



ZEDRA

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Chair's annual report

Aon Investment Pathways

- | Year ended 31 December 2021
- | The ZEDRA Governance Advisory Arrangement (GAA)

September
2022



Executive summary

This report on the Investment Pathways policies provided by Aon UK Ltd ('the Firm'), has been prepared by the Chair of the ZEDRA Governance Advisory Arrangement ('the GAA') and sets out our assessment of the value delivered to pathway investors and our view of the adequacy and quality of the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship.

Further background on the activity of the GAA and details of the credentials of the GAA can be found in Appendices B and C respectively. The GAA works under Terms of Reference, agreed with Aon, the latest version of which is dated 18 March 2022 and are publicly available (see Appendix C for further details).

This is our 1st annual report on Investment Pathways policies provided by the Firm. Investment Pathways were launched by the Firm on 1 February 2021 and made available to existing Aon customers and new policyholders. This report covers Investment Pathways, there is a separate Chair's Annual Report which covers the accumulation and decumulation phase of the workplace personal pension plans.

As Chair of the GAA, I am pleased to deliver this value assessment of the Aon Investment Pathways. The GAA has conducted a rigorous assessment of the Value for Money delivered to pathway investors over the period from 1 February 2021 to 31 December 2021. The GAA has developed a Framework to assess Value for Money which balances the quality of services and investment performance provided to pathway investors against what they pay for those services and investment performance. Further details are set out on page 6.

A COLOUR CODED SUMMARY OF THE GAA ASSESSMENT

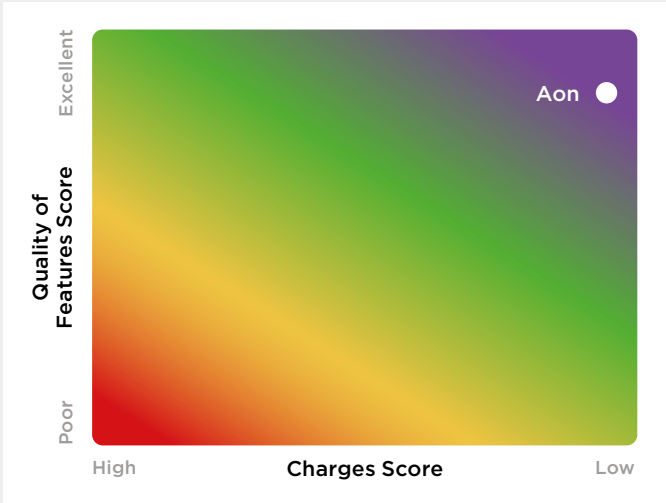
	Weighting toward VfM assessment*	Investment Pathways
1. Product strategy design and investment objectives	13%	●
2. Investment performance and risk	13%	●
3. Communication	20%	●
4. Firm governance	3%	●
5. Financial security	7%	●
6. Administration and operations	7%	●
7. Engagement and innovation	3%	●
8. Cost and charge levels	33%	●
Overall value for money assessment	100%	●

* May not add to 100% due to rounding

<p>Quality and investment features</p> <p>● Excellent ● Good ● Satisfactory ● Poor</p>	<p>Cost and charge levels</p> <p>● Low ● Moderately Low ● Moderately High ● High</p>
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The Overall Value for Money rating is determined on a rating scale based on the product of the overall scores for the individual Features and the weightings shown in the above table. The Investment and Quality Features combined representing two-thirds of the overall score and the Cost and Charge Level representing one-third of the overall score. It is visually represented by the heatmap below.

VALUE FOR MONEY SCORING



The overall conclusion is that Aon Investment Pathways provide **excellent value for money.**

There are no specific areas identified where the GAA has challenged Aon to make improvements, however, the GAA has also made a number of observations as follows:

- | Due to the relatively short amount of time that has elapsed since launch of the investment pathways product, there can only be limited evidence provided to the GAA of reviews of the pathway investment options and of the operation of the governance structure on the investment pathways product. The GAA will seek further evidence of the robustness of the investment reviews and effectiveness of the governance structure over time.
- | The GAA observes that this is a new product and would expect to see ongoing developments in this area, both in line with Aon's existing implementation plan outlined to the GAA, and to reflect future developments in the wider marketplace.

We also concluded that the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship were well implemented.

Where we have used technical pensions terms or jargon, these are explained in the glossary in Appendix E.

The FCA has introduced new requirements this year. One of these new changes require us to undertake a comparison with other similar options available in the market. If an alternative scheme(s) would offer better value, we must inform the pension provider. I can confirm that we have not considered it necessary to make this notification this year. Our view on each Feature we are required to make a comparison on is included in the relevant section of the report. Details of how we selected the comparator group, and a consolidated view of our comparator findings is set out in Appendix A.

The GAA has not raised any concerns with Aon during the year.

I hope you find this value assessment interesting, informative and constructive.

Clare James

Chair of the ZEDRA Governance Advisory Arrangement

September 2022



If you are a policyholder or pathway investor and have any questions, require any further information, or wish to make any representation to the GAA you should contact:

GAA Representation, Bigblue Touch GPP, Aon Employee Benefits
Briatcliff House, Farnborough, Hants GU14 7TE

bbt.admin@aon.co.uk

www.aon.co.uk/employee-benefits

Alternatively, you can contact the GAA directly at **ZGL.gaacontact@zedra.com**



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Overview of the value assessment

The GAA has assessed the Value for Money delivered by the Firm to its pathway investors by looking at costs versus investment and service benefits. More detail about how we have done this is set out below.

Regulatory changes

The Framework used for this year's assessment has been updated to reflect changes to the Conduct of Business Sourcebook (COBS) in effect from the 2021 assessment year. This has included an explicit assessment of [net investment performance](#), and the assessment of any charges the pathway investors might need to pay in operating their policy which are in addition to any annual management charges and transaction costs. Our framework already included assessment of communications and processing of [core financial transactions](#). These changes have been reflected in the assessments reported on in sections 2. Investment Performance and Risk, 3. Communication, 6. Administration and Operations and 8 Cost and Charge Levels.

In addition, the regulatory changes introduced a requirement to undertake comparisons of the Firm's product offering against a suitable comparator group of providers products across net investment performance, communications, processing of core financial transactions, and costs & charges. We have included comments on these comparisons in each relevant section of the report. Details of how the comparator group was selected and a consolidated view of the comparison outcomes are included in Appendix A.

Our approach

The GAA believes that value for money is subjective and will mean different things to different people over time, depending on what they consider important at that time.

What is clear is that it is always a balance of cost versus investment and service benefits. Our fundamental approach has therefore been to compare all the costs paid by [pathway investors](#) against the investment performance and quality of services provided to [pathway investors](#).

The key steps for the GAA in carrying out the Value for Money assessment are:

- | Issuing a comprehensive data request to the Firm, requesting information and evidence across a wide range of quality features, including [net investment performance](#), as well as full information on all costs and charges, including [transaction costs](#).
- | Attending a number of formal meetings with representatives of the Firm to interrogate the data provided and to enable the GAA to question or challenge on any areas of concern. All such meetings have been documented by formal minutes and a log is also maintained containing details of any challenges raised, whether informally or through formal escalation.
- | Once the Firm has provided all information and evidence requested, the GAA has met to discuss and agree provisional Value for Money scoring using the Framework developed by the GAA.
- | The provisional Value for Money score, including a full breakdown, has then been shared and discussed with the Firm.

The Framework developed by the GAA to assess overall Value for Money for pathway investors involves rating the Firm against eight different Features covering Quality of Service, Investment Performance and Strategy, and the Costs and Charges borne by the pathway investors. This assessment is undertaken of the Firm's product(s) relative to the GAAs view of good practice.

The Quality of Service Features and Investment Features have been determined based directly on the FCA requirements for assessing ongoing Value for Money set out in COBS 19.5.5, in particular services relating to communications with pathway investors and processing of core financial transactions. The Quality of Service features considered has been expanded to include other aspects the GAA considers important based on the GAA's experience of conducting Value for Money assessments over the past several years, such as the Firm's governance structure, the financial security for pathway investors, the Firm's approach to engagement and innovation, and a wider overview of the administration quality and processes.

Within each of the Quality of Service Features and in the assessment of Investment Features are several sub-features. These sub-features are each scored using a numerical scoring system of 0 to 4, where 4 is 'excellent', 3 is 'good', 2 is 'satisfactory', 1 is 'poor' and 0 is 'non-compliant or insufficient information has been provided'. Scoring is aided by means of score descriptors, developed for each sub-feature, ensuring the GAA adopts a consistent approach to scoring across clients. Each set of score descriptors outline what the GAA would expect to see in order to achieve each numerical score. The scores for each sub-feature are then aggregated to the Feature level based on the GAAs view of the relative value of the sub-feature to the pathway investors.

The GAA then went on to consider the value represented by the Cost and Charge Levels which pathway investors have to bear. The assessment of Cost and Charge Levels is primarily driven by the level of ongoing charges for investment management, administration, and platform fees. The GAA also considers the transaction costs and how they are controlled, and any additional costs the pathway investors pay in the investment

and management of their policies. The Cost and Charge Levels are rated on a numerical scale of 1 to 4 where 4 is 'low' charges, 3 is 'moderately low' charges, 2 is 'moderately high' charges and 1 is 'high' charges. This assessment takes into account information available to the GAA on general levels of costs and charges for investment pathways providers in the marketplace.

The scores for each Feature are then combined using the weightings set out in the table in the Executive Summary to determine an Overall Value for Money rating. The weightings used are based on the GAAs views of the relative importance to the pathway investors of each Feature. The weightings are tilted towards the Features and sub-features which have been identified in the regulations relevant to forming this assessment of value. Where possible, the GAA has taken into account the likely needs and expectations of this group of pathway investors, based on the information made available by the Firm.

In the sections on the following pages, we have described the Firm's approach to delivering each of the Features, and the rating the GAA has awarded, together with any areas for improvement we have identified.

In addition, there is a section setting out the GAA's views on the adequacy and quality of the Firm's policies on [ESG](#) financial considerations, non-financial considerations, and stewardship. Whilst this is a largely qualitative assessment the GAA has considered the Firm's policies in comparison to others the GAA has knowledge of.

An assessment has also been made of the net investment performance, quality of communication, quality of the administration service including processing of core financial transactions, and costs and charges relative to a suitable comparator group of pathway investment providers. Comments on the outcome of these assessments is included in the sections for the relevant Features. We have also considered whether an alternative provider would offer better Value for Money so that we can inform the Firm if we believe this to be the case. Details of the comparisons, including how the comparator providers and pathway investment products were determined is set out in Appendix A.



1. Product strategy design and investment objectives

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We expect to see an investment strategy for each investment pathway that is designed and managed taking the characteristics of pathway investors into account, that there is clear rationale for the selection of each fund used to support the investment pathways, evidenced by appropriately defined risk ratings, and consideration of the investment time horizon and age profile of the pathway investors.

We want to see that all investment options have clear statements of aims and objectives – in particular that as well as qualitative objectives, there are quantitative objectives in place, that investment performance outcomes can objectively be measured against. Ideally, we would like to see evidence that these objectives link back to the needs of pathway investors.

We are also looking for evidence of a robust ongoing review process for the pathways investment options, and evidence that the Firm has taken steps to implement changes to the investment options, where appropriate, to ensure alignment with pathway investors interests.

Whilst policies on [ESG](#) financial considerations and non-financial matters are considered separately on page 24, we expect to see evidence of how these matters are taken into account in the design of the investment pathways strategies and in investment decision making.

The Firm's approach

Aon undertook a detailed design process during 2020 and implemented their four Pathways investment options on 1 February 2021. The strategy and objectives of the funds are in line with the FCA requirements and the GAA was consulted when they were being designed. The strategy was built to align with policyholder interests based on research conducted by Aon in 2020, and it will be reviewed regularly in line with their standard processes. There is a clear rationale for the asset mix in each pathway, which aligns with the clear objectives for each fund.

The Pathway 1 design (for customers who have no plans to touch their money in the next 5 years) takes into account the expected younger age of customers and objective to deliver growth over a 5-10 year period, leading to a higher equity content with a smaller allocation to other asset classes such as bonds for diversification. The current objective is framed as returns in line with CPI inflation +2% p.a.

The Pathway 2 design (for customers planning to set up a guaranteed income (annuity) within the next 5 years) incorporates modelling of outcomes from possible solutions against fixed annuity rates, leading to investment in corporate bonds and gilts. The current objective is framed to move in line with changes in the price of purchasing a level annuity at retirement

The Pathway 3 design (for customers who plan to start taking their money as a long-term income over the next 5 years) is intended to support a member who begins with drawing 4% a year from age 65 for their entire life expectancy and incorporates modelling to demonstrate appropriate levels of withdrawal rates being sustainable. This has led to a diversified range of investments that are actively managed using passive 'building blocks' including equities, corporate bonds and gilts. The current objective is framed as returns in line with CPI inflation +1.5% p.a.

The Pathway 4 design (for customers who plan to take all of their money out within the next 5 years) anticipates customers' needs for a low risk approach and to preserve capital in the short term, leading to cash investments. The current objective is framed to preserve capital and provide a return in line with short term money market rates

The underlying funds are predominantly passively managed, to reduce costs for policyholders.

Due to the timing of the product launch, a review has not taken place in the assessment period, which the GAA considers reasonable given the available time.

The Firm's strengths

There is a strong process for designing the investment pathways solution, leveraging the investment consulting skills of the Aon Group.

All investment options have relevant aims/objectives which are communicated to policyholders.

ESG is incorporated throughout the funds, with Aon only selected funds for use with their required ESG ratings.

Areas for improvement

GAA observations

Noting that the product was launched during 2021, the GAA would like to see evidence of a robust review of the investment options post-launch.



2. Investment performance and risk

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We would expect to see a robust governance framework under which investment performance is monitored on a regular basis. Performance should be measured against investment objectives, including against a measurable and stated benchmark. Performance should be net of fees. In addition to the stated benchmark comparison risk adjusted returns should also be considered.

Where there are any concerns over investment performance, we expect to see evidence of appropriate action being taken, which may include engagement with investment managers and/or implementing changes to fund options. We also expect to see evidence that the strategies are effective and take into account the pathway investors' attitudes to risk.

The Firm's approach

Investment performance, both net and gross, is reviewed on a quarterly basis Aon's UK DC Joint Investment Group. Any issues which arise are flagged with the portfolio manager for further

analysis and discussion. The GAA were provided with extracts from meeting minutes as evidence of this process being undertaken.

Aon also considers a six monthly review of the impact of investment performance on member outcomes.

The investment performance is benchmarked against a return objective, and a volatility benchmark. The return objective is CPI based for Pathways 1 and 3, annuity pricing based for Pathway 2, short-term money market rate based for Pathway 4.

The Firm's strengths

Aon have demonstrated there is a robust governance framework in place and have provided clear evidence of the monitoring undertaken during the year. Evidence of ongoing monitoring has been provided in the relevant committee minutes. Aon were able to evidence, through committee meeting minutes, performance reports and discussions with the GAA, the process by which decisions were reached, recorded and implemented.

Net investment performance

The net investment performance of the investment pathways strategies and, where available, the performance of the benchmarks against which those funds are measured by the Asset Manager are set out in the following table. This is for the period 1 February 2021 to 31 December 2021.

Investment Pathway	Net Investment Performance	Benchmark
Investment Pathway 1	12.6%	12.4%
Investment Pathway 2	-3.5%	-3.4%
Investment Pathway 3	10.4%	10.3%
Investment Pathway 4	0%	-0.1%

Comparator results

The GAA has faced some challenges in identifying suitable comparators for the comparison of investment performance since different firms have adopted different pathway investment solutions with significantly different levels of risk exposure. In addition, the risk and return performance relates to different periods depending on when the Firm launched investment pathways. The comparison of risk adjusted net investment returns has therefore been limited this year and we have therefore focused on whether the return has been below, broadly in line or ahead of an appropriate benchmark taking into account the nature and risk profile of the investment pathway solution.

Investment Pathway	Investment Performance
Investment Pathway 1	Performance exceeding benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data
Investment Pathway 2	Performance broadly in line with benchmark, suggesting performance is comparable with that expected of a similar investment solution, noting limitations of comparator data
Investment Pathway 3	Performance exceeding benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data
Investment Pathway 4	Performance exceeding benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data

Areas for improvement

GAA observations

The investment performance the GAA reviewed was from launch, and not for a complete year. The GAA expects the performance to continue to be monitored.



3. Communication

Value score: Excellent Good Satisfactory Poor

What are we looking for?

As a minimum we expect communications to be fit for purpose, clear and engaging and to be tailored to take into account pathway investors' characteristics, needs and objectives.

We would expect to see a comprehensive suite of communications in place suitable for pathway investors, and which enable them to choose the relevant investment pathways.

In a high quality communication service offering we would expect a substantial online offering, with a range of online support materials such as online drawdown modellers to enable personalised calculations with various selectable options. We would expect telephone support to be available, with good evidence of telephone scripts, call monitoring and staff training.

Additionally, we would expect pathway investors to be able to switch investment pathways online and to have support and financial guidance available if they wish to leave or switch from their current investment pathway. In particular, we would expect there to be appropriate risk warnings built into the process.

We would expect the provider to ensure there is clear signposting to pathway investors on where they can obtain additional guidance and advice on their drawdown and retirement options.

The Firm's approach

Aon has built on the core communication offering from its infrastructure partner Aegon, with clear evidence of tailoring standard communications to take into account policyholders' needs and objectives. There are separate communication paths for each investment pathway which outlines the implication of the member choices and how to make changes in the future.

Aon has an ongoing review programme for all communications, including monthly calls to discuss any changes which are then verified by the Aon Project Call system.

Communications with customers are predominantly via secure electronic communication and via the online platform. However, in addition, policyholders can communicate with Aon by telephone.

Customers retain access to Aon's online portal, which has a wide range of educational material and interactive tools, in a variety of formats including video and downloadable written guides, all collated in one place for customers' ease of access.

The Firm's strengths

The GAA has been provided with a range of sample communications to review. Communications are clear, engaging and free of jargon, whilst also not being over simplified.

Members of the GAA have been given a demonstration of the online facility available to policyholders. The online facilities are extensive, pulling together educational pieces, fund documentation and modelling tools in one location.

Comparator results

We have assessed how the communication materials provided to the Firm's pathway investors compare to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's pathway investors over 2021 were above average relative to the comparator group.

Areas for improvement

The GAA did not identify any specific areas for improvement.



4. Firm governance

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We would expect to see a comprehensive governance structure in place for appointing and monitoring service providers, with evidence of regular reviews being undertaken and active changes being made as required.

The Firm's approach

Aon have put in place a governance framework for appointing and monitoring internal and external service providers, including external investment managers and the administration and online platform services provided by Aegon. In the case of the external administration and online platform services, Aon meet with Aegon on a monthly basis to review operational performance. There are quarterly meetings within Aon to review whether each scheme is meeting its expectations

with service levels and complaint monitoring. In addition, there is a half-yearly relationship review meeting with senior stakeholders.

The Firm's strengths

The GAA have received evidence of supplier assessment manager framework. This demonstrated Aon have a robust governance framework in place to appoint and monitor internal and external service providers.

Aon were able to demonstrate how they adopted a monitoring process as a result of the increased risk to interruption of service from COVID-19 through weekly monitoring of processing statistics and quarterly monitoring of root cause and complaint analysis. A nominated Aon representative conducted a review of Aegon during the year.

Areas for improvement

GAA observations

Given the short period of time of the implementation of the Pathways investments, the GAA will monitor the effectiveness of the governance structure for these products over time. However, the GAA has extensive experience of the structure the Firm has successfully employed elsewhere in their wider accumulation and decumulation products over the last 7 years, and this is reflected in the rating for this section.



5. Financial security

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We look for information about the financial position of the Firm supported by evidence such as accounts as well as ratings from third party rating agencies, where available.

We also look for information about how the assets are protected, for example in the event of fraud or bankruptcy, at both Firm and manager level. This could relate to FCA or PRA protection, ringfencing or the structure of the underlying product.

We are looking for evidence of a clear process to warn pathway investors about fraud and scams and for Firms to be actively monitoring for possible scamming activity.

The Firm's approach

Aon Plc is a global professional services firm providing a broad range of services. The organisation has significant resources backing the business. There is an independent assurance of internal controls for the administration work carried out by Aegon via an [Audit and Assurance Faculty \(AAF\) Report](#). Similarly, where available, AAF reports are obtained and reviewed for each asset manager for the underlying funds.

Risk management, including security of IT systems, is the responsibility of the Aegon Operational Services Manager, who has regular calls with Aon Client Service Managers to discuss matters such as telephone calls, workflow, service levels attained, implementation of new employers and any breaches or complaints. Systems are protected to a high standard from cyber-attacks and are constantly monitored and undergo regular penetration testing. Measures are in place to ensure data is held within systems securely and that any transfer of data is encrypted and delivered via secure File Transfer Protocols (SFTP) to secure services and infrastructures. Communications between parties are encrypted at company level using Transport Layer Security (TLS) and password encryption. Electronic communications to members are encrypted electronically using TrendMicro software and are retrieved using an online account retrieval system.

The Firm's strengths

The wider Aon Group maintains an investment grade credit rating, currently BBB+ as rated by Fitch, and FSCS protections are available for policyholders in the event of a failure within Aon. Aon has provided evidence of a comprehensive Security Risk Management Framework in place overseeing IT security, cyber security and data protection, including regular penetration testing.

The GAA has previously had sight of Aon's master risk register, together with supporting evidence demonstrating how Aon monitored operational continuity and performance risk throughout COVID-19, including awareness of increased cyber risk.

Areas for improvement

The GAA did not identify any specific areas for improvement.



6. Administration and operations

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We expect Firms to have robust administration processes in place with appropriate service standard agreements and regular monitoring and reporting around adherence to those service standards. In particular, we are seeking evidence that **core financial transactions** are processed promptly and accurately, such as processing drawdown payments, transfers processing and death benefit payments.

We look for evidence of regular internal and external assurance audits on controls and administration processes. In particular, we are looking for a robust risk control framework around the security of IT systems, data protection and cyber-security. We would expect to see evidence that cyber-security is considered as a key risk by the Firm's relevant risk governance committee and that appropriate monitoring, staff training and penetration testing is put in place.

We expect Firms to have a comprehensive business continuity plan and evidence of its effectiveness through appropriate testing or in maintaining continuity of business during the COVID-19 pandemic.

We would expect to see a low level of substantive complaints and demonstration of a clear process for resolving complaints.

The Firm's approach

Aon outsources the administration to Aegon, who work to an agreed set of Service Standards. The service level standards are monitored weekly providing progress towards the monthly service target, including whether the core financial transactions and call centre standards are being adhered to.

The agreed response times are up to five working days. Aon provided information covering their wider workplace personal pension plans and during 2021 these timescales were achieved 97.5% of the time against a failure point of 95% set by the firm. This was in respect of all work tasks, not just for the Investment Pathways customers.

The Firm's strengths

Through the provision of performance data against agreed service level standards, Aon were able to evidence that where administration service levels have slightly dropped during the year due to the ongoing Covid-19 pandemic, provisions have been put in place to monitor and correct these.

Aon and Aegon have comprehensive business continuity plans in place and business continuity was maintained throughout the year as evidenced by performance data measured against the service level standards.

Aon confirmed there were no complaints in respect of the Pathways Investment customers. They were able to demonstrate the process for resolving any complaints.

Comparator results

We have assessed how the quality and timeliness of the administration services, including core transaction processing, provided to the Firm's pathway investors compare to other sufficiently similar investment pathway arrangements.

This assessment identified that the administration services provided to the Firm's pathway investors over 2021 were above average relative to the comparator group.

Areas for improvement

The GAA did not identify any specific areas for improvement.

GAA observations

Given the drop in service levels during 2021 the GAA will look for continued evidence of Aon's monitoring, and action being taken where appropriate or additional provisions being added where necessary.



7. Engagement and innovation

Value score: Excellent Good Satisfactory Poor

What are we looking for?

We expect to see evidence that the investment pathways product is reviewed at least annually, with new products or services being developed taking into account pathway investors' characteristics, needs and objectives.

We are looking for evidence of regular, proactive engagement with pathway investors to obtain feedback and for this feedback to be taken into account when reviewing the product offering.

The Firm's approach

The Joint Steering Committee (Aon UK Ltd, Aon Solutions Ltd, Aon Investments Ltd and Aegon) oversees the product as a whole. This Committee reviews the product against the objective of achieving optimum value for the charges; review whether services are performed to market-leading service levels and reviews the transparency of the pricing strategy. This Committee also sets the strategy for the product to the pricing services. The product review process is ongoing. Monthly operational reviews of the product and policies feed into quarterly propositional reviews when a formal decision is made as to which product changes will be taken forward. There are various delegated work streams that focus particular attention on proposition product development. There is a development roadmap that sets out the intended timetable for work and this roadmap is communicated and agreed within the combined quarterly relationship review.

The Firm's strengths

Aon has a robust product review process which includes a detailed roadmap for all work related to improving the offering to policyholders.

Aon were able to demonstrate a number of changes to the product over the year, including but not limited to, the implementation of the Global Impact Fund into the Retirement Pathways Funds and the upgrade of the annuity placement service. Aon were also able to evidence comprehensive review of all communication materials.

Aon uses information from policyholder complaints and focus groups to identify the root cause of policyholder dissatisfaction and then looks to address this where appropriate through product development.

Areas for improvement

The GAA did not identify any specific areas for improvement.

GAA observations

As the Investment Pathways only launched during the year the GAA will seek future evidence of how Investment Pathways customers feedback influence product development.



8. Cost and charge levels

Value score: Low Moderately Low Moderately High High

What are we looking for?

The GAA has considered the overall level of charges borne by pathway investors over the year. This included assessing:

- | The fund annual management charges, administration charges and transaction costs being borne by pathway investors.
- | Any other charges being paid by pathway investors to manage, access and invest their drawdown funds.
- | The process for collecting and monitoring overall member charges, including [transaction costs](#)
- | How the Firm monitors charges.
- | Whether the overall level of charges is reasonable, bearing in mind the nature of the investment, level of performance, and degree of risk management.
- | The distribution of charges across pathway investors.

The Firm’s approach

Each Investment Pathway clearly sets out the level of charges which are set in line with the objective of the pathway chosen. The range of expected charges has been notified to us, together with an explanation of the principles of the fixed pricing model.

The Firm’s strengths

The charges are made up of administrative charges, and transaction charges. There are no other costs or charges borne by the policyholders.

The GAA was provided with comprehensive details of pathway investor charges including transaction costs calculated on the DC workplace methodology.

The GAA was provided with evidence of a robust governance framework for reviewing costs and charges, including transaction costs.

We observed a range of charges across the investment pathways offered with the charge applied being as follows:

Investment Pathway	Charge Applied
Investment Pathway 1	0.39%
Investment Pathway 2	0.39%
Investment Pathway 3	0.39%
Investment Pathway 4	0.04%

The GAA rating reflects the charges applied for the investment pathways made available by the Firm, and we believe that the Firm offers appropriate charges to pathway investors. The GAA considers the charges to be moderately low.

Comparator results

We have assessed the overall cost and charge levels payable by the Firm's pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider and each investment pathway solution.

This assessment identified that the overall cost and charge level paid by the Firm's pathway investors over 2021 were good relative to the comparator group.

Areas for improvement

The GAA did not identify any specific areas for improvement.



ESG financial considerations, non-financial matters and stewardship

What are we looking for?

Where the Firm has an investment strategy or makes investment decisions which could have a material impact on pathway investors' investment returns, the GAA will assess the adequacy and quality of the Firm's policy in relation to [ESG](#) financial considerations, non-financial matters, how these are taken into account in the Firm's investment strategy or investment decision making. We will also form a view on the adequacy and quality of the Firm's policy in relation to stewardship.

We expect the Firm's policy in relation to these considerations:

- a) Sufficiently characterises the relevant risks or opportunities;
- b) Seeks to appropriately mitigate those risks and take advantage of those opportunities;
- c) Is appropriate in the context of the expected duration of the investment; and
- d) Is appropriate in the context of the main characteristics of the actual or expected pathway investors.

We also expect that the firm's processes have been designed to properly take into account the risks or opportunities presented.

Whilst this formal requirement falls outside the overall Value for Money assessment, the GAA's Value for Money framework does take into

account, where relevant, when scoring the area of Product Strategy Design and Investment Objectives on page 8, how the Firm has integrated ESG financial considerations and non-financial matters in the Firm's investment strategy and investment decision making.

The Firm's approach

Aon have provided details of how ESG is imbedded throughout their processes. Aon believe that ESG is fundamental to delivering returns to policyholders and were able to evidence how ESG is integrated within investment decisions making at both the manager and asset class level across both the default and wider self-selection fund range.

Aon has provided details of its global policy to the GAA, which explains how it takes into account non-financial matters. Aon's approach is to not take into account any personal ethical or moral judgements in the design of the default fund, but instead to cater for a range of such non-financial matters within the self-select fund range.

Aon has provided the GAA with details of its policy on stewardship, including examples of how it monitors ongoing engagement and voting activity of managers and seeks engagement with managers.

A review of funds was undertaken during 2021, implementing a 1 (poor) – 3 (very good) scale in respect of ESG. Any funds which were rated 1 were removed from the funds available.

The Firm's strengths

Aon has made a commitment to be net zero operationally by 2030, and the main and alternative default funds to be net zero by 2050, with a 50% reduction by 2030.

Carbon footprint

Information on the carbon footprint had been collected late in 2021 with the intention this would be compared to that held in 2019. This would give an indication of the progress made and inform any next steps.

The GAA considers the policies to be adequate and of good quality.

Areas for improvement

GAA observations

We have been informed that Aon have been working collaboratively on the UBS Global Equity Climate Transition Fund, and GAA hopes this work can be used to positively impact outcomes for policyholders in future years.



Appendix A: Comparison report

Commencing with the 2021 year assessments the FCA introduced a requirement that a comparative assessment be made of certain sub-features of the Value for Money assessment. The GAA is required to compare the Firm's offering against a selected group other similar product options available in the market based on publicly available information. If an alternative scheme(s) would offer better value, we must inform the pension provider.

As this is the first year when these disclosures are required the availability of public information relating to the sub-features that need to be compared is limited prior to the publication of this year's reports. ZEDRA Governance Ltd's GAA operates for a number of Firms, all of whom have agreed that the GAA can make use of the data we have gathered on their offerings in order to improve the meaningfulness of the comparisons undertaken this year. This is done on an anonymised basis.

How the comparators were selected

The GAA has selected a number of comparator products that we determined are sufficiently similar products to those provided by the Firm for this purpose. The selection was based on the following broad criteria:

- | Type of product i.e. whether accumulation or pathways, and within accumulation whether the product is a SIPP of workplace group personal pension

- | Products where Firms provide similar services, for example in the case of a SIPP whether the provider has responsibility for setting and monitoring the investment strategy
- | Similar membership cohort, for example staff schemes for staff of the provider.

Based on these criteria we believe that the comparator products chosen will provide a reasonable comparison for the pathway investors of the Firm.

Comparison of net investment performance

The GAA has faced some challenges in identifying suitable comparators for the comparison of investment performance since different firms have adopted different pathway investment solutions with significantly different levels of risk exposure. In addition, the risk and return performance relates to different periods depending on when the Firm launched investment pathways. The comparison of risk adjusted net investment returns has therefore been limited this year and we have therefore focused on whether the return has been below, broadly in line or ahead of an appropriate benchmark taking into account the nature and risk profile of the investment pathway solution.

Comparison of Communication provided to pathway investors

We have assessed how the communication materials provided to the Firm's pathway investors compares to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's pathway investors over 2021 were above average relative to the comparator group.

Investment Pathway	Investment Performance
Investment Pathway 1	Performance exceeding benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data
Investment Pathway 2	Performance broadly in line with benchmark, suggesting performance is comparable with that expected of a similar investment solution, noting limitations of comparator data
Investment Pathway 3	Performance exceeding benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data
Investment Pathway 4	Performance exceeding benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data

Comparison of Administration Services

We have assessed how the quality and timeliness of the administration services, including core transaction processing, provided to the Firm's pathway investors compares to other sufficiently similar investment pathway arrangements.

This assessment identified that the administration services provided to the Firm's pathway investors over 2021 were above average relative to the comparator group.

Comparison of costs and charges

We have undertaken the comparison of cost and charge levels considering three categories of charges:

- | Annual administration charge
- | Transaction costs
- | Other costs & charges

We have assessed the overall cost and charge levels payable by the Firm's pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the overall cost and charge level paid by the Firm's pathway investors over 2021 were good relative to the comparator group.



Appendix B: GAA activity and regulatory matters

This section describes the work that the GAA has done over the year and also covers the other matters which we are required to include in our annual report.

GAA engagement and actions this year

We prepared and issued a request for data on all the relevant workplace pension policies in late 2021.

Members of the GAA had a meeting with representatives of Aon to kick off the Value for Money assessment process for the 2021 calendar year and to discuss and agree timescales.

Members of the GAA had a meeting with representatives of Aon to discuss the information that had been provided in response to the data request. This was an opportunity for members of the GAA to meet key personnel with responsibility in the various different areas including investment strategy and how this has evolved, investment governance, approach to ESG, non-financial matters and stewardship, administration and communications and risk management. In some cases given COVID 19 considerations, this meeting was virtual.

Members of the GAA had a meeting with representatives of Aon to discuss the GAA's provisional scoring of Value for Money of the in-scope Aon pathway investments.

As part of the Value for Money assessment process, Aon has provided the GAA with all the information that we requested, including evidence in the form of minutes and other documentation to support areas of discussion at the site visit.

The GAA held several meetings during the year to review and discuss the information we received and to develop and improve the way that we assess Value for Money and report on this.

Over the last year the GAA reviewed and evolved our Value for Money assessment framework to include a broader range of evaluation criteria, which is reflected in this report. Some of these changes were made in response to regulatory amendments relating to the Value for Money assessment criteria.

The GAA documents all formal meetings with Aon and maintains a log which captures any concerns raised by the GAA with Aon, whether informally or as formal escalations. The key dates are:

Item	Date
Issue data request	22/12/21
Kick off meeting	06/01/22
Site visit	04/04/22
GAA panel review meeting	03/05/22
Discuss provisional scoring	20/06/22

Concerns raised with the Provider by the GAA and their response

The GAA has not raised any concerns with Aon during the year covered by this report.

The arrangements put in place for pathway investors' representation

The following arrangements have been put in place to ensure that the views of pathway investors can be directly represented to the GAA:

- | The role of the GAA and the opportunity for pathway investors to make representations direct to the GAA has been and will continue to be communicated to pathway investors via bbt. admin@aon.co.uk
- | Aon will receive and filter all policyholder communications, to ensure that this channel is not being used for individual complaints and queries rather than more general representations which may be applicable to more than one pathway investor or group of pathway investors. Where Aon determine that a communication from a pathway investor is a representation to the GAA, it will be passed on in full and without editing or comment for the GAA to consider.

In addition, the GAA has established a dedicated inbox at zgl.gaacontact@zedra.com so that pathway investors can make representation to the GAA direct. Aon will include details of this contact e-mail address on www.aon.co.uk/employee-benefits



Appendix C: ZEDRA GAA credentials

In February 2015 the Financial Conduct Authority (FCA) set out new rules for providers operating workplace personal pension plans (called relevant schemes) to take effect from 6 April 2015. From that date, providers had to have set up an Independent Governance Committee or appointed a Governance Advisory Arrangement whose principal functions would be to:

- | Act solely in the interests of the **relevant policyholders** of those pension plans, and to
- | Assess the “value for money” delivered by the pension plans to those relevant policyholders.

These requirements were then extended to Firms providing investment pathways in respect of pathway investors from 1 February 2021.

The FCA rules also require that the Chair of each Independent Governance Committee and Governance Advisory Arrangement produce an annual report setting out a number of prescribed matters.

The ZEDRA Governance Advisory Arrangement (“the GAA”) was established on 6 April 2015 and has been appointed by a number of workplace personal pension providers and investment pathways providers. ZEDRA Governance Ltd is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments we act as an independent trustee on several hundred trust-based pension schemes and we sit on a number of IGCs. We have oversight or responsibility for in excess of £120bn of pension assets. More information on ZEDRA can be found at www.zedra.com/pension-schemes

The members of the GAA are appointed by the Board of ZEDRA Governance Ltd. The Board is satisfied that individually and collectively the members of the GAA have sufficient expertise, experience, and independence to act in the interests of relevant policyholders or pathway investors.

The Board of ZEDRA Governance Ltd has appointed ZEDRA Governance Ltd to the GAA, including as Chair. All of ZEDRA Governance Ltd’s Client Directors act as representatives of ZEDRA Governance Ltd on the GAA and Clare James currently represents ZEDRA Governance Ltd in the capacity of Chair. More information on each of ZEDRA Governance Ltd’s Client Directors, their experience and qualifications can be found at www.zedra.com/zedra-team

Dean Wetton, acting on behalf of Dean Wetton Advisory UK Ltd, is also appointed to the GAA. Dean Wetton and Dean Wetton Advisory UK Ltd are independent of ZEDRA Governance Ltd. Information on Dean’s experience and qualifications can be found at www.deanwettonadvisory.com

The GAA has put in place a conflicts of interest register and maintains a conflicts of interest policy with the objective of ensuring that any potential conflicts of interest are managed effectively so they do not affect the ability of ZEDRA Governance Ltd or Dean Wetton Advisory Ltd to represent the interests of relevant policyholders or pathway investors.

The terms of reference agreed with the Firm can be found at: www.aon.co.uk/employee-benefits



Appendix D: Glossary

Audit and assurance faculty (AAF) report

A copy of a Service Provider's report prepared by its accountants in line with the Institute of Chartered Accountants in England and Wales (ICAEW) assurance reporting framework.

Active management

The investment of funds where the skill of the fund manager is used to select particular assets at particular times, with the aim of achieving higher than average growth for the assets in question

Annual management charge (AMC)

A deduction made by the pension provider or investment manager from invested assets, normally as a percentage of the assets. The AMC is generally how the pension provider or investment manager is paid for their services.

Annuity

A series of payments, which may be subject to increases, made at stated intervals, usually for life. If the annuity is "joint life", it will continue to a spouse (usually at a lower rate) after the death of the original person receiving the payments ('the annuitant').

COBS

The Conduct of Business Sourcebook prepared by the Financial Conduct Authority (FCA). In particular when we use COBS in this report we are referring to Chapter 19 of the COBS which sets out the provisions relevant to the Value for Money Assessment of workplace pensions.

Core financial transactions

The essential processes of putting money into a pension policy or taking it out, namely:

- | Investment of contributions.
- | Implementation of re-direction of future contributions to a different fund.
- | Investment switches for existing funds, including life-styling processes.
- | Settlement of benefits - whether arising from transfer out, death or retirement.

Decumulation

The process of converting pension savings to retirement income.

Environmental, social and governance (ESG)

These are the three main factors looked at when assessing the sustainability (including the impact of climate change) and ethical impact of a company or business. ESG factors are expected to influence the future financial performance of the company and therefore have an impact on the expected risk and return of the pension fund investment in that company.

Flexible access

This refers to accessing pension savings in the form of income and/or lump sums. Pension savings that are not being accessed immediately will generally remain invested.

Life-styling

An automated process of switching investment strategy as a policyholder approaches retirement, in a way that is designed to reduce the risk of a policyholder's retirement income falling.

Net investment performance

The investment performance of the fund after deducting all asset management charges, administration charges, taxes and fees for managing the fund including any transaction costs.

Pathway investor

A retail client investing in a Firm's pathway investment offering.

Pathway investment

A drawdown fund which is either a capped drawdown pension fund or a flexi-access drawdown pension fund.

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.

Transaction costs

A combination of explicit and implicit costs included within the price at which a transaction (i.e. buying or selling an asset) takes place.

With profits

An insurance contract that participates in the profits of an insurance company. The insurance company aims to distribute part of its profits to with-profits policy holders in the form of bonuses.



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