



Prudential Independent
Governance Committee's
Report 2022

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Summary



Bruce Rigby, Independent Chair

“2021 was a year of significant challenges but also reassuring comparisons.”

Summary

COVID-19 continued to impact all of our lives in 2021 whether it be at home, at work or in the economy generally.

Investment markets were generally strong and over 2021, the Prudential Dynamic Growth IV fund in which most members are invested grew by 7.4%, and by an average of 7.1% per annum over the last 5 years. The second most popular fund, With Profits, grew by 6.3% last year, and by an average of 5.1% per annum over the last 5 years.

Charges are another important factor in assessing Value for Money and you can access the charges that apply to your scheme by going to the IGC’s page of the [Prudential website](#).

The third area of scrutiny when assessing Value for Money is service levels. Although financial transactions have been processed promptly in the vast majority of cases, Prudential has continued to experience some significant servicing issues. In general, service standards have improved but are still not at the desired levels. This has been particularly true for call handling where ongoing staffing issues have led to unacceptable waiting times. The IGC has been closely monitoring the situation and has challenged Prudential robustly on its remediation plans.

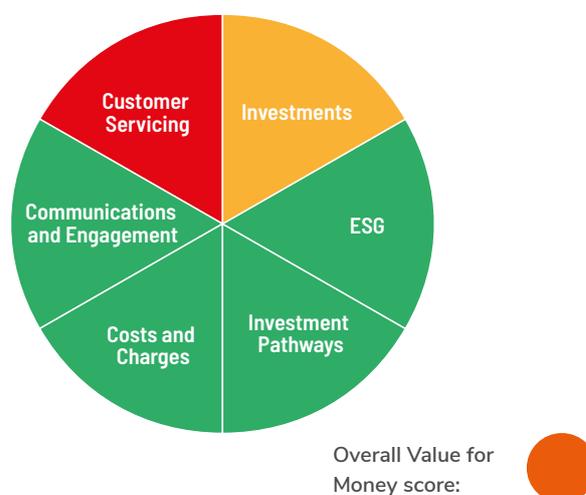
The IGC also continued with its ongoing participation in the industry wide syndicated benchmarking which is designed to compare and contrast provider offerings. This provided the IGC with a good comparison against a significant portion of the market in 2021 across the 3 areas described above,

highlighting relative strengths and weaknesses of each provider. Results were broadly positive for Prudential in investment and costs/charges but predictably less so for customer servicing.

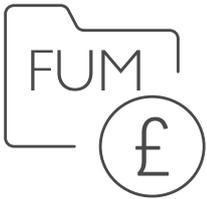
Overall, the IGC judges that you continue to receive Value for Money from your Pension. If you have any questions after you read this report, please leave us your [feedback](#).

Bruce Rigby
Chair, Independent Governance Committee

IGC’s VFM Framework and Scores for 2021



Members Under IGC Review



£5.63bn

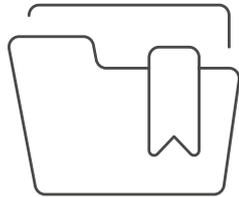


190k

Customers

(52% are using a default strategy)

234k



Policies

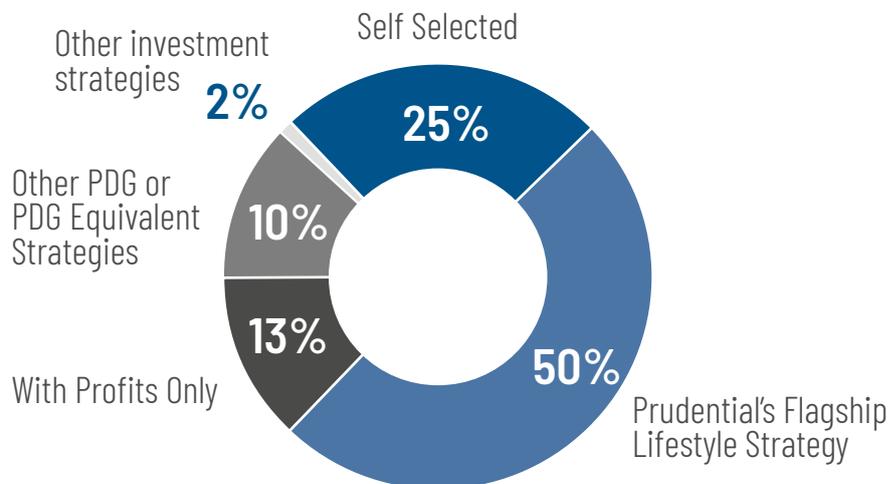


£1.24bn

Total FUM for active members

(14% of our members make regular contributions)

Where our members are invested:



1. Chairman's Introduction

Once again, the IGC relied on virtual meetings during 2021 due to the impact of the ongoing pandemic. However, we met on 8 occasions, either to cover the full range of IGC issues or to consider in more depth specific topics such as investment strategy, the company's business strategy, servicing issues and the industry benchmarking work. All members of the IGC played a full and active part, and I would like to thank them for their support and commitment. Biographies of the IGC members can be found [here](#).

I would also like to thank the company and its staff who have helped and supported us through the year. Despite some difficult topics, the IGC has felt that the company seeks to constructively engage with us and does not seek to "sugarcoat" any of the messages.

To monitor all of the above, during the year, the IGC split its work over a number of key work streams, each led by one of the Committee's members. These work streams are described in more detail in the following sections.

The key areas on which the IGC focuses in assessing value for money for members are investment strategy and performance, costs and charges, scheme administration and communications. For each fund in which members invest, we monitor whether:

- Rolling 5-year net investment performance exceeds Consumer Price Inflation (CPI)
- Investment strategy for default funds is appropriate
- Annual management charges for default funds are within the charge cap
- Direct and indirect costs including transaction costs are appropriate
- Core scheme financial transactions are processed promptly and accurately
- Administration service levels meet expectations
- Member engagement and communications are fit-for-purpose

2. Investments
3. Environmental, Social & Governance (ESG)
4. Costs & Charges
5. Communications and Engagement
6. Customer servicing & Governance
7. Investment Pathways
8. Plans for 2022

2. Investments



Mary Kerrigan, Independent Member

Overall rating: Amber



“Many of the funds have underperformed versus the market over the year to 31 December. However, over 3 and 5 year periods, most investments have performed relatively well against their targets and industry comparisons.”

2.1 Continuation of assessment framework adopted during 2020

During 2021, the IGC continued with the investment performance assessment framework introduced during 2020. As well as looking at performance relative to the Consumer Price Index (CPI), we also look at performance relative to industry benchmarks, taking into account the level of investment risk taken in portfolios and the amount of fees charged.

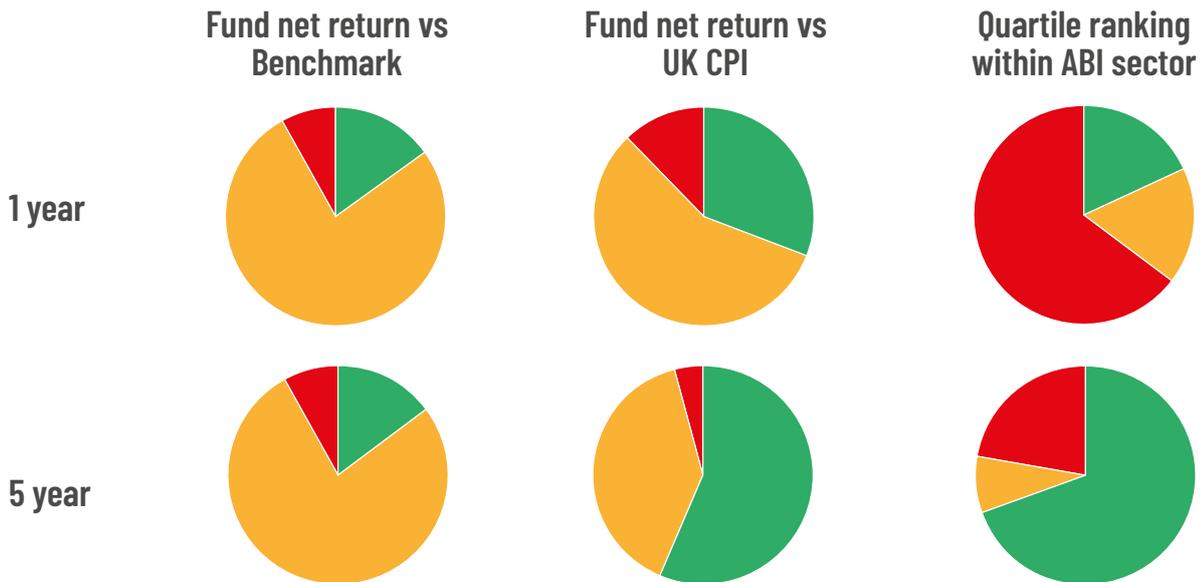
The performance metrics analysed over a 1, 3 and 5 year period are:

- Fund net return vs benchmark
- Tracking error vs benchmark
- Net information ratio
- Client share of outperformance
- Fund net return vs UK CPI
- Quartile ranking within ABI sector.

The IGC assign a RAG rating to each of these performance metrics in order to clearly highlight whether there are any material issues, concerns or major concerns in relation to each fund being assessed.

2.2 Overall investment performance

A summary of the key investment performance criteria for the 1-year and 5-year periods to 31 December 2021 is set out in the pie charts below. Most of the assets were invested in funds which met our key criteria over the 5-year period. However, performance over the 1-year period was disappointing relative to fund benchmarks and the industry. A number of equity funds were impacted by the value style investment approach employed in managing the funds. This approach to investment has underperformed generally in recent years.



Note: These investment performance charts are an aggregated assessment of all funds available to IGC members, rated by % of assets under management (AUM). The rating can differ depending on which asset class the fund belongs to. Full details on the RAG rating (colours applied) for each of these three performance metrics (vs benchmark, vs UK CPI and within ABI sector) can be found in Appendix 1.

The IGC will continue to monitor the overall style exposure of the key default funds and to challenge the company, where necessary. It is pleasing and reassuring to note that the value style has produced much better returns in 2022.

2.3 Investment performance of the main funds used in default strategies

The IGC's key concern is that the default funds retain value as a minimum. We would ideally like to see additional growth of 3% above inflation per year after charges. However, with the current market outlook for different asset classes, this has become a challenging target, at least on a short term basis.

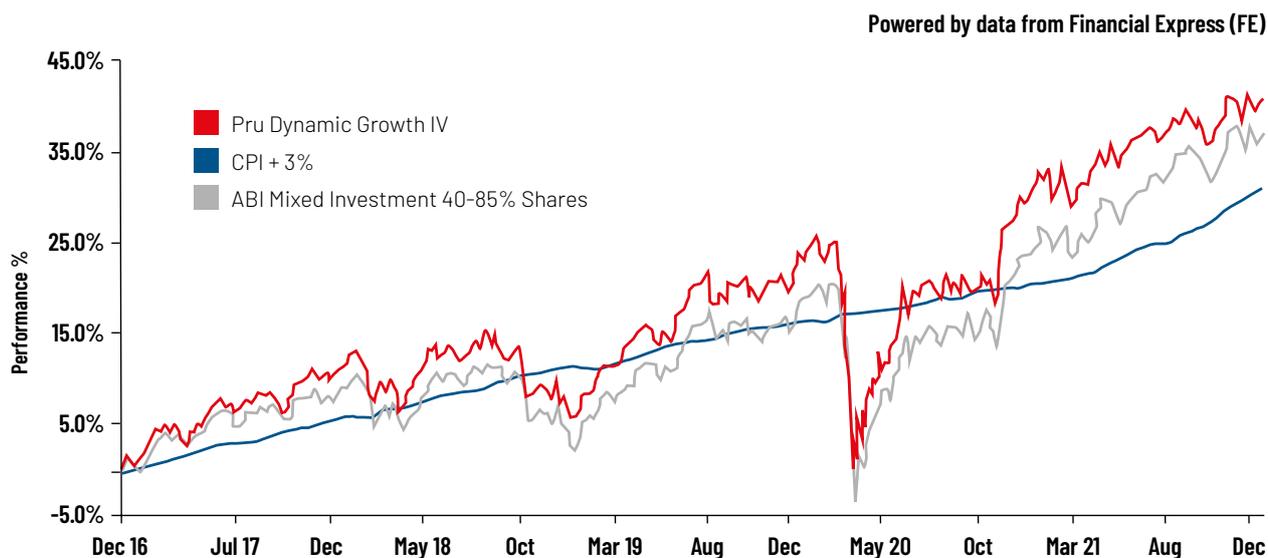
Prudential's default lifestyle strategy – Prudential Dynamic Growth IV – Targeting Retirement Options – uses three different funds as building blocks:

1. Prudential Dynamic Growth Fund IV (PDGIV)
2. Prudential Dynamic Growth Fund II (PDGII)
3. Prudential Cash Fund

Prudential Dynamic Growth IV (PDGIV) grew by 7.4% (gross of charges) during the year to December 2021 and has grown at an average annual rate of 9.8% (gross) over the last three years and 7.1% (gross) over the last five years.

Consequently, over 3 and 5 years, performance for the flagship default fund is above the industry median for these type of funds and is also in excess of the IGC's baseline value for money benchmark of 3% more than inflation. However over 1 year, performance has only been 1.5% in excess of inflation and has been lower than the industry median. The chart below shows performance over the last 5 years.

5 year Gross Performance of Prudential's Dynamic Growth Fund IV



Prudential Dynamic Growth II (PDGII) is less exposed to risk assets and is also used in the default glide path. This fund grew in value by 3.2% (gross) during 2021, below inflation (CPI) at 5.4%. Over the longer term of five years, annualised performance was 6.0% (gross) per year and average inflation was at 2.5%, so real growth of 3.5% per year was achieved, meeting the IGC's long-term objective.

Some members in the Scottish Amicable schemes use the Prudential Managed Pension Fund as their growth fund within the default lifestyle strategy. This fund experienced growth of 10.6% (gross) in 2021 when average inflation was at 5.4%. It has seen average growth of 6.2% (gross) per year over the last five years, again meeting the IGC's long term objective.

The table below shows the performance of the funds within the largest default lifestyle strategies for the period to 31 December 2021. In general, 1-year returns have been weaker than 5-year returns, with many of the underperforming funds impacted by Prudential's value style investment approach.

Fund name	AUM (£m)	1 year (ann.)		5 year (ann.)	
		Net Performance vs Benchmark	ABI ranking	Net Performance vs Benchmark	ABI ranking
Prudential Dynamic Growth IV S3	1962.0	-0.2	4	0.6	2
Prudential Managed Ser A	390.0	-0.6	3	-1.1	4
Prudential Dynamic Growth II S3	363.9	-0.4	4	0.9	1
Prudential Managed Pre A	217.1	-0.6	3	-1.2	4
Prudential UK Equity Ser A	205.0	1.8	2	-0.1	3
Prudential Discretionary S3	175.2	2.1	1	0.0	2
Prudential International Ser A	153.1	-7.1	4	-5.7	4

The Prudential International Series A fund was rated red for 2021 and also over the longer 5 year term.

Given this ongoing red rating the IGC requested that a deeper analysis of the International Fund be provided. Further focus meetings were held during 2021 and early in 2022 to examine M&G's investment philosophy (including value-based decisions taken at the time the fund was created) and the performance of the underlying managers. In particular, the approach adopted in US equities has hurt performance, and during 2021, manager changes were made. In addition, we were informed that the future strategy will be to adopt a more balanced approach to style exposure in all equity markets.

The IGC has also challenged Prudential to provide regular updates on the key default funds, Prudential Dynamic Growth II and Prudential Dynamic Growth IV, in order to allow the Committee to continue to monitor the actions taken on underperforming investments. Additionally these updates will allow the Committee to understand what changes are being made to address underperformance and to see whether or not actions taken then make the anticipated difference.

2.4 With Profits

Over £1 billion of workplace pension funds are invested in the With-Profits Fund. It is designed to be more resilient in turbulent markets and returned 6.3% (net) during 2021. The longer-term results are also strong, averaging growth of 6.2% (net) per annum over 3 years and 5.1% over 5 years.

2.5 Investment strategy for default funds

As part of its ongoing monitoring, the IGC carries out regular reviews of the main default lifestyle strategies. The methodology used to conduct these reviews focuses on four key customer outcomes: right solution, clear, timely and relevant information, good value and trusted provider. A number of these reviews are due to take place during 2022, specifically looking at strategic asset allocation, and how it changes as a member approaches retirement.

The benchmarking study mentioned earlier also provided an assessment of investment strategy and performance of the key default funds relative to a number of comparators in the industry. The overall conclusion was that the funds compared favourably relative to the peer group, although it was noted that a more frequent review of strategic asset allocation for the default funds would be more in line with comparators. This is something which the IGC plan to address with the company during 2022.

3. Environmental, Social and Governance (ESG)



John Nestor, Independent Member

“Positive activity during 2021 allowed the IGCs ESG framework to evolve further”

Overall rating: Green



During 2021, Environmental, Social & Governance (ESG) issues continued to be in critical focus for the IGC. As in 2020, the IGC has been asked by the Financial Conduct Authority (FCA) to comment on ESG policies and practices, stewardship and how the IGC takes account of the concerns of members.

3.1 ESG Insight

During 2021, the IGC continued to receive in-depth ESG presentations, progress updates and further evidence of the deployment of the policies and processes of those organisations which manage the investments of our customers. The involvement of the company’s senior management in championing all aspects relating to ESG continues to be very evident to the IGC.

The approaches to ESG policies in the 2020s do not only seek to exclude investing in companies with certain negative criteria, but rather consider a range of different issues on how a company is governed, its employment practices and how its activities may be contributing to, or affected by, issues like climate change. Investment managers now seek to engage with management and companies to drive positive changes in corporate behaviour.

3.2 ESG Beliefs and Framework

The IGC holds three core beliefs in relation to ESG:

1) That ESG financial considerations should not simply be a measure that is assessed after the fact but should be fully embedded within the management of the in-scope propositions.

2) That active engagement with companies by investment managers is necessary to drive change and encourage better ESG practices.

3) That the IGC and Prudential’s ESG and Stewardship policies should be appropriate to the needs of our customers.

The IGC is required to both consider and report on the appropriateness and quality of the Prudential’s ESG policies and Stewardship activities. The IGC continues to largely focus upon three key areas:

Environment/Climate

- Greenhouse gas emissions
- Investment exposure to fossil fuel reserves
- Business activity screens to show exposure to the most carbon intensive activity
- How the company’s management is preparing for climate related issues
- How the company’s carbon reduction target compares versus a sector benchmark

Social impact

The IGC will examine data on:

- Biodiversity and Natural Capital
- Human Rights and Labour Standards
- Board effectiveness
- Corporate diversity

Stewardship

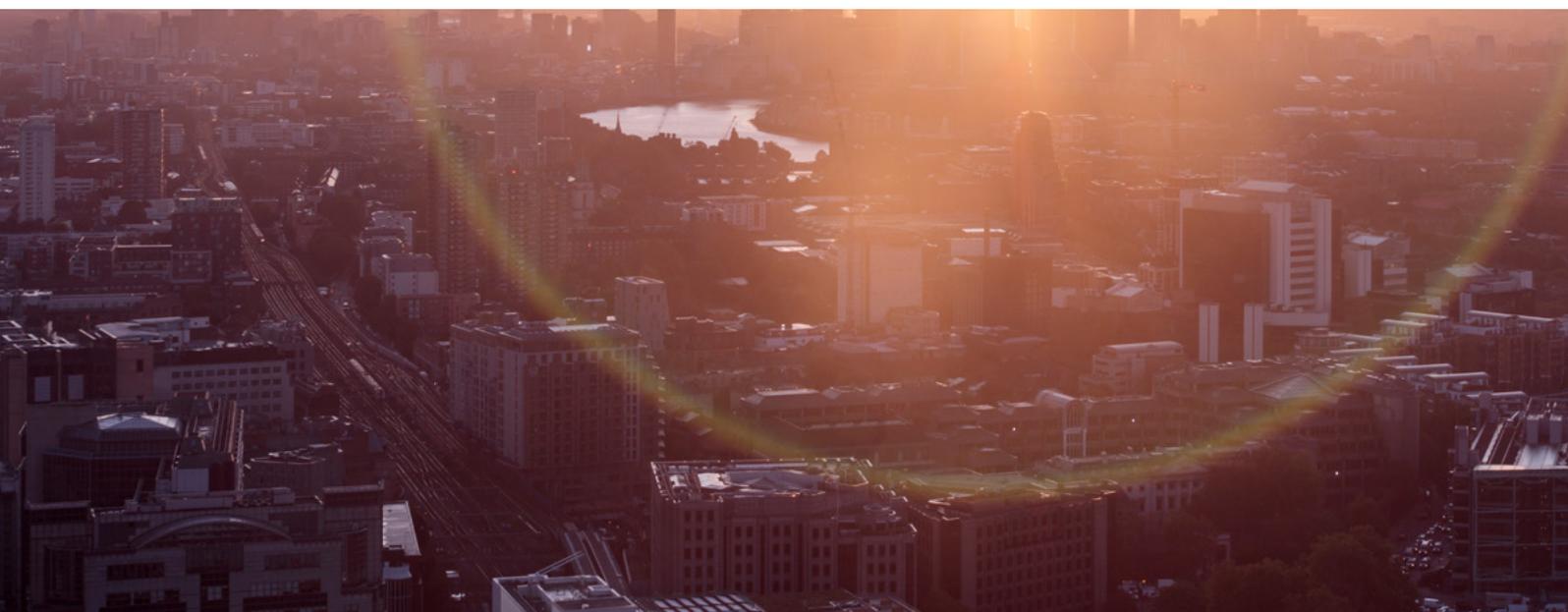
The IGC will be reviewing information on stewardship/engagement including voting data detailing:

- Total votes cast
- Breakdown of votes for and against
- Resolutions raised

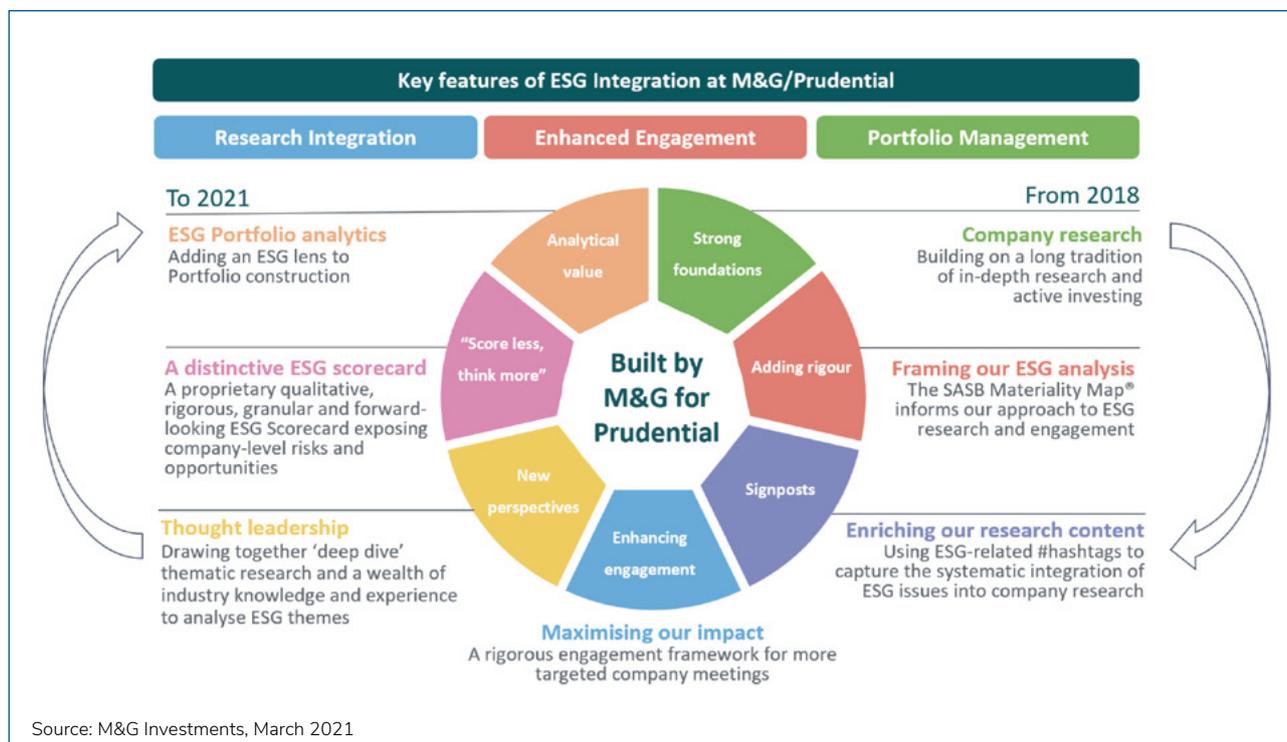
3.3 Progress in 2021

Over the course of the year the IGC's ESG VfM framework was developed and assessment metrics were agreed. A presentation was also received from the company's Fixed Interest team. More generally, the IGC looked at the following:

- The extent of any existing ESG integration on the investment mandates
- Whether there are plans to evolve any of the mandates to include further ESG integration
- Examples of core ESG data that the IGC could request
- Key organisation and industry initiatives including TCFD, UK Stewardship Code, Institutional Investors Group on Climate Change and Accountability for Sustainability
- During discussion on the underlying funds, it was agreed that although there were some challenges in obtaining ESG data, the current partners agreed to provide effective data going forward, including an engagement report (Received and discussed at the 21st September IGC meeting)



The following pictorial demonstrates the steps undertaken to integrate ESG at M&G on behalf of Prudential:



In term of milestones activity for ESG integration, the IGC noted the following:

Climate/Environmental	Social Impact	Stewardship
NZ50 reporting framework in place, clarity for all funds and mandates in terms of the Paris alignment. Implementation of changes to mandates and portfolios to reach NZ50.	Achievement of M&G plc diversity and inclusions commitments.	Comprehensive ESG engagement across the investment portfolio. Aligned ESG engagement for external managers.

3.4 Customer Insight

In 2021, more customer research was conducted to gain insights from people invested in a workplace pensions on the subject of ESG, how it applies to investment, and how they want providers to communicate with them on these issues. It remains the case that customers hope their asset managers are taking a 'responsible' approach to their investments.

Across the life stages it was found that there were different views generally about the importance of environmental and social responsibility and little thought had been given as to how this might apply to workplace pension investments. However, there was an expectation that some sort of investment principles are in place to guide pension companies to avoid 'unscrupulous' investments.

In turn that has led to the IGC to focus on the default investment solutions, ensuring the most 'passive' members benefit from ESG investing.

Some further research showed that workplace pension customers were pleased to learn that the Prudential workplace investment proposition is focussed on long term growth and also takes a responsible approach to investing.



4. Costs and Charges



Pat Healy, Independent Member

“The IGC is satisfied that Prudential’s charges are generally fair to customers and represent value for money. Nevertheless, the IGC continues to press Prudential to make its offerings as competitive as possible”

Overall rating: Green



4.1 Introduction

Your pension arrangement is a valuable benefit and the various services provided by Prudential including administration, investment management and payment of benefits are costly activities. The IGC’s role is to ensure that you get value for money and clearly, the costs and charges applied to your pension are an important part of this consideration.

The IGC puts a lot of effort into monitoring all of the charges applied to your policy, including annual management charges and transaction charges. Additionally, the IGC has been given new responsibilities by the FCA to benchmark Prudential’s charges against other providers in order to assess whether comparable schemes benefit from lower administration and transaction charges. The IGC’s findings on these matters are set out in the following paragraphs.

4.2 Rules on publishing and disclosing costs and charges

Last year the FCA issued rules in relation to the publishing of costs and charges for workplace pension scheme members and we were happy to report in the 2021 Chair’s Statement that those requirements were fully met by Prudential. This continues to be the case this year and the information is available to you [here](#).

4.3 Benchmarking of costs and charges

The FCA has now gone a step further and requires IGC’s and providers to benchmark their pension charges against other providers’ schemes. This formed part of the benchmarking exercise referenced above. Because of the multiplicity of different schemes, investment arrangements and varying policy and scheme size, the extensive data was sorted into comparable groups so that meaningful comparisons could be made.

The main findings of the benchmarking study as regards costs and charges were:-

1. Within the charge bands where it has policyholders, the proportion in each band is similar to other providers. Most Prudential policyholders are in charge bands 0.30% to 0.60% which is similar to a number of other providers.
2. Prudential does not have any customers within the lowest charge band (0-0.30%) whereas most of the other participants in the study do. The larger schemes within the Prudential book do appear to be charged slightly higher than others within the study.

3. Prudential has a larger percentage of employer arrangements in the higher charge bands than most other providers but these only account for a small proportion of policyholders.

On examining the data, the IGC noted that there are lower cost offerings from some other providers for comparable policyholder segments. However, the IGC is satisfied that this is generally the case where a less comprehensive investment or service offering is provided and that the higher charge by Prudential in these cases is justified by the specific benefits of the Prudential offering. Nevertheless, the IGC continues to press Prudential to make its offerings as competitive as possible.

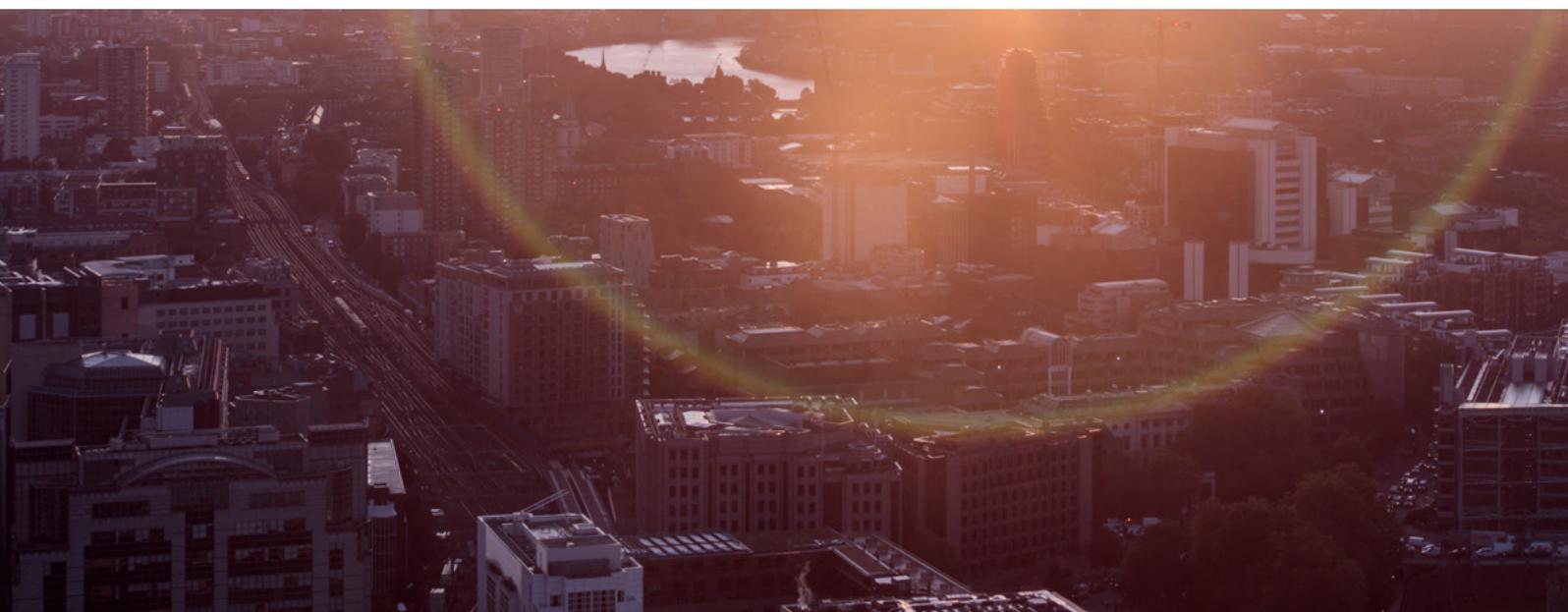
The IGC has discussed these points with Prudential and will continue to monitor the comparative position in future benchmarking studies.

4.4 Annual Management Charges

The IGC is satisfied that the annual management charges remain appropriate and the charges for default funds are within the charge cap.

4.5 Transaction charges

Transaction charges are monitored quarterly by the IGC. Transaction charges vary from fund to fund depending on the level of activity that is required to maintain the appropriate investment strategy. The IGC is satisfied that the transaction charges on the vast bulk of relevant policyholder funds are completely appropriate. In a very small number of cases where higher charges have been observed, the IGC is satisfied as to the appropriateness following discussions with Prudential.



5. Communications and Engagement



Hillary Williams, Company Appointed Member

"Prudential has continued to enhance customer communications and engagement strategies, and made good progress in support of vulnerable customers"

Overall rating: Green



Prudential has continued to deliver against its customer experience strategy to ensure customers receive the right information at the right time so that they will be able to make properly informed decisions about their pensions savings. This strategy has included some improvements to customer communications, and specifically digital journeys to enable easier access to important information. In addition, Prudential has shown a commitment to improving the support they give vulnerable customers whilst also measuring sentiment and performance through their Voice of the Customer programme. However, servicing issues have meant some engagement activity has been paused.

5.1 Improvements to customer communications and digital enhancements

Prudential continued to make positive steps in communications and digital enhancements in 2021, with more improvements planned for 2022. The Workplace Pensions content on the main customer website was redesigned and restructured to make navigation easier and help customers access information quicker.

Alongside this, there continues to be a steady flow of members registering for online services, making it easier for them to interact with their retirement planning with instant access to their plan information.

Registering for online services also gives members the ability to view their key documents online and opens a secure message channel where they can raise questions securely and quickly with Prudential's customer services team. Members can register for online service [here](#).

5.2 Vulnerable Customers

Overall, Prudential made good progress in supporting vulnerable customers, from enhancing vulnerability consideration in product and proposition reviews to identifying and systemically reviewing and fixing journeys which could be high risk. In addition, Prudential rolled out training on how best to support customers in crisis.

5.3 Voice of the Customer Feedback

During 2021, the Voice of the Customer programme has evolved and is now reporting to the IGC on a regular basis, covering customer relationships, customer experience of end-to-end journeys and touchpoint insights relating to specific events.

With this in place, the IGC receive a regular view of customers experiences through a dashboard showing how performance is tracking over time.

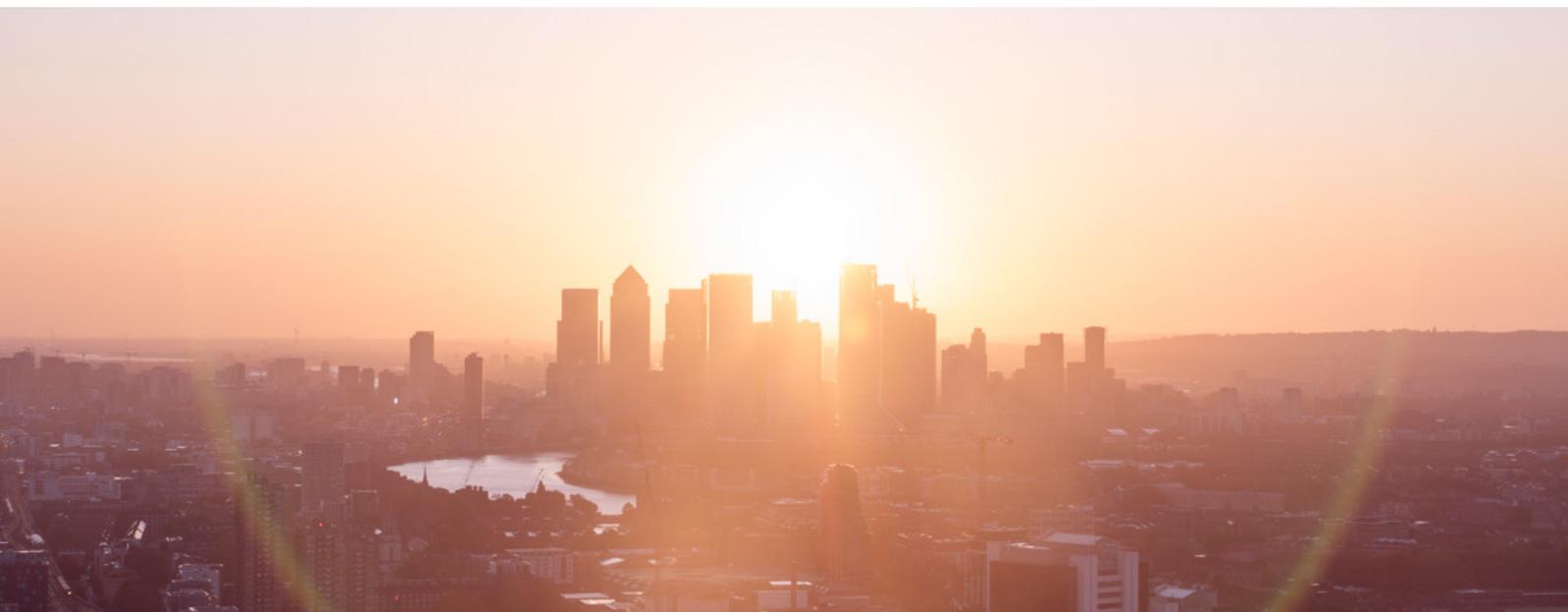
Results towards the end of 2021 reflected an increase in customers who are confident in their relationship with Prudential, with the strongest scores from customers who have recently contacted Prudential. Indeed, all attribute metrics which drive the key performance score had shown improvement. However, it is disappointing to note that this momentum has not continued in 2022. Recent results presented to the IGC have shown reductions in satisfaction scores and attribution metrics.

It is clear that continued focus is required to enhance the servicing journey. More regular feedback and insights from customers continue to support the process for improvement and prioritisation of focus.

5.4 External Benchmarking

The industry benchmarking report also added to the insights and research undertaken by Prudential, describing the communications delivered by Prudential as easy to follow and well designed. This included the annual statement for customers. The lack of engagement campaigns, which Prudential postponed to alleviate pressure on the contact centres, was highlighted as being out of kilter with other providers. Recommended improvements included consideration of a mobile app to drive engagement, although it was noted that the online account is optimised for viewing on a mobile.

Call waiting was a driver of customer dissatisfaction, however there were many positive comments about the service customers received once they spoke to a Prudential representative. The research observed that Prudential, along with other providers, could enhance measures for customer actions to understand if communications are having a positive impact on engagement.



6. Customer Servicing



Jennifer Owens, Company Appointed Member

“Whilst Prudential has made progress in this area, it has not been able to maintain a consistently acceptable level of customer service”

Overall rating: Red



Customer service has continued to be an area of focus for the IGC in 2021. Whilst Prudential has made progress in this area, it has not been able to maintain a consistently acceptable level of customer service.

The IGC have closely monitored service levels throughout the year and have maintained an open and frank dialogue with Prudential. We understand that the company remains committed to rectifying the situation as quickly as possible. At the time of publication of this report, the IGC is actively monitoring and challenging the company’s progress.

Performance of Individual Service Areas:

Key Telephony Measures	Achieved		Targets
Call abandon rate	25.9%		<=5%
Average speed to answer	16.09m		<=2.09m

Customer Journey Measures	% closed within target		Target (days)
New Business	84.3%		43
Claims	86.2%		43
Customer Servicing	90.6%		48
Bereavements	85.5%		154

7. Investment Pathways



Pat Healy, Independent Member

“The IGC believes that Prudential’s Pathways are a good tool for customers in their transition towards full drawdown of retirement income and we are keen to see more customers availing of them”

Overall rating: Green



7.1 Background

Following the FCA Retirement Outcomes Review, Investment Pathways were introduced by Prudential in February 2021. Investment Pathways are structured around generic approaches to how customers might view their future drawdown needs in retirement. The FCA defined four different customer objectives, as follows:-

Pathway 1

I have no plans to touch my money in the next five years

Pathway 2

I plan to use my money to set up a guaranteed income (annuity) within the next five years

Pathway 3

I plan to start taking my money as a long-term income within the next five years

Pathway 4

I plan to take out all my money within the next five years

Additional background detail on Investment Pathways is contained in the IGC’s 2021 Report.

7.2 The Role of the IGC

The role of the IGC in relation to Investment Pathways is similar to its role in relation to workplace pensions in general. The IGC is required to ensure:-

1. That each Pathway option is clearly communicated to customers to enable them to select the appropriate option
2. That the investment solution underlying each Pathway is appropriate to the timeline and risk profile inherent in that Pathway
3. That the total charges associated with each Pathway solution meet regulatory requirements and are reasonable in the context of the specific solution

7.3 Implementation of Investment Pathways

Investment Pathways are available to non-advised customers in the Retirement Account and the Pension Choices Plan. As had been expected, only a small number of customers availed of Pathways in 2021, their first year of operation. Customers were able to avail of online and voice journeys and the process operated smoothly.

7.4 Value for Money Assessment

The IGC carried out its role in relation to Pathways by considering the following aspects of Value for Money.

7.5 Costs and Charges

Costs and charges are a critical element of Value for Money for customers and particularly so when investment returns are relatively low. The IGC is satisfied that the charges on Prudential Investment Pathways meet regulatory requirements. As we stated last year, the Prudential Pathway products have features such as smoothing and multi-asset investment structures that are at the higher end of the investment cost structure, but the IGC is satisfied that the charges are appropriate for the richness of the product offered.

Products with lower charges are available in the market but these do not generally provide the same range of benefits as the Prudential products. The IGC continues to challenge Prudential on all of its charging structures and will carry out more cross-market comparisons in future years as the scale of Investment Pathway business increases.

7.6 Investment Performance.

In general, the funds utilized are similar to those used for workplace pensions and a full review of investment performance is available in Section 2 of this report.

7.7 Communications and Service

The IGC and Prudential put a lot of effort into the communications messaging around Pathways prior to implementation and we are satisfied that the information provided and the delivery of that information to customers is of a high standard.

The Service section of this report details serious short-comings in customer servicing during the last twelve months for reasons that are set out clearly in the report. We are not aware of similar servicing issues in relation to Pathway customers but the small numbers involved make it somewhat difficult to assess. The IGC will be monitoring this area closely as volumes increase.

7.8 Pathway Design and Competitor Comparison

These areas were closely scrutinized by the IGC during the design stage of the products. Nothing has emerged since the launch of the products that would alter the view of the IGC that the extensive product range of Prudential, particularly in the areas of risk mitigation and risk smoothing, has enabled a good and appropriate outcome to match the individual Pathway options.

7.9 Summary

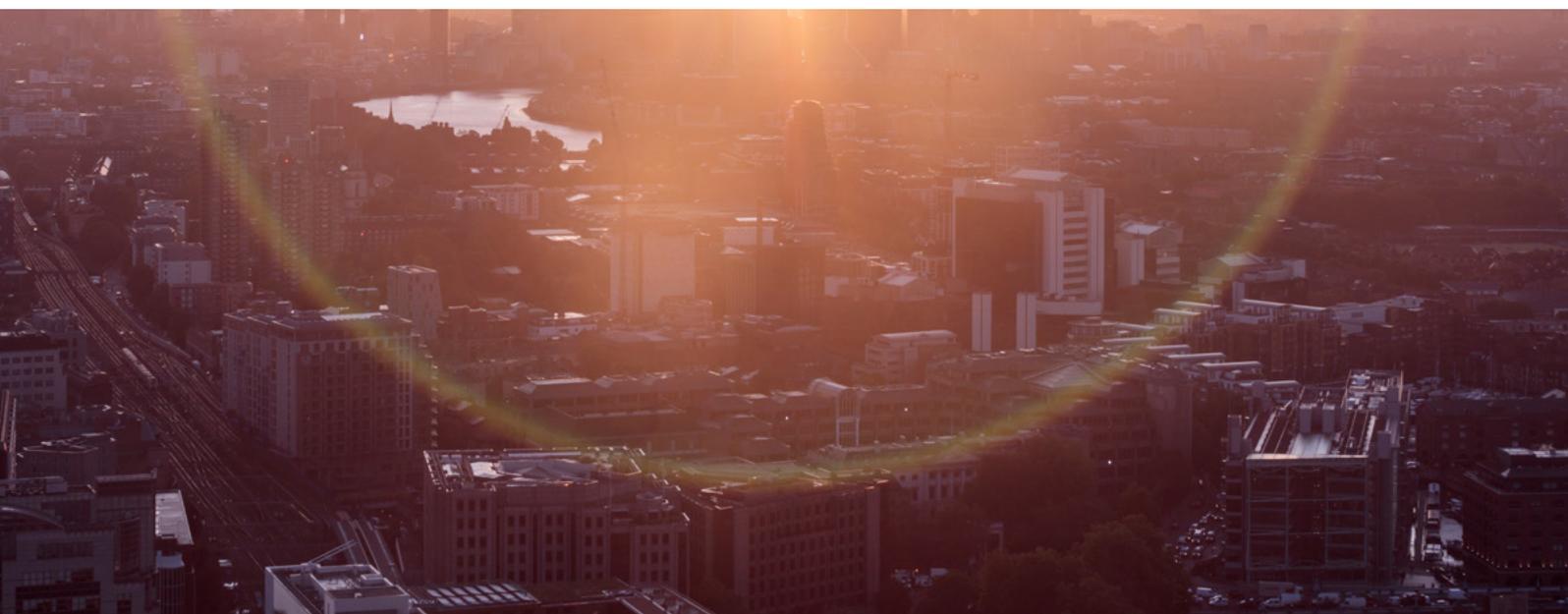
The IGC is satisfied that the launch and first full year of Investment Pathways has confirmed the positive assessment we arrived at last year. The IGC believes that Pathways are a good tool for customers in their transition towards full drawdown of retirement income we are keen to see further use of Pathways and higher volumes of customers availing of them.

8. Other governance items and plans for 2022

As part of its oversight of Prudential, the IGC has confirmed that it is comfortable with the financial strength of the company, details of which can be found in the publicly available Annual Report and Accounts for M&G plc. The IGC also received a report on the company's cyber security arrangements, including an attestation from management confirming the adequacy of those arrangements.

The IGC has developed its 2022 business plan which includes the following:

- **Investment:** consideration of the strategies for key default funds
- **Customer servicing:** ongoing engagement with the company to improve service levels
- **Industry comparison:** continued participation in benchmarking study



Appendix 1: How do we measure Value for Money (VfM)?

The IGC's current approach to VfM takes account of a range of factors, including investment performance, costs and charges, and service and communications. These have been weighted to reflect our view that what ultimately matters is the outcome for Members.

On the basis that good financial outcomes lead to higher retirement income, we prioritise investment returns and charges as being the most important elements of VfM. We then look at a number of secondary service quality features, placing particular emphasis on the swift and accurate processing of contributions, the level of performance in dealing with complaints, and the quality of communications. With regard to the primary financial components of VfM, it is important to note that:

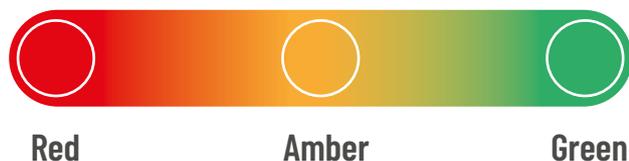
a) for investment returns the IGC believes it is appropriate to not only look at investment returns compared with CPI (Consumer Price Inflation), but also performance relative to industry benchmarks, the level of risk taken and fees charged. The performance metrics analysed over 1,3 and 5 year periods are:

- Fund net return vs benchmark
- Tracking error vs benchmark
- Net information ratio
- Client share of outperformance
- Fund net return vs UK CPI
- Quartile ranking within ABI sector.

b) For charges, we have continued to use the following reference points to identify where VfM concerns might arise:

- 0.75% per year for default strategy charges in schemes used for auto enrolment (or the equivalent limits set by DWP for schemes with combination charges)
- 1.00% per year for unit-linked schemes not used for auto-enrolment
- 1.25% per year for With Profits investments where the benefits of smoothing and guarantees bring extra value to Members. We review both the cost of the investment and the cost of these guarantees separately, scrutinizing the value offered by both. Our reference point represents the combined cost of both elements.

The IGC's VfM framework:



	Acceptable	No material issues. Performance is in line with expectations. However, there may still be some areas for further improvement.
	Requires Closer Monitoring	Some concerns. There may be a group of customers for whom improvements are required or specific areas that require attention.
	Take Action	Major concerns. Performance is at a level below which the IGC feels is appropriate, or below alternatives available in the market. Urgent action will be considered.

Investment Performance - Retrospective

Return Metric



Net return vs benchmark	Varies by fund type / asset class (ref below)		
Client share of outperformance	>60%	30-60%	<30%
Tracking error	Varies by fund type / asset class (ref below)		
Net information ratio	>0.2	-0.67 to 0.2	<-0.67
Net return vs UK CPI	>=3%	0 to 3%	<0%
ABI Sector Quartile Ranking	1, 2	3	4

Investment Pathways

Is each Pathway Option clearly communicated to customers, enabling them to select the appropriate option?

Yes **Materially** **No**

Does each Pathway Option have a clear statement of aims and objectives?

Yes **Materially** **No**

The investment solution underlying each Pathway is appropriate to the timeline and risk profile inherent in that Pathway?

Yes **Materially** **No**

Do the total charges associated with each Pathway solution meet regulatory requirements and are they reasonable in the context of the specific solution?

Yes **Materially** **No**

Investment Strategy Design

Does each Investment Strategy have a clear statement of aims and objectives?

Yes **No**

Are Default Fund Glide Paths consistent with Pensions Freedoms?

Yes **Materially** **No**

Are the Risks/Implied Volatility of the strategy made clear

Yes **Materially** **No**

Are the Risk/returns of the strategy close to the Efficient Frontier?

Yes **Reasonably Close** **No**

Has the Default Fund Strategy been stochastically modelled?

Yes **No**

Environment and Social Governance

The IGC will review three key areas of focus, these being Environment/Climate, Social Impact and Stewardship. IGC will select a rating for each key area based on the following:

Yes **Materially** **No**

Are ESG financial considerations fully embedded within the management of the in scope propositions?

Yes **Materially** **No**

Is there active engagement with companies by asset managers to help drive corporate change and encourage better ESG practices?

Yes **Materially** **No**

Are Prudential's ESG and Stewardship policies appropriate to the needs of the customer?

Yes **Materially** **No**

Annual Management Charges

- More than 5% of funds under management are above the reference point
 - Between 0% and 5% Funds under Management above the reference point
 - Most frequent charge applied is less than 0.5%. All member borne charges less than or equal to reference points
-

Transaction Costs

- More than 20% of Funds under Management incur costs of more than 0.5%
 - 80% of Funds under Management incur costs between 0.2% – 0.5%
 - Default fund less than 0.2%
80% of Funds under Management incur costs of less than 0.2%
-

Communication and Engagement

Are relevant communications (off line and on-line) provided at an appropriate point (e.g. key life stage/ key event)?

Yes ● **Materially** ● No ●

Are these communications useful, clear and easy to understand?

Yes ● **Materially** ● No ●

Do Prudential provide quality self-service and additional support material to suit member's needs and objectives?

Yes ● **Materially** ● No ●

This is a first iteration of the IGC's Communications assessment framework. IGC plan to continue evolving this throughout 2021 as we further develop the benchmarks and KPIs to support our assessment.

Service Levels

- More than half Service levels not met
- Between 50% – 100% of Service levels met
- All Service levels met

Appendix 2: Jargon Explained

ABI Sector – The ‘Absolute Breadth Index’ (ABI) Fund Sectors is a system for the classification of unit-linked life and pension funds with similar investment strategies. It is designed to group together funds that are similar, so that they can be compared on a like-for-like basis.

AMC – Annual Management Charge: the charge made over the year by fund managers and product providers to cover the expenses associated with running the investment fund and administering the pension plan. Although shown as an annual percentage figure, the charge is usually taken from the fund daily.

AUM – Assets under Management. Total Market Value of the assets managed by the investment firm for their investors.

FUM – Funds under Management. Sometimes called assets under management (see above).

BPs – Basis points. One basis point is equal to 1/100th of 1%, or 0.01%.

COBS – Conduct of Business Sourcebook (in other words, the FCA’s rule book that sets out the requirements for Independent Governance Committees).

CPI – The Consumer Prices Index: CPI is the official measure of inflation of consumer prices of the United Kingdom.

ESG – Environmental, social and governance (ESG) refers to the three key factors when measuring the sustainability and ethical impact of an investment in a business or company.

FCA – The Financial Conduct Authority.

Glide Path – A formula that defines the asset allocation mix of an investment fund. The mix is based on the number of years left until a customer’s target retirement date.

Guarantees – An investment guarantee is a special provision designed to protect investors from incurring overall losses.

Growth Funds – Funds that invest in equities, multi assets or property

IGC – Independent Governance Committee.

Investment Pathway – A new initiative from the FCA aimed at providing customers with an investment solution to match a particular objective in drawdown.

Prudential – “Prudential” is a trading name of The Prudential Assurance Company Limited, the provider of the workplace pensions.

Net Information Ratio – The information ratio (IR) is a measurement of portfolio returns beyond the returns of a benchmark.

Net Zero – Refers to the balance between the amount of greenhouse gas produced and the amount removed from the atmosphere. We reach net zero when the amount we add is no more than the amount taken away.

Reference Point – A level of charge for a fund above which IGC believes Value for Money concerns might arise.

Risk Mitigation – The process of reducing risk exposure and minimising the likelihood of an incident.

Risk Smoothing – The financial impact of incurred losses is distributed between members of the risk pool.

Smoothing – The use of accounting techniques to level out fluctuations in investment returns from one period to the next (aiming to 'smooth' the peaks and troughs of market movements).

VfM – Value for Money, see appendix 4 for more information.

Value Style – An investment approach that aims to identify stocks & shares trading below their estimated 'fair value' and then profit as the share price adjusts.

Tracking Error – The tracking error identifies the level of consistency in which a portfolio "tracks" the performance of an index. A low tracking error means the portfolio is beating the index consistently over time. A high tracking error means that the portfolio returns are more volatile over time and not as consistent in exceeding the benchmark.

Transaction Costs – Expenses incurred when buying or selling a good or service. Costs include broker charges and spreads, which are the differences between the price the dealer paid and the price the buyer pays.

Watch List – Funds are added to this watch list if they are under performing or if there are additional causes for concern (e.g. significant unexpected changes in the market). These funds are then monitored closely and reviewed on a regular basis.

