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How to analyse workplace pension default funds

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Contents

Introduction

Welcome to our third annual guide to reviewing workplace pension default funds.

Default fund performance will often be the deciding factor as to when individuals can afford to retire.

With many workplace pension providers stating that over 9 out of 10 members use the default fund, this is a critically important subject for millions of people.

Inside we detail how to review default funds. This will give you a working process to follow and the data to make evidence-based assessments for your clients.

This document is mainly aimed at researchers who work in Financial Services, Accounting and HR.

Taking an independent position, we impartially analyse the key factors we feel advisers should be aware of, understand and be considering when reviewing default funds.

We have split this guide into two parts:

Part 1	**Key factors to consider when reviewing default funds** We identify scheme structures and variations, then the key factors to consider when undertaking due diligence and scheme selection for the accumulation phase
Part 2	**Comparison of default funds** This is the technical area where we impartially analyse and compare the default fund options available for workplace pensions, across several different criteria, with the ultimate objective of empowering advisers to evidence 'value for money'

We hope you find this guide both informative and interesting.

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Learning objectives

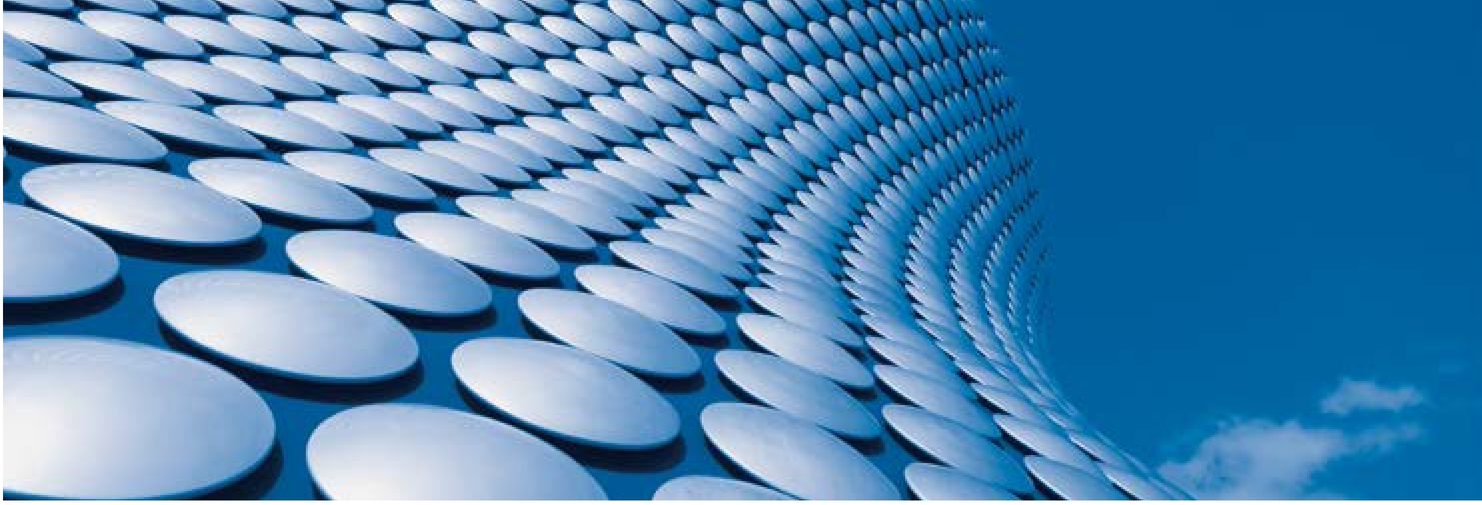
Reading this document will enable you to:

1	Opportunity	Be able to identify where improvements in employee benefit packages are available
2	Market place	Be able to identify a provider's default investment strategies, focusing on the accumulation phase, and how they compare to others
3	Reviewing	Be able to identify the main differentiating factors between default funds, including: • Governance and regulation • Provider financial strength and/or capability • Trustees, independent governance committees (IGCs) and investment committee oversight • Investment management key factors • Cost • Investment and performance • Benchmarking and evidencing 'value for money'

Acronyms

The main acronyms used in this document are:

AMC	Annual management charge
CMA	Competition and Markets Authority
DC	Defined contribution
ESG	Environment, social and governance
FCA	Financial Conduct Authority
IGC	Independent governance committee
TPR	The Pensions Regulator



Part 1 – Key factors to consider when reviewing default funds

The market place

The workplace pension market is vast and therefore provides a great opportunity for advisers. The headline numbers are:

1.4 million employers	10 million employees	175,000+ new employers pa

The opportunities keep rolling in

Auto-enrolment started in 2012, resulting in over 1.4 million employers needing to set up saving schemes for over 10 million employees. While existing employers have schemes in place, there are an estimated 175,000 new employers needing to set up schemes every year.

It's not over yet!

On 12 December 2018, the Competition and Markets Authority (CMA) reported on problems in the ways that the investment consultant and fiduciary management markets worked. In essence, the report identified that pension schemes could benefit from more diverse and impartial advice, and that there is a lack of competition in the sector giving advice. This creates a need and opportunity for more advisers to become involved.

You can access the full report at:
gov.uk/cma-cases/investment-consultants-market-investigation#final-report

Common reasons why employers need advice

What employees expect from their employer

The top five benefits employees look for from their employer are:

1	Life cover
2	Dental cover
3	Medical cover
4	Paid time off
5	Retirement planning

Source: LIMRA report, 12 June 2018

By discussing these 'extra benefits' with employers, advisers create the potential to be able to recommend improvements to their employee benefits packages. Remember, these additional benefits can often be provided tax efficiently for the business.

How to promote reviews

Employers must undertake a triennial review of their workplace pension proposition. This includes opting back in employees who have previously opted out.

This review also triggers many employers to evaluate their proposition and ascertain if the pension scheme they are using is still appropriate and suitable. Ultimately, employers have a 'duty of care' obligation to their employees, and providing a pension scheme falls within that remit.

Accountants and advisers are now providing due diligence reports to help employers through this process, and we encourage you to use these reports.

Questions to ask employers about their existing pension schemes

- Are they confident employees are saving enough to be able to afford to retire?
- Are they running a number of schemes?
- Are they having to rekey data, ie into payroll, middleware and/or pension schemes?
- Did auto-enrolment also inadvertently introduce discrimination in areas such as age, religion and salary?
- What has been their experience of their existing adviser/pension provider service?
- What charges are the business and its employees paying and are they competitive?
- What is the default fund invested in, and are they comfortable with this?
- Do they wish to improve their employee benefits package, ie to retain staff?

Providers

We invited all workplace pension providers for which Defaqto holds data and which are open to retail business, to participate. This equates to over 70 schemes from 35 providers. Below we list the providers who have kindly taken part in this review:

Providers		
Aegon	Intelligent Money	Salvus
Amber Pension Trust	Legal & General	Scottish Widows
Aviva	Lewis & Co	Smart Pensions
B&CE (The People's Pension)	Mercer Master Trust	Standard Life
CEF (Northern Ireland)	National Pension Trust	SuperTrust UK
Creative Wealth Management	Nest	Welplan
Evolve (BlueSky) Pensions	NOW Pensions	Willis Towers Watson
Hargreaves Lansdown	Royal London	Zurich / Scottish Widows

A complete list of the retail workplace pension providers and schemes invited to participate in this review can be found in Appendix A.

Key factors to consider when reviewing a default fund

Below are the key factors we believe you should identify and consider in any workplace pension due diligence process:

1	Governance and regulation
2	Provider financial strength and/or capability
3	IGCs, trustees and investment committees
4	Investment management key factors
5	Cost
6	Investment and performance
7	Benchmarking and evidencing 'value for money'

At the end of Part 1 you will also find a 'Default fund due diligence checklist', which you can print off and complete before placing it on file to evidence the steps you have undertaken.

1. Governance and regulation

There are two types of workplace pension, and it is therefore important you understand which type of pension scheme you are recommending. While there is insufficient room in this guide to compare the two types, they can be summarised as:

Trust based	Contract based
Uses a collective approach to investing whereby savers are beneficiaries of a trust	Each saver has their own ‘contract’ with the pension provider
Regulated by The Pension Regulator (TPR)	Regulated by Financial Conduct Authority (FCA)

There are two types of trust-based scheme, own trust and master trust. We will concentrate on master trusts within this guide, as they are the most commonly used version.

2. Provider financial strength and/or capability

There is little point putting a scheme in place with a provider who is not going to be in business in the foreseeable future. Ascertaining and comparing the financial strength and capability of providers will go some way towards mitigating this risk.

The market consists of many scheme sizes and variations, and a number of newer entrants sit alongside those that have existed for a number of years. That said, both the FCA and TPR have introduced tougher criteria for providers to meet if they wish to continue to operate. We are already seeing the number of providers decrease, and we expect this contraction to continue throughout 2019.

Being able to ascertain the financial strength and capability of a provider is not straight forward as there is no single independent barometer. The most commonly used measures we are aware of are:

Scheme type	Measure
Contract	AKG financial strength rating
Own trust	None
Master trust	Master Trust Assurance Framework type 2 accreditation

We suggest any measure you utilise should use data that is no more than 12 months old. Also, remember it is financial strength and capability you are interested in, not credit ratings.

Looking specifically at master trust pension schemes, all schemes had until the end of March 2019 to apply for authorisation from TPR to continue operating. In February TPR started to publish which providers had passed this assessment, with the final results due in October 2019.

It would be unwise to speculate about which providers applied and, of those who did, which ones will attain the new authorisation. We therefore await the definitive list from TPR. It is worth noting that TPR has been very clear it does not expect all master trusts to pass the authorisation process.

We strongly suggest introducers recommending master trusts consider the new TPR authorisation requirement in their due diligence process.

Another factor to consider is ownership. Contract schemes tend to be run by large companies with shareholders. Trusts by design hold little capital value themselves, but their administrators are companies. A small number of providers are run on a ‘not-for-profit’ basis. It is fair to say that the type or nature of ownership should not necessarily influence selection, but rather that all advisers should be aware of the models and the variations between them.

3. IGCs, trustees and investment committees

All of these groups are in place to provide oversight designed to mitigate risk, reduce cost and ultimately provide consumers with peace of mind.

Independence is considered an important factor by both regulators (FCA and TPR) as a way to mitigate any conflicts of interest. We will concentrate on the three key ways oversight is provided, namely:

IGC	Independent governance committee members have responsibility for contract-based schemes
Trustees	They have responsibility for trust-based schemes
Investment committee	These committees are found in both contract- and trust-based schemes and have responsibility for the investment strategy and underlying assets used

Independent governance committee

The FCA has regulated that contract-based schemes must have an IGC in place. IGCs have a duty to scrutinise the 'value for money' provided and must publicly report to members on how this is being achieved.

All IGCs must have a minimum of five members, the majority of whom must be independent, including an independent chair.

Factors IGCs must report on include:

- Assessing the ongoing 'value for money' of the workplace pension scheme
- Acting solely in the interests of relevant scheme members (savers)
- Raising any concerns with the provider's board
- Escalating their concerns to the regulator, if necessary
- Reporting annually on what they have done

While we encourage researchers to consider IGC reports in their due diligence, our experience is that not all of them are freely available and that their contents are not easily comparable.

Trustees

Trustees are responsible for trust-based schemes. They often seek advice on how best to administer the scheme and invest to achieve the stated objectives. Trustees tend to obtain that advice from investment consultants and/or fiduciary managers to make investment decisions on their behalf.

TPR has expressed concerns about these relationships and has issued guidance focused on Trustees employing strong governance and protecting members' interests.

Trusts must produce an annual Chair Statement, which contains much of the information contained within IGC reports, including details on the default fund and how 'value for money' is being achieved. As with the IGC reports, there is no standardisation, and so comparing information and data is not straight forward, something we hope TPR will rectify shortly.

Full details on Trustees' obligations and rules can be found in the defined contribution (DC) code. Advisers should familiarise themselves with this before recommending a trust-based scheme. It can be found at thepensionsregulator.gov.uk

From 1 October 2018, master trust pension schemes had six months to apply for authorisation from TPR to continue operating. TPR estimates a large number of master trusts will not pass this test or will not wish to pay the £41,000 application fee. This will result in the number of providers decreasing.

Master trusts need to demonstrate that the scheme meets the new standards, which includes assessments which examine:

1	Fit and proper people involved
2	Systems and processes in place
3	Continuity strategy, including how the scheme would be wound up
4	Suitability of scheme funder
5	Financial sustainability, including a business plan

Investment committees

Researchers should look at the remit provided to those running and managing the default fund and ascertain what, if any, conflicts of interest exist and how 'value for money' is being evidenced.

Governance styles to consider:

In-house	Independent	In-house oversight of independent solutions	Independent oversight of in-house solutions

Researchers should be attracted towards schemes that have independent and impartial oversight, with the ability to influence decisions. This can be found at the fund level, the asset allocation level and/or at the Trustee/provider level.

Many schemes are run on a hybrid basis whereby either in-house staff oversee outsourced solutions or independent advisers oversee in-house solutions. It is not unusual to find some form of independent scrutiny and reporting being undertaken on the in-house decisions, and these reports can aid the due diligence process.

It is important to understand that impartial oversight and/or outsourcing to independent third parties does not necessarily increase costs; indeed, the opposite can be true.

Advisers should look for schemes where the remit and incentives used to remunerate third parties match the needs and objectives of the investors. Importantly, look for impartial managers and Trustees with the ability to appoint professionals to meet specific needs. They can then target them accordingly and therefore identify failure promptly, potentially resulting in their replacement.

4. Investment management key factors

Investment management procedures and responsibilities

There are three elements to consider:

Investment strategy	Working practices	Individuals involved
This is not a simple case of selecting a passive philosophy over an active one. The key is to match the strategy to the profile of the employer and their employees. For example, if the workforce is primarily within 10 years of retirement, a high-risk strategy is unlikely to be appropriate for the members.	How robust, repeatable and independent are the working practices used to govern the investment strategy? How can this be evidenced, and what breaches and changes have there been in recent years? You should also understand the controls and checks in place to make sure the working practices are being followed fully.	This could potentially be more of an issue with smaller trust-based schemes. You should look at the control and influence individuals have and whether their knowledge, experience and expertise are sufficient to make such decisions.

As a final check, you should consider whether the combined process works in the best interests of members and produces 'value for money'.

The clarity, robustness and repeatability of decision making

Advisers should be checking that there is a freely available, fully documented, clear structured decision-making process in place.

Ask questions about how the processes are managed and compliance checked. In particular, when exceptions have occurred, and what impact these have had on savers.

Humans are not perfect and so the reality is that exceptions will have probably occurred at most providers. If a provider tells you they have not experienced exceptions or issues, you should question why.

The nature of workplace pensions means that the value of the funds under administration is growing quickly and significantly.

While economies of scale can improve outcomes, it is asset allocation decisions that drive the biggest differences in returns. It is prudent to ensure that the scheme has sufficient diversification through how it accesses markets. For example, how is risk mitigated when exposure to equities is required, ie through more than one asset class, fund and/or manager?

Advisers should consider the ability of the scheme to invest while maintaining its investment strategy and ideal asset allocation weightings. Arguably, those schemes that can facilitate investment through diversification of asset classes and investment managers are best placed to meet this need.

Who has the most to gain and lose from the decision-making process?

Investing responsibly

Investing responsibly is often confused with socially responsible investing. These are two, very different approaches, and so we have explained each of them below to aid understanding.

Socially responsible investing	Investing responsibly

Socially responsible investing

This is where an investment manager targets a specific investment philosophy or strategy based on investors' values.

Commonly, investors will access socially responsible investing strategies via a collective fund that meets a specific values-led objective. Ethical funds or social impact funds, for example, might exclude companies based on the harm they might do to society, such as tobacco or weapons. In addition, they may seek to invest primarily in companies that are engaged in efforts to improve society, such as community investment funds or social housing projects.

Investing responsibly

This is where the emphasis is on the investment manager to be proactive in the performance of the capital under their management.

Commonly, investment managers buy and hold shares with little, if any, contact with the business in which they are invested. Arguably, they have no influence over performance and are not maximising their investors' benefits. By comparison, investment managers with a responsible investing remit are looking to maximise the performance of the funds under their control.

The thinking is that well-run businesses with sound environmental and social practices have a better chance of long-term success and profitability.

Those managers with a responsible investing remit are looking to avoid businesses exposed to environmental, social and governance (ESG) issues. This is because the profitability of these businesses can be damaged or limited by fines, reputational damage and/or markets evolving in a way that is at odds with their business models.

Questions to ask employers about their existing pension schemes

- Proactive discussions with key personnel to influence their thinking and plans where appropriate
- Indirect pressure such as not increasing their shareholding and voicing concerns about activities being undertaken
- Direct pressure such as voting at AGMs and selling shares

In practice, investing responsibly translates into an investment manager using their position to influence the businesses in which they are invested to maximise shareholder returns over the medium and long term.

Responsible investing is about effective fund management beyond just buying and holding shares

5. Cost

Some providers set a standard annual management charge (AMC), while others charge a combination of fees; so, making a like-for-like comparison is not always straightforward.

This is an issue because for advice to be accurate and for ‘value for money’ to be evidenced, advisers need to include all costs in their research.

Commonly, the charge levied to the employee and/or employer depends upon many factors, including the size and profile of the employer and the adviser’s relationship with the provider. Interestingly, none of these factors are in the payers, (employees), control.

There are three stages of fees to consider: initial, ongoing and exit. Below we illustrate some of the more common ones to consider:

FACT: Costs reduce returns

	Initial	Ongoing	Exit
Contract	Establishment	Fund AMC Administration Service Platform Product Payroll	Closure
Own trust	Contribution		Transfer

While we have separated the fees between employer and employees, not all of these are charged by all providers. In addition, some schemes only charge either the employer or employee, while others weigh the fee towards one party.

Where a provider charges a combination of fees, these need to be added together to ascertain the amount of ongoing charges paid by the employees and employer.

Advisers will find that some schemes do not publicly state their fees, requiring an application to be made before ‘bespoke’ rates are offered.

As a rule of thumb if the AMC is comparatively low, it may be worth checking to see if any additional fees apply.

Low cost does NOT equal value for money

There are three different common fee structures in use:

A	Single AMC
B	Single fund AMC, plus initial and/or ongoing charge(s)
C	Variable fund AMC, plus initial and/or variable ongoing charge(s)

The 0.75% charge cap

One area where workplace pension schemes are leading by example is the use of the maximum equivalent default fund AMC, which is set at 0.75% per annum.

However, the method used to calculate the fund AMC can exclude certain activities. This analysis is outside the scope of this document, but both the FCA and TPR have produced guidance on this. We encourage researchers to keep up to date with the regulators' guidance so they can understand what is and is not included in each provider's quoted AMC.

Common additional fees to be aware of above the 0.75% include:

- Administration fees (payable by employees or employers)
- Investment charges over and above the annual charge (paid by employees)
- Establishment fees (paid by employers)

Some of the more common fees to look out for that can be applied to the employer and/or the employees are:

1	Allocation rates	11	Implications of suspending contributions
2	Annual investment/fund	12	Installation
3	Annual management	13	Retirement illustrations
4	Annual product/scheme	14	Reviews
5	Change of contribution	15	Statutory communications
6	Difference between bid and offer prices	16	Time out of investment between changes
7	Exit fees for employer	17	Transactions per type/on time cost basis
8	Exit fees for individuals on death	18	Transfer costs (in and out)
9	Exit fees for individuals on transfer	19	Transfer illustrations
10	Implications for individuals leaving employer	20	Valuations

Questions for consideration in the due diligence process

- Can the provider explain their costs succinctly and then confirm them in writing in a manner you can understand and use with your client?
- How does the fee structure fit with the regulators' desire for 'clarity of cost' and 'treating customers fairly (TCF)'; is the structure comparable to other schemes and can it be used to evidence 'value for money'?
- Ascertain the provider's target market. Consider average pot sizes based on the company profile such as employee salaries, contribution rates and definition of pensionable earnings.
- Considering the average age profile of your client's workforce; which fee structure has the potential to have the least compounding impact on individual member returns?

6. Investment and performance

There are many ways to dissect and analyse funds. We have previously discussed the subjective items, so in this section we concentrate on the quantifiable facts.

We have designed these guidelines to be impartial and repeatable. In addition, researchers should not need to go hunting for data; the scheme should provide this information freely on its website.

Subject areas to analyse:

- Management style (weightings to active and passive)
- Asset allocation and diversification
- How providers invest responsibly
- Annualised returns against peers
  - Absolute
  - Sharpe ratio
  - Sortino ratio
- Annualised returns against relevant benchmark

A relevant benchmark is one that the employer client and its employees can understand and relate to. Commonly, this is inflation or cash.

When discussing benchmarks with clients it is important to also set an appropriate assessment period. While some fund managers will talk about 20+ year investment horizons, this does not relate to how long someone will be an employee.

At Defaqto, we consider anything less than three years' performance to be insufficient to draw any meaningful conclusion; ideally, one should be looking at five or more years.

Fund providers' preferred benchmarks vary greatly across the industry, common examples including:

- An industry benchmark such as from the ABI, IA, FTSE or MSCI
- Cash + x% pa
- Inflation + x% pa (consumer price index (CPI) or retail price index (RPI))
- Volatility
- A mixture or composite of these

We do see providers using composite benchmarks, ie different benchmarks, for different elements of the assets held. While this may work well for providers and fund managers, they can sometimes be difficult for consumers to understand and are probably best avoided.

We analyse the default funds against these benchmarks in Part 2 of this guide.

7. Benchmarking and evidencing 'value for money'

What is 'value for money' and how can you evidence it?

The bad news is neither the FCA nor TPR has defined it, but using hindsight, they may well test the suitability of your advice against it.

> 'Value for money' is the regulators' preferred benchmark

When we look at how other industries assess value for money, we find some interesting guidance.

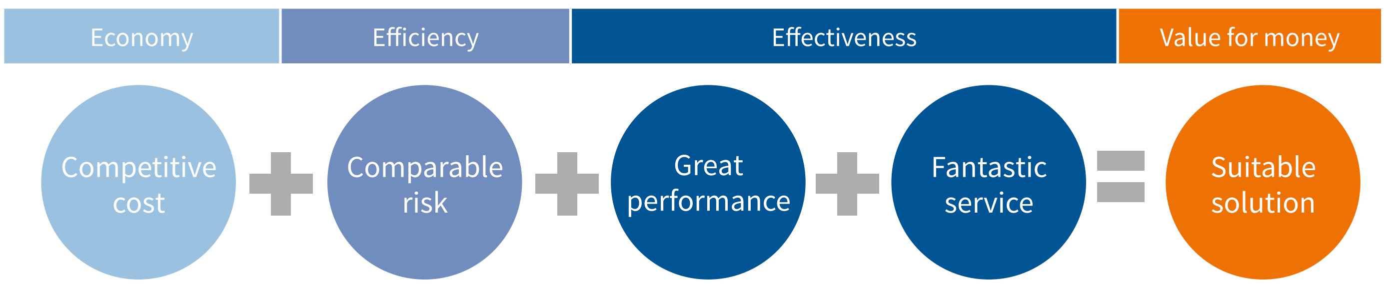
The UK government National Audit Office uses three criteria to assess 'value for money' in government spending, ie the optimal use of resources to achieve the intended outcomes:

Economy	Minimising the cost of resources used or required (inputs) – **spending less**
Efficiency	The relationship between the output from goods or services and the resources to produce them – **spending well**
Effectiveness	The relationship between the intended and actual results of public spending (outcomes) – **spending wisely**

However, should the test actually be meeting expectations and value for money?

Only by setting the expectation (benchmark) is it possible to evidence value for money.

When we apply this to the workplace pension arena, an assessment along the following lines seems like an appropriate headline strategy to follow:



Advisers put themselves at risk if they fail to define 'expectations' and what the 'value for money' assessment is at inception.

They can do this by ascertaining exactly what the client's needs and objectives are and then agreeing and documenting SMART benchmarks for each one. Collectively, these benchmarks can help define and evidence expectations and 'value for money'.

Default fund due diligence checklist

The most important factor when making recommendations is to meet the client's needs and objectives, whether they be individual or corporate. We suggest considering and documenting decisions made on the following points in your research:

		✓
A	Ascertain, agree and document advice needs • Clients' needs, objectives and aspirations • Profile of employees and turnover • Risk framework • Timeframes	
B	Provider's financial strength and capability • Would a contract, master trust or own trust be most appropriate? • Does a contract-based scheme hold an acceptable AKG financial strength rating? • Does a trust-based scheme hold Master Trust Assurance Framework type 2 accreditation?	
C	Scheme strengths and weaknesses • Does the scheme guarantee acceptance of the employer and all of its employees? • What groups of employees does it exclude or discriminate against? • Can the scheme facilitate tax relief for all employees? • Does the scheme provide access to alternative fund options ie ethical and Sharia? • Check FCA and/or TPR websites for authenticity of scheme (is it a scam?)	
D	Investment management procedures and responsibilities • Level of independence • Whether investments are sourced in-house and/or from third parties and the implications of the strategy • Does the investment strategy match the client, their needs and that of their employees? • Are there robust and repeatable working practices in place? • Are the individuals involved suitably experienced and qualified to manage the scheme?	
E	Clarity, robustness and repeatability of default fund decision making • Is there a documented and clear structure and decision-making process in place? • Is it being adhered to, and how is it compliance managed? • Is the fund of a sufficient size to be able to facilitate diversification and pricing to operate in the clients'/ savers' best interests?	
F	Benchmarking • Agree independent, relevant and easily understood benchmarks against which performance should be measured • Agree suitable timescales for these measures • Put in place an action plan to make sure measures are taken • Put in place an action plan for when underperformance is identified	
G	Assess value for money and suitability • Is a lower cost option available for the employer or employees (AMC + other charges)? • Detail how the selected default fund compares to its peers • Provide an overall assessment and summary of the decision-making process and rationale for ultimate selection	
H	Set periodic review dates for • Updating The Pensions Regulator (TPR) • Ongoing scheme and contribution suitability assessments • Triennial reviews • Trustee meetings • Implementing additional employee benefits and pension/financial reviews • Implementing additional business financial planning (key man insurance etc.)	

Part 2 – Comparison of default funds

The reviewed population

Default investments are the funds in which contributions to workplace pensions will automatically be invested, unless employees are given and exercise their own investment choice, in which case there will be a range of funds from which they may choose.

When comparing the default offerings, in the main growth phase, across the different organisations in this study, we used the funds shown in Table 1.

Table 1: Main default funds

Provider	Default fund
Aegon	Aegon Default Equity & Bond Lifestyle (ARC)
Amber Pension Trust	BlackRock ACS LifePath 2040-42
Aviva	Aviva Diversified Assets Fund II
B&CE (The People's Pension)	B&CE Global Investments (up to 85% shares) Fund
CEF NI	Workers Pension Trust Growth Fund
Creative Wealth Management	Scottish Widows Pension Portfolio Three
Evolve (BlueSky) Pensions	Target Date 2041-2043 Retirement Fund
Hargreaves Lansdown	BlackRock Consensus 85 Fund
Intelligent Money	IM Default Portfolio
Legal & General	LGIM PMC Multi-Asset 3
Lewis & Co	Default 1
Mercer Master Trust	Mercer Growth Fund
National Pension Trust	Global Equity Fund
Nest	Nest 2040 Retirement Date Fund
NOW Pensions	Diversified Growth Fund
Royal London	Royal London Governed Portfolio 4
Salvus	Cautious Lifestyle Growth Stage
Scottish Widows	Scottish Widows Pension Portfolio Two
Smart Pensions	Smart Growth Fund - Moderate Risk
Standard Life	Standard Life Active Plus III
SuperTrust UK	LGIM World Equity Index Fund
Welplan	Welplan Growth Fund
Willis Towers Watson	Drawdown Focused Medium Risk
Zurich/Scottish Widows	Zurich Passive Multi Asset V

Source: Provider websites and factsheets

Benchmarks

Performance benchmarks vary greatly across the default funds reviewed, although most are one of (1) ABI Mixed Investment 40-85% Shares, (2) a composite benchmark or (3) cash or inflation plus x% pa. A small handful do not have any performance benchmarks but instead use volatility targets; another small number have both performance benchmarks and volatility targets.

Investment process

As can be seen from Table 2, there is a mix of manager structures across the main default funds reviewed. Some keep fund management in-house, either using fund managers from elsewhere within their organisation or investing directly in securities. Some default funds completely outsource to external managers. Others use both in-house and third-party managers.

Table 2: Main default funds – fund manager structure and investment approach

Provider	Active	Passive	Solution
Aegon		yes	Aegon/BlackRock
Amber Pension Trust		yes	BlackRock
Aviva	yes	yes	In-house
B&CE (The People's Pension)		yes	State Street Global Advisors (SSGA)
CEF NI		yes	Legal & General Investment Management (LGIM)
Creative Wealth Management		yes	Scottish Widows, SSGA and Aberdeen Standard
Evolve (BlueSky) Pensions		yes	Alliance Bernstein via Mobius Life
Hargreaves Lansdown		yes	BlackRock
Intelligent Money		yes	Quilter Cheviot
Legal & General	yes	yes	In-house funds
Lewis & Co		yes	LGIM
Mercer Master Trust	yes	yes	External managers
National Pension Trust		yes	LGIM
Nest	yes	yes	External managers
NOW Pensions	yes	yes	In-house
Royal London	yes	yes	In-house and BlackRock
Salvus		yes	Aegon/ BlackRock
Scottish Widows		yes	Scottish Widows, SSGA and Aberdeen Standard
Smart Pensions		yes	LGIM
Standard Life	yes		In-house
SuperTrust UK		yes	LGIM
Welplan	yes	yes	LGIM
Willis Towers Watson		yes	External managers
Zurich/Scottish Widows		yes	BlackRock

Source: Provider websites and factsheets

The main rationale for outsourcing to third-party managers is that no one manager can be the best across every single asset class. Instead, the pension fund should source a specialist manager for each different area. The disadvantage of this method is that third-party managers are generally more expensive than managing the funds in-house; however, this may well be dependent on the available economies of scale and negotiating position.

In terms of investment approach (active versus passive fund management), almost all of the default funds have at least some passive management within them, and a third use actively managed funds.

Active managers have the chance to outperform their respective index but also run the risk of underperforming it. Passive managers, meanwhile, simply track the index and generally cost less. This last point probably explains the above bias towards passive funds.

Many people believe that use of active or passive managers depends on the asset class. For example, if the asset class is believed to be 'efficient' – that the market is already highly researched and covered, leaving little scope left to outperform – then a passive manager will be used. If, however, a market is less researched and efficient then an active manager is more likely to be able to outperform. This is one of the reasons why some funds use a mix of the two approaches rather than one or the other.

Looking at it from a 'value for money' perspective, the passive strategy has the ability to control risk, diversification and costs and is therefore worth considering as an element within a default fund.

Asset classes

Table 3 shows the high-level asset classes in which each of the main default funds invest.

Table 3: Main default funds – high-level asset classes used

Provider	Cash	Fixed income	Property	Equity	Commodities	Other alternative
Aegon		yes		yes		
Amber Pension Trust	yes	yes		yes		
Aviva		yes		yes		
B&CE (The People's Pension)		yes	yes	yes		yes
CEF NI				yes		
Creative Wealth Management		yes		yes		
Evolve (BlueSky) Pensions		yes	yes	yes	yes	yes
Hargreaves Lansdown	yes	yes		yes		
Intelligent Money	yes	yes	yes	yes		
Legal & General		yes	yes	yes		yes
Lewis & Co				yes		
Mercer Master Trust		yes	yes	yes		yes
National Pension Trust				yes		
Nest	yes	yes	yes	yes	yes	yes
NOW Pensions		yes		yes	yes	yes
Royal London	yes	yes	yes	yes	yes	
Salvus		yes		yes		
Scottish Widows		yes		yes		
Smart Pensions		yes		yes		
Standard Life	yes	yes	yes	yes		yes
SuperTrust UK				yes		
Welplan		yes	yes	yes	yes	yes
Willis Towers Watson		yes	yes	yes		
Zurich/Scottish Widows				yes		

Source: provider websites and factsheets

As might be expected, given that this study is comparing the default funds in their main growth phase, all of them hold equities as part of their asset allocation. The majority also hold some fixed income.

Some funds also hold 'alternative' asset classes (property, commodities, absolute return, infrastructure and private equity) to varying degrees. The advantages of such asset classes are the greater potential for higher returns and diversification. However, they can also be more risky, expensive and less transparent.

Investing responsibly

Table 4 shows the attention given by the main default funds to investing responsibly (this table considers just the default fund – it is recognised that providers may have standalone funds in this area that employees can select from).

Table 4: Main default funds – investing responsibly considerations

Provider	Consideration given to environmental, social and governance factors
Aegon	Does not currently apply any specific ESG screens
Amber Pension Trust	No mention
Aviva	Aviva incorporates responsible investment principles into all of its in-house investment solutions
B&CE (The People's Pension)	Has a stand-alone responsible investment policy. The default fund includes an allocation to an ESG-screened low carbon equity strategy
CEF NI	Refer to LGIM's general corporate governance and responsible investment principles
Creative Wealth Management	No mention
Evolve (BlueSky) Pensions	No policy – prefers to allow the underlying investment managers the flexibility to operate within their own guidelines to achieve their investment objectives
Hargreaves Lansdown	No ESG filter or overlay
Intelligent Money	No mention
Legal & General	No mention in terms of this fund, but LGIM does have general corporate governance and responsible investment principles
Lewis & Co	No mention

Table 4 (cont): Main default funds – investing responsibly considerations

Provider	Consideration given to environmental, social and governance factors
Mercer Master Trust	Mercer Master Trust believes that taking a sustainable investment view is more likely to create and preserve long-term investment performance for members. Mercer assigns ESG ratings to all managers, including passive, as part of their manager research process
National Pension Trust	No mention
Nest	Has a section on responsible investment in their statement of investment principles. The 2040 Retirement portfolio holds a climate-aware global developed equities fund, an ESG-screened emerging markets equities fund and an ESG-screened commodity fund (alongside other funds). It also excludes companies involved in the production of controversial weapons.
NOW Pensions	Has a Policy of Social Responsibility in Investments
Standard Life	No mention
SuperTrust UK	Refer to LGIM's quarterly governance report
Welplan	No mention
Willis Towers Watson	Recognised in the statement of investment principles (SIP), but such considerations are left to the discretion of the investment managers
Zurich/Scottish Widows	Nothing specific to this fund, but Zurich does believe in ESG investing and is a signatory to the UN Principles of Responsible Investing

Source: provider websites and factsheets

As can be seen, many of the firms have some policy or approach in terms of responsible investment.

Performance

We now compare performance numbers across the default funds, in their main growth phase.

It is generally agreed that longer-term numbers are more significant from a statistical point of view, and therefore we caution against decisions being made on a one- or two-year performance history. That said, auto-enrolment only started in 2012, so at the moment funds will only have a five- or six-year history at most (Table 5).

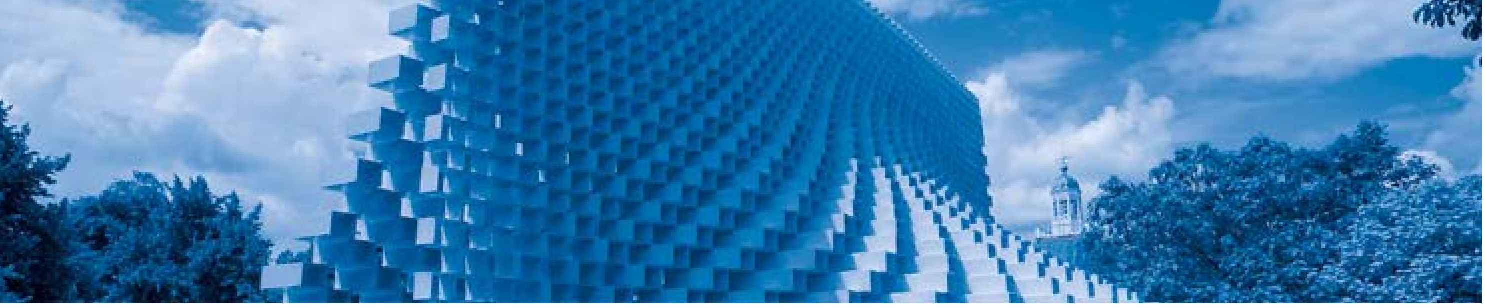
Table 5: Annualised returns

Provider	1 year	2 years	3 years	5 years
Aegon	−4.8%	2.6%	8.2%	7.4%
Amber Pension Trust	–	–	–	–
Aviva	−4.0%	2.6%	7.2%	6.6%
B&CE (The People's Pension)	−4.8%	2.9%	8.5%	7.2%
CEF NI	−7.4%	2.8%	8.7%	6.8%
Creative Wealth Management	−6.3%	1.7%	7.8%	6.3%
Evolve (BlueSky) Pensions	−5.6%	3.1%	9.1%	7.6%
Hargreaves Lansdown	−5.2%	2.0%	7.7%	6.3%
Intelligent Money	–	–	–	–
Legal & General	−3.4%	2.9%	8.4%	7.2%
Lewis & Co	−6.6%	2.6%	9.0%	7.3%
Mercer Master Trust	−4.3%	3.1%	9.1%	7.5%
National Pension Trust	−5.4%	3.7%	9.0%	7.3%
Nest	−4.3%	2.3%	8.1%	7.9%
NOW Pensions	−3.0%	3.8%	5.6%	5.7%
Royal London	−5.0%	2.1%	6.2%	6.2%
Salvus	–	–	–	–
Scottish Widows	−7.0%	2.2%	8.5%	6.6%
Smart Pensions	–	–	–	–
Standard Life	−5.8%	0.8%	3.4%	3.9%
SuperTrust UK	−3.6%	4.3%	11.9%	10.0%
Welplan	−6.1%	2.5%	5.9%	5.4%
Willis Towers Watson	-1.6%	5.7%	11.1%	–
Zurich/Scottish Widows	−4.3%	3.8%	10.1%	–

Source: data from Morningstar and providers to end December 2018; calculations by Defaqto

Note: Amber Pension Trust and Smart Pensions have price series of less than one year and so were not included in this part of the study; Intelligent Money does not have a price series for their Default Portfolio; Salvus was unable to provide a complete data series, at least within the required timescale.

These figures, however, are returns only and take no account of the fund's volatility, ie the risk taken in achieving these returns. The Sharpe ratio, which is fund return minus the risk-free rate divided by the volatility of these 'excess' returns, does take risk into account.



This ratio has no units, but a higher number indicates better risk-adjusted performance. Table 6 shows the Sharpe ratios for the various default funds.

Table 6: Sharpe ratios using 0.75% risk-free rate

Provider	1 year	2 years	3 years	5 years
Aegon	−0.67	0.25	0.94	0.80
Amber Pension Trust	–	–	–	–
Aviva	−0.61	0.28	0.85	0.76
B&CE (The People's Pension)	−0.75	0.32	1.00	0.81
CEF NI	−0.77	0.23	0.87	0.66
Creative Wealth Management	−0.83	0.13	0.82	0.66
Evolve (BlueSky) Pensions	−0.63	0.28	0.98	0.79
Hargreaves Lansdown	−0.74	0.19	0.91	0.72
Intelligent Money	–	–	–	–
Legal & General	−0.74	0.42	1.17	0.97
Lewis & Co	−0.64	0.20	0.86	0.68
Mercer Master Trust	−0.55	0.31	1.07	0.84
National Pension Trust	−0.45	0.28	0.74	0.60
Nest	−0.57	0.22	1.00	0.97
NOW Pensions	−0.68	0.58	0.88	0.64
Royal London	−0.65	0.19	0.77	0.75
Salvus	–	–	–	–
Scottish Widows	−0.75	0.16	0.78	0.61
Smart Pensions	–	–	–	–
Standard Life	−1.06	0.01	0.49	0.59
SuperTrust UK	−0.36	0.36	1.09	0.93
Welplan	−0.88	0.26	0.72	0.61
Willis Towers Watson	−0.28	0.74	1.31	–
Zurich/Scottish Widows	−0.37	0.29	0.84	–

Source: data from Morningstar and providers to end December 2018; calculations by Defaqto

On a five-year basis, Nest, Legal & General and SuperTrust have the best risk-adjusted performance. Over three years the same three providers plus Willis Towers Watson, the Mercer Master Trust and B&CE (The People's Pension) have the best performance.

Sharpe ratios penalise upside and downside volatility equally. Most people would consider volatility caused by high returns to be acceptable and volatility due to low returns to be 'bad'.

Sortino ratios differentiate 'bad' volatility of returns from total volatility by penalising only downside deviations and are an expression of the fund's return minus the risk-free rate divided by the downside volatility. The Sortino ratios for the default funds are shown in Table 7 (again, these ratios have no units, but a higher number indicates better downside risk-adjusted performance).

Table 7: Sortino ratios using 0.75% risk-free rate

Provider	1 year	2 years	3 years	5 years
Aegon	−0.58	0.36	1.04	0.62
Amber Pension Trust	–	–	–	–
Aviva	−0.51	0.39	0.95	0.55
B&CE (The People's Pension)	−0.65	0.42	1.10	0.66
CEF NI	−0.70	0.31	0.95	0.61
Creative Wealth Management	−0.74	0.23	0.90	0.53
Evolve (BlueSky) Pensions	−0.55	0.37	1.06	0.62
Hargreaves Lansdown	−0.65	0.29	1.01	0.63
Intelligent Money	–	–	–	–
Legal & General	−0.61	0.56	1.28	0.73
Lewis & Co	−0.58	0.28	0.94	0.60
Mercer Master Trust	−0.47	0.42	1.16	0.71
National Pension Trust	−0.40	0.36	0.81	0.54
Nest	−0.49	0.33	1.10	0.71
NOW Pensions	−0.54	0.72	1.02	0.21
Royal London	−0.57	0.29	0.87	0.59
Salvus	–	–	–	–
Scottish Widows	−0.68	0.25	0.86	0.51
Smart Pensions	–	–	–	–
Standard Life	−0.94	0.15	0.63	0.45
SuperTrust UK	−0.29	0.44	1.16	0.74
Welplan	−0.78	0.37	0.83	0.46
Willis Towers Watson	−0.19	0.85	1.41	–
Zurich/Scottish Widows	−0.31	0.36	0.91	–

Source: data from Morningstar and providers to end December 2018; calculations by Defaqto

Looking at just downside risk, SuperTrust, Legal & General, the Mercer Master Trust and Nest have the best risk-adjusted performance over five years. Over three years Willis Towers Watson and B&CE (The People's Pension) again join these four providers at the top of the group.

Charges

While we express many times in this guide that 'costs reduce returns', in this section we evidence exactly what this means.

We have calculated the impact of different charging structures on identical pension savings over 10, 20, 30, 40 and 50 years. These calculations assume:

Salary at start of process	£30,000
Salary growth rate pa	2.5%
Investment growth rate pa	5.0%
Total contribution pa	8.0%

The fees levied by schemes vary significantly, and so to keep things simple we have illustrated in Table 8 the implication of a sample of charging levels.

Table 8: Implications of total annual charges
Table sorted by estimated capital value after 50 years of contributions.

Annual charge	10 years	20 years	30 years	40 years	50 years
0.00%	£34,586	£101,237	£223,411	£440,507	£818,386
0.20%	£34,227	£99,073	£216,040	£420,596	£770,964
0.30%	£34,049	£98,013	£212,469	£411,057	£748,508
0.40%	£33,872	£96,968	£208,972	£401,785	£726,846
0.50%	£33,696	£95,936	£205,547	£392,771	£705,946
0.60%	£33,522	£94,919	£202,193	£384,008	£685,781
0.70%	£33,349	£93,916	£198,907	£375,488	£666,322
0.75%	£33,263	£93,419	£197,290	£371,317	£656,849

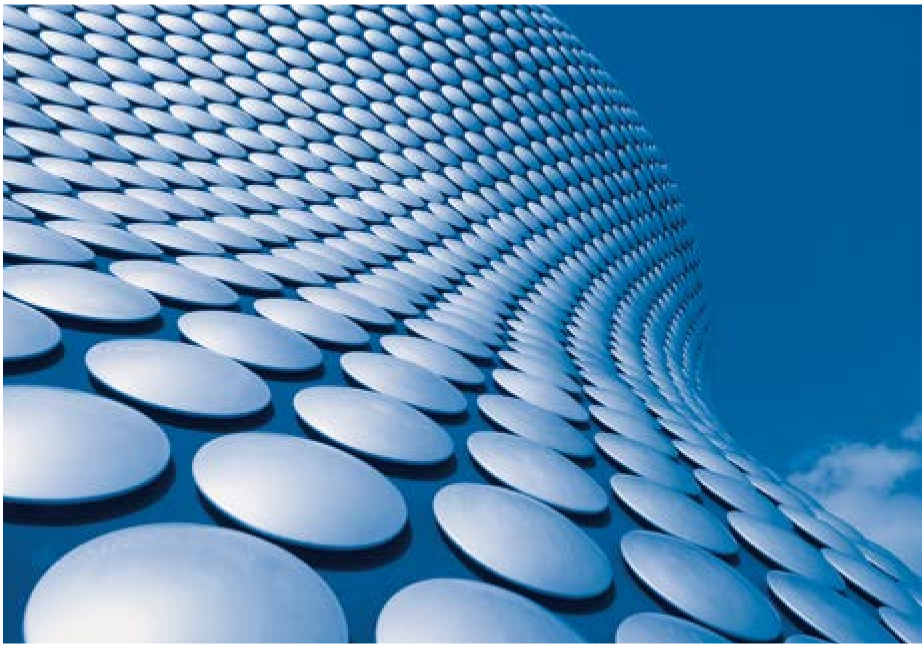
Source: Defaqto, March 2019

While we show the implications of the flat annual charging structures in Table 8, it is not always clear what the net cost is at application. Some schemes charge additional fees such as contribution charges, and bespoke pricing is common.

In addition, we have seen the introduction of tiered charging structures, whereby members pay a percentage rate that decreases as their assets under management grow. We therefore suggest advisers periodically compare costs carefully on a like-for-like, case-by-case basis.

Conclusion

- While costs reduce returns, low cost does not equate to ‘value for money’
- Over 50 years, an annual fee of 0.75% pa equates to a reduction in return of 20%
- Initial fees (contribution fees) are diluted over time; the longer an asset is held the less influence the fee has on the total return
- Ongoing fees have the opposite effect; the longer an asset is held the greater the influence the fee has on the total return
- In view of the many variations of scheme and charging models in the market, it is always going to be prudent to review costs alongside all other aspects on a periodic basis



Summary

This case study lays out the key factors we believe you should consider when reviewing or selecting a default fund.

We invited all known providers to Defaqto to participate in this study and thank all those that took part for providing us with data to support this guidance and their transparency and co-operation.

Subject	Conclusions
Market size	The Defaqto database currently reports on over 70 different workplace pension schemes, from 35 different providers. The new FCA and TPR rules are resulting in the market place shrinking, and we anticipate this continuing throughout 2019.
Transparency	Collecting this data was not easy. While some providers place most items freely on their website, others provide very little if anything in the public domain.
Consistency	The one factor we can see across this market place is a lack of consistency of readily available information, which makes comparison difficult, if not impossible, for the average consumer over and above simple performance.
Investing responsibly	This subject hardly featured in provider propositions just a couple of years ago, but it is now fast becoming standard practice.
Performance	As the longevity of the funds increases, we are seeing significant differences evolve in returns. Over the three years to the end of 2018, the best performing fund has produced 3.5 times the annualised return compared with the worst performer. Over five years that multiple reduces to a still-meaningful 2.6, so should not be ignored.
Charges	We know that costs reduce returns, and we can see that reflected in many default fund performances. What is clear is that the headline fee cap of 0.75% is actually quite expensive, and most medium and large employers could be paying significantly less than 0.75%. Shopping around is therefore good practice.

Overall...

It is notable that some default funds consistently compare well to their peers across most subject areas. Arguably, these represent the greatest benefit for savers and are the best providers for advisers to partner with.

Conclusion

The number of employees in workplace pensions now stands at around 10 million, which compares to approximately 1 million in 2013. Defaqto's database currently reports on over 70 different workplace pension schemes from around 35 providers.

This guide identifies the key factors we believe should be considered when reviewing or selecting a default fund from these or any other scheme.

The study identifies a great variety in terms of benchmark, manager structure (in-house manager, third-party managers or a mix), investment approach (active, passive or both), level of diversification, attention paid to responsible investing, performance and charging across the funds.

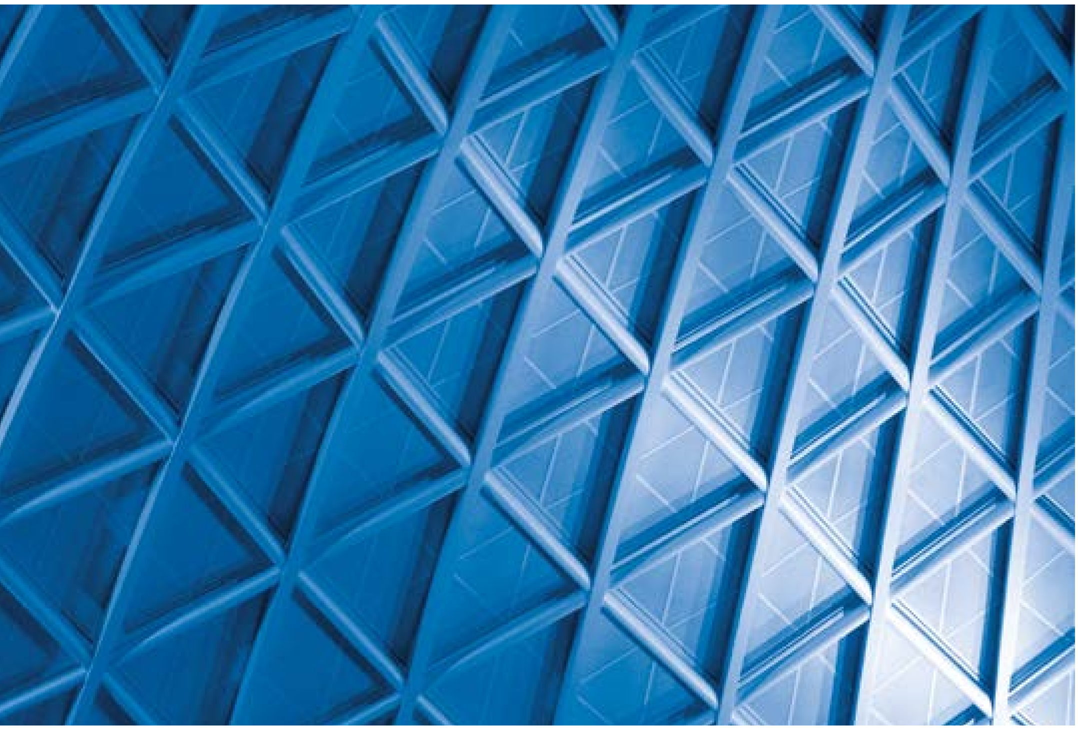
With some of these attributes, such as manager structure, investment approach and attitude to responsible investing, the choice of provider and fund might come down to the investment beliefs of the employer or their adviser. In terms of the other more objective features, ie risk-adjusted performance and charges, some providers and funds are clearly more competitive than others.

Bearing in mind the diversification in providers and clients and their respective needs and objectives, it is not surprising that no individual default fund outperforms its peers in every subject area considered. That said, it is notable that some default funds consistently compare well to their peers across most subject areas, and arguably these represent the greatest opportunity for advisers to evidence 'value for money'.

Learning objectives

Having read this publication you will now:

1	Opportunity	Be able to identify where improvements in employee benefit packages are available
2	Market place	Be able to identify a provider's default investment strategies, focusing on the accumulation phase and how they compare to others
3	Reviewing	Be able to identify the main differentiating factors between default funds, including: • Governance and regulator • Provider financial strength and/or capability • Trustees, IGCs and investment committee oversight • Investment management key factors • Cost • Investment and performance • Benchmarking and evidencing 'value for money'



Test yourself for CPD purposes

To assess your knowledge having read this publication, why not work your way through the following questions?

All the answers can be found within the text.

1	Which regulator is responsible for master trusts?
2	Which regulator is responsible for contract-based schemes?
3	Name the three elements to consider when assessing investment management procedures and responsibilities
4	Name four common default fund performance benchmarks
5	What is the maximum equivalent default fund AMC that providers can charge savers?
6	Do independent governance committees work in the interests of the scheme members (savers) or the provider?
7	Will the CMA require providers to report performance of any recommended asset management products or funds using basic minimum standards?
8	Why do many expect the number of master trust providers to decrease in 2019?

CII/PFS and CISI accredit this document for up to **60 minutes** of structured continuing professional development (CPD).

Name	
Signature	
Date	
CPD time recorded	

Send us your feedback

Your feedback is extremely important to us and we would be grateful if, after completing this publication, you would take a few minutes to complete a short survey. Your answers will be treated in the strictest confidence and the results of this will help the development of future publications.

The survey can be accessed at:

https://www.snapsurveys.com/wh/s.asp?k=144610976149

CPD answers

As a guide, your answer should include the following points:

1. TPR
2. FCA
3. Investment strategy, working practices, individuals
4. Cash, inflation, industry index, volatility
5. 0.75%
6. Scheme members
7. Yes
8. Master trust authorisation

Appendix A

Retail workplace pension schemes known to Defaqto on 1 February 2019.

Tax relief methods:

RAS	Relief at source
NP	Net pay

Provider	Scheme	Contract	Own Trust	Master Trust	Tax relief method
Aegon	Targetplan CIMP		yes		NP
Aegon	Targetplan Group Personal Pension	yes			RAS & NP
Aegon	Targetplan Master Trust			yes	NP
Aegon	Workplace ARC SIPP	yes			RAS
Al Rayan Bank	Islamic Pension Trust			yes	NP
Amber Financial Invest	Amber Pension Trust			yes	
Amber Financial Invest	Amber Pension Trust		yes		
Aon	Aon Delegated DC Bundled		yes		NP
Aon	Aon Master Trust			yes	NP
Aon	Bigblue Touch	yes			RAS
Ascot Lloyd	Ascot Lloyd Pension Trust			yes	NP
Atlas	Atlas Master Trust			yes	NP
Aviva Life & Pensions	Company Pension @ Aviva	yes			RAS
Aviva Life & Pensions	Company Stakeholder Pension @ Aviva	yes			RAS
Aviva Life & Pensions	My Money - Flexible Retirement A/C	yes			RAS
Aviva Life & Pensions	My Money - Workplace Retirement A/C			yes	NP
Aviva Life & Pensions	My Money - Workplace Retirement A/C		yes		NP
B & C E	The People's Pension from B & CE			yes	RAS & NP
Baptist Pension Trust					
BBS Masterplan					
BCF Pensions					
Beaufort Consulting	Beaufort Consulting Master Trust			yes	
Carey Pensions	Carey Workplace Pension Trust			yes	NP
CEF (Northern Ireland)				yes	NP

Provider	Scheme	Contract	Own Trust	Master Trust	Tax relief method
Cheviot Trust				Yes	NP
Citrus Pension Plan					
Corporate Pensions Admin	Corpad Master Trust			yes	
Creative Auto Enrolment	Creative Pension Trust			yes	NP
Creative Auto Enrolment	Creative Pension Trust – Flexible & Enhanced			yes	NP
Ensign Retirement Plan					
Ethika					
Evolve Pensions	The Bluesky Pension Scheme (Bluesky)			yes	NP
Evolve Pensions	The Crystal Trust (Crystal)			yes	NP
Family Pension Trust					
Federated	Federated Retirement Savings Plan				
Federated	Federated Pension Plan				
Fidelity International	Fidelity Group Money Purchase Plan	yes			RAS & NP
Fidelity International	Fidelity Group Personal Pension Scheme	yes			RAS & NP
Fidelity International	Master Trust			yes	NP
Fidelity International	Own Trust		yes		NP
Fidelity International	Stakeholder Pension Plan	yes			RAS & NP
Hargreaves Lansdown	HL Workplace Solutions	yes			RAS & NP
Intelligent Money	IM Group SIPP/ Nest hybrid		yes	yes	RAS & NP
Legal & General	Legal & General Stakeholder Pension	yes			RAS
Legal & General	Worksave Mastertrust			yes	RAS & NP
Legal & General	Worksave Pension	yes			RAS
Legal & General	Worksave Pension Trust		yes		NP
Lewis & Co	The Lewis Workplace Pension Trust			yes	NP
Mercer	Contract-Based Product	yes			NP
Mercer	Mercer Master Trust			yes	NP
Mercer	Own Trust		yes		NP
Moore Stephens Pensions	Moore Stephens Pensions Master Trust			yes	
NAEA ARLA	NAEA ARLA Master Trust			yes	
National Pension Trust	National Pension Trust			yes	NP
Nest	Nest Scheme			yes	RAS

Provider	Scheme	Contract	Own Trust	Master Trust	Tax relief method
NOW: Pensions	NOW: Pensions Trust			yes	NP*
Nurture Pensions					
Premier Pensions	Premier Life Master Trust			yes	
Premier Pensions	Premier Retirement Saver				
Punter Southall Aspire					
Railways Pension Scheme	Railways Pension Scheme				
Royal London	Retirement Solutions - Company Pension		yes		NP
Royal London	Retirement Solutions - Group Personal Pens	yes			RAS
Royal London	Retirement Solutions - Group Stakeholder	yes			RAS
Salvus	The Salvus Master Trust			yes	NP
SEI	SEI Master Trust			yes	
Scottish Widows	Group Money Purchase Scheme		yes		RAS
Scottish Widows	Group Personal Pension	yes			RAS
Scottish Widows	Group SIPP - Retirement Saver	yes			RAS
Scottish Widows	Group Stakeholder Plan	yes			RAS
Scottish Widows	Master Trust			yes	NP
Smart Pension	AutoEnrolment.co.uk Master Trust			yes	NP
Standard Life	Good to Go - GFRP	yes			RAS
Standard Life	Group Flexible Retirement Plan	yes			RAS
Standard Life	Group Self Invested Personal Pension	yes			RAS
Standard Life	Group Stakeholder Pension	yes			RAS
Standard Life	Standard Life Master Trust			yes	NP
SuperTrust UK	SuperTrust UK Master Trust - Masterplan			yes	RAS & NP
SuperTrust UK	SuperTrust UK Master Trust - Online			yes	RAS & NP
TPT Retirement Solutions	Flexible Retirement Plan - Smarter Pensions			yes	
True Potential	True Potential Investments SIPP	yes			RAS
Welplan	Welplan Pensions			yes	NP
Wessex Pensions	Wessex Pensions Trust				
Willis Towers Watson	Lifesight			yes	NP
Workers Pension Trust	Workers Pension Trust			yes	NP
Zurich Assurance	Occupational Money Purchase Pension		yes		NP

Source: Defaqto, 29 January 2019

NP* = NOW: Pensions provides a facility to help non-taxpayers top up their savings to offset net pay income tax relief shortfall.

About Defaqto

Defaqto is an independent financial information business, helping financial institutions and consumers make better informed decisions.

Our experts research, collect and continuously assess over 43,000 financial products. Our process is extremely robust and is driven by over 60 specialist analysts who have unparalleled knowledge of financial products, services and funds in the market. Our independent fund and product information helps banks, insurers and fund managers with designing and promoting their propositions.

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Defaqto Star Ratings are the most trusted expert assessment of products in the market. Products can receive a Rating of 1 to 5, depending on the quality and comprehensiveness of the features it offers. A 1 Star Rating indicates a basic product, while a 5 Star Rating indicates one of the highest quality products in the market. Star Ratings provide consumers, advisers and brokers with an accurate benchmark so that they can see at a glance how products and policies in the market compare.

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A Diamond Rating reflects the performance of a managed fund or fund family. Funds or fund families can receive a Rating of 1 to 5 based on a detailed and well-structured scoring process, allowing advisers and other intermediaries – and their clients – to see instantly where they sit in the market in terms of fund performance and competitiveness in areas such as fees, scale, access and manager longevity. A 5 Diamond Rating indicates it is one of the best quality funds available in the market.

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Income Risk Ratings are unique to the market, comparing fund objectives, asset allocations, income and capital volatilities, and maximum drawdown. The Ratings are mapped to four Income Risk Profiles based on the income required and the level of risk. They are: capital preservation, low income volatility, medium income volatility, high income volatility.

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Advisers should note that not all providers are rated; to qualify for a Service Rating, providers must receive a minimum number of responses from advisers. So, using any service results in the filtering process may exclude providers offering potentially suitable client solutions from the research output.

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nestpensions.org.uk

the people's pension

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Meaning more of our members' money can be invested for their future.

Another way The People's Pension puts its members first.

To discuss scheme arrangements and consolidation, please contact our expert Relationship Management Team:

RRM@bandce.co.uk
01293 586 643

www.thepeoplespension.co.uk/lowering-our-AMC

For people, not profit

Please contact your Defaqto Account Manager
or call us on 0808 1000 804

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