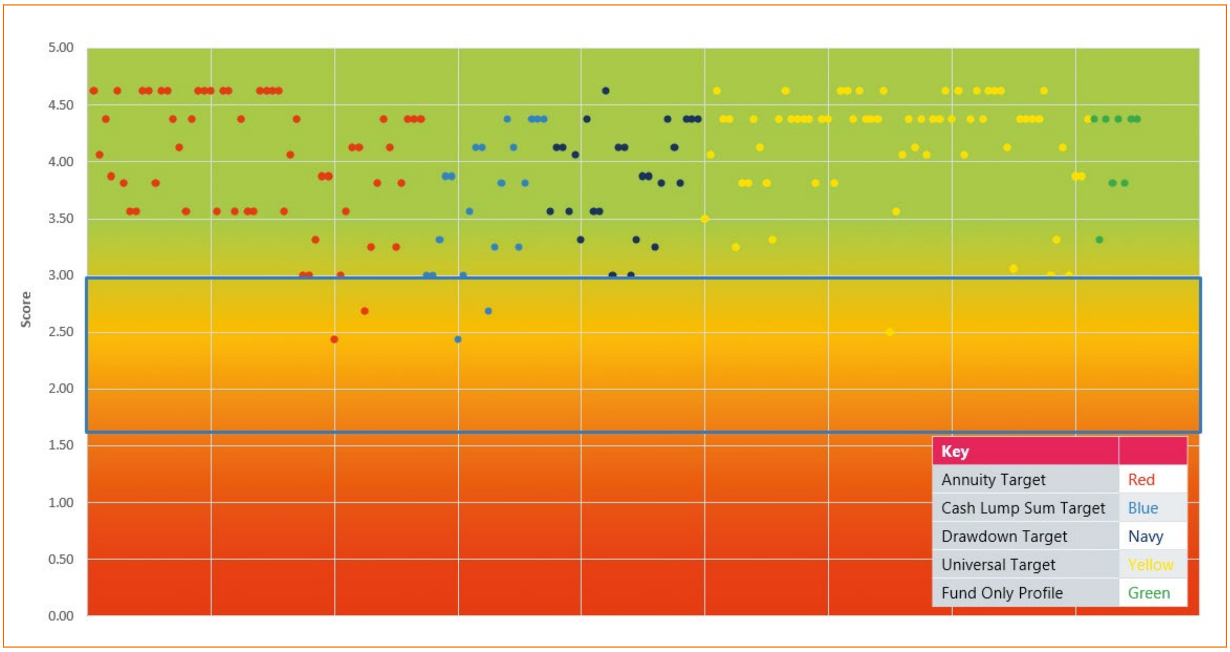
APPENDIX 12a

FUND ANALYSIS RESULTS



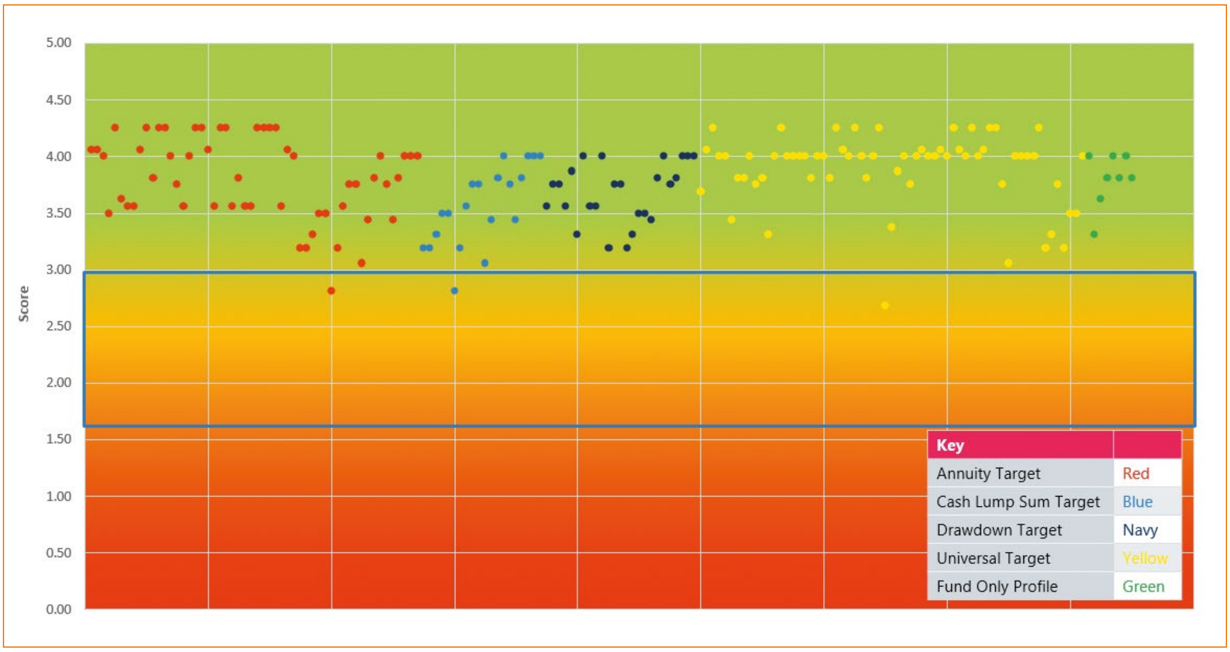
APPENDIX 12b

STRATEGY GROWTH PHASE RESULTS



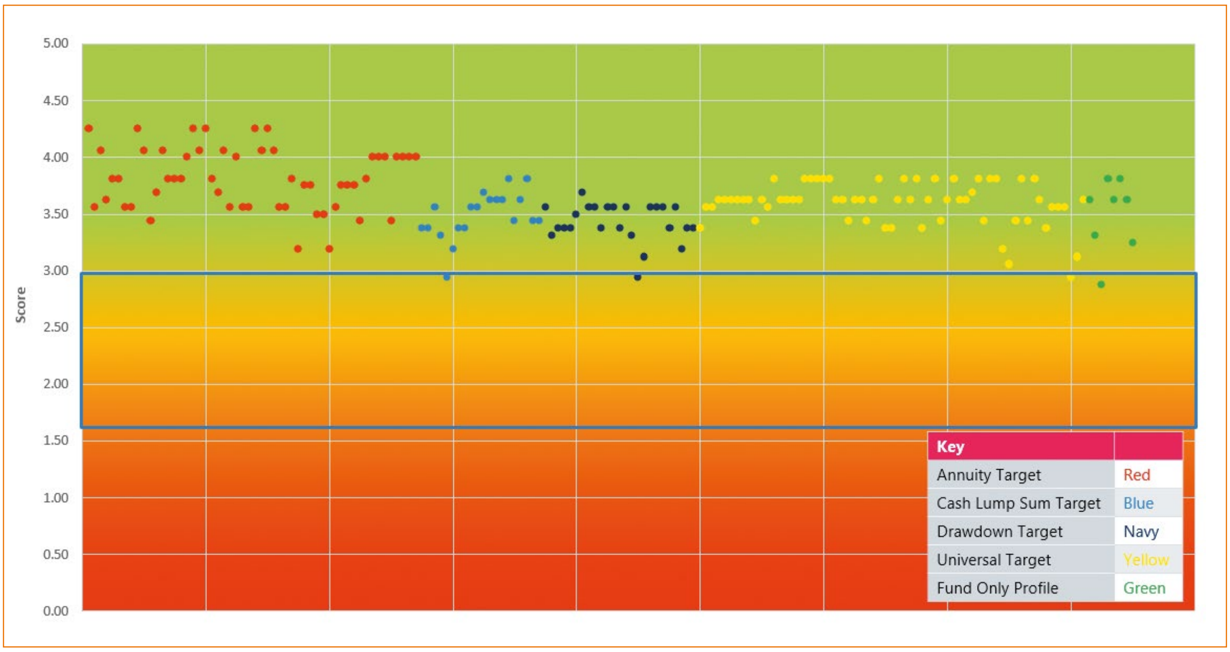
APPENDIX 12c

EARLY DERISKING PHASE RESULTS



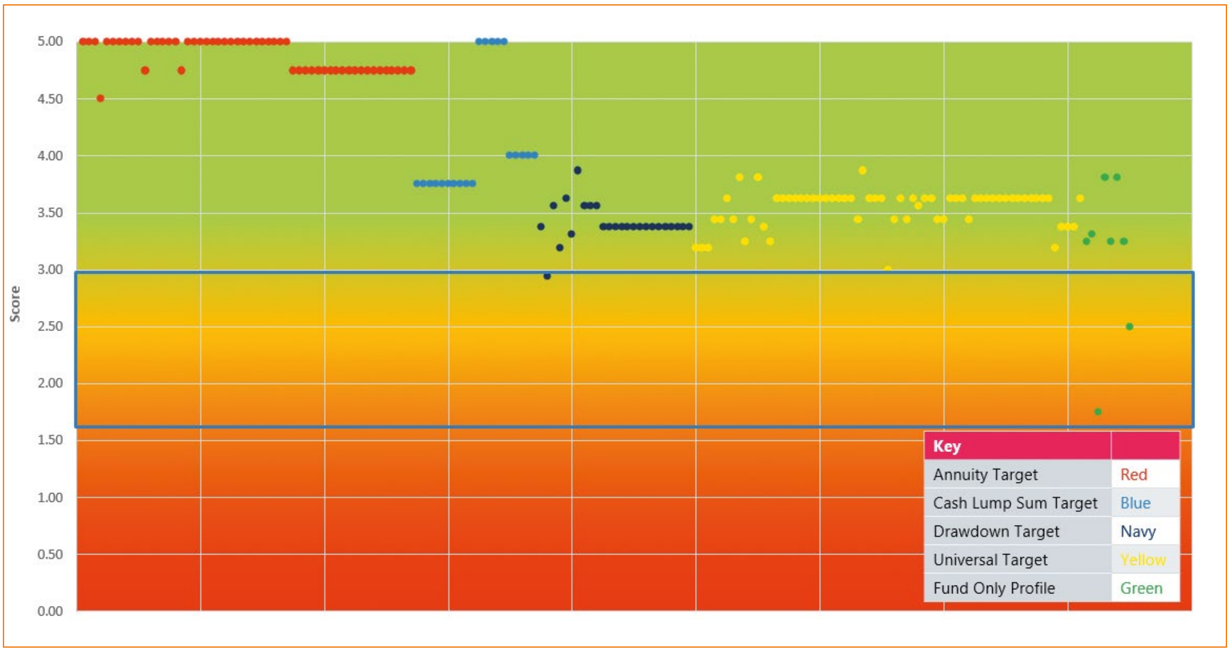
APPENDIX 12d

LATE DERISKING PHASE RESULTS



APPENDIX 12e

END POINT RESULTS



Appendix 13
Transaction Costs

The tables show transaction costs ("TC's") for the main growth funds used within the main Standard Life off the shelf Lifestyle strategies.

This information covers the one year period to 31st December 2018. The data includes the underlying External Fund Manager ("EFM") data where this is available in the marketplace.

TRANSACTION COSTS FOR MANAGED, ACTIVE PLUS III, PASSIVE PLUS III AND WITH PROFITS PENSION FUNDS

GENERAL PORTFOLIO INFORMATION

Fund Code	Fund Name	Fund Average NAV (£bn)	Aggregate Transaction costs (%)	Previous year(s) figures 2017 (2016)
FA	Standard Life Managed Pension Fund	£22.1bn	0.042	0.100 (0.121)
DDNA	Standard Life Active Plus III Pension Fund	£2.4bn	0.021	0.080 (0.178)
CCHD	Standard Life Passive Plus III Pension Fund	£3.5bn	-0.032	0.020 (0.159)
W1	Standard Life Pension With Profits Fund	N/A	0.061	N/A
W2	Standard Life Pension Inflation Plus Fund	N/A	0.000	N/A
W8	Standard Life Pension 2 With Profits 2 2006 Fund	N/A	0.125	N/A
WA	Standard Life Pension With Profits One Fund	N/A	0.125	N/A
WC	Standard Life Pension Millennium With Profits Fund	N/A	0.125	N/A
WJ	Standard Life Pension With Profits One 2006 Fund	N/A	0.125	N/A
WN	Standard Life Pension 2 With Profits 2 2006 Fund	N/A	0.125	N/A
WQ	Standard Life Pension Millennium With Profits 2006 Fund	N/A	0.125	N/A
AW	Stakeholder With Profits Fund	N/A	0.071	N/A
BO	Stakeholder With Profits 2006 Fund	N/A	0.076	N/A
AW	Corporate Stakeholder With Profits Fund	N/A	0.071	N/A
BO	Corporate Stakeholder With Profits 2006 Fund	N/A	0.076	N/A

TRANSACTION COST BREAKDOWN

Fund Code	% Not obtained	Buy and sell TC's (%)	Lending and borrowing TC's (%)	Explicit transaction taxes (%)	Explicit fees and charges (%)	Implicit costs (%)	Indirect TC's (%)	Anti-dilution offset (%)	Securities lending and borrowing costs (%)
FA	0.00	0.042	0.000	0.000	0.000	-0.019	0.061	0.000	0.000
DDNA	7.34	0.021	0.000	0.000	0.000	-0.063	0.084	0.000	0.000
CCHD	74.98	-0.032	0.000	0.000	0.000	-0.024	-0.008	0.000	0.000
W1	0.00	0.061	0.000	0.000	0.000	0.033	0.028	0.000	0.000
W2	0.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
W8	0.00	0.125	0.000	0.000	0.000	0.054	0.071	0.000	0.000
WA	0.00	0.125	0.000	0.000	0.000	0.054	0.071	0.000	0.000
WC	0.00	0.125	0.000	0.000	0.000	0.054	0.071	0.000	0.000
WJ	0.00	0.125	0.000	0.000	0.000	0.054	0.071	0.000	0.000
WN	0.00	0.125	0.000	0.000	0.000	0.054	0.071	0.000	0.000
WQ	0.00	0.125	0.000	0.000	0.000	0.054	0.071	0.000	0.000
AW	0.00	0.071	0.000	0.000	0.000	0.003	0.068	0.000	0.000
BO	0.00	0.076	0.000	0.000	0.000	0.008	0.068	0.000	0.000

Notes:
1. Data provided by Aberdeen Standard Investments, from 1st Jan 2018 to 31st Dec 2018.
2. For all funds shown the portfolio issuer name is Standard Life Assurance Limited.
3. 'Administration charges' are shown within product literature, and are included within a bundled Total Annual Fund Charge (TAFC).
4. The regulations require an "arrival price" which is central to the calculation of "slippage" cost. This information will be phased into the calculations throughout early 2019. This applies to direct asset classes and external funds only. Where a fund is purchasing/selling an internal SL group fund, the underlying funds mid-price on the date of transaction is considered to be the 'arrival price'. The mid-price is compared to the execution * trade consideration to provide an implicit transaction cost. The provision of data from external fund managers via FVPT will allow this calculation to be carried out on purchases/sales of underlying EFM funds.
5. As implicit transaction costs are not being reflected in the calculation, anti-dilution recovery values will not be deducted from the transaction cost. Anti-dilution recovery has both an explicit and implicit component in the spread.
6. Across the range of funds reported, data was available for all underlying funds managed entirely by Aberdeen Standard Investments. Data was also available for a significant number of underlying funds managed by external fund managers across the range. However fund data was unavailable at the time of printing for a number of external funds including Vanguard who provide a significant proportion of the Passive Plus range. Where data was unavailable, no data was used in calculation and such gaps have been left unfilled.
7. For fund CCHD the negative TC value is a result of buying/selling the underlying funds. The mid-price to execution spread has resulted in a negative cost – i.e. the underlying fund has been swung on a bid basis, the fund had a greater weighting of buys at the bid basis.
8. The lack of PS17/20 compliant data from external fund managers has meant the Passive Plus III, and to a much lesser extent the Active Plus III, Pension Funds data is potentially understated.
9. With Profits funds are based on a pooling concept whereby all of the assets of the Heritage With Profits Fund can be used to meet the liabilities of the Fund. The transaction cost we have disclosed for our With Profits customers is based on the notional fund to which they are allocated based on the level of guarantee within their policy. As this allocation is on a notional basis it means the total NAV of the allocated assets is not directly applicable to individual policies.

2018 MANAGED PENSION FUND

GENERAL PORTFOLIO INFORMATION

Fund Code	Fund Name	Fund Average NAV (£bn) (Weight %)	**Aggregate Transaction costs (%)**
FA	Standard Life Managed Pension Fund	£22.1bn	**0.042**
AAGE	European Equity (managed funds) internal asset fund	13.8%	**0.059**
DDFK	North American Equity (managed funds) internal asset fund	17.5%	**0.029**
EEGK	UK Equity (managed funds) internal asset fund	25.7%	**0.159**
FC	Standard Life UK Smaller Companies Pension Fund	0.8%	**0.084**
FJ	Standard Life Japanese Equity Pension Fund	6.1%	**0.069**
G9	Standard Life Global Bond Pension Fund	8.2%	**0.011**
GM	Standard Life Managed Pension Asset Fund	14.0%	**-0.023**
GW	Standard Life Pooled Property 2 Pension Fund	0.5%	**0.079**
HD	Standard Life UK Gilt Pension Fund	3.0%	**0.011**
HH	Standard Life Corporate Bond Pension Fund	4.4%	**0.001**
HL	Standard Life Emerging Markets Pension Fund	3.3%	**0.053**
HS	Standard Life Pooled Property Pension Fund	1.3%	**0.059**
KMBA	Standard Life Active Higher Interest Pension Fund	0.8%	**0.000**
RQ	SL SLI UK Equity Unconstrained Pension Fund	0.4%	**0.320**

TRANSACTION COST BREAKDOWN

Fund Code	% Not obtained	Buy and sell TC's (%)	Lending and borrowing TC's (%)	Explicit transaction taxes (%)	Explicit fees and charges (%)	Implicit costs (%)	Indirect TC's (%)	Anti-dilution offset (%)	Securities lending and borrowing costs (%)
FA	0.00	0.042	0.000	0.000	0.000	-0.019	0.061	0.000	0.000
AAGE	0.00	0.059	0.000	0.017	0.042	0.000	0.000	0.000	0.000
DDFK	0.00	0.029	0.000	0.000	0.029	0.000	0.000	0.000	0.000
EEGK	0.00	0.159	0.000	0.127	0.033	0.000	0.000	0.000	0.000
FC	0.00	0.084	0.000	0.044	0.040	0.000	0.000	0.000	0.000
FJ	0.00	0.069	0.000	0.000	0.062	0.001	0.006	0.000	0.000
G9	0.00	0.011	0.000	0.000	0.011	0.000	0.000	0.000	0.000
GM	0.00	-0.023	0.000	0.005	0.013	-0.051	0.010	0.000	0.000
GW	0.00	0.079	0.000	0.019	0.060	0.000	0.000	0.000	0.000
HD	0.00	0.011	0.000	0.000	0.011	0.000	0.000	0.000	0.000
HH	0.00	0.001	0.000	0.000	0.000	0.001	0.000	0.000	0.000
HL	0.00	0.053	0.000	0.004	0.024	0.000	0.026	0.000	0.000
HS	0.00	0.059	0.000	0.011	0.048	0.000	0.000	0.000	0.000
KMBA	0.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
RQ	0.00	0.320	0.000	0.000	0.000	0.055	0.265	0.000	0.000

2018 ACTIVE PLUS III PENSION FUND

GENERAL PORTFOLIO INFORMATION

Fund Code	Fund Name	Fund Average NAV (£bn) (Weight %)	**Aggregate Transaction costs (%)**
DDNA	Standard Life Active Plus III Pension Fund	£2.4bn	**0.021**
2I	SL SLI Global Absolute Return Strategies Pension Fund	14.4%	**0.245**
AAGE	European Equity (managed funds) internal asset fund	5.7%	**0.059**
AAJP	SL Global Property Securities Asset Fund	3.9%	**0.000**
BBKL	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	3.4%	**0.000**
DDCK	SL SLI Global High Yield Bond Pension Fund	3.7%	**-0.507**
DDFK	North American Equity (managed funds) internal asset fund	12.7%	**0.029**
EEGK	UK Equity (managed funds) internal asset fund	14.0%	**0.159**
FC	Standard Life UK Smaller Companies Pension Fund	0.2%	**0.084**
FJ	Standard Life Japanese Equity Pension Fund	4.4%	**0.069**
FY	Standard Life Asia Pacific ex Japan Equity Pension Fund	3.7%	**0.057**
GS	Standard Life Money Market Pension Fund	1.8%	**0.000**
HD	Standard Life UK Gilt Pension Fund	7.0%	**0.011**
HH	Standard Life Corporate Bond Pension Fund	4.0%	**0.001**
HL	Standard Life Emerging Markets Pension Fund	3.9%	**0.053**
HS	Standard Life Pooled Property Pension Fund	6.4%	**0.059**
JO	Standard Life UK Fixed Interest Plus Pension Fund	7.8%	**0.181**
MMKJ	SL Global Short Duration Corporate Bond Asset Fund	2.8%	**0.420**

TRANSACTION COST BREAKDOWN

Fund Code	% Not obtained	Buy and sell TC's (%)	Lending and borrowing TC's (%)	Explicit transaction taxes (%)	Explicit fees and charges (%)	Implicit costs (%)	Indirect TC's (%)	Anti-dilution offset (%)	Securities lending and borrowing costs (%)
DDNA	7.34	0.021	0.000	0.000	0.000	-0.063	0.084	0.000	0.000
2I	0.00	0.245	0.000	0.000	0.000	0.189	0.056	0.000	0.000
AAGE	0.00	0.059	0.000	0.017	0.042	0.000	0.000	0.000	0.000
AAJP	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
BBKL	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
DDCK	0.00	-0.507	0.000	0.000	0.000	-0.507	0.000	0.000	0.000
DDFK	0.00	0.029	0.000	0.000	0.029	0.000	0.000	0.000	0.000
EEGK	0.00	0.159	0.000	0.127	0.033	0.000	0.000	0.000	0.000
FC	0.00	0.084	0.000	0.044	0.040	0.000	0.000	0.000	0.000
FJ	0.00	0.069	0.000	0.000	0.062	0.001	0.006	0.000	0.000
FY	0.00	0.057	0.000	0.000	0.000	0.024	0.032	0.000	0.000
GS	0.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
HD	0.00	0.011	0.000	0.000	0.011	0.000	0.000	0.000	0.000
HH	0.01	0.001	0.000	0.000	0.000	0.001	0.000	0.000	0.000
HL	0.00	0.053	0.000	0.004	0.024	0.000	0.026	0.000	0.000
HS	0.00	0.059	0.000	0.011	0.048	0.000	0.000	0.000	0.000
JO	0.00	0.181	0.000	0.000	0.000	0.179	0.002	0.000	0.000
MMKJ	0.00	0.420	0.000	0.000	0.000	0.303	0.117	0.000	0.000

2018 PASSIVE PLUS III PENSION FUND

GENERAL PORTFOLIO INFORMATION

Fund Code	Fund Name	Fund Average NAV (£bn) (Weight %)	**Aggregate Transaction costs (%)**
CCHD	Standard Life Passive Plus III Pension Fund	£3.5bn	-0.032
AABD	SL Vanguard Global Corporate Bond Index Pension Fund	8.0%	0.000
AAJP	SL Global Property Securities Asset Fund	2.0%	0.000
BBKL	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	5.3%	0.000
BFAD	SL Vanguard Emerging Markets Stock Index Pension Fund	3.2%	0.000
BFAE	SL Vanguard UK Investment Grade Bond Index Pension Fund	5.3%	0.000
BFAJ	SL Vanguard FTSE Developed Europe ex UK Pension Fund	5.7%	0.000
BFCK	SL Vanguard FTSE UK All Share Index Pension Fund	14.6%	0.000
BFDG	SL Vanguard Pacific ex Japan Stock Index Pension Fund	3.3%	0.000
DDCK	SL SLI Global High Yield Bond Pension Fund	2.2%	-0.507
FM	Standard Life Property Pension Fund	6.3%	0.165
GGMJ	SL Vanguard US Equity Pension Fund	13.2%	0.000
GS	Standard Life Money Market Pension Fund	2.5%	0.000
HKNM	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	2.6%	0.000
KKHC	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	14.1%	-0.048
NNNG	SL Vanguard UK Government Bond Index Pension Fund	7.4%	0.000
NNPG	SL Vanguard Japan Stock Index Pension Fund	4.1%	0.000

TRANSACTION COST BREAKDOWN

Fund Code	% Not obtained	Buy and sell TC's (%)	Lending and borrowing TC's (%)	Explicit transaction taxes (%)	Explicit fees and charges (%)	Implicit costs (%)	Indirect TC's (%)	Anti-dilution offset (%)	Securities lending and borrowing costs (%)
CCHD	74.98	-0.032	0.000	0.000	0.000	-0.024	-0.008	0.000	0.000
AABD	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
AAJP	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
BBKL	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
BFAD	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
BFAE	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
BFAJ	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
BFCK	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
BFDG	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
DDCK	0.00	-0.507	0.000	0.000	0.000	-0.507	0.000	0.000	0.000
FM	0.00	0.165	0.000	0.000	0.000	0.105	0.061	0.000	0.000
GGMJ	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
GS	0.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
HKNM	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
KKHC	0.00	-0.048	0.000	0.000	0.000	-0.106	0.058	0.000	0.000
NNNG	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NNPG	100.00	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Notes:

1. Data provided by Aberdeen Standard Investments, from 1st Jan 2018 to 31st Dec 2018.
2. For all funds shown the portfolio issuer name is Standard Life Assurance Limited.
3. 'Administration charges' are shown within product literature, and are included within a bundled Total Annual Fund Charge (TAFC).
4. The regulations require an "arrival price" which is central to the calculation of "slippage" cost. This information will be phased into the calculations throughout early 2019. This applies to direct asset classes and external funds only. Where a fund is purchasing/selling an internal SL group fund, the underlying funds mid-price on the date of transaction is considered to be the 'arrival price'. The mid-price is compared to the execution * trade consideration to provide an implicit transaction cost. The provision of data from external fund managers via FVPT will allow this calculation to be carried out on purchases/sales of underlying EFM funds.
5. As implicit transaction costs are not being reflected in the calculation, anti-dilution recovery values will not be deducted from the transaction cost. Anti-dilution recovery has both an explicit and implicit component in the spread.
6. Across the range of funds reported, data was available for all underlying funds managed entirely by Aberdeen Standard Investments. Data was also available for a significant number of underlying funds managed by external fund managers across the range. However fund data was unavailable at the time of printing for a number of external funds including Vanguard who provide a significant proportion of the Passive Plus range. Where data was unavailable, no data was used in calculation and such gaps have been left unfilled.
7. For fund CCHD the negative TC value is a result of buying/selling the underlying funds. The mid-price to execution spread has resulted in a negative cost – i.e. the underlying fund has been swung on a bid basis, the fund had a greater weighting of buys at the bid basis.
8. The lack of PS17/20 compliant data from external fund managers has meant the Passive Plus III, and to a much lesser extent the Active Plus III, Pension Funds data is potentially understated.

Appendix 14
Value for Money Matrix

As in previous years, an assessment of Standard Life's capability and performance in each of the categories outlined in the table below was undertaken by the IGC for each of Standard Life's newer-style and legacy products.

A score of 0 - 3 was allocated to each category feature based on the evidence provided by Standard Life and individual IGC policyholders' knowledge of the workplace market. The scoring criteria were as follows:

0	NOT OFFERED
1	BASIC STANDARD
2	BEYOND BASIC
3	AREA OF STRENGTH

The scores for each category were weighted to reflect the IGC's view of the relative importance to the outcomes experienced by policyholders. As in previous year's assessments, the weightings allocated were 20% each for Service Quality, Risk Management (Operational and Financial) and Relevance (Member Engagement) with a 40% weighting given to Investment Quality.

As in our 2017/18 report, the scores under the section on Investment Quality section were informed by the outputs from the Redington VFM model described elsewhere in this report.

Based on this scoring methodology, Standard Life's products were scored between 7.0 and 7.3 out of 10. These scores were then compared with the plan charges incurred by policyholders as part of the VFM assessment.

In general, scores have deteriorated across the range of available workplace products versus the scores for 2017/18. This is primarily due to the low scores awarded in the assessment of Investment Quality, particularly in relation to the performance of the core default funds which are deployed across the product range.

Category	Tested feature
Service quality	Responsiveness to customer demand
	Relevant Experience and expertise of staff
	Easy access to phone support
	Easy access to online support (webchat etc.)
	Clarity of customer communications
	Efficiency and scalability of operational capability
	Quality and speed of processing of core financial transactions
	Level of automation/straight through processing
	Ease of transfer by an individual to another provider
	Ease with which customers can contact via different channels
	Member satisfaction
	Complaints Handling
Risk management (operational and financial)	Management of operational risk and controls
	Security of IT systems and controls
	Financial strength and stability
	Customer protection - covered by Financial Services Compensation Scheme plus other steps
	Independent assurance of provider controls
	Control Framework to minimise risk of product failings leading to poor customer outcomes
	Preventative measures to avoid pension scams
Relevance (member engagement)	Quality of retirement roadshows
	Availability of Workplace seminars
	Quality, access and relevance of digital experience
	Clarity of yearly statements
	Quality of education and support materials
	Ability to view pension plan on-line
	Ability to contribute / transact on-line
	Availability of choices at retirement
	Ease of access to retirement freedoms
	Access to guidance
	Relevance of customer messaging
	Member Satisfaction
Investment quality	Default investment strategies are designed and executed in the interests of members
	Performance of default funds (net of charges) - risk adjusted
	Performance of default funds (net of charges) - to stated goals
	Performance of default funds (net of charges) - relative to peers
	Performance of default funds (net of charges) - relative to cash (over medium term)
	Clarity of description of default funds
	Suitability of default funds
	Regularity and quality of default fund reviews
	Adaptability of default funds to changing circumstances
	Range and suitability of additional fund choices
	Ease of access to additional fund options
	Fund governance

Appendix 15
FCA's Conduct of Business Rule Requirements

In its Conduct of Business rules ("COBS") 19.5.5 2(a) to 2(e) the FCA identifies five elements that IGCs should consider in evaluating value for money:

(a) That the default investment strategies are designed and executed in the interests of relevant policyholders and that default fund investments have clear statements of aims and objectives;

(b) Whether the provider:

  (i) Regularly reviews the characteristics and net performance of investment strategies, to ensure these align with the interests of relevant policyholders, and,

  (ii) Is taking, or has taken, action to make changes that the provider or the IGC considers necessary;

(c) That 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 relevant policyholders' pension savings, including transaction costs.

NOTES

NOTES

NOTES

NOTES