



THE SCOTTISH FRIENDLY GOVERNANCE ADVISORY ARRANGEMENT (THE SFGAA)

FORMERLY THE MOBIUS LIFE GOVERNANCE ADVISORY ARRANGEMENT (MLGAA)

Statement for the Year ending 31 March 2019

Prepared in accordance with the Financial Conduct Authority's Conduct of Business Rules
(cobs 19.5.3)



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1 Introduction

- 1.1. This is the fourth annual statement by the SFGAA/MLGAA since its establishment as the MLGAA on the 6th April 2015. The composition has changed following the transfer of the workplace pensions schemes in scope from Mobius Life to Scottish Friendly on the 9th November 2018. Ian Neilson, and Kevin McNally of Scottish Friendly have replaced Adrian Swales and Nick Gallimore, both of Mobius Life, on the committee. The current composition of the SFGAA is therefore the independent chair, Andrew Cheeseman of PAN Trustees Limited, and the two further members independent of Scottish Friendly, namely Roger Mattingly of PAN Trustees Limited and Michael Wheeler of Guinness Mahon Trust Corporation Limited. It is important to re-emphasise the Scottish Friendly representatives have a regulatory duty to act solely in the interests of the relevant scheme members and that they must put aside the commercial interests of Scottish Friendly when discharging their SFGAA duties.
- 1.2. It is also important to restate that the SFGAA has a duty to protect the interests of members of workplace pension schemes operated by Scottish Friendly and to:
 - act solely in the interests of the members;
 - operate independently from Scottish Friendly, in accordance with the SFGAA's Terms of Reference;
 - assess, and where necessary, challenge Scottish Friendly on whether these workplace pensions schemes provide value for money for members.
- 1.3. The workplace pension schemes covered by this report are provided under the following personal pension schemes and stakeholder schemes:
 - The Investment Solutions Group Personal Pension Plan (the ISGPP)
 - The Investment Solutions Stakeholder Pension Plan (the ISSPP)
- 1.4. A copy of the SFGAA's Terms of Reference is attached. If you should have any queries about this report or the Terms of Reference please contact PAN Trustees Limited, 3 Castlefield Court, Church Street, Reigate, RH2 0AH.

2 Summary

- 2.1. The SFGAA/MLGAA (the GAA) held 8 meetings during the 2018/19 year including 4 governance review meetings with the firm that provides the member administration services to the ISGPP and the ISSPP. 4 of the 8 meetings were held prior to the transfer of the business to Scottish Friendly. As envisaged in our last Annual Statement the full transfer of the administrative services from BlackRock to Aegon Workplace Solutions was completed in 2018 following the required Part VII hearing on the 21st June 2018. The SFGAA/MLGAA continued to meet with senior management at both firms leading up to the transfer.

- 2.2. The GAA has continued to hold regular meetings with Aegon in Peterborough and London throughout the year to closely monitor the services provided. We are pleased to be able to report that there has been no adverse impact experienced during 2018/19 as a result of the full transfer of the administration services provision and this is, in the main, a result of the same personnel continuing to work on the plans.
- 2.3. As in the previous Annual Statements, it is worth emphasising that no commission payments have ever been made in respect of these arrangements and that there are no exit charges on any of these schemes.
- 2.4. The GAA has previously set out its framework and methodology for assessing Value for Money (VfM). The approach adopted recognises the subjective nature of the concept and that no single definition can be applied in all circumstances. The framework identified focusses on Quality; Risk; Relevance (including member engagement); and Cost.
- 2.5. In 2017/18 the GAA carried out a comprehensive survey of the members and took encouragement from the fact that all those who responded were either “satisfied” or “very satisfied”. It is the GAA’s intention to conduct a similar survey in 2019/20.
- 2.6. As in the previous VfM assessments the GAA has used a process of weighted ratings for each of the VfM components with the aim of establishing an appropriate level of objectivity and maintaining a consistency of approach to facilitate the monitoring of trends. In arriving at its conclusion the GAA, again, considered the proportions of active and passive investment in both the default funds and the self-select funds. Other aspects such as security of assets, policyholder protection, provider sustainability and investment process were also taken into account in the assessment.
- 2.7. The significance of the absence of entry and exit costs was again deemed important in the analysis of Costs as was the upper limit of a 1.0% Annual Management Charge (AMC) imposed on default and deemed default funds of non-qualifying auto-enrolment schemes. Checks were made to ensure that the 0.75% AMC statutory charge cap for the qualifying auto-enrolment schemes was not exceeded.
- 2.8. The overall rating assessed by the GAA for the year ending March 2019 was 73.5% made up of 17/25 in respect of Quality, 25.5/35 in respect of Risk, 6/10 in respect of Relevance and 25/30 in respect of Cost.
- 2.9. This rating compares with 71% for the year ending March 2018, made up of 17/25 in respect of Quality, 23/35 in respect of Risk, 6/10 in respect of Relevance and 25/30 in respect of Cost.
- 2.10. In conclusion the GAA is again of the view that the workplace pension schemes in scope of the SFGAA’s Terms of Reference continue to be capable of providing value for money for the members.

3 Default Arrangements

- 3.1. Following the comprehensive review in 2017 by Mobius Life of the default strategies being offered positive enhancements were introduced and in 2018 a number of new funds were added. These were constructed using a “building blocks” approach on the Mobius Life platform and included a range of Target date Funds. The GAA is comfortable that these remain fit for purpose and designed in the interests of the members.

4 Investment Strategies

- 4.1. As in previous years, reviews of other (non-default) investment strategies offered to members in scope have been undertaken and the investment performance of these closely monitored and challenged as and when deemed necessary. The performance of a few of these funds has been challenged during the year, in particular that of the Active UK Equity Fund and the Pre-Retirement Fund. The GAA has concluded that the majority of funds being offered are performing in accordance with their stated objectives. Mobius Life did, however, undertake a comprehensive review of their UK Equity strategy during 2018 which resulted in them replacing the investment manager, Merian, with Baillie Gifford. This change, made in January 2019, has resulted in a more balanced attribution between value and growth investment styles across the portfolio.

5 Core Financial and Administrative Transactions

- 5.1. The GAA maintains its view that the following are core financial transactions:
- Investment of contributions;
 - Transfer payments paid in from other pension arrangements;
 - Transfers of members’ assets between different investment funds available to members;
 - Payments to, or in respect, of members.
- 5.2. In the main core financial transactions continue to be processed promptly and accurately, as evidenced by the information provided by Aegon in their regular administration reports which are presented to the GAA at the management review meetings. The overall performance against Service Levels in the 4th quarter of 2018 showed that approx. 94% of transactions had been processed inside Service Level Agreements (SLAs). There were, however, a few quarterly SLA percentages below 90%, including death claims at 87.2% and retirements at 81.5% and the GAA has made it clear to Aegon that these specific performance levels need to be improved. Unfortunately there has been a slightly concerning downturn in the overall SLA in the first quarter of 2019, the average over the quarter falling to 85.4%. This is significantly below the 98% at the previous year end and will be monitored very closely in the coming months. The GAA has been advised by Aegon that they will be increasing resource capacity in Peterborough in 2019 in response to this and it is hoped, and

expected, that this will have a positive impact and that the overall SLA percentage will improve accordingly.

- 5.3. It is important to re-emphasise that member complaints are closely monitored and reviewed by the GAA. These have again been relatively low and mainly associated with transactional process much of which is determined by regulatory and statutory requirements.
- 5.4. The system enhancements taken in response to complaints relating to the process of member identification verification have, however, served to reduce these specific complaint levels and the use of the Origo transfer system continues to be of benefit in reducing the number of days previously taken to process transfers.

6 Charges and Transaction Costs

- 6.1. The GAA for consistency and comparison purposes have considered transaction costs in isolation outside of the historic basis for assessing VfM.
- 6.2. Rigorous checks have again been undertaken, and the GAA assured, that where it has been agreed that an arrangement can be used by the employer to meet “auto-enrolment duties”, the charges are within the range permitted by legislation.
- 6.3. Transaction cost information has now been obtained for all the funds within scope for the 12 month period to 31 March 2018 and these have been made available to the GAA. This analysis shows that transaction costs for that period were in the range of -0.438% to +0.40% in respect of the Group Personal Pension Plans in scope and -0.051% to +0.176% in respect of the Stakeholder arrangements in scope. The SFGAA looks forward to the time when there is an industry standard methodology for transaction cost calculation and disclosure so that it can make a more informed judgement on the market comparability of these costs. In the meantime the SFGAA has been advised by Mobius Life that in future it will be using the services of a specialist 3rd party firm to verify the transaction costs provided by the investment managers on its platform.
- 6.4. The SFGAA assessed the extent to which all charges identified represent VfM to the members and concluded with the continued position of value being provided.

7 SFGAA Expertise

- 7.1. The SFGAA has sufficient expertise, experience and independence to act in members’ interests and this is evidenced by the CVs of the participants.

8 Member Representation

- 8.1. The SFGAA is required to consider members’ interests. As mentioned the most recent comprehensive member survey was very encouraging but the SFGAA will be repeating this in 2019 to make sure that the high level of member satisfaction has been maintained.

- 8.2. It should also be noted that it has continued to monitor the administration service provider's Net Promoter Score (NPS). This assesses whether a member would be likely to recommend the service to another person and gauges the loyalty of a firm's customer relationships. An NPS rating in excess of 50 is recognised as being excellent and it continues to be pleasing to note the latest available 3 month average NPS rating is 63.

9 Actions for 2019/20

- 9.1. The key actions for the coming year will be to ensure that the arrangements continue to provide VfM post the transfer of the business to Scottish Friendly. It is also hoped that 2019 will be the year that an industry standard for benchmarking transaction costs is finally agreed and implemented so that the SFGAA can make a more accurate relative assessment of these costs and include it within the ongoing VfM assessment.
- 9.2. The SFGAA will continue to constructively engage, and challenge when necessary, with the provider, now Scottish Friendly, to make sure that the arrangements being offered continue to be appropriate and cost effective.

10 Appendix

- SFGAA Terms of Reference
- SFGAA Escalation Policy
- Value for Money Assessment
- Biographies for SFGAA members



Scottish Friendly Assurance Society Limited

Governance Advisory Arrangement

Terms of Reference



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1 Purpose

- 1.1. The primary role of the Governance Advisory Arrangement (GAA) is to ensure compliance with the Financial Conduct Authority's (FCA) rules for independence governance committees (as amended from time to time), and to act in accordance with all applicable legislation, regulations rules and guidance, whether made by the FCA or otherwise.

2 Membership

- 2.1. Appointment of GAA members, including the Chair of the Committee, shall be the responsibility of Scottish Friendly Assurance Society Limited ("Scottish Friendly").
- 2.2. The GAA shall normally consist of not less than five members, the majority of whom must be independent of Scottish Friendly.
- 2.3. Individual appointments to the GAA shall be for a fixed period of up to three years, which may be extended for up to two further additional periods, each of three years, provided that individuals continue to meet the criteria for membership of the GAA. Corporate persons appointed to the GAA may serve without any limit on the duration of their appointment.
- 2.4. GAA members may resign by providing Scottish Friendly with at least 2 months' written notice.

3 Quorum and Meeting procedures

- 3.1. A quorum of the GAA shall be a minimum of three independent members, and a majority of independent members. In the absence of the Committee Chair, the remaining members present shall elect one of themselves to chair the meeting. The Committee, in consultation with Scottish Friendly, shall appoint a secretary of the Committee.
- 3.2. Decisions will be carried by a majority vote with each Committee member having an individual vote and the Chair having a casting vote.
- 3.3. There is the presumption that Committee members will make best efforts to be physically present at meetings, but the Chair may agree to a particular meeting being conducted by video or telephone conferencing if a Committee member requests it in advance. For the avoidance of doubt, the presence of a Committee member by telephone or video conference constitutes attendance at the meeting, and, therefore, counts towards the quorum.

4 Meetings

- 4.1. The GAA shall meet as necessary, and normally no less than four times a year, on dates to be determined in advance. Additional meetings may be convened if necessary, with 14 days' notice. Only members shall have the right to attend meetings; non-members are able to attend meetings by invitation only.

- 4.2. The GAA secretary shall minute the proceedings and resolutions of all meetings of the GAA.
- 4.3. Minutes of each GAA meeting shall be circulated as soon as practicable to all members of the GAA. They shall be approved (with updates on previously agreed actions provided) within four weeks of the meeting.
- 4.4. Meetings of the GAA shall be summoned by the secretary at the request of any of its members, in each case with the agreement of the Chair.
- 4.5. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the GAA and any other person required to attend.
- 4.6. Meetings of the GAA may take place in person or by telephone/video conference.

5 Authority

- 5.1. The Committee may:
 - i. Investigate or cause to be investigated any activity within its terms of reference;
 - ii. Seek any information that it reasonably requires from Scottish Friendly in order to perform its duties and all representatives of Scottish Friendly to co-operate with any request made by the Committee;
 - iii. Despatch its business, adjourn and otherwise regulate its meetings as it shall see fit, including approving items of business by written resolution

6 Duties

- 6.1. The duties of the GAA, which will be carried out in relation to Scottish Friendly's workplace pension scheme(s) as a whole (or individually if appropriate) shall be to:
 - a) Act in the interests of the members of the workplace pension scheme(s);
 - b) Act independently of Scottish Friendly (although Committee members should acquaint themselves with Scottish Friendly's business, products and systems);
 - c) Assess whether Scottish Friendly's workplace pension scheme(s) offer value for money, taking account of the relevant benefits and services the scheme members pay for in costs and charges (whether directly or indirectly), and:
 - i. Decide how to assess value for money in respect fund strategies available to present and past workplace personal pension scheme members implemented in respect of Scottish Friendly's scheme(s);
 - ii. Assess whether the characteristics and net performance of all investment strategies are regularly reviewed by Scottish Friendly to ensure alignment with

- the interests of scheme members, and where agreed with Scottish Friendly, to participate in the review procedure;
- iii. Assess the level of charges borne by scheme members and costs (direct and indirect) incurred in relation to transactions and other activities in managing and investing the pension assets of scheme members;
 - iv. Identify and quantify all other costs to understand full cost of investment services - including all fixed and variable costs;
 - v. Consider whether the costs and charges borne by scheme members to pay for services deliver sufficient value to scheme members (taking into account characteristics of scheme members);
 - vi. If the Committee deem it appropriate (or if directed by the FCA), consider value for money in respect of members in decumulation, or who have exercised retirement income options;
- d) Evaluate whether default investment strategies have been designed in the interests of scheme members, with a clear statement of aims, objectives and structure appropriate for scheme members;
 - e) Assess whether the characteristics and net performance of investment strategies (including non-default strategies and/or funds made available to scheme members) are regularly reviewed by Scottish Friendly to ensure alignment with the interests of scheme members, and action taken to make any necessary changes;
 - f) Assess whether core scheme financial transactions are being processed promptly and accurately;
 - g) Ensure that the services provided to members of workplace pension schemes are deemed appropriate by the Committee;
 - h) Evaluate the effectiveness of member communications;
 - i) Raise any concerns, and where necessary, make recommendations to Scottish Friendly regarding:
 - the value for money offered by Scottish Friendly`s workplace pension scheme(s); and
 - Any other issue examined by the Committee;
 - j) Obtain a written explanation from Scottish Friendly setting out reasons why they are not complying with (or has departed in any material way from) any of the Committee's recommendations; and
 - k) If appropriate, escalate the matter to the FCA if the GAA is still not satisfied. If the Committee has escalated a matter to the FCA it may consider making any material concerns it has public (after notification of any such intention to the FCA).

7 Reporting Procedures

- 7.1. The chairman of the GAA shall report to Scottish Friendly at regular intervals on the matters it has reviewed, making recommendations as appropriate.
- 7.2. GAA members undertake a review of the GAA's performance and these terms of reference annually and, if necessary, make recommendations to Scottish Friendly, including, if appropriate, amendment of this Terms of Reference document.
- 7.3. The GAA shall produce an annual report of the Committee's findings and activities during the year, which will be made publicly available. The Committee will submit its draft annual report to Scottish Friendly for review and comment before it is finalised and made public.

8 Conflicts of Interest

- 8.1. The GAA will act in the interests of members both individually and collectively. Where there is the potential for conflict between the individual and collective interests, the GAA should manage this conflict effectively. The GAA is not required to deal directly with complaints from individual policyholders.

9 Indemnity

- 9.1. Scottish Friendly will indemnify each member of the GAA on an on-going basis in respect of any claim, cost, loss, damages, awards or liabilities arising in respect of any act or omission occurring in the exercise of their role as a GAA member.

The Escalation Policy In Respect Of the Scottish Friendly Governance Advisory Arrangement (The SFGAA)

- 1.1. The SFGAA intends to engage constructively with Scottish Friendly in fulfilling the SLGAA's duties and responsibilities.
- 1.2. In the first instance, the Chair of the MSFGAA (in agreement with, and on behalf of, the SFGAA) will raise informally with Ian Neilson ("the Responsible Officer") of Scottish Friendly Assurance Society Limited any concerns it may have in relation to the cooperation being experienced and information being provided to the SFGAA.
- 1.3. The SFGAA will only consider taking more formal action if it is unable to resolve a relevant concern by means of such informal engagement.
- 1.4. In the event that the relevant concern is not resolved by informal means, the SFGAA will refer the relevant concern to the Board of Scottish Friendly Assurance Society Limited by written notice, having given prior notice to the Responsible Officer of its intention to do so.
- 1.5. In such circumstances, the SFGAA will engage with the Board of Scottish Friendly Assurance Society Limited in order to seek to resolve the relevant concern. The SFGAA will specify a timescale within which it wishes to resolve the issue.
- 1.6. In the unlikely event that the relevant concern is not resolved in this way, and Scottish Friendly Assurance Society Limited has not either complied with the SFGAA's wishes or provided a reasonable explanation of any non compliance with the SFGAA's wishes, the SFGAA may be required to report such matter to the Financial Conduct Authority. Such action would be deemed to be one of last resort and at least 7 days written notice would be provided to the Board of Scottish Friendly Assurance Society Limited if such an approach was to be adopted, with a view to the matter being addressed before such a report to the FCA becomes necessary.
- 1.7. All decisions to escalate matters under this policy shall be taken by a majority vote of the SFGAA. Authorised signatures:
- 1.8. We hereby accept the terms of the SFGAA Escalation Policy:

Signed.....

Signed.....

On behalf of the SFGAA.

On behalf of Scottish Friendly Assurance Society Limited

Year ending March 2019

Category	Section	Notes	Rating	Maximum
Risk	Provider	Transition from Mobius Life to Scottish Friendly - core provision of SF operation	12.5	15
Risk	Investments	Strengthened as above, greater scrutiny, oversight maintained. Products & development via SF investment - greater expectation	11	15
Risk	Third party / Counterparty risk	Continues to exist CP17/20. DC workplace pension templates (DCPT) referenced	2	5
Cost	Entry	No entry costs - confirmed	7.5	7.5
Cost	Ongoing		10	15
Cost	Exit	No exit costs - confirmed	7.5	7.5
Quality	Structure - Default & Non Default		9	13
Quality	Communications		3	6
Quality	Administration	Service standards remain under review. Part 7 transition to SF created additional calls	5	6
Relevance	Benefits	No post retirement options for members	3	5
Relevance	Investments		3	5

	Total section score	Section Maximum
Risk	25.5	35
Cost	25	30
Quality	17	25
Relevance	6	10
Total	73.5	100

The Members Of The Scottish Friendly Governance Advisory Arrangement (SFGAA)

Andrew Cheeseman - Chair of the SFGAA

Andrew is the Chairman of the PAN Group and acts as trustee to a number of pension plans inclusive of contract based and trust based arrangements. He is totally conversant with all types of pension arrangements having worked for a leading insurer and employee benefit practice prior to becoming Chairman of the PAN Group.

Roger Mattingly - Member of the SFGAA

Roger is a Past President of the Society of Pension Professionals having spent his entire career in the pensions industry. He served on the board of what was HSBC Actuaries and Consultants Limited for over 20 years. He has been, and is, a member of various industry groups including the Pensions Regulator's Stakeholder Advisory Panel, the Pensions and Lifetime Savings Association DB and DC Multi employer committees, the House of Commons Pensions Leadership Group and several DWP Policy Engagement groups. He is a Fellow of the Institute of Directors.

Michael Wheeler - Member of the SFGAA

Michael has been an FCA regulated individual since 2001. Current responsibilities include team management and operational tasks in the provision of self-invested personal pension administration services. He is a member of the Investment and Governance Committee for Guinness Mahon Trust Corporation Limited and the Personal Finance Society. Daily contact with clients ensures he continues to be aware and sensitive to the needs of individuals, simplifying the complex world of financial services into a clear and useful dialogue.

Ian Neilson - Member of the SFGAA

Ian has 30 years' experience in the Life and Pension industry and has responsibility for operational management of Scottish Friendly's business including Customer Service (outsourced and in-house) and the IT functions. Ian has been at Scottish Friendly for 9 years as a member of the Executive Management Team. He has previously been a technical business manager for Abbey National/Banco Santander's life and pension business with extensive experience of managing pension business, technical and regulatory change and reporting. Ian is a member of the ABI Long Standing Customer Committee and a Professional Member of the British Computer Society.

Kevin McNally - Member of the SFGAA

Kevin has 18 years' experience in the Life and Pension industry spanning Risk and Compliance and operational management including outsourced business. Kevin has recently joined Scottish Friendly from Capita where he held a number of Compliance roles including most recently Risk and Compliance Manager for two major accounts. Kevin holds the Chartered Insurance Institute Certificate of Insurance.