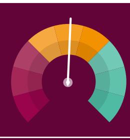
Annual Report of the Phoenix IGC

2021

Do customers get good value for money? Yes

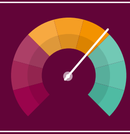
Costs and Charges

Are the costs and charges you pay reasonable for what you get in return?



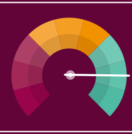
Investment Performance

How are your investments performing?



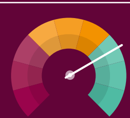
Investment Services

Are your investments well managed?



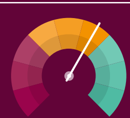
Customer Service

What is the quality of the service provided by Phoenix?



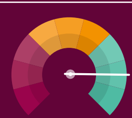
Communication and Engagement

How well does Phoenix communicate with you and keep you up-to-date with your pension?



Environmental, Social and Governance

Is enough allowance made for ESG considerations in how your pension savings are invested?



Independent Governance Committee

Welcome to this, the seventh annual report of the Phoenix Independent Governance Committee (IGC). This report is particularly relevant to you if you have a workplace personal pension plan provided by Phoenix Life Assurance Limited or Phoenix Life Limited (together, “Phoenix”). It provides you with important information about your plan and how to compare it with possible alternatives in the market. It also tells you what the IGC thinks of the value for money that you are receiving.

Readers who would prefer more of a summary view are encouraged to read the Value for Money Summary that can be found on the **IGC webpage**.

Cost of living crisis

The IGC is very conscious that we are publishing our report on 2021 at a time of economic turmoil and real worry for many of the Phoenix customers within our scope. While we hope that our VfM analysis and the targets that we place on Phoenix are of long-term benefit to you, we realise that many of you will have short-term pressures that you need help with. To that end, we are encouraging Phoenix to be as flexible as possible with requests from customers who are exploring their options.

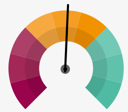
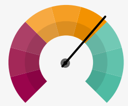
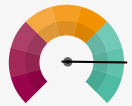
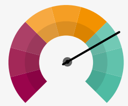
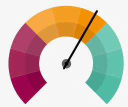
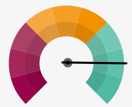
We are also pleased to see that Phoenix is doing what it can to provide helpful guidance and also point you to other sources of information and guidance. You can find this material on the Phoenix website **here**.

Contents

Value for Money Dashboard

Value for Money Dashboard

This dashboard gives you a summary of whether we think you are getting value for money from your pensions within the remit of the IGC. Much more information can be found in the pages that follow.

Do customers* get good value for money?		**Yes**
Costs and Charges	Are the costs and charges you pay reasonable for what you get in return?	
Investment Performance	How are your investments performing?	
Investment Services	Are your investments well managed?	
Customer Service	What is the quality of the service provided by Phoenix?	
Communication and Engagement	How well does Phoenix communicate with you and keep you up-to-date with your pension?	
Environmental, Social and Governance	Is enough allowance made for ESG considerations in how your pension savings are invested?	

*when we refer to customer we mean those customers who are in-scope of the Phoenix IGC.

This report is for your information. You do not need to take action. However, we do recommend that you review your own pension arrangements on a regular basis and we hope this analysis helps you in doing so.

Introduction from the Chair

Introduction from the Chair

Welcome to this, the seventh annual report of the Phoenix Independent Governance Committee (IGC). This report is particularly relevant to you if you have a workplace personal pension plan provided by Phoenix Life Assurance Limited or Phoenix Life Limited (together "Phoenix"). It provides you with important information about your plan and how to compare it with possible alternatives in the market. It also tells you what the IGC thinks of the value for money that you are receiving.

There are other companies within the Phoenix Group that also provide workplace personal pension plans. They have their own IGCs, but with aligned membership across the Group. There are also other pension customers of Phoenix who are not within the remit of the IGC – predominantly holders of individual pension plans, rather than workplace arrangements. While some of our findings may be relevant to other portfolios of business within the Phoenix Group, the focus of this report is on what Phoenix is delivering for its pension customers within our scope.

There have been a number of changes impacting the work of the IGC since the publication of last year's report:

- **Membership changes**: There were two changes in membership of the Phoenix IGC during 2021 and these, along with the further changes that took effect this year are set out later in this report.
- **Wider ESG analysis:** The requirement to consider and report on how Environmental, Social and Governance ("ESG") considerations, along with other aspects of what is often called "Responsible Investment", are taken into account in Phoenix's investment decisions that impact in-scope customers' pension pots is now wider. Last year, the requirement was just to consider the relevant policies in place; this year, IGCs are also to consider how well they are implemented.
- **Increased costs and charges disclosure:** The requirement to publish certain information around the costs and charges that can apply to in-scope customers' investments, and give an indication of the long-term impact these can have on retirement outcomes, is also now wider. Last year, the requirement was just in respect of charges that apply to default funds; this year, IGCs are to ensure publication of the costs and charges that apply to all fund choices available to members.

While some of the members may have changed and our scope increased, **the primary role of the committee remains the same – to act solely in the interests of Phoenix in-scope pension customers and assess the value for money that you are receiving from your workplace pension plan.**

Assessing Value for Money (VfM)

The FCA (Financial Conduct Authority, the regulator which oversees the way pension providers like Phoenix treat their customers) wants to make it easier for IGCs to compare the VfM of pension products and services. To that end, they require that IGCs assess ongoing VfM by considering at least the following three factors:

- the level of charges and costs;
- investment performance; and
- the quality of services,

and how what is being provided compares with comparable options across the marketplace.

In order to support the FCA's intention, we have mapped our existing VfM framework onto these three factors, but with some further subdivisions within the third factor in order to separately assess:

- customer communications and engagement;
- customer service; and (as a new introduction this year)
- investment services (e.g. default investment fund design and execution).

The IGC believes that "ongoing VfM" is fundamentally a forward-looking measure. Thus, of the following three questions:

1. Have you received VfM?
2. Are you currently receiving VfM?
3. Going forward, can you expect to receive VfM?

our assessment is mainly addressing questions 2 and 3.

Of course, past performance is still important, since it determines customers' experiences to date and, in particular, the current size of your pension pot. However, past good performance is not a guarantee that VfM will be delivered in the future, nor is past poor performance a sign that VfM cannot be delivered going forward. Nevertheless, where we find:

- poor customer service which is not being addressed, or addressed quickly enough;
- charges that are out of line with appropriate comparators and which are not being reviewed and/or reduced;
- poor investment performance (relative to the benchmarks set and/or relative to appropriate comparators within the industry) which is not being called out and the reasons for it being addressed quickly enough

the IGC would see these as potential barriers to a "clean bill of health" as far as ongoing VfM is concerned. However, where past issues with an aspect of the pension proposition have been addressed and, looking forward, what is being delivered and at what cost, compares well with appropriate comparators across the industry, the IGC's assessment of ongoing VfM from that factor is likely to be positive.

This is particularly the case for the IGC's assessments of:

- costs and charges
- customer communications and engagement; and
- customer service.

In previous reports, the IGC has taken the same ongoing VFM approach to investment matters. However, because the FCA have stipulated that IGCs should consider investment performance separately from the assessment of the design and execution of default investment funds (which is to be included in the IGC's assessment of the quality of services), we have split our VfM assessment of investment matters into two parts, and considered Investment Performance separately to Investment Services, by which we mean all the other aspects that we feel it is appropriate to consider (e.g. investment proposition design, execution, governance and oversight).

As a consequence, poor past investment performance, even if already addressed by the provider, will be separately identified in the IGC's overall VfM assessment.

Within this new grouping, we have still retained much of the previous detailed scoring of Phoenix's performance in order to maintain appropriate rigour in our assessments. More detail on the various components of each factor that we look at can be found **here**.

It is currently not possible to get the equivalent level of detail across the market. However, we do what we can to draw conclusions from what other IGCs publish in their annual reports, from the results of the benchmarking exercises that Phoenix takes part in and from our research of other publicly-available information. In particular, this year's analysis has benefited from the results of a cross-industry comparison exercise that covered a high proportion of the contract-based workplace pensions business across the UK market. The comparison gave helpful insights on how Phoenix performance compared with other providers across all the key VfM areas, and included contracts that are no longer open to new members as well as current contract designs. The IGC is grateful to Phoenix for willingly supporting our participation in this important cross-industry exercise.

We are keen to hear what you think – about the report, or any aspect of our work. Please do get in touch with us at **www.phoenixlife.co.uk/about-phoenix-life/independent-governance-committee**

Many thanks for reading our report.

Purpose and structure of the report

The requirement on IGCs to produce an annual report, as well as the minimum content that it must contain, are set out in FCA rules and guidance. The IGC is fully supportive of the need for transparency around the work of the committee, particularly in providing enough information to enable relevant stakeholders to assess how thorough the VfM assessment has been. However, research carried out for the IGC in 2020 and again in 2021 confirmed that, the longer the report, the less likely customers are to engage with it.

In order to cover the detail required, but in as accessible a format as possible, we have again structured this year's report around three levels:

- Key Messages;
- Further Commentary; and
- Supporting Material.

We hope that the clear sign-posting, along with the embedded links between the different levels, will enable you to engage with the material at whatever depth works for you. However, in response to the findings of customer research carried out following last year's report, we have introduced a separate, IGC Value for Money Summary, which is available on the **IGC's webpage** and is aimed at readers who would prefer more of a summary.

IGC Independence and Membership Information

IGC Independence and Membership Information

Current membership

Dr David Hare – Chair, Independent

Rachel Howarth – Independent Member (from August 2022)

Jo Hill – Independent Member (from July 2022)

Ingrid Kirby – Independent Member (until September 22)

Andrew Milligan – Independent Member (from July 2022)

Venetia Trayhurn – Independent Member

Steven Blight – Company Nominee

Rona Cameron – Company Nominee

Changes of Membership

There were two changes of membership during 2021. As noted in last year's report. following the alignment of the ReAssure IGC with the rest of the group, Venetia Trayhurn joined the Committee in February 2021 as an independent member, replacing Mike Christophers. In September 2021, Michael Pennell reached the end of his tenure on the IGC as a company nominee and was replaced by Steven Blight.

In 2022, Sheila Gunn reached the end of her tenure on the Committee as an independent member in January, and the Committee operated with five members until two new independent members, Jo Hill and Andrew Milligan, joined in July 2022. Another new member, Rachel Haworth, joined the committee in August 2022 in anticipation of Ingrid Kirby's retirement from the Committee in September 2022. For further information about the Committee please **click here**.

Independence

The role of the IGC is to make sure that customers are getting value for money from their provider. It is therefore crucial that we are independent. We maintain our independence in a number of ways. We make sure that there is a majority of independent members on the committee and that company nominees do not have a direct link to any areas they are scrutinising. The two nominee members were selected to bring valuable in-depth Phoenix policy-specific knowledge and understanding to the work of the Committee. In addition, all employee members were provided with side letters to their employment contract which made it clear that, when acting on the IGC, they must act solely in the interest of the in-scope policyholders and put aside the commercial interests of Phoenix. We also instruct independent consultants to carry out research on our behalf to ensure that the customers are getting value for money from their provider.

Competence

Members of the IGC are selected for the skills and experience they can bring to the Committee. In order to ensure we function appropriately, we carefully map the expertise required to provide robust oversight and then seek members who fulfil those criteria. For more information about how members of the Committee are selected please **click here**. We also undertake regular training to ensure that as a committee we maintain the expertise necessary to represent customers.

Key Messages

Key Messages

Costs and Charges

Key Messages

Costs and Charges

Overall, the IGC has given Phoenix a rating of AMBER for costs and charges for the following reasons:

- Phoenix has a maximum **ongoing charge** of 1% per year that is in line with charges amongst other providers of older style 'legacy' products. We have always believed that charges over 1% do not represent value for money (unless you have additional valuable benefits or selected particular funds). The assessment of value for money for the charges you pay is now primarily focused on comparing to the charges of reasonable comparators and as such we believe the majority of you could get better value for money for the following reasons:
  - there are lower cost products available in the new business market;
  - there may be lower cost options available to new or certain existing customers of the Phoenix Group; or
  - some of you may have access to lower cost fund options with a current employer scheme.

However, some of you pay significantly less than 1% or may have additional valuable benefits that are unavailable elsewhere.

CALL TO ACTION: We encourage you to review the charges you are paying and the benefits you receive. You may be able to get better value on the open market.

- **Transaction costs** have been benchmarked using industry surveys and, although they are slightly higher than peers, we are comfortable that they remain reasonable. Phoenix's processes for monitoring and the quality of the reporting of this information to us has continued to be of a high standard over the year.
- We continue to monitor the processes that Phoenix has in place to review **other charges** made for protection benefits, with-profits guarantees and where you may pay more than 1% per year because you have selected particular funds. We continue to be comfortable that these represent value for money.

- All of you now have either no **exit charge** or an exit charge capped at 1% of the fund value. We reported last year that a small number of you under the age of 55 would have been subject to a higher exit charge and, following challenge by the IGC, Phoenix agreed to reduce this exit charge to a maximum of 1% with this being implemented in August 2021. Whilst few of you choose to transfer at these ages, this has removed a potential barrier for those who do.

Key Challenge for 2022

- We will continue to challenge Phoenix as to why some new customers in the Phoenix Group pay less in ongoing charges than some of you and also around opportunities for Phoenix to introduce lower costing funds which you could switch into.

Key Messages

Investment Performance

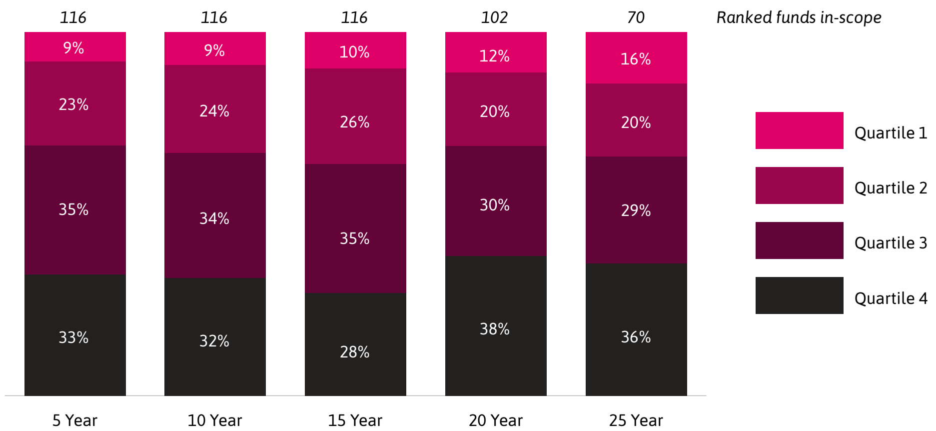
Key Messages

Investment Performance

Overall, the IGC has given Phoenix a rating of AMBER for Investment Performance, for the following reasons:

- The multi-asset funds in which most of you are invested delivered strong returns in 2021 as economies started to recover from the worst impacts of the pandemic, so retirement pots continue to grow at a reasonable rate. UK-only funds showed some recovery after lagging last year but, with their narrow base, we remain concerned whether they are the most suitable long-term investment for you. However, rising inflation means that fund returns need to be strong to continue to show positive returns once inflation is taken into account.
- Overall, fund managers have done a better job than last year when compared with the specific brief they had been given.
- However, less than half of all available funds were ranked in the top half of the table against similar competitor funds over all the periods we look at, continuing the deteriorating trend seen last year.

Quartile Rankings (Ranked Funds)



Source: FE Fundinfo, data to 31 December 2021.

Key Challenge for 2022

To implement the Group's Responsible Investment Policy in your funds, and improve performance vs peers.

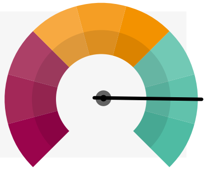
Key Messages

Investment Services

Key Messages

Investment Services

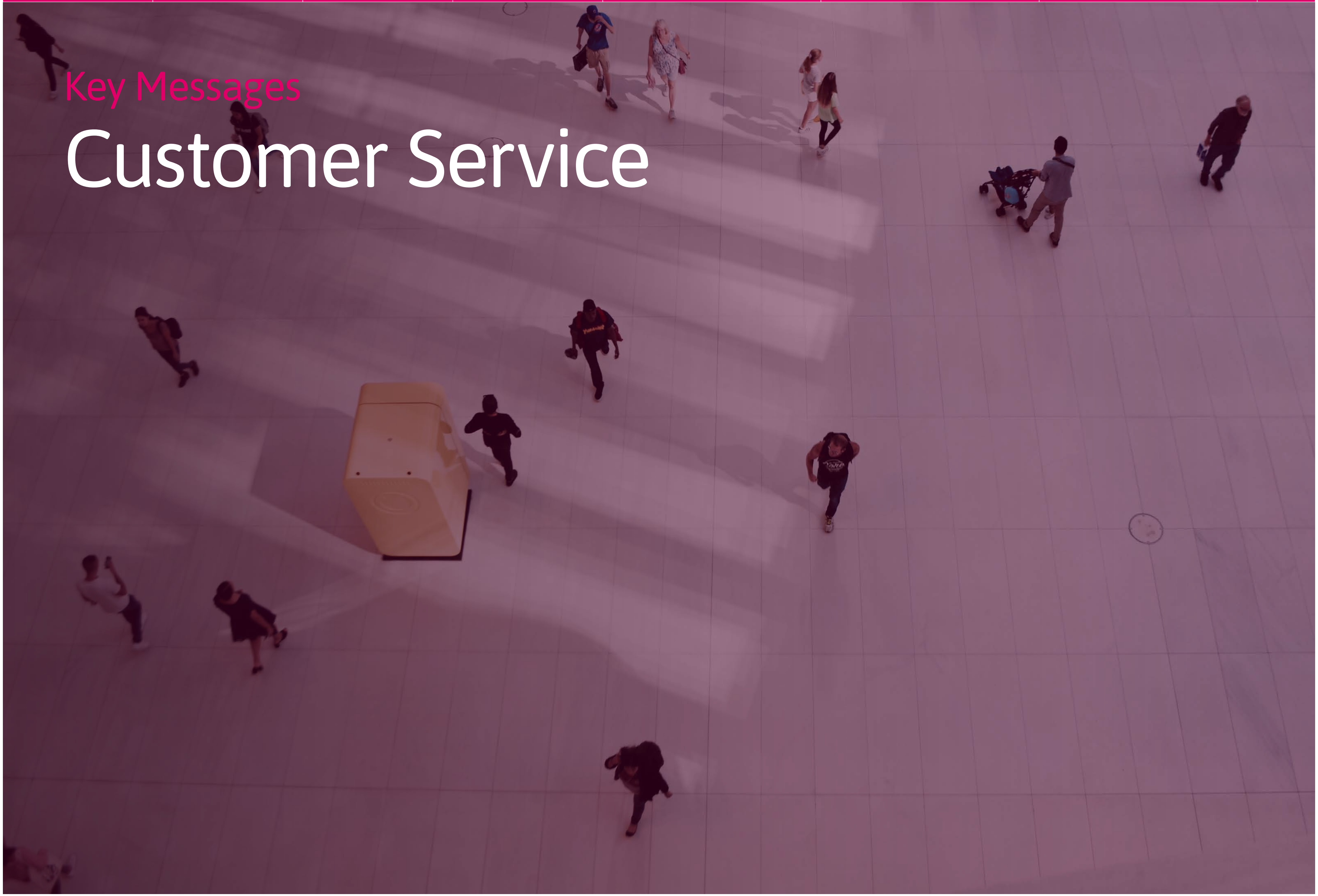
Overall, the IGC has given Phoenix a rating of GREEN for Investment Services, for the following reasons:



- We see continuing evidence of ongoing reviews of fund managers and the briefs they had been given, and changes being implemented.
- There is less reliance on external consultants as the Manager Oversight team was strengthened.
- Actions are underway to implement Phoenix's Responsible Investment Policy in funds where Phoenix controls the mandate.

Key challenge for 2022:

To embed the Responsible Investment Policy in your funds.



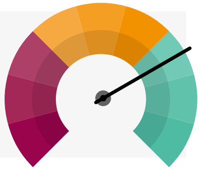
Key Messages

Customer Service

Key Messages

Customer Service

Overall, the IGC has determined a score of 32 out of 42 (76%) and a rating of GREEN for the customer service element of value for money for the following reasons:



- The vast majority (over 90%) of transactions were completed within their target time.
- Service quality is high – quality metrics have been met or exceeded during the year and customer satisfaction scores are high.
- Telephony teams did not meet their targets for call answering and abandonment for most of the year due to some resourcing issues, increased volatility in call demand, and some periodic network outages. Phoenix is working with its outsource partners to resolve these issues.
- Bereavement claims and complaints handling remain areas of challenge (as in 2020) and not all internally – set targets have been achieved.
- Improvements have been made to the process of recording customer vulnerability which will support an improved experience for these customers.
- Some progress has been made in offering digital services to more customers, which was a key challenge for 2021.
- External benchmarking has assessed Phoenix's services as broadly similar to other legacy providers.

Key Challenges for 2022:

- Developing digital services, including developing transactional services through a Phoenix Life app, and encouraging use of those services.
- Continued improvements in the bereavement claims and complaints handling processes.
- Increasing the recording of vulnerabilities and taking action to improve processes when enhanced reporting is available.

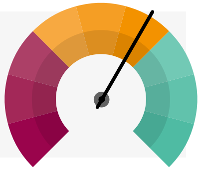
Key Messages

Communication and Engagement

Key Messages

Communication and Engagement

Overall, the IGC have given Phoenix a rating of AMBER for communication and engagement this year, for the following reasons:



- It was disappointing to see that there was no expansion of customer access to MyPhoenix during 2021, with only 45% of customers having access (no change from 2020). However, this was mitigated to some extent by the expansion of the Customer Centre, providing an alternative route for customers to access policy information packs and to take cash out of their policies through a single phone call.
- Last year we set Phoenix the challenge to ensure that everyone involved in preparing communication material for IGC in-scope customers (whether that be letters, emails, website updates or information to be provided over the phone) is trained on how to use and complete our 'Fit for Purpose Protocol'. This is a questionnaire designed to ensure that all communications from Phoenix are fit for purpose, taking into account customers' needs and objectives. While Phoenix achieved this challenge in relation to its own staff, it wasn't able to achieve it within the year in relation to those at its outsourced administration providers involved in preparing communication material for IGC in-scope customers.
- The IGC considers that there are various positive developments in the pipeline to enhance the communication and engagement tools capability available to service Phoenix customers, following the independent customer research undertaken during 2020, and assessment of the feedback collated. However, the IGC would like to see Phoenix and its outsourced administration providers moving at greater pace to deliver on various projects trailed throughout 2021.

That said:

- The effects of the Covid-19 pandemic continued throughout 2021, and we're pleased that Phoenix was able to keep all communication channels open without interruption, and to provide additional support for customers facing difficulties.
- Alongside MyPhoenix (the secure online system available to some IGC in-scope customers), Phoenix has significantly expanded its website phoenix.co.uk, which is another channel that IGC in-scope customers can use to start transactions. A telephone service that was introduced in 2020 to allow customers to transact business over the phone in a single call (the equivalent of online processing available to MyPhoenix customers) has also been enhanced during 2021 and has proved popular with customers.

Key Challenges for 2022:

- Ensuring that training on the Fit for Purpose Protocol is completed at Phoenix's outsourced administration providers at the earliest opportunity, to ensure that all communications produced by Phoenix's outsource partners are also fit for purpose, taking into account customers' needs and objectives.
- Now the Fitness for Purpose Protocol is embedded within Phoenix, it should focus on ensuring it is collecting evidence to demonstrate whether the desired outcome of each communication has been achieved for customers. Where the evidence doesn't support this conclusion, Phoenix should show how it is adapting communications to improve the likelihood of achieving the desired outcome for customers. It should ensure that its outsourced administration providers do the same.
- It continues to be the case that only 45% of customers have access to MyPhoenix and all the benefits that brings. Phoenix says that this is due to customers needing to be migrated from legacy administration platforms before they can be offered access to MyPhoenix. Phoenix has plans for further migrations during 2022 and 2023, and a key challenge for Phoenix is to make sure these transitions stay on track, to enable the proportion of IGC in-scope customers who have access to a digital offering that is appropriate to their needs to increase.

As with last year, the IGC hopes that Phoenix will make substantial progress on the delivery of the key project to improve the Annual statement and Key Milestone Communications, so that these communications will meet the crucial fit for purpose requirement.

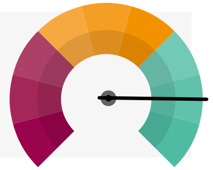
Key Messages

ESG and Stewardship

Key Messages

ESG and Stewardship

Overall, the IGC has given Phoenix a rating of GREEN for its approach to ESG and Stewardship in relation to your pension savings for the following reasons:



- Phoenix continues to have a strong **policy framework** that sets out clearly how ESG and Stewardship considerations should be taken into account in investment decisions that impact customer outcomes. The policy framework covers factors that can influence the financial return from investments, but also recognises that some customers may wish to have their ethical, non-financial, values reflected in how their pension savings are invested. During 2021, the policy framework was strengthened in a number of ways, most notably through the introduction of an **Exclusions Policy** and an explicit **Stewardship Policy**.
- The policy framework is backed up by a **strong governance framework**, to ensure that the policy intentions are carried out. All investment decisions that Phoenix takes are required to meet minimum ESG standards.
- During 2021, a number of key internal appointments were made that strengthen the **governance framework**, including the appointment of a Head of Stewardship. The size of the team that oversees the investment decisions carried out on Phoenix's behalf by its fund manager external partners was also increased, and the extent of scrutiny on ESG and Stewardship activity that they carry out significantly deepened.
- Phoenix continues to **improve the visibility of its ESG and Stewardship** activities to you as customers. It is also taking more of a leadership role in the industry, championing good practice in this important area.

In last year's report, we set out two key challenges for Phoenix, and the wider Phoenix Group – to communicate better the impact on the environment and society of Phoenix's Responsible Investment activity, and to widen still further the range of Responsible Investment funds available to you. In terms of the former challenge, Phoenix Group's publications in this area still focus at a more corporate level rather than showing the difference at an individual fund level. While disappointed that fund-level impacts are not yet available, the IGC recognises the quality and value of the reporting that has been published, and the huge amount of effort that has been put into its development – both in terms of the commitments that have been made and the sourcing of robust data in order to evidence progress against them. The Phoenix Group 2021 Sustainability Report is available **here** and the Phoenix Group 2021 Climate Report is available **here** and both are worth reading.

Key challenges for 2022:

- communication – particularly helping customers like you to see the beneficial impact on the environment and society of how Phoenix pension pots and drawdown funds are being invested; and
- widening further the range of Responsible Investment fund choices available to you.

Further Commentary

Further Commentary

Costs and Charges

Further Commentary

Costs and Charges

What we look for

A number of costs and charges may apply to your plans and include:

- charges deducted on an ongoing basis (**'ongoing charges'**); and
- deductions to cover the costs of buying and selling the investments within the plans called **'transaction costs'**.

Some of you may have other benefits or services on your plan – certain guarantees that apply to with-profits investments; protection benefits e.g. life insurance or waiver of contribution cover; specialist investments, or advice from an adviser. Customers typically pay extra for these benefits through **'other charges'**. Additionally there may be an **'exit charge'** deducted from the value of a plan if it is transferred to another provider.

We have always believed that **ongoing charges** greater than 1% per annum do not represent value for money unless there are associated additional benefits as described above. We have always looked to see what alternative options may be available to you both in the Phoenix Group and in the wider market and how these charges compare to what you are paying. Revised guidance from the Financial Conduct Authority about how we should be assessing whether a scheme provides you value for money means that this comparative assessment is now a primary driver of our value for money assessment.

Whether a customer will receive better value by taking those lower cost options can be a complex decision as value depends on benefits received as well as the costs. What is critical is that customers are aware of and regularly review their options and we would encourage all of you to do so.

We expect **transaction costs** to be within normal market ranges or, where they appear materially higher, to understand why this is the case and any action taken to offset the impact on customers. Where customers pay other charges for other benefits and services, then we consider this to be reasonable provided customers know that they are paying for those other charges, understand (and still need) the benefits or services, and receive adequate communications. We also look to see that these **other charges** are reviewed periodically to ensure that they remain appropriate.

We are concerned if **exit charges** are above 1% of the value of the plan.

Ongoing Charges

Ongoing charges remain in line with what we have seen in previous years, with the vast majority of you paying no more than 1% per year in ongoing charges and some of you paying less, as shown in the table below.

Total member charge	Number of workplace and former workplace personal pension members	Percentage	Assets under Administration (£m)	Percentage
1.01% to 1.50%	548	0.6%	6	0.5%
0.75% to 1.00%	72,295	80.6%	1,000	79.2%
>0.50 to ≤0.75%	16,985	18.9%	257	20.3%
	89,828	**100%**	**1,263**	**100%**

Our review of reports from other IGCs show that an ongoing charge of 1% per year is typical amongst other firms with 'legacy' workplace pension policies. 'Legacy' is a term that tends to be used to describe older style pension policies sold a number of years ago, usually not now available to new employers or even open to new customers, and rarely used by employers for auto-enrolment. We also took part in external benchmarking research amongst 'legacy' workplace pension providers; this research supported the conclusion that 1% per year was in line with other providers of older style pensions.

Whilst this demonstrates that Phoenix compares reasonably amongst its peers, we hold the view that 'legacy' is not a meaningful term for customers or necessarily a reason why a customer should be charged more than someone in a more 'modern' pension product. For example, pensions used for auto-enrolment where the default investment fund is chosen have charges that are capped at a maximum of 0.75% per year, whilst also offering more in terms of online servicing and support, engaging communications, etc. Therefore, if you are being charged above this, we would encourage you to review your options.

However, it does remain the case that many, but not all, Phoenix pension pots are relatively small, are not receiving new contributions, and the number of customers within each scheme may also be small, so even a 1% charge may not in fact cover the costs to Phoenix of administering the policy. Nevertheless, the IGC is glad that Phoenix continues to invest in making improvements to customer service, support for vulnerable customers and its digital offering. In addition, Phoenix has committed to a test-and-learn implementation of a number of new ESG funds with lower charges for a subset of the IGC population, in order to test uptake. We will be interested in the outcome of this initiative.

We do recognise that a key issue is that 'value' depends on not only costs and charges but other factors as well. For example, a Phoenix customer invested in with-profits may have valuable guarantees that will not be available elsewhere, and transferring to another pension or provider offering lower ongoing charges may not improve overall value if the investment choice is less suitable or investment performance is worse. Switching to another option may also be of limited value if the customer has a smaller pot or is close to retirement, and the decision can be complex and require advice, the cost of which would outweigh any potential benefit of transferring.

In last year's report, we referenced that Phoenix was investigating a small number of policies where the ongoing charge is potentially higher than it should be. This was confirmed to be the case and Phoenix has subsequently put any affected customers back in the position they should have been. We are glad to see that Phoenix has processes and controls in place to identify and rectify such situations.

Other Charges

We discussed in our report last year the operation of with-profits investments and charges made for guarantees. We noted that a charge is only made for customers who invest in the NPL With-Profits Fund (which has a charge set at 0.5% per year which is deducted from the plan value) but that many plans within that fund have guaranteed bonus rates of up to 4% per year which applies at retirement age which is a valuable feature. We remain comfortable that the charges paid by customers are reasonable given the guarantees provided.

There are a small number of customers (around 450) who have **protection benefits**, the majority of which is waiver of contribution benefit which ensures that contributions to your plan continue if you are unable to work for an extended period through long-term ill health or disability. We remain comfortable that Phoenix maintains processes to regularly review the charges for those benefits and that letters are periodically issued to customers to remind them of these benefits, to consider if they might have a valid claim, and to encourage them to consider if they still want the benefit.

A small number of you invest in specialist funds that charge more i.e. make the ongoing charge higher than 1% per year. These include Invesco Perpetual Managed at 1.78% and Newton Managed at 1.46%. We accept that such funds were specifically chosen by customers and may still offer reasonable value for money provided customers understand that suitable alternative and lower charging options may be available and/or that the investment performance is adequate given the extra cost. Phoenix has monitoring processes in place to assess whether investment performance has been acceptable and, whilst it cannot force customers to move to a different fund, has in recent years written to them to highlight any poor performance and ask them to consider alternative options.

No charges are taken from any customer's plan to pay **commission to advisers**.

Transaction Costs

The quality of **transaction cost** reporting to the IGC has continued to be high over the course of 2021. This reflects a continued high level of data coverage, Phoenix doing more in terms of analysis of costs and how these change from period to period, and investigating funds where charges appear particularly high. Our report covers the 2021 calendar year and includes 99% coverage of the transaction costs associated with the underlying investment held by the Phoenix funds (99% in 2020), and 98% coverage of transaction costs related to the buying and selling of units in those underlying funds (95% in 2020).

However, the issues with the time it takes for transaction cost data to be reported to us described in last year's report still remain. This appears to be an industry-wide issue, in large part due to the delay in fund managers providing data to firms to enable them to collate, review and report e.g. Phoenix can only report a complete set of data to us when all the fund managers it uses have supplied the necessary data. This report is required to cover charges during 2021 but we did not receive data until end of April – almost four months later.

Transaction Costs by Type of Asset

As in previous years, we have included a table that shows the transaction costs for the Phoenix Unit Trust Managers (PUTM) collective investment schemes that Phoenix uses to construct many of the unit linked and with-profits funds that customers invest in. Each collective investment scheme invests in a particular type of asset. This year PUTM have included the Anti-Dilution Levy (ADL) offset for the first time in their reporting. The ADL represents the value within the pricing of the collective investment scheme that is taken to cover the cost of trading as units are sold or purchased. For the purpose of transaction cost reporting the, ADL can be used to offset the costs associated with trading in the underlying stocks and bonds that such unit movements generate. As would be expected, this has generally led to a reduction in transaction costs reported when compared to 2020. The level of transaction costs should be considered alongside the level of investment return, for example, a high transaction cost is not necessarily poor value for money if it results in overall better returns. For Japanese equities there has been a significant increase in transaction costs compared to 2020. Phoenix's monitoring processes have also identified underperformance within this asset class and, as such, has taken action to change the asset manager and investment strategy in March 2022.

Type of transaction cost	Implicit (%)	Explicit (%)	Total (%)	Total (%)
Year	**2021**	**2021**	**2021**	**2020**
Type of investment				
UK Gilts	0.01	Between -0.01 and 0.01	**-0.01**	**0.18**
UK Corporate Bonds	0.02	0.02	**-0.04**	**0.05**
Overseas Bonds	0.11	Between -0.01 and 0.01	**Between -0.01 and 0.00**	**0.05**
Supernationals	0.02	Between -0.01 and 0.01	**-0.01**	**0.04**
UK Equity	0.02	0.08	**-0.05**	**0.38**
N America Equity	0.01	0.02	**-0.02**	**0.00**
Japanese Equity	0.98	0.01	**-0.01**	**0.49**
Asia Pacific	0.03	0.07	**-0.03**	**0.06**
European Equity	0.12	0.04	**-0.01**	**0.17**
Emerging Markets	0.07	0.11	**-0.06**	**0.12**
Property (estimated)	Between -0.01 and 0.01	0.04	**Between -0.01 and 0.00**	**0.33**
Global Credit	0/23	0.01	**-0.03**	**0.24**
Tactical Asset Allocation	0.89	0.08	**Between -0.01 and 0.00**	**0.20**
Emerging market debt	0.31	Between -0.01 and 0.01	**-0.15**	**0.34**
Cash	Between -0.01 and 0.01	Between -0.01 and 0.01	**Between -0.01 and 0.00**	**0.00**

(The total transaction cost is the sum of the implicit and explicit costs.)

Transaction Costs for the Relevant With-Profits Funds

Phoenix provides us with transaction costs for the with-profits funds that are invested in by some customers. The costs shown represent the assets within the fund that inform policy payouts and, whilst the asset mix for certain groups of policies within each fund may vary, they are indicative of the level of costs.

In general the costs appear reasonable. In last year's report, it was noted that we challenged Phoenix over the apparent high relative transaction costs for the PLAL London Life Fund. As a result of this challenge, investigation by Phoenix found an issue in the weightings that are applied to calculate the transaction costs, resulting in these being overstated for all With-Profits Funds. It should be noted that this was an issue only with the reported transaction costs rather than any costs that were applied to individual customers. The corrected transaction costs for 2020 are shown in the table below.

Fund Name	Fund Average NAV (£bn)	Aggregate Transaction Costs 2021 (%)	Aggregate Transaction Costs 2020 (%)
PLAL London Life	0.060	**0.039**	0.078
PLAL NPL	0.516	**0.049**	0.066
PLAL NPI	N/A*	**0.129**	0.138
PLAL Pearl	4.040	**0.129**	0.138
PLL Alba	0.250	**0.038**	0.060
PLL SAL	1.735	**0.115**	0.146
PLL Scottish Mutual	1.003	**0.107**	0.112
PLL SPI	0.761	**0.125**	0.117

*wholly reinsures all liabilities to PLAL Pearl With-Profit Fund

Transaction Costs for the Main Unit Linked Funds

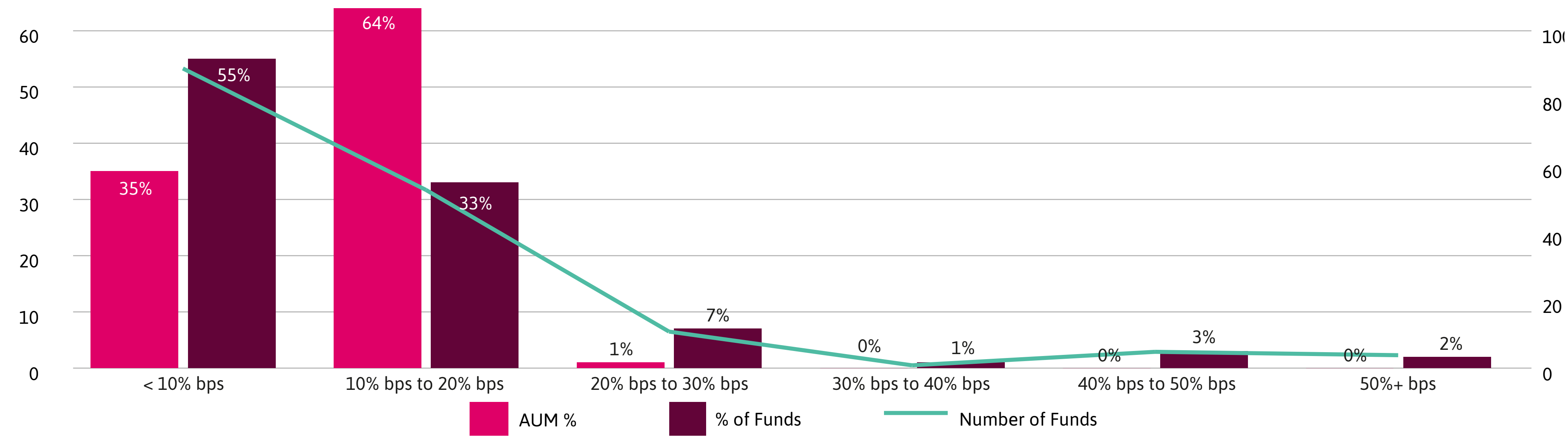
The following table shows transaction costs for the main unit linked funds used by you and generally show a reduction in transaction costs compared to 2020. Whilst these are not ‘default’ funds (because customers made a decision to invest in them), they are used by a large proportion of customers so we treat them as ‘pseudo’ default funds.

Fund Name	Fund Average Asset Value (£bn)	Total Transaction Costs 2021 (%)	Total Transaction Costs 2020 (%)
RSA Pension Managed	1.48	**0.174**	0.171
Abbey Life International	1.84	**0.092**	0.167
NPI Pensions Managed	1.27	**0.129**	0.160
Abbey Life Pensions Managed	1.74	**0.114**	0.240
Scottish Mutual Growth Pension	0.29	**0.134**	0.229
NPI Pensions UK Equity Tracker	0.07	**0.037**	0.043
Pearl Pensions UK Equity	0.03	**0.057**	0.067
Phoenix Pension Growth Stakeholder	0.04	**0.076**	0.207
NPI Pensions Overseas Equity	0.09	**0.106**	0.144

Transaction Costs for all Relevant Unit Linked Funds

Transaction costs for all 163 unit linked funds offered by Phoenix to customers who are within the scope of the IGC are available on our section of the Phoenix **website**. The chart below provides a summary view of costs split into bands. This illustrates that 87% of funds (65% in 2020) saw transaction costs below 0.20% and 94% (85% in 2020) below 0.30%. The chart also illustrates that higher costing funds tend to be smaller. We continually ask Phoenix to look particularly at funds with transaction costs at the extreme end i.e. in excess of 0.50%. In general it appears that costs at this higher end are associated with implicit costs i.e. differences in the price the fund managers received or paid when they sold or bought underlying investments compared to the price when they decided to trade. In other words, the costs are a feature of the methodology used to calculate transaction costs rather than due to higher explicit costs such as commission and stamp duty. In some cases, the larger costs are associated with specialist funds and not out of line with the market. For the funds with transaction costs above 50 bps, two of these hold the Japanese asset class which Phoenix have already taken action to change the fund manager and investment strategy for in 2022. One is due to a change of the underlying investment that the unit linked fund holds and the associated transition costs of that change; Phoenix did make allowance for the increased transaction costs within the pricing of the unit linked fund but that does not offset the costs shown here.

Q4 2021 Phoenix Breakdown of Transaction Costs



We have included industry **benchmarking information** which indicates that Phoenix transaction costs continue to be in line with typical market ranges.

Phoenix also took part in an industry benchmarking exercise that showed transaction costs were towards the upper end of the industry range. However, we are comfortable that the transaction costs are reasonable overall.

Finally, it should also be noted that a higher transaction cost is not necessarily bad value for money, if it has resulted in a better investment return for customers, or is due to a change in investment strategy designed to improve future returns.

Overall, we continue to be comfortable with the level of transaction costs.

Increased Disclosure of Costs and Charges

The increased disclosure requirements introduced last year, where IGCs are required to publish costs and charges information in more detail, have been further enhanced this year, including:

- the publication online of the ongoing charges and transaction costs for all investment funds that Phoenix makes available to IGC in-scope customers, (previously only pseudo default funds were covered); and
- the publication online of sample illustrations across a broader range of funds that show the potential effect of ongoing charges and transaction costs on the value of pension pots over time.

The table of costs and charges for all investment funds, together with sample illustrations to show the impact of those costs and charges, are available on the **website**.

The tables show the range of costs and charges incurred by individual customers and demonstrate that not all customers pay the same for the same fund but that costs and charges vary, generally due to the terms agreed at outset. What you pay may also vary by the fund(s) that you are invested in. It is important, therefore, to understand how your charges compare with what you may be able to get elsewhere. The sample illustrations also show how significant ongoing charges can be on the ultimate value of your pension, particularly if you have a larger pot invested over a long period.

In addition, the Financial Conduct Authority (FCA) have introduced new rules around assessing value for money in workplace pension schemes. This requires IGCs to consider the most appropriate and proportionate way to assess an employer's scheme so that the IGC can produce a value for money assessment that is most useful for members.

IGCs have a judgement to make on whether to assess costs and charges at an individual employer level, at an aggregated level or by a combination of both. We have chosen to assess costs and charges at an individual employer level rather than an aggregated level. We feel this is most appropriate, as it is at this level that you experience the service offered for the particular charge that you are paying and allows you to fully understand where your level of charges sits in comparison to others.

Fund Name	< 0.3%	0.30 – 0.39%	0.40 – 0.49%	0.50 – 0.59%	0.60 – 0.75%	0.76 – 0.85%	0.86 – 0.95%	0.96 – 1.00%
Phoenix NPI Pensions Managed	0.39%	0.00%	0.62%	4.04%	2.41%	1.57%	1.35%	89.62%

Given the legacy nature of the Phoenix business, the vast majority of employer arrangements will no longer be active and only have a very small number of members. Therefore, the ability and likelihood of an employer arrangement transferring to another provider is remote and it will be down to the individual member to make that decision. Therefore, we also feel it is appropriate to additionally consider and report at an individual member level to show how your charges compare to all other Phoenix customers.

In considering our value for money assessment, we have looked at costs and charges information available both internally within Phoenix (with data set out in this report) and also across the wider Phoenix Group. We have considered looking at how charges compare across schemes with similar numbers of members and/or assets under administration as these can be key factors that will have initially influenced the level of charges applied to a particular scheme. However, the legacy nature of Phoenix's business, with only one or two members in individual employer arrangements that are no longer active, makes this approach less relevant.

Externally, we have taken part in industry-wide benchmarking surveys to understand how the level and spread of charges compare with those across the industry. We will also continue to look at disclosures within our peer IGCs' reports to see how Phoenix's costs and charges compare across the industry.

We strongly encourage you to understand how the level of charges you pay compares to charges paid by other employer arrangements with Phoenix. Within this report (for pseudo default funds) and on the website (for all funds) there are details that show the distribution of charges at an employer and individual member level. We have chosen to present the data in this fashion as we believe this is a useful and effective way for you to understand how the level of charges you are paying compares with those of other employer arrangements within the same fund, and as such, what relative value for money you may be receiving.

In order to help you to be able to assess this, Phoenix have delivered a digital solution that will allow you to find the level of charges for all funds that you are invested in or are available to you. From the Phoenix **website**, you are able to enter the name of your employer who your pension arrangement was with and be presented with all relevant costs and charges for both invested funds and funds available to you.

In order for you to consider how the charges you are paying compare to those being applied to other members or employer arrangements provided by Phoenix, for each fund available we have set out, using various charge bands, the proportion of members and employers invested within that fund who are paying the level of charges indicated within the relevant band.

For example, the table below shows the distribution of charges for employer arrangements invested in the Phoenix NPI Pensions Managed. If you are invested in this fund and are paying a charge of between 0.96% and 1.00%, then 10% of other employer arrangements who are invested in this fund will be paying a lower charge, some significantly so. There may have been valid reasons for this, but, in this scenario, we would encourage you to consider whether you are receiving value for money given the charges being applied to other members, alongside the fact that there will be lower-charging alternatives available in the new business market.

The distribution of charges for all other pseudo default funds can be found within this report. For all other investment funds, the distribution of charges are available on the Phoenix **website**.

Finally, we are required to publish the charges that apply to each fund that is available to invest in for each individual employer arrangement with Phoenix. We feel that the most effective approach for members to understand the charges applicable to them, and how they compare to the charges of other members or employer arrangements invested in the same fund, is through use of the digital solution described above in conjunction with the distribution of charges set out in this report. However, we do view it as important that we present data that satisfies the regulatory requirements, and this information is available on the Phoenix **website**.

Although charges may vary, it is not always possible to switch to a lower charging option within Phoenix; and, depending on the features of the current policy, the size of the pot and time to retirement, it may not be in a customer's best interests to do so. However, as mentioned above, it emphasises the importance of customers considering whether their pension pot and the way it is invested with Phoenix remains suitable for them. If you need help in understanding what level of charge you are paying, you should contact your employer, ex-employer or Phoenix to help explain. If you are still working for the same employer, you could ask them how recently their pension arrangements and charges have been reviewed. You should also consider seeking professional advice before making any changes.

Exit Charges

Last year we noted that there were 1,839 policies that would see an exit charge in excess of 1%. We are pleased to report that Phoenix has implemented the cap to those exit charges at 1% in August 2021. Whilst few of you choose to transfer at these ages, this has removed a potential barrier for those who do and now no member will be subject to an exit charge of greater than 1% across the whole IGC in-scope population.

Further Commentary

Investment Performance

Further Commentary

Investment Performance

Overall, Phoenix's Investment Performance contribution to2021 Value for Money for Customers is now assessed as AMBER. Assessment criteria scores were lower than in 2020, with 67% of the maximum score.

What do we hope to find?

- Key managed funds are delivering sufficient returns on your retirement savings over the medium/longer-term to provide a decent outcome when you retire, without taking too much investment risk.

Although Value for Money is all about what you might get in the future, we look to see how your investments have performed in the past to confirm our findings. We look at how well fund managers have performed against the specific brief that they've been given, and we also look at how well funds have performed against similar funds that you or your Employer might have chosen instead. The ultimate test, though, is how your savings pot has grown over time and, for that, we see how funds have performed in real terms, taking past inflation into account.

What we found:

- The multi-asset funds in which most of you are invested delivered strong returns in 2021 as economies started to recover from the worst impacts of the pandemic, so retirement pots continue to grow at a reasonable rate. UK-only funds showed some recovery after lagging last year but with their narrow base we remain concerned whether they are the most suitable long-term investment for you. However, rising inflation means that fund returns need to be strong to continue to show positive returns once inflation is taken into account.
- Overall, fund managers have done a better job than last year when compared with the specific brief they had been given.
- However, less than half of all available funds were ranked in the top half of the table against similar competitor funds over all the periods we look at, continuing the deteriorating trend seen last year.

Key challenge for 2022:

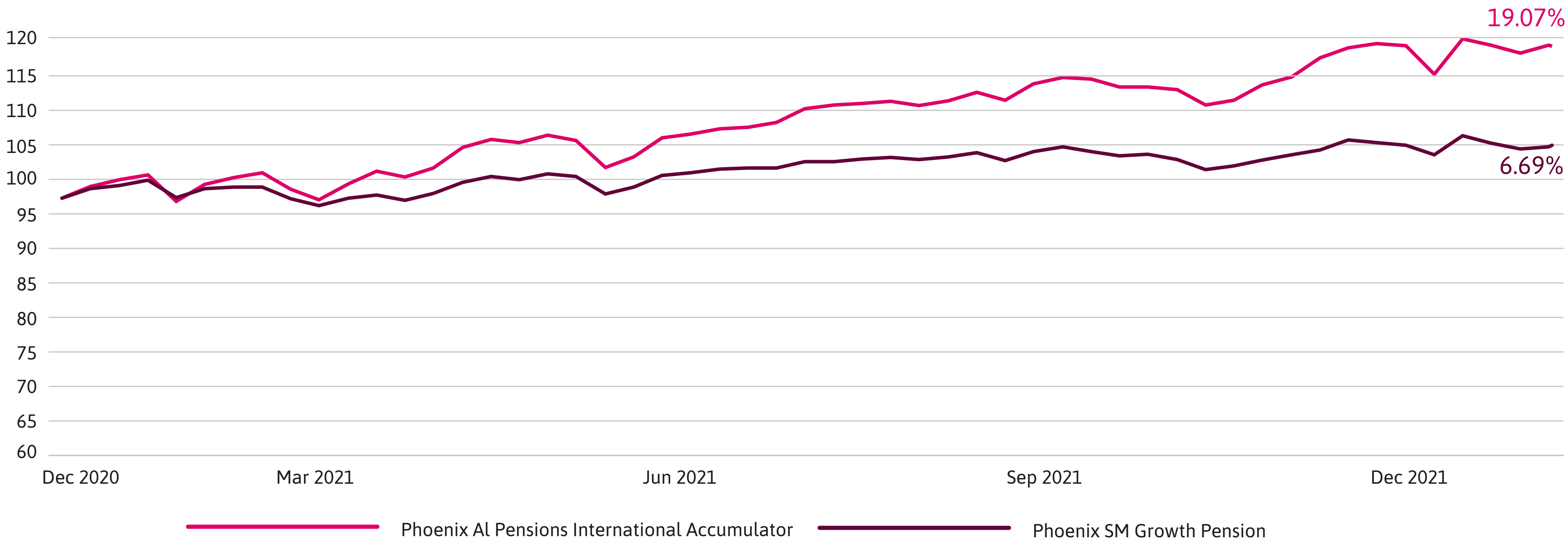
- To implement the Group's Responsible Investment Policy in your funds, and improve performance vs peers

How did your funds do in 2021?

After the economic shocks caused by the pandemic in 2020, markets generally showed improvement over the year despite further lockdowns, with growing confidence in developed economies as the effects of the vaccination programmes started to be seen.

These trends can be seen in the graph showing the best and worst performing of the 9 key funds in which many of you are invested. All ended the year with strongly positive returns, although with considerable differences between them. This is not just due to the performance by the relevant fund managers; it can reflect differences in the mix of assets between different markets.

Highest and lowest performing key funds in 2021



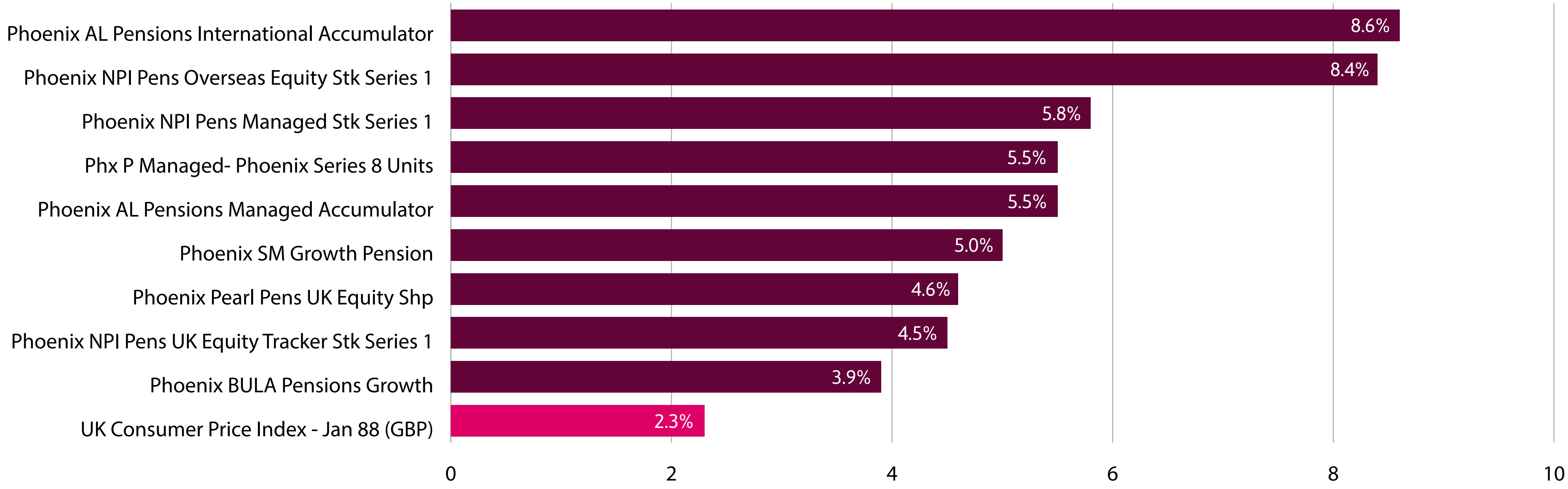
Source: FE Fundinfo, at as 30 March 2022.

The other key funds produced returns between these two. However, you may be invested in other funds that have performed differently, funds that either you or your previous employer selected some time ago. We include all funds in our overall oversight as reported on the next page. Although UK-only funds have done better this year than last, it is again due to the sector biases in the UK market versus the rest of the world, with a much higher proportion in energy stocks and hardly anything in technology sectors. Are these funds still the most suitable for your pension savings?

What about over the longer-term, when compared with inflation?

Here we look at the performance of all available funds over the longest possible timescale, as many of you will be invested for several decades. Funds invested in stock markets would hope to beat inflation every year, but short-term impacts can mean that is not the case. In 2021 for instance some funds targeting returns based on high dividend income rather than capital growth did not beat inflation over five years. Over the longer term however these shorter-term impacts tend to average out, and the results provide a good indicator as to how your savings pot is growing in real terms. Over the last 15 years, inflation has averaged 2.34%pa, and the graph below shows that all the 9 key funds have beaten inflation over that period.

15 Year Annualised Performance of Key Funds and CPI



Source: FE Fundinfo, data to 31 December 2021.

When we look at the results of all the funds, we raise queries on any that have not beaten inflation over five years where it is not immediately obvious why that might the case (a cash fund or fixed interest fund, for instance) and where this has not already been highlighted on other performance grounds.

How good a job are the fund managers doing?

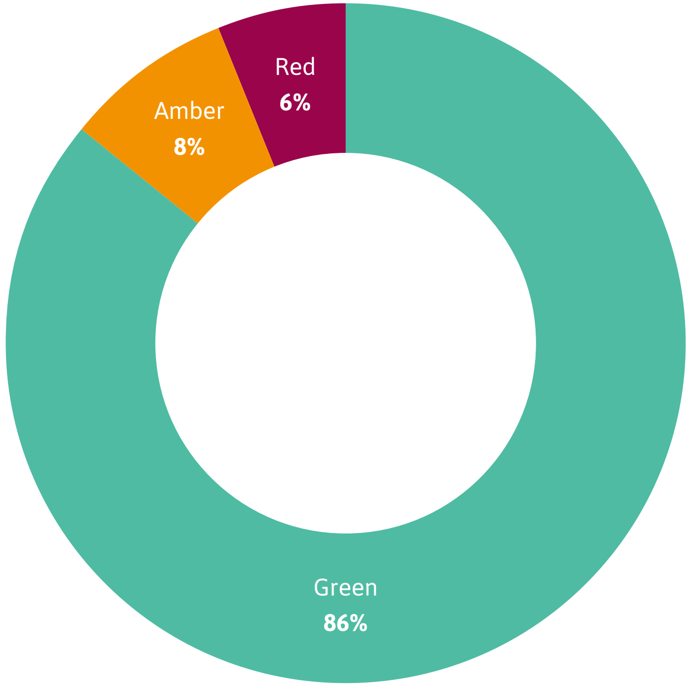
To assess this, the IGC have devised a Red/Amber/Green ("RAG") performance flag which indicates how funds have performed compared to the benchmarks that have been set for the managers. The benchmarks could be a published market index like the FTSE All-Share, or a customised combination of indices, or the average return of a suitable peer group. We look every quarter at three-year performance, and the RAG assessment takes into account how we would expect a fund to perform given the brief the manager had been given. For instance, if the brief was to match an index, we expect performance to be very close to index performance. If it's an actively managed core fund, we look for outperformance against the benchmark, but understand that, in the short-term, results can be more variable.

The proportions of Red/Amber/Green across all Phoenix funds available for investment by workplace customers such as you are shown alongside. This shows that the vast majority of fund managers are delivering positive results against the brief they have been given, whether to match the return of a benchmark comparator, or to beat it. This year's results are much better than last (equivalent results for 2020 only had 74% green, 17% amber and 9% red).

How do these funds compare with peers?

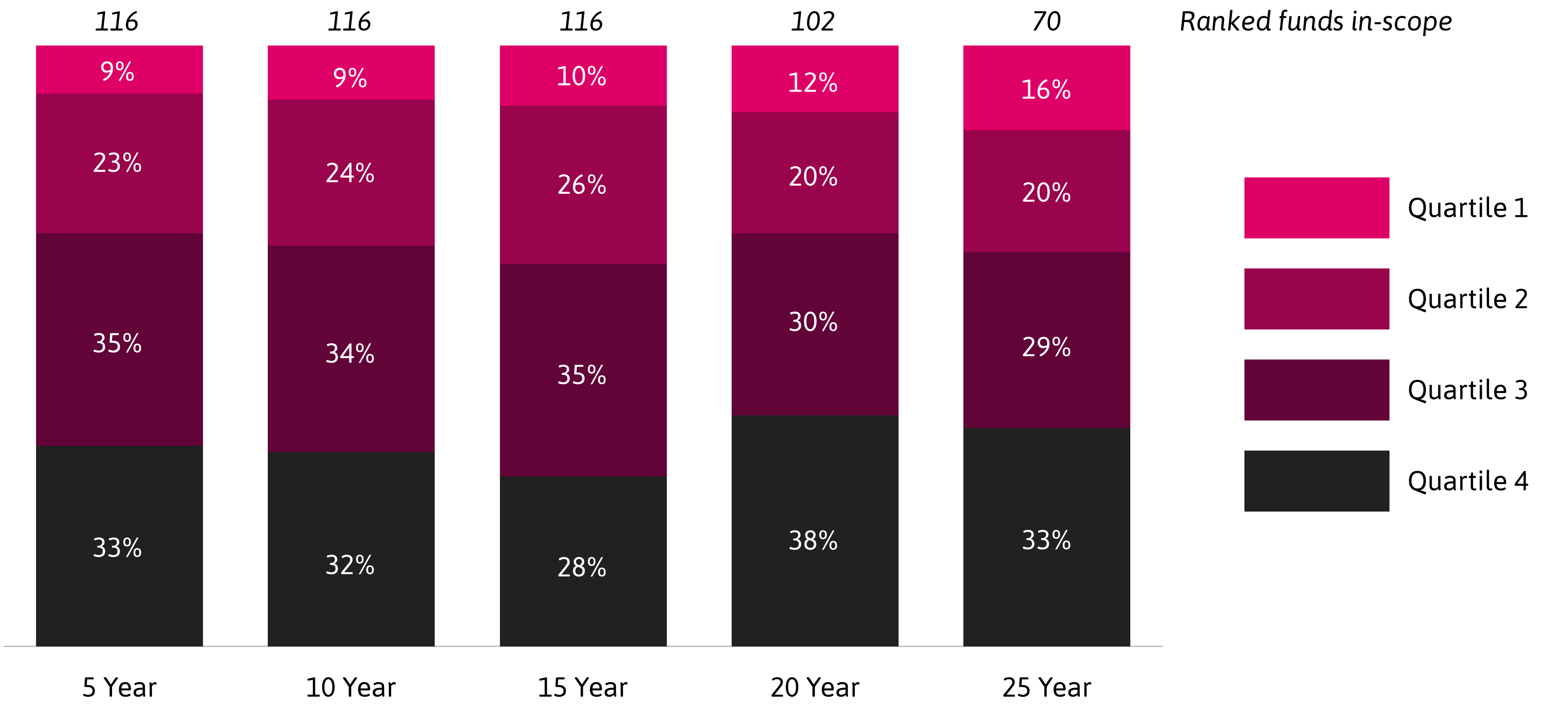
The quartile rankings of those funds which can be compared against ABI sectors of similar competitor funds over various periods are set out below. 'Quartile ranking' involves arranging in order all similar funds from the best to worst performing, and then dividing the list into four with Quartile 1 reflecting the best performing quarter of the list, quartile 2 the next, and so on. 2021 saw a continuation of the deteriorating trend seen last year, with the majority of funds over all periods now in the bottom two quartiles (ie in the lower half of the table).

Performance RAG distribution (rated funds)



There were 22 (13%) unrated funds due to unavailability of data

Quartile Rankings (Ranked Funds)



Source: FE Fundinfo, data to 31 December 2021.

This part of our assessment again scored poorly this year as the more recent years continue to score less well than the earlier years they replaced – back in 2019 we saw a clear majority of funds in the top half of the table for instance. It is not immediately obvious what has caused this drop; although we can analyse Phoenix's performance, we don't know how competitor results were achieved. Nonetheless, this is disappointing for you, as it indicates that better results could have been obtained elsewhere if you (or your previous employer) had made different choices.

What external validation do we have for our assessment?

Several years ago, the Standard Life IGC (now aligned with the Phoenix IGC) worked with Redington, a firm of investment consultants, to devise a framework for assessing all the different default profiles used by client schemes and their underlying funds, and highlighting for further investigation those that might not be offering VfM either due to poor performance, or questions of suitability for their part of the savings journey. (Subsequently Redington have applied some parts of this framework in their industry benchmarking assessments, although those tend to focus on selected key defaults and funds.)

Although Phoenix does not have default funds as such, we have again used this framework to analyse the 9 key funds and their underlying component funds to see whether any new issues were highlighted. As before, the analysis indicates that the managed funds were more suitable for the later years of saving for retirement rather than the early years; but, given the average age profile of customers invested in these legacy funds, that is not inappropriate.

7/10 funds were initially flagged for further investigation in the backward-looking assessment, with 1/10 flagged in the forward-looking assessment. On further investigation:

- Five funds were only flagged in the backward-looking assessment due to the extraordinary gyrations in value seen in the first half of 2020 where there are no ongoing performance concerns – no action required.
- The other two funds were passive funds where apparent underperformance was caused by a timing difference between the pricing of the funds and their index.

The only fund flagged in the forward-looking assessment is a property fund which is a small component of a managed fund which was not itself flagged – no further action required.

We are reassured that this external analysis has not highlighted any issues that were not already known and understood.

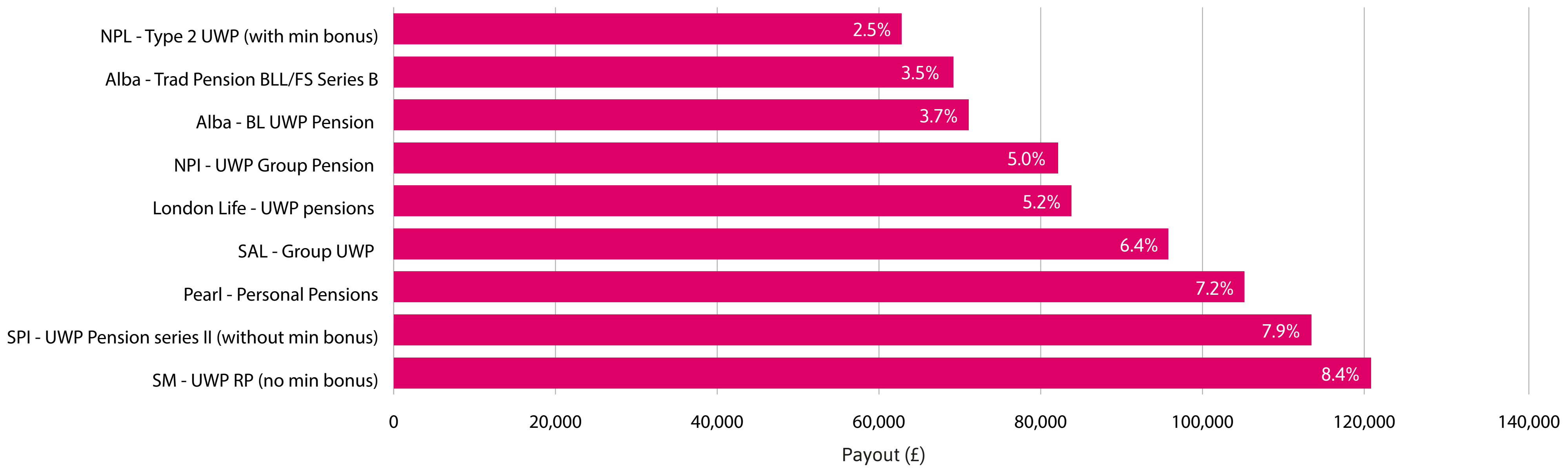
What about the performance of With-Profits funds?

It is not straightforward to compare short-term performance in With-Profits funds against unit-linked funds given that year to year bonus rates will be affected by smoothing, whereas eventual payouts will reflect both the performance of the underlying asset shares, any estate distribution and any investment guarantees – and a market value reduction (MVR) may apply if taken earlier than at retirement. VfM can really only be assessed once benefits are finally taken.

In addition to tracking the performance of the underlying asset shares net of costs, which is what drives terminal bonuses and guarantee deductions, and monitoring the asset allocation for likely future performance, we also look at performance over 1,3, and 5 years compared to CPI (see **Supporting Material**).

Overall, we concluded that example 20-year payouts and returns on premium on retirement in 2021 were reasonable compared with cpi of 2.2%pa over the same period.

Example 20 year payouts and return on premium



However, we remain concerned about the NPL bonus series where MVRs are expected to apply and can average around 30%. Last year we reported that Phoenix had put on hold their previous proposal to offer these customers substantial enhancements to their pension pots in return for giving up their guarantees, as the uncertainty of the pandemic did not feel an appropriate time to ask customers to make decisions about giving up guarantees. The project remains on hold but Phoenix is regularly reviewing when it would be appropriate to be restarted and what form the offer should take. We hope it won't be too long before the project restarts.

What other changes are being considered going forward?

Following the publication of the Phoenix Group's Responsible Investment Philosophy, Phoenix have started discussing with key asset management partners the likely impacts on mandates under their control (see the Investment Services section), but no changes have yet been implemented on customer funds.

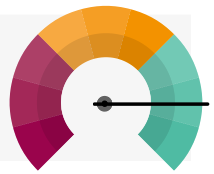
Further Commentary

Investment Services

Further Commentary

Investment Services

Overall, Phoenix's Investment Services contribution to 2021 Value for Money for Customers is assessed as GREEN. Assessment criteria scores were higher than in 2020.



What do we hope to find?

- That the funds offered to you are well-designed, well-managed and governed in order to meet your expectations.
- To assess this we look at regular governance reports, particularly focusing on actions taken to address any issues uncovered.

What we found:

- Continuing evidence of ongoing reviews of fund managers and the briefs they had been given, and changes being implemented.
- Less reliance on external consultants as the Manager Oversight team was strengthened.
- Actions underway to implement Phoenix's Responsible Investment policy in mandates under Phoenix control.

Key challenge for 2022:

- To embed the Responsible Investment Policy in your funds.

What evidence is there of ongoing review of my funds?

Phoenix's internal governance team report to us every quarter under a RAG system, providing commentary on why funds are flagging as amber or red, and whether any further action needs to be or is being taken, engaging with fund managers as necessary. Where Phoenix controls the mandate, its manager oversight team make recommendations to the group Investment Committee and can implement any changes to the mandate or manager required once approved. However, if you or your Employer had specifically chosen a particular fund, they would need to engage with you to highlight poor performance, but, ultimately, you would need to make the necessary switch.

This year we have seen further changes recommended and approved in terms of UK equity mandates, with changes due to be implemented in 2022. We have also seen further evidence of the evolution of the relationship with abrdn, simplifying previously vertically integrated mandate structures. abrdn however continues to be the main strategic investment management partner for Phoenix and has won several key new ESG mandates.

What improvements have been made to governance processes?

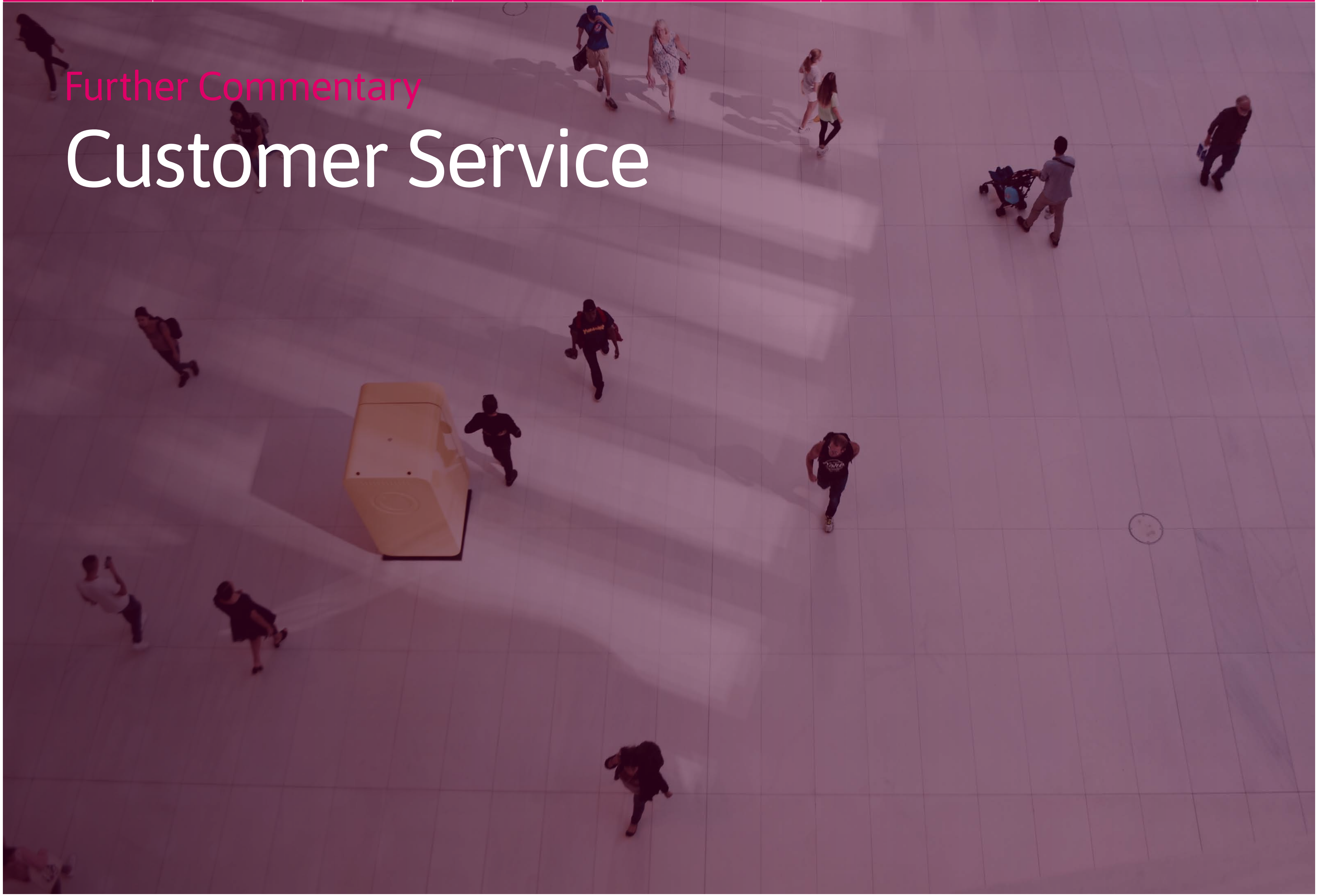
- During the year, the Manager Oversight team was strengthened and the decision taken to reduce the use of external consultants in assessing key manager ratings. Oversight scope was also increased, following the integration of ReAssure, increasing the leverage in key manager relationships.

How will Phoenix's Responsible Investment policy be reflected in my investments?

- As featured elsewhere in this report, Phoenix's group-wide investment policy reflects exclusions of certain stocks and sectors, tilting portfolios towards others, and incorporating explicit carbon-reduction targets. For active mandates under Phoenix control, Phoenix is currently engaging with their strategic managers to implement the Exclusion Policy, but not the tilts or carbon-reduction targets, which are deemed to be too great a change for these legacy funds which were chosen by you or your ex-Employer long ago. However, some new funds with specific ESG features have been launched and are already available for you to switch into.

Further Commentary

Customer Service



Further Commentary

Customer Service

What are we looking for?

The IGC's minimum responsibility in respect of customer service under the FCA's regulations is to determine "whether core scheme financial transactions are processed promptly and accurately"[1]. Our actual assessment of customer service is much wider than this and, in 2021, has focused on:

- Performance against target service levels (including the prompt and accurate processing of core transactions);
- How Phoenix has responded to customers with additional needs and vulnerabilities;
- How complaints are dealt with; and
- Continuous improvements to service that respond to customer needs and are designed to provide a high quality experience.

We assess a wide variety of information to make our assessment, including:

- Metrics which seek to measure the end-to-end customer experience on a quarterly basis, such as how long it takes transactions to be completed, or issues to be resolved.
- Customer survey satisfaction scores and feedback.
- Complaint levels, resolution times, themes complained about and the action taken by Phoenix in response. We also monitor the number of complaints overturned by the Financial Ombudsman Service.
- The output of Phoenix's internal assurance activity and testing.
- Information regarding business strategy and key projects which impact on the customer servicing approach and experience.
- A benchmarking exercise conducted by external consultants Redington.

[1]FCA Conduct of Business Sourcebook 19.5.5 R2 (c)

What did we find in 2021?

Service levels and performance

Phoenix has experienced some challenges this year as a challenging recruitment market, together with higher attrition, led to resource challenges in some areas. Phoenix is taking further actions with its outsource partners to ensure that sufficient resources are available.

Just under 6,000 workplace policies were migrated to Phoenix's main outsource partner. This migration went relatively well, although some cases did need manual intervention which increased processing times for those transactions.

Customer satisfaction scores were 95%, exceeding the target of 90%, and similar to previous years. The vast majority of claims and servicing requests have been completed within the agreed internal targets (95%).

Back office processing has been good, despite the impact of resourcing challenges. 92% of servicing demand and 94% of claims have been processed within the target time. External benchmarking has however highlighted that Phoenix has the longest times for the processing of retirement claims compared to some other providers. This is a potential area of improvement for Phoenix.

Telephony teams were under target for call answering and abandonment metrics for most of the year. This was a result of staff recruitment and retention challenges, call volumes at times being above forecast, as well as several incidents causing network outages at the contact centres. During periods when staff were working from home, there were also some problems with broadband quality which impacted call handling, and this was resolved with the return to office working. A challenge for Phoenix will be to resolve these issues, working with their outsource partners.

Bereavement claims also continue to be an area of challenge for Phoenix, as in 2020. Processing times have remained out-with appetite throughout the year. Phoenix seeks to make payments to beneficiaries within 45 days of notification, and processing times have generally exceeded this by more than 10 days. It is notable however that death claims can be delayed due to information required from third parties such as legal representatives. Through their outsource partners, Phoenix has focused on resolving the oldest cases and improving the speed of processing in general. This area will remain a challenge for Phoenix in 2022.

Phoenix continues to work on enhancing access to digital servicing options through the MyPhoenix portal. Phoenix is continuing to work with its outsource partners to increase the number of customers with access to this portal. Phoenix does not currently offer a mobile app, in line with most legacy providers.

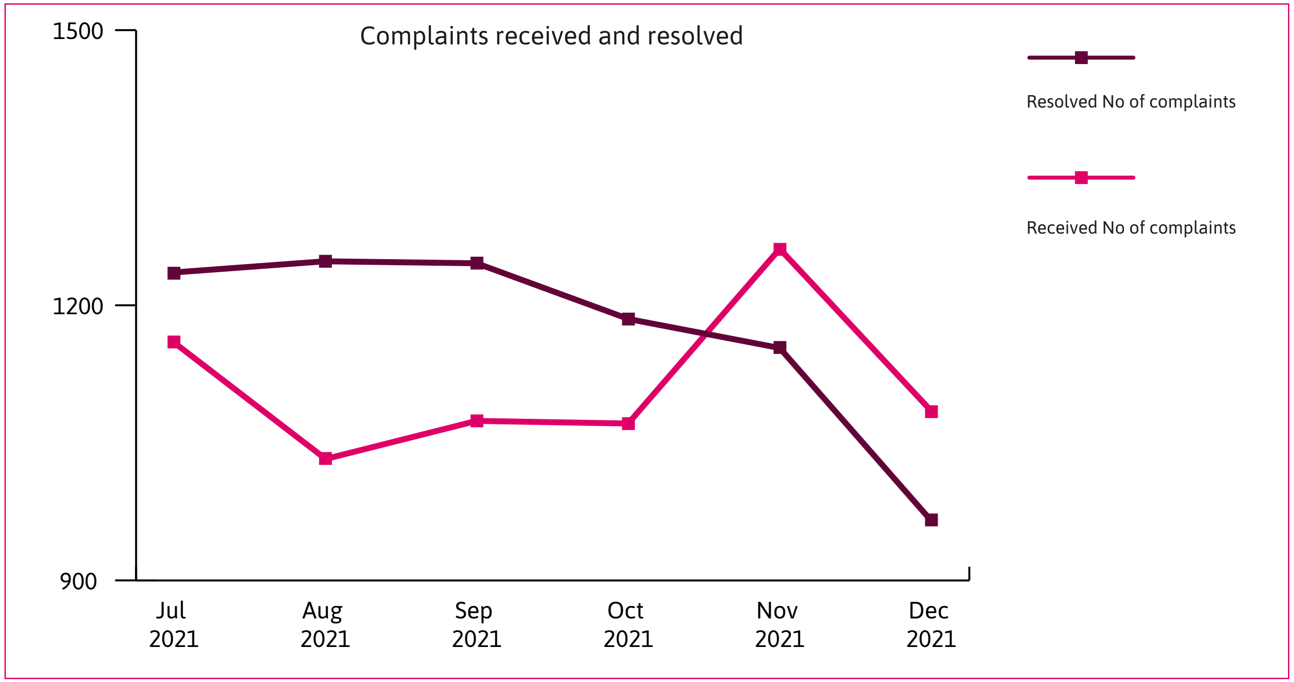
Service Quality

Service quality has remained high, with back office quality assurance checking meeting its target throughout 2021, and telephony quality assurance meeting targets for most of the year.

Complaints

During 2021 there were around 15,500 complaints from Phoenix customers (including those out-with the scope of the IGC) which is broadly similar to that received in 2020. Around 75% of complaints are upheld and, in general, a majority are resolved within three working days although, for five months of the year, Phoenix did not meet the internally set measure to resolve 60% of complaints within three days. There have also been some challenges in resolving more complex cases and more of these have taken over eight weeks to resolve. Complaints as a proportion of customer transactions are low and within target.

Phoenix is working with its outsourcing partners to ensure that sufficient resources are in place to manage the complaints pipeline, including recruitment and training. The gap between complaints raised and resolved is closing, as demonstrated in the chart below. A challenge for Phoenix in 2022 will be to bring complaint handling metrics consistently within targets.



Few complaints are referred to the Financial Ombudsman Service and 18% have been overturned, which is within target and slightly better than the average industry overturn rate of 22.5% (using data from the Financial Ombudsman Service).

The IGC has reviewed a sample of complaints to assess how they were resolved. We are satisfied complaints were handled fairly with clear communication of the outcome to customers.

Vulnerable Customers

The IGC continues to receive regular updates on how services meet the needs of customers with challenges due to their individual circumstances or underlying conditions. Phoenix has reviewed the FCA's final guidance (FG21/1) on the treatment of vulnerable customers to identify areas where further work is required. The main focus of process improvement will be to improve the recording of vulnerabilities, and improve the management information available to monitor the level of vulnerability within the customer population. In addition, new vulnerable customer standards are being developed through a group-wide project.

Improving the responsiveness of processes to better meet the needs of vulnerable customers will be an ongoing challenge for Phoenix in 2022.

How does Phoenix compare with other pension providers?

Phoenix participated in a market comparison exercise with other legacy pension providers during 2021. The study was undertaken by Redington and covered five main elements taken into account when assessing value for money: engagement, investment, access, service and charges.

In relation to service, it was noted that Phoenix had good levels of automation, and that the time taken for core transactions aligned with others in the industry, other than for retirement claims, which appeared slower than other providers (although different data points are collected by different providers making comparisons difficult). Call wait times were noted as getting longer over the last few years, although this was the case for other providers also. Complaints were reducing and Phoenix performed well at resolving complaints in a timely manner.

What are our conclusions in relation to value for money?

Based on the management information that has been produced quarterly by Phoenix, the IGC is satisfied that core financial transactions have in general been processed promptly and accurately. Where this is not the case, procedures are in place to ensure that customers are not disadvantaged as a result of delays or inaccuracies.

Bereavement claims and complaints handling remain areas of challenge for Phoenix. In both these areas, recruitment and retention of staff has impacted progress. A challenge for Phoenix will be to demonstrate progress in 2022.

The IGC is encouraged by Phoenix's commitment to supporting customers with additional needs. We take comfort from the continual evolution of the approach and external validation through research initiatives to ensure best practices. A challenge for Phoenix will be to continue to develop processes to meet additional customer needs, especially when better recording and reporting information is available.

The criteria that the IGC has taken into consideration in its assessment of value for money are set out at the end of the report. The IGC has determined an overall score of 32 out of 42 or 76% (2020 76%). This equates to an overall rating of **GREEN**.

Further Commentary

Communication and Engagement

Further Commentary

Communication and Engagement

Why are communications from Phoenix important?

Communications in whatever form – by letter, by email, through the website, by telephone – are essential to provide you with information about your pension pot and about the services that Phoenix offers you.

But, providing you with information alone is not sufficient to enable you to make informed choices. Phoenix must also engage with you as a customer to ensure that:

- the language and format used are understandable to you, signposting you to any action you should take and where to find out more;
- information is given to you at the right time; and
- information is given to you through an appropriate channel.

Communications form part of our Value for Money assessment

Your IGC are responsible for *assessing* whether Phoenix' communications to customers are **fit for purpose and properly take into account customers' characteristics, needs and objectives** (the 'fit for purpose requirement').

What does this mean?

Phoenix has given careful thought to the challenge presented by this IGC responsibility, what 'fit for purpose' means in this context, and has agreed with the IGC the following meaning:

"A communication which takes into account the needs and objectives of the customer and is provided to them in a timely fashion. It should contain content which is relevant, salient and informative, taking into account the financial literacy levels of the customers. The content of a communication should support the customer to recognise the information they may need to know or the appropriate action(s) they may need to take, which enables them to keep on track with their retirement plans and support their desired outcomes."

It is against this backdrop that the IGC expects to assess:

- **Informative Communications:** providing customers with necessary information and educational material to support their understanding, including communications issued where there is a regulatory requirement.
- **Action-Focused Communications:** designed to encourage customers to complete a call-to-action to assist their retirement outcome – for example, reviewing investments and contributions, nominating beneficiaries, or registering online.
- **Customer Journeys:** journeys designed to support customers to take steps towards their desired outcome at retirement, including both digital options and over-the-phone.

What steps has Phoenix taken to embed the fit for purpose requirement in communications with their customers and how does the IGC assess this?

1. Working with the IGC, in 2020 Phoenix developed a Fit for Purpose Protocol, detailing four separate stages to be completed by the author of any relevant communications. To see this Protocol, **click here**.
2. To meet IGC requirements, this Protocol is used by the author of any communication to record, before and during the preparation of the communication, how the fit for purpose requirement is being met; and, after the communication has been issued, the protocol document is used to record what evidence exists to demonstrate that the communication's purpose has been achieved. It should also be used for 'lessons learned' to ensure communications are adapted and improved if the evidence demonstrates the communication's purposes have not been satisfactorily achieved.

The Fit for Purpose Protocol has now been embedded within the customer communications processes of Phoenix. In early 2022, training was also completed by its outsourced administration provider, Capita. The IGC continues to await confirmation that Phoenix's other outsourced administration provider, Diligenta, has finished training its staff and embedding the Protocol in its customer communication processes. The IGC expects to see the roll-out being completed before the end of 2022.

It is the evidence collected through the use of the Protocol by Phoenix in 2021 that the IGC has used to assess the extent to which Phoenix is complying with the fit for purpose requirement for the purposes of this report. The IGC reviewed a sample of communications and Fit For Purpose Protocol documents completed by Phoenix to see if Phoenix is producing communications which are fit for purpose, is monitoring their impact, and is making changes when needed.

What impact is this Fit for Purpose Protocol having on Phoenix's communications and engagement with you?

Communications assessed under the Fit for Purpose Protocol

Below we include commentary on two examples of 'Informative Communications' which went through the Fit for Purpose Protocol during 2021, and explain how Phoenix has engaged with customers to improve these communications.

1. Cost and charges communication

This communication was issued in August 2021, to inform customers about where they could find information on the costs and charges Phoenix applies to their pension. The letter included a link to the part of the phoenixlife.co.uk website where this information could be found. It also informed customers of the existence of the IGC, and that part of the IGC's work involved reviewing administration charges and transaction costs on the funds customers have invested in. The letter explained that the website included examples to show the effect that these costs and charges would have on customers' pension savings over time. Finally, the letter included an email address for contacting the IGC, and invited customers to provide feedback on their own perspective of the value for money of their Phoenix pension, or any concerns they may have.

The IGC was satisfied the letter met the fit for purpose requirement, was clearly written, and contained content which was relevant, salient and informative. It was also consistent with the wording which has been added to customers' annual benefit statements. The IGC were pleased to see that Phoenix has been monitoring the number of website hits following mailings, to track the number of customers accessing the costs and charges information specific to their funds.

Letter regarding the reduction of fund values to zero

This is a letter which is sent to a particular category of customers following a specific event, which is where Phoenix identify that a customer's retirement pot is projected to reduce to zero value by the time they reach their retirement date, because of the charges Phoenix has taken from the retirement pot under the terms of the pension policy. The IGC are pleased to see Phoenix requested that the letter template be amended in response to customer feedback. The letter has been updated to make it clearer that, although one of the customer's retirement pots is expected to reduce to zero value (usually the 'non protected rights' element of the policy), this does not affect the customer's other retirement pot under the same policy (usually the 'former protected rights' element). The letter then gives the customer information on their current fund value for the remaining pot, and confirms the customer's retirement date under the policy.

The IGC was satisfied the updated letter met the fit for purpose requirement, was concisely and clearly written, and contained content which was relevant, salient and informative. It was, however, written in a style which the IGC did not consider likely to be appealing to the customer, and the IGC questioned whether sufficient consideration had been given to the impact on the customer of receiving such a letter, and the potential impact on their interest in engaging with their pension savings with Phoenix. The IGC felt that the letter could have had a better introduction to prepare the customer for the information being conveyed, and could have provided more explanation about how the zero value fund situation can occur, with a worked example of how charges may erode a fund value to zero over a number of years.

Engagement activity

Embedded in the Fit for Purpose Protocol is the need for evidence of how each communication has been designed and/or presented to make it as accessible and appealing as possible to the customer.

So what evidence have we seen during 2021 of Phoenix engaging with their customers in order to gain insights and understand the challenges facing their customers? And how has that impacted on Phoenix's communications with customers?

Whilst not representing new insight gained from customers during 2021, the IGC were pleased to see some new initiatives launched in 2021, based on feedback received from customers in 2020. Two such initiatives were:

1. Development of Portfolio Packs

   Diligenta, on behalf of Phoenix, has developed a 'portfolio pack' which enables all the information which may be requested by a customer or their financial adviser about their pension policy to be instantly created into one document at the push of button by a Customer Centre representative (or no more than a few buttons), and then posted or emailed to the customer or their adviser, as preferred. The content is designed to be flexible, depending on what information is requested. The portfolio pack pulls together information in one place, whereas previously, information potentially would have needed to be gathered from multiple teams, generating multiple responses to the customer or adviser. The portfolio pack therefore represents a real enhancement to the customer communication experience, in terms of speed, presentation of information and delivery in one cohesive document.

2. Digital literacy initiative

   Phoenix, together with the other businesses within the Phoenix Group (Standard Life, ReAssure and ReAssure Life), launched a digital literacy initiative during 2021, following customer research that indicated this would be valued by less digitally confident customers. Phoenix's website now hosts a section covering Digital Guides and 'People Like Me'. The Digital Guides cover foundational digital topics, designed to help customers build their digital confidence and take advantage of the online financial tools available to them. These include animated videos, with accompanying guides. Topics covered are:

   - An overview of the programme – Digital Essentials;
   - Getting started – explaining the difference between different types of devices, browsers etc;
   - Staying safe online – how to make sure operating systems and browsers are kept up to date with the latest security patches; and
   - Trouble-shooting when things go wrong.

Digital access

Some of you – but not all of you – have access to MyPhoenix. MyPhoenix is the system through which many customers can securely access details about their Phoenix Life policies such as current values, update their personal details, use the MyMessages service to contact Phoenix and send documents, and encash their pension. At the end of 2019, only about a quarter of Phoenix customers had access to MyPhoenix, and that rose to around 45% of customers by the end of 2020. Phoenix is continuing to work on the key project that will enable all customers to have access to a digital offering that is appropriate to their needs, but the IGC is disappointed to note that, at the end of 2021, the proportion of Phoenix customers with access to MyPhoenix remained static at around 45%.

Phoenix has explained the reason for this, which is that customers who were not eligible to access MyPhoenix during 2021 were predominantly customers whose pension pots were not on the Bancs Platform, but instead still administered using legacy systems or platforms. A migration of another tranche of customers to the Bancs Platform occurred in November 2021, with further migrations planned during 2022 and 2023. Therefore, the long-term strategic plan is to be able to open up access to MyPhoenix to more customers. Phoenix noted that it continues to see year-on-year increases in the use of MyPhoenix, as promotion of the service to eligible customers continues to be enhanced.

In recognition that MyPhoenix is not available to a significant number of customers currently, Phoenix has been looking at ways to offer quicker transaction options to customers. We reported last year that, in 2020, Phoenix introduced another option which is partly paper-based, and partly digital. For example, after requesting their retirement pack from Phoenix, a customer can complete their claim by calling Phoenix. In response to such a call, Phoenix uses a new system called the Experience Centre; specially-trained staff explain the options, implications and risks, input all the information on behalf of the customer during the call, and then process the payment at the end of the call, making use of electronic verification checks. Importantly for customer engagement, the process allows Phoenix to have engaging and supportive conversations with customers at this important life stage, when some support might be needed most. This phone process has an average time of 5 days to the completion of the encashment journey, which includes a pause to allow the customer to receive their key features illustration by email or post before the payment is made. By contrast, the MyPhoenix process presents this illustration during the online journey, so a customer can view and accept this real time, to proceed and confirm their application.

In addition, Phoenix has been making improvements to the publicly-accessible phoenixlife.co.uk website, which is another option available to all customers who would like to start a transaction. Phoenix has created a number of online forms, which are available to download, complete and send in, therefore saving time for customers who previously needed to call up to request a form to be sent out to start a claim, or request a fund switch or change of address or nominated beneficiary. A new video has been launched on the Retirement Centre section of Phoenix's website, which is called "Planning for your retirement", and a link to the Office of National Statistics' life expectancy calculator has been added.

Phoenix has reported to the IGC during 2021 on a number of digital developments and technology investments which have been made to enhance the communications and engagement aspects of Phoenix's offering to customers. These developments are expected to result in improvements to customers' experience over the course of 2022 and 2023. Examples include:

- Development of a secure Phoenix App for mobile devices and tablets.
- Further enhancements to the engagement tools and online forms available from phoenixlife.co.uk, as part of the Heritage Website Upgrade Project.
- A technology platform has been developed by Diligenta called the Unified Communications Hub, which has the capability to produce much more engaging communications in a faster way, enabling easier digitisation of communications to Phoenix customers in the future. Phoenix is currently considering this proposition development in the context of the upcoming Consumer Duty legislation, the impact this will have on its communications, and the changes that will need to be made to ensure communications are fit for purpose under its new obligations.

While the IGC are disappointed that the pace of migration over to the Bancs platform, enabling customers to become eligible for MyPhoenix, has not been more rapid, the IGC are pleased to see that Phoenix continues to invest in other digital and Customer Centre solutions and communication enhancements, and looks forward to seeing the results of this investment in further enhancements to the customer experience in the year ahead.

Conclusion:

SCORING: Phoenix has a number of key challenges to address in the area of communications and engagement, but has evidenced to the IGC that it continues to seek ways to achieve improvements. Recognising this we would award a RAG rating of AMBER this year, due to the pace of delivery of improvements, and the delay in fully implementing the Fit for Purpose Protocol.

Further Commentary

ESG and Stewardship

Further Commentary

ESG and Stewardship

IGCs are required to consider and report on how ESG considerations and other aspects of what it is often called "Responsible Investment" are taken into account in the provider's investment decisions that impact in-scope customers' pension pots. This is an important part of the Government's strategy to ensure that pension savings play their part in combatting climate change and promoting good outcomes for society as well as good outcomes for pension savers.

Our role is to review three key areas of investment considerations, looking at what the provider intends to do regarding each (i.e. their "policy") and how good they are at doing it (i.e. "implementation"). The three areas are:

- ESG financial considerations ("environmental, social and governance factors (including climate change) that are material to the sustainability of an investment");
- Non-financial matters ("factors which may influence a firm's investment strategy or decision, and which are based on the views (including ethical concerns regarding environmental, social and governance issues) of the firm's clients or relevant policyholders"); and
- Stewardship (which the FRC define as: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society").

The Phoenix Group, of which Phoenix is a part, takes its responsibilities to the environment and wider society very seriously. For many years, it has published reports of its activities in these areas, and these can be found on the Phoenix Group **website**. While setting helpful context for the IGC's assessment, our focus is narrower and is concentrated on the adequacy and quality of the policies that impact the investment returns that in-scope customers receive.

In last year's report, we outlined the important steps that Phoenix had taken, as part of a wider initiative across the whole of the Phoenix Group, to ensure Responsible Investment principles were taken into account in their investment **decision-making**.

In 2021, significant further progress has been made to strengthen the policy framework that applies and ensure that it is robustly implemented. In particular:

- Phoenix has further strengthened its **policy framework**. The policies that deal with the relevant financial risks have been updated to state in detail Phoenix's approach to non-financial factors (such as ethical, religious or social impact considerations) that can impact long-term investment returns. An Exclusions Policy has been developed that sets out the principles that should drive decisions around when it would be appropriate not to invest in certain companies or investment sectors. A Group Stewardship Policy has been developed that outlines what Phoenix Group means by "stewardship" and details its commitment to support effective engagement with the companies that it invests in, both directly and through its asset manager partners.
- Phoenix has further strengthened the **governance infrastructure** around Responsible Investment, to ensure that the policy intentions are definitely carried out, and can be seen to be. Quarterly review meetings are now held with its key asset manager partners that include a detailed analysis of their Responsible Investment activity, resources in place and plans for the future. In addition, an even more in-depth assessment approach has been piloted with one asset manager partner, which led to a number of additional findings which are now being addressed.
- Phoenix Group played a leading role at COP26 (the United Nations climate conference held in Glasgow in November 2021), working with sector peers to highlight the important role of private finance in combatting climate change. Phoenix has also extended its strategic industry partnerships to promote collective action on climate **change**.

The IGC has been pleased to see so much progress in 2021. There is still more to be done, particularly in developing the range of fund options for those customers who wish to self-select funds which incorporate additional climate-related restrictions, and also in the area of communication – helping customers to see the beneficial impact on the environment and society of how their pension pots are being invested. Nevertheless, 2021 has been another good year as far as ESG and Stewardship are concerned.

IGC conclusion:

Phoenix's policy on ESG matters and Stewardship is clearly set out.

- It covers the key financial risks, and also opportunities, arising from ESG considerations.
- It sets out clear standards that must be followed in the investment of in-scope customers' savings, where that investment is carried out on behalf of Phoenix.
- It highlights the importance of being responsible investors, having a policy of active engagement with the firms that are invested in, including exercising voting rights and holding management to account over their governance standards and business behaviour.
- The policy framework also recognises the significance of non-financial matters to many customers, and a range of appropriate investment options is available to respond to their ethical concerns.

The standards are linked to the United Nations Principles for Responsible Investment, which is a helpful reference point as to adequacy and quality, as is the positive result of the external consultant-led review that we commissioned in 2020.

Thus the IGC is able to confirm that the Phoenix policy on ESG financial and non-financial matters, along with Stewardship, is both adequate and of an appropriate quality.

The implementation is built into the existing Group-wide Risk Management Framework and so is subject to regular monitoring and reporting. In addition, the oversight of its implementation in asset manager partners is clearly evidenced, with action plans to further strengthen the implementation in place and regularly monitored.

In the comments above, the IGC has given a flavour of what has happened over 2021. Those readers who wish to know more about any area highlighted here can find additional information in the appropriate **Supporting Material**.

The IGC is pleased to rate Phoenix **GREEN** in this area, and looks forward to see what further developments 2022 will bring.

Supporting Material

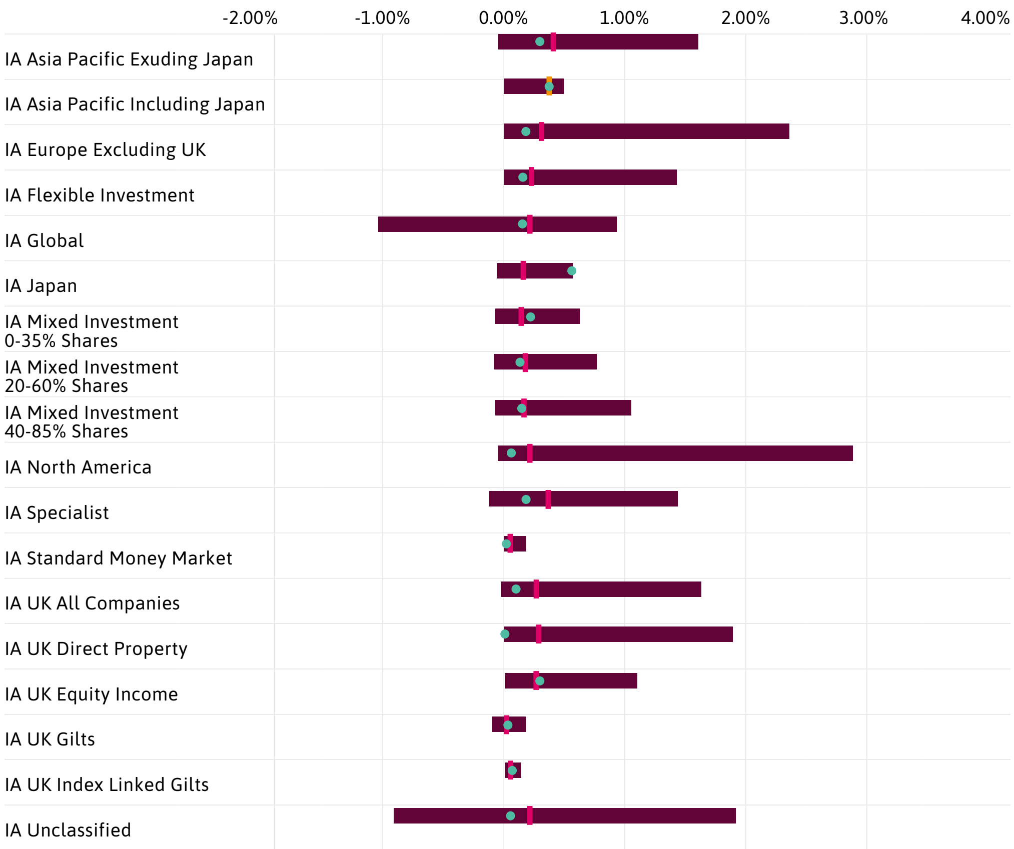
Supporting Material

Costs and Charges

Supporting Material

Costs and Charges

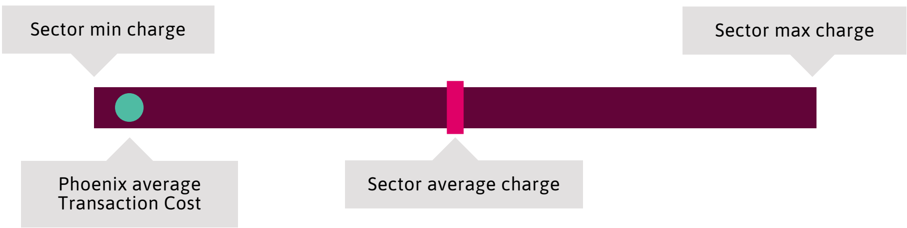
Transaction cost – benchmarking



The chart illustrates that the average Phoenix transaction costs relative to those of other companies in the market are within normal market ranges for funds with a similar strategy apart from the Japan fund previously mentioned, albeit that market participants may use a range of different interpretations and methodologies.

Methodology:

- The chart shows the range of transaction costs being reported in the Investment Association (IA) sectors.
- Each bar demonstrates the minimum, maximum and average transaction cost reported for each IA sector.
- The average Phoenix insured fund transaction cost has been overlaid for comparison purposes. Insured funds have been aligned to IA sectors based on their respective ABI sector. Where no average is shown, there is either no comparable ABI sector or no Phoenix fund within scope in that sector.



Disclosure of costs and charges by individual customer

The table below shows the range of charges applied to individual customers' pension pots for each of the nine main unit-linked funds used by customers within the relevant schemes. Customers can see from their annual benefit statement the name of the funds in which they are invested. For example, the table below shows that if you are invested in the Phoenix NPI Pensions Managed Fund, most customers, around 82%, pay an ongoing charge of between 0.96% and 1.00% per year. Some customers are paying a lower ongoing charge with around 12% paying between 0.60% and 0.95% per year and around 6% paying ongoing charges less than 0.59% per year.

Some customers pay different types of charges but, in the table below, these have all been converted to an equivalent percentage ongoing charge to make comparisons easier.

Fund Name	Ongoing Charges								Transaction Cost
	<0.3%	0.30% – 0.39%	0.40% – 0.49%	0.50% – 0.59%	0.60% – 0.75%	0.76% – 0.85%	0.86% – 0.95%	0.96% – 1.00%	
Phoenix NPI Pensions Managed	0.09%	0.00%	1.61%	4.29%	5.70%	4.12%	2.05%	82.13%	0.129%
Phoenix NPI Pensions Overseas Equity	0.00%	0.00%	9.72%	6.65%	6.13%	3.77%	2.30%	71.43%	0.106%
Phoenix NPI Pensions UK Equity Tracker	0.00%	0.00%	9.66%	8.70%	9.95%	11.41%	2.19%	58.09%	0.037%
Ex RSALI Managed Growth Fund	0.00%	0.00%	0.00%	80.39%	8.77%	0.00%	0.00%	10.84%	0.174%
Pearl Pensions UK Equity	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.057%
Scottish Mutual Growth Pension	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.134%
Phoenix SM Stakeholder Growth	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.076%
Abbey Life Pensions Managed	0.00%	0.00%	0.00%	0.00%	0.00%	47.09%	10.67%	42.24%	0.114%
Abbey Life International	0.00%	0.00%	0.00%	0.00%	0.00%	48.66%	10.35%	40.99%	0.092%

Disclosure of costs and charges by individual employer arrangement

The table below shows the range of charges applied within each employer arrangement for each of the nine main unit-linked funds used by customers. Customers can see from their annual benefit statement the name of the fund or funds in which they are invested.

Some customers pay different types of charges but, in the table below, these have all been converted to an equivalent percentage ongoing charge to make comparisons easier.

Fund Name	**Ongoing Charges**								**Transaction Cost**
	<0.3%	0.30% – 0.39%	0.40% – 0.49%	0.50% – 0.59%	0.60% – 0.75%	0.76% – 0.85%	0.86% – 0.95%	0.96% – 1.00%	
Phoenix NPI Pensions Managed	0.39%	0.00%	0.62%	4.04%	2.41%	1.57%	1.35%	89.62%	0.129%
Phoenix NPI Pensions Overseas Equity	0.00%	0.00%	4.67%	7.01%	6.70%	5.14%	4.36%	72.12%	0.106%
Phoenix NPI Pensions UK Equity Tracker	0.00%	0.00%	5.03%	8.57%	8.57%	6.33%	4.66%	66.84%	0.037%
Ex-RSALI Managed Growth Fund	0.00%	0.00%	0.00%	86.82%	6.82%	0.00%	0.00%	6.36%	0.174%
Pearl Pensions UK Equity	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.057%
Scottish Mutual Growth Pension	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.134%
Phoenix SM Stakeholder Growth	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.076%
Abbey Life Pensions Managed	0.00%	0.00%	0.00%	0.00%	0.00%	45.98%	14.78%	39.24%	0.114%
Abbey Life International	0.00%	0.00%	0.00%	0.00%	0.00%	44.93%	14.98%	40.09%	0.092%

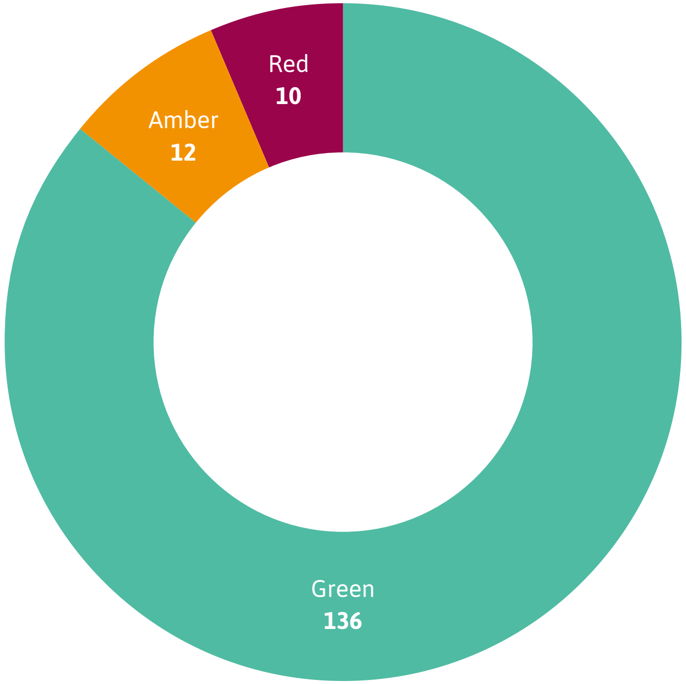
Supporting Material

Investment Performance and Services

Supporting Material

Investments

Performance RAG distribution (rated funds)



There were 22 (13%) unrated funds due to unavailability of data

Note: the IGC performance RAG assesses each fund's performance relative to its own stated benchmark over 3 years and is reported every quarter. Funds are flagged as Amber or Red if relative performance is outside a specified tolerance range for each type of investment strategy (Passive, Core Active, High Alpha, Unconstrained).

Summary (Proportion of overall fund range in each Quartile)	Quartile rankings				
	5 Year	10 Year	15 Year	20 Year	25 Year
Quartile Summary (% of Ranked funds in each quartile over stated periods)					
Quartile 1	12%	12%	11%	15%	16%
Quartile 2	23%	26%	26%	18%	16%
Quartile 3	32%	31%	36%	27%	31%
Quartile 4	33%	32%	28%	41%	38%
TOTAL number of ranked funds	145	145	145	130	96

Where funds are in ABI Unclassified and ABI Specialist sectors, performance ranking of these funds as a whole is inappropriate, given the diverse nature of the sector constituents. Values below show the percentage of PLL IGC Unit Linked Insured Funds which are either Unclassified or Specialist.

Unranked (% of total number of funds which are unranked)	11%	11%	11%	12%	30%
Total number of funds in-scope	163	163	163	148	138

Source: Quartile rankings and ABI Pension Sector: FE. The rankings range from 1 to 4, with 1 representing those funds within the top 25% of sector and 4 those funds within the lowest 25% of their sector. Where funds are in the ABI Unclassified and Specialist sector, Quartile rankings are not appropriate due to the diverse nature of their components. All other information: Phoenix

Supporting Material

External Assessment of Value for Money in Investments

Several years ago, the Standard Life IGC and Redington developed an investment VfM assessment framework.

The framework enables the IGC to identify, on a quantitative basis alongside existing controls and reporting, if any default strategies or single funds may not be providing value for money. For those strategies or funds identified, further investigative work is carried out to determine if it is offering value for money or not as deemed by the IGC.

The assessment takes into account the differing objectives of an investment strategy through the retirement journey.

It is made up of a **forward-looking** and **backward-looking assessment**. A final score of less than 3 for either the forward or backward looking assessments will require further investigation. A final score of 3 or more effectively passes the assessments.

Forward-Looking Assessment

Considers the entire investment journey for a member, focusing on 4 particular time-based slices.

The assessment looks to determine:

- If the strategy has the propensity to deliver a good outcome for members; and
- Whether the target of the strategy (e.g. cash, annuity, drawdown) is aligned to the investments used at the end of the glidepath.

Backward-Looking Assessment

Considers past performance and tracking error of the underlying funds.

The purpose is to ensure the IGC can identify fund-specific issues that would prevent a strategy from being value for money, for instance:

- Poor performing actively managed funds (significant and sustained);
- Passively managed funds with significant tracking errors;
- Actively managed funds which are closet index-trackers: and
- Expensive passive funds.

With-Profits funds underlying asset share performance vs CPI

The tables provide a comparison of the annualised investment return after expenses and charges over the last 1, 3 and 5 year periods against CPI. This gives an indication as to how portfolios underlying the policies have performed over the periods compared to inflation.

The tables also show the growth in bonuses compared to CPI over the same period. This in itself is not an indicator of value for money, but bonuses can be a valuable part of a WP policy and this table illustrates how they have increased over the period.

The annualised CPI returns over the last 1, 3 and 5 years are: 1 year = 0.6%, 3 years = 1.3% p.a., 5 years = 1.7% p.a.

IGC Company	Phoenix								
Fund	Scottish Mutual (SM)	Scottish Mutual (SM)	Scottish Provident (SPI)	Scottish Provident (SPI)	SAL	SAL	Alba	Alba	Alba
Bonus Series	UWP Pension Series I & II (with min bonus)	UWP Pension Series III (no min bonus)	UWP Pension series I (with min bonus)	UWP Pension series II (without min bonus)	Group UWP	Trad Regular Premium Pensions	Traditional ex Britannia Life Ltd Series B	Traditional ex Life Assurance Scotland	UWP ex Britannia Life
1yr return vs CPI	-3.9%	1.9%	-3.3%	2.6%	-1.0%	-4.4%	-1.1%	-1.1%	-1.2%
3yr pa return vs CPI	2.4%	4.8%	2.1%	4.8%	4.9%	0.9%	1.7%	1.7%	1.6%
5yr pa return vs CPI	1.0%	2.9%	0.9%	3.0%	3.0%	1.2%	0.1%	0.1%	0.0%

	Phoenix					
Fund	London Life	London Life	NPL	NPL	NPI	Pearl
Bonus Series	Trad pensions	UWP pensions	UWP Series 1 (with min bonus)	UWP Series 2 (no min bonus)	UWP Group Pension	Personal Pensions
1yr return vs CPI	-10.1%	-1.4%	-9.6%	-1.5%	-1.3%	0.0%
3yr pa return vs CPI	-0.9%	3.5%	-0.1%	3.5%	3.7%	4.9%
5yr pa return vs CPI	-1.2%	1.2%	-0.9%	1.4%	2.2%	3.4%

Supporting Material

Communication and Engagement

Supporting Material

Communication and Engagement

Fit for Purpose Protocol

What is the PURPOSE of this communication and desired outcome for:

i. the provider

ii. the customer

(NB: purpose could be to provide information, inform a decision, prompt action or give comfort that an existing decision is still fine)

How are the contents FIT for the identified PURPOSE – that is:

i. contains at least the minimum information required for the identified purpose, or indeed more than the minimum if it can make the document more accessible and/or appealing; and

ii. how the minimum information (and anything additional) has been tailored to the characteristics, needs and objectives of the customer e.g. age, sex, risk appetite, level of financial understanding.

How has the communication been designed and/or presented to make it as accessible and appealing as possible to the relevant customer? (E.g. appropriate reading age, colour, use of diagrams etc.)?

What evidence exists to demonstrate that the desired outcome has been achieved?

(i.e. customer research re extent to which the communication has been i. read; ii. understood; and iii. acted upon)

Supporting Material

ESG and Stewardship

Supporting Material

ESG and Stewardship

In the ESG and Stewardship sections of the Key Messages and Further Commentary parts of the report, we listed some of the key developments that Phoenix, as part of the wider Phoenix Group, has put in place during 2021. The purpose of what follows in this part of the report is to explain a bit more about the framework that is in place and what has been done to strengthen it in 2021 and why the IGC is so impressed with the progress made.

The Phoenix Group sustainability strategy

In last year's IGC report, we explained how one of the 5 key priorities for the management team of Phoenix Group, and hence Phoenix, is to "Put sustainability at the heart of our business". What is meant by that is set out in the following commitments:

"We will make responsible investment decisions and consider the sustainability of our investments in safeguarding the interests of our customers, shareholders and other stakeholders. Beyond this, we will be driven by our purpose in every decision we take. As a thought-leader, we have a point of view on the issues that matter to people – issues such as the future of work, intergenerational fairness or gender savings gaps. We will work actively to use our influence to create a positive impact on our people, our customers and on wider society."

Their strategy has evolved during 2021 and now has three areas of focus:

1. Investing in a sustainable future;
2. Engaging people in better financial futures; and
3. Building a leading responsible business.

In the 2021 Sustainability Report (published in March 2022 and available **here**), Phoenix expand on their strategy in each of these areas. The first area is particularly relevant to this section of the IGC report:

"As the UK's largest long-term savings and retirement business we are responsible for managing over £310 billion of assets on behalf of our c.13 million customers. Our customers and shareholders trust us to reflect their priorities in how we invest. That means keeping their money safe and providing them with strong long-term financial returns, while using our scale to play our part in delivering a secure and sustainable future. That is why we are integrating environmental, social and governance issues into our investment decision making process. By investing sustainably we can help to deliver the future that we all want."

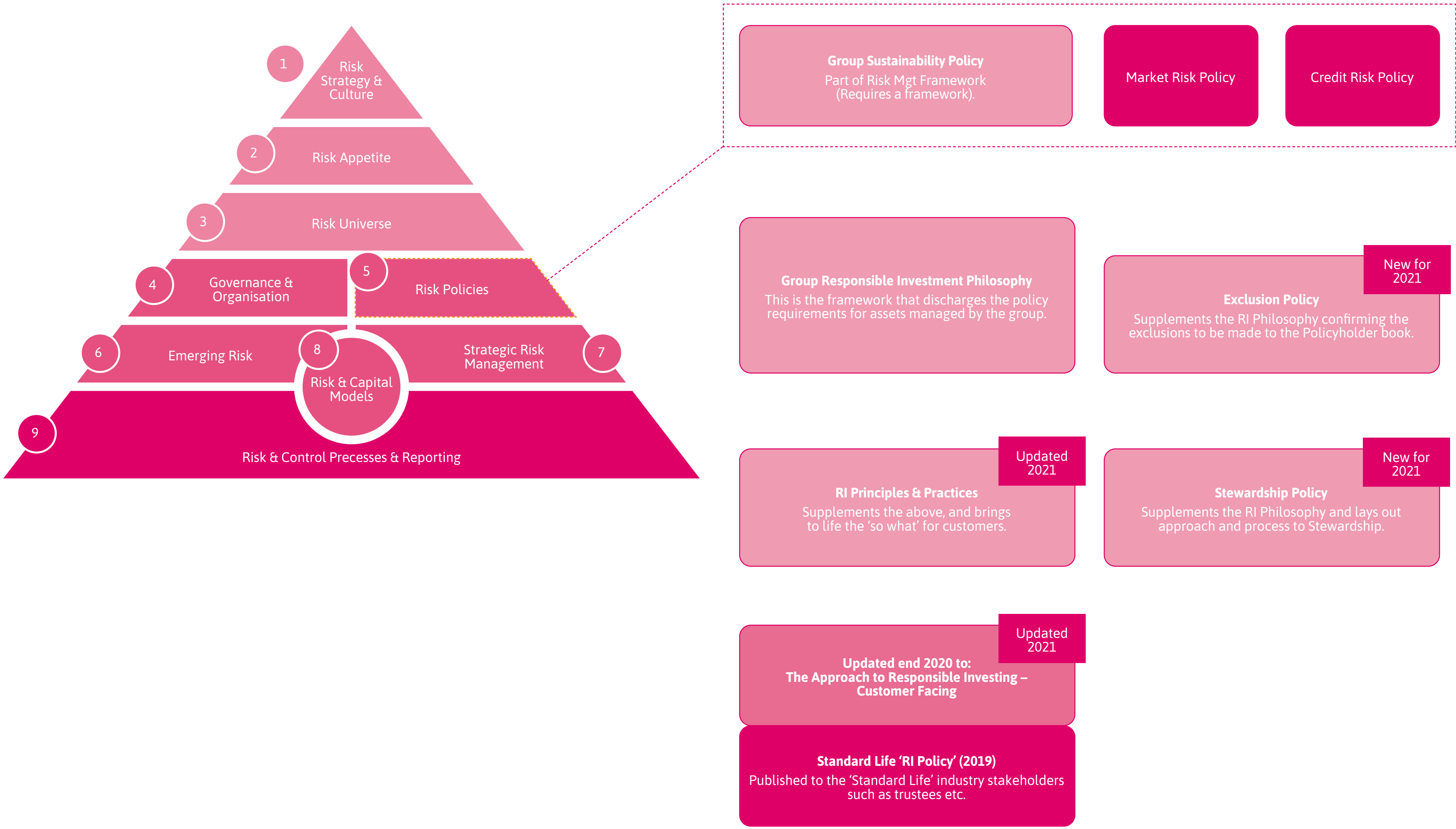
The IGC continues to be pleased to see such a strong "tone from the top" on ESG issues, with its strong focus on customer interests and outcomes.

Strengthened policy framework

That Phoenix Group is serious about following through on these commitments can be seen from the way Responsible Investment considerations have been built into the Group's Risk Management Framework (RMF). The RMF seeks to establish a coherent and interactive set of arrangements and processes to support the effective management of risk throughout the Group. The Group Risk Policy Framework is a key component of the RMF. Group risk policies support the delivery of the Group's strategy by establishing the operating principles and expectations for managing the key risks to the Group's business. They set the risk appetite within which these key risks should be managed and the minimum control standards that the business must adhere to in order to operate within the stated risk appetite.

Phoenix Group Responsible Investment (RI)

Embedded within the Group Risk Management framework



The Group has six "macro" Risk Appetite Statements that shape what is done across the whole Group. They set out the Group's approach to Capital, Liquidity, Shareholder Value, Control, Conduct and Sustainability. The Sustainability statement is particularly relevant to this section of the IGC report:

"Sustainability – The group will deliver on its sustainability commitments to foster responsible investment, reduce our environmental impact, follow our corporate purpose and be a good corporate citizen."

The IGC sees this as particularly significant, as it puts Responsible Investment (and hence ESG and Stewardship considerations) at the heart of how Phoenix, as part of the Phoenix Group, is required to carry out its business.

Following on from this, a number of key supporting documents have been produced, setting out how these aspirations and commitments become embedded in business operations:

- The **Sustainability Risk Policy** for the Group;
- A **Responsible Investment Philosophy** setting out what is expected of the investment managers that Phoenix Group use;
- A more detailed set of **Responsible Investment Principles and Practices** that apply to customer investment decisions; and, new in 2021,
- An **Exclusion Policy** setting out the principles that should guide "the focused use of portfolio exclusions alongside other ESG engagement and investment strategies; and
- The first **Stewardship Policy** for the Group.

These are important documents as they set out the impact that the Phoenix Group wants to see across all its businesses. Incorporating these requirements into the overall Group risk and control framework also makes sure that performance against the standards gets measured and reported on, with escalation to the highest levels where standards are not being met.

Owned by the Group CEO, the **Sustainability Risk Policy** sets out the high thresholds concerning Sustainability and Responsible Investment that must be met across all the relevant areas of the business, including, in particular, the investments being made on behalf of customers (including, by definition, those within our scope). Amongst the key highlights in the policy from the perspective of the IGC's scope are the following:

- The policy confirms that Phoenix Group has a "very low appetite" for failing to deliver an adequate and effective Responsible Investment Philosophy and for failing to maintain an appropriate framework to integrate sustainability activities in the investment activities of the business;
- The policy requires regular review (at least annually) of the Group's Responsible Investment Philosophy and the minimum areas that it must cover;
- It also requires the setting of Responsible Investment objectives and actions, at least annually, to support the delivery of the Group's Sustainability Vision; and
- The policy requires quarterly reporting on the implementation of the Responsible Investment objectives.

The Responsible Investment Philosophy is a public document, available on the **website**. It sets out Phoenix's commitment to Responsible Investment, and what that means in practice. The Philosophy applies to all the Group's investment portfolios across with-profits, unit-linked and non-profit policies, where Phoenix Group has the ability to determine the investment strategy and investment guidelines that apply. Where customers choose to invest in externally-managed investment options, then Phoenix has less influence over the ESG policies followed. The IGC recognises this distinction, but continues to encourage Phoenix to make the most of whatever influence it might have in the latter situations.

Central to Phoenix's approach is its commitment to the United Nations-supported Principles of Responsible Investment (PRI).

Phoenix Group became a signatory to the PRI towards the end of 2020, one of the first insurance groups in the UK (rather than just the fund management subsidiary) to do so. Phoenix Group are now publicly committed:

- To incorporate ESG issues into investment analysis and decision-making processes;
- To be active owners and incorporate ESG issues into the Group's ownership policies and practices;
- To seek appropriate disclosure on ESG issues by the entities in which the Group invests;
- To promote acceptance and implementation of the Principles within the investment industry;
- To work together to enhance effectiveness in implementing the Principles; and
- To report on activities and progress towards implementing the Principles.

Phoenix Group requires all the fund managers that it uses to be signatories of the UN PRI too, and to have the necessary resources and operational structure to embed ESG considerations into their investment and decision-making processes. There is a regular programme of oversight in place to ensure that fund managers are delivering to these standards – see later in this **section**.

The Responsible Investment Principles and Practices were first published in 2020, building on the September 2019 Standard Life publication entitled: "Integrating a responsible approach to your pension investments". They set out a more clear and more measurable set of outcomes that Phoenix is targeting in respect of customers' investments.

- There are six principles, that set out the key objectives in all the relevant areas – e.g. how ESG impacts investment strategy decisions and how they are implemented; how customer views are taken into account; what Phoenix expects of the fund managers it appoints etc. – See box to the right.
- Each Principle is accompanied by a number of Practices that explain the specific actions that follow from the Principles.
- The Principles are not expected to change often. However, they are kept under regular review, and any changes would need to be approved by the Investment Committee and/or the Board. Minor revisions were made to some of them in 2021, to improve clarity around what Phoenix does directly and what is done through their asset manager partners.
- The Practices are expected to evolve as the business environment changes. Any change will follow formal consultation with the management responsible for the relevant blocks of business and/or processes. Material changes to the practices would need approval from the Investment Committee and/or the Board. Significant changes were made to some of the Practices in 2021, to improve clarity and to reflect the new Exclusions Policy and some of the key climate-related targets that Phoenix Group have set for themselves.
- The Principles and Practices apply to all policyholder assets of the Phoenix Group, but not to External Fund Links (EFLs) that Phoenix provides some customers on a self-select basis, as Phoenix has no direct control over how these funds are run.

The 6 Principles in the "Principles and Practices – Responsible Investment for Policyholder Assets"

Principle 1 – Strategy

We invest responsibly with ESG risks and opportunities incorporated into our investment analysis and decision-making processes. We will hold investments where we and our asset managers have considered and assessed financially material ESG risks. We also consider non-financial risks where appropriate in our investment decisions.

Principle 2 – Customer voice

We actively seek views from customers and reflect these in our fund range and investment strategies, as there are many who want to invest in ways that align to their own values.

Principle 3 – Asset manager selection

We only appoint asset managers who meet our Responsible Investment standards. We ensure that existing and new asset managers continue to meet our standards through our due diligence processes.

Principle 4 – Active stewardship

We are responsible asset owners and actively foster responsible stewardship of all investments that are managed on our behalf. We promote good ESG practices by investee companies through engagement activities conducted internally and through our asset managers. We monitor our asset managers' voting policies and practices.

Principle 5 – Disclosure and reporting

We seek appropriate disclosures on ESG issues from the asset managers with whom we invest and partner. We also report on activities and progress relating to our own principles and practices in an open and transparent way.

Principles 6 – Industry leader

We strive to play a leadership role in Responsible Investing and liaise with industry bodies in order to be at the forefront of industry development. We will promote Sustainable Investing within our industry, using our voice as a large insurer and long-term global investor to influence and drive change throughout the industry.

The **Investment Exclusions Policy** was first published in September 2021. It starts from the Phoenix Group's commitment to "putting Sustainability at the heart of its business by integrating environmental, social and governance factors (ESG) into the investment process", but recognises that there may be times when it is better not to invest at all in certain companies or industries, rather than investing and trying to push for positive change from within.

The policy sets out four principles which, if satisfied, would be expected to lead to those assets being excluded from investment portfolios controlled by Phoenix:

Principle 1: Sectors or companies that face acute social or environmental challenges that are very likely to translate into financially material risks;

Principle 2: Sectors or companies where we do not believe that engagement will be effective;

Principle 3: Sectors or companies that do not adhere to international standards of minimum acceptable behaviour as identified in relevant international treaties and United Nations initiatives; and

Principle 4: Sectors or companies that do not align with Phoenix's pledges and commitments, corporate values and present reputation risk.

"Exclusion" means that Phoenix will not make additional investments and will sell existing holdings from in-scope portfolios within 12 months. The policy also allows for a waiver process to be followed where particular extenuating circumstances suggest that a particular asset or sector should not be excluded at that time (for example, because the company is making good progress in responding to previous challenges from Phoenix and/or further opportunities for engagement with management exist).

The policy applies to all assets where Phoenix Group (and hence Phoenix) has direct control over the investment mandate. For those assets where Phoenix does not have control (e.g. investment fund choices managed by third parties that Phoenix makes available to customers), Phoenix will use whatever influence it has to engage with the relevant investment manager to encourage implementation of a consistent approach.

The initial list of potential exclusions was drawn up in July 2021 and included 544 issuers covering such areas as:

- Manufacturers of controversial weapons;
- Tobacco producers; and
- Companies where more than 20% of revenues come from certain forms of fossil fuel production (e.g. thermal coal, oil sands and artic drilling).

Of these, 21 issuers were proposed for waivers, leaving 523 issuers on the final list. At the time of writing this report, it is expected that all sales of excluded assets will be completed by the end of July 2022.

The excluded sectors and thresholds applied will be reviewed twice a year by the Phoenix Sustainability Team.

It is not the IGC's role to opine on what criteria are applied by Phoenix. Rather, we are looking for evidence that principles are in place to address climate-related and other factors that could lead to financially material risk, that the principles are based on a robust process of analysis and review, their approval is subject to appropriate internal governance, and they are implemented in a controlled and transparent way.

In the IGC's opinion, the Investment Exclusions Policy meets these standards, and plays an important role as part of the overarching approach to Responsible Investment that applies within Phoenix Group (and hence Phoenix).

The development of the **Group Stewardship Policy** was another important milestone in 2021. Approved in November 2021, it sets out what Phoenix Group (and hence Phoenix) mean by "Stewardship" and their commitment to support effective engagement with the companies in which they invest (whether using customer money or shareholder money).

In terms of definition, Phoenix embrace the Financial Reporting Council's definition that:

"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

For Phoenix, "Stewardship" refers to their "use of the rights and position of ownership to influence the activity or behaviour of the companies they invest in". Where they hold shares (i.e. equity) in a company, this means engaging with the company's management, influencing on issues of concern and voting on company resolutions at shareholder meetings. For other types of investment, voting may not be applicable, but Phoenix would still aim to engage as appropriate. The policy sets out what Phoenix sees as the characteristics of effective stewardship, including:

- Robust ESG research on material risks and opportunities, using internal and external data;
- Dialogue with corporate top decision makers;
- Setting of goals;
- Continuous evaluation of progress against objectives; and
- Influence on investment decision-making.

The policy recognises that the majority of Phoenix's engagement activity with investee companies will be conducted by their asset manager partners. However, importantly, the policy also makes clear that Phoenix reserves the right to deal direct with investee companies and also join collaborative engagements with other investors.

The policy also recognises that Phoenix does not have the same influence over externally managed investment fund choices (EFLs, external fund links) as it does over the investment funds where it chooses the investment strategy and fund manager partners implement it on Phoenix's behalf.

That Phoenix is definitely committed to such responsible behaviour can be seen, not just from this public policy, but also the public letter written by the Phoenix Group Chief Investment Officer, Mike Eakins, to their asset manager partners in 22nd July 2021, setting out the Group's expectations of those who manage their investments. The IGC also gets regular internal briefings and management information that demonstrates the operation, in practice, of this approach to Stewardship.

In the IGC's opinion, the Phoenix Group policy on Stewardship, which applies within Phoenix, is of a high quality and appropriately addresses Phoenix's Stewardship obligations. While it is still early days in its implementation, what is in place already would seem robust and effective to the IGC. It is Phoenix Group's intention to become a signatory to the FRC's Stewardship Code in 2023, and, should their application be accepted, this will be an important external validation of the effectiveness of their approach.

Strengthened governance framework

By embedding Responsible Investment and ESG considerations in the established RMF, the Group's performance in this area is then automatically subject to the routine review and reporting of compliance with the targets set, along with escalation, as appropriate, of any failure to meet the standards set. The IGC sees this as a key strength of the approach being taken to implement Responsible Investment considerations into the management of in-scope customers' pension savings.

For example, the Group's Market Risk and Credit Risk policies, which apply to all investment decisions made by Phoenix Group (and Phoenix in particular), both set out a number of minimum controls that must be in place regarding Responsible Investment, including, in respect of climate risk, the following ongoing controls:

i. Monitor and report current carbon/climate contribution of existing asset portfolio and progress against interim targets to deliver net zero on a phased basis;

ii. Maintain a process to review data feeds from external providers to ensure they meet requirements for monitoring and reporting of climate change risks;

iii. Maintain a process to perform portfolio analysis using best in-class metrics e.g. value at risk (taking into account physical and transition risks) and warming potential; and

iv. Maintain a process to use climate scenario analysis to inform understanding of range of physical and transition impacts on investments.

The Investment Committee that oversees Phoenix's investment decisions has, in its Terms of Reference, a specific responsibility to "ensure that all activities within the remit of the Committee are conducted in accordance with the Responsible Investments ethos and strategy of the Company and the Group". As part of this, it has responsibility for the development, implementation and monitoring of the Responsible Investments Principles and Practices mentioned above.

In carrying out these responsibilities, the Investment Committee is supported by a separate management committee that has been set up to review ESG-related risks and opportunities across all Phoenix investment portfolios. This committee reports into the Investment Committee and meets with the fund managers that Phoenix use, to review their ESG reporting (which covers not just the investments that they choose to buy, but also how they engage with the companies they invest in, including how they exercise their voting rights – in line with the new Stewardship Policy discussed above).

A new development in 2020, which has also carried over into much of 2021, was to appoint an independent, external firm to support Phoenix in the annual review of fund managers' ESG performance. The IGC has reviewed the depth of analysis that has been carried out on behalf of Phoenix and welcomes this new, more comprehensive and transparent approach.

The IGC receives regular updates on the oversight activity carried out by Phoenix Group on its 5 key fund manager partners and also the many other fund managers whose funds are made available to Phoenix Group customers. Where Phoenix is responsible for the investment decisions being made that impact IGC in-scope customer investment returns, we can confirm that Phoenix is keeping a careful eye on how its Responsible Investment framework is being implemented by its fund manager partners, and ensuring appropriate action plans are agreed and progressed wherever it perceives gaps exist that need closed.

Another new development in 2020 was the establishment of a Sustainability Committee reporting into the Phoenix Group Board. The Terms of Reference of this new Committee are available on the Phoenix Group **website** and include:

- Oversight of the Group's Sustainability Strategy and the setting of appropriate key performance indicators;
- Review, challenge and support the implementation of the Sustainability Strategy across all business within the Phoenix Group; and
- Keeping up-to-date with ESG best practice and thought leadership.

While the remit of this Committee is much wider than the application of Responsible Investment considerations to the investment of pensions savings within the remit of the IGC, the IGC welcomes its existence as a tangible sign that the "tone from the top" across Phoenix Group is consistent with, and supportive of, the developments seen within Phoenix in this important area.

The top 5 responsible investment issues according to surveyed Phoenix customers are:

1. Climate change;
2. Human rights;
3. Recycling;
4. Clean fuels;
5. Energy conservation

The 2021 Sustainability Report, available on the Phoenix Group **website**, sets out the breadth of activity that is underway across the Group in this important area and demonstrates the effectiveness of the framework that is now in place in delivering on the targets set and aspirations described.

Customer Research

Approximately every year, Phoenix Group carries out a Responsible Investing Survey to monitor how customers' attitudes to ESG and other Responsible Investment considerations are changing. While carried out amongst customers with Standard Life products (another pension brand offered by the Phoenix Group), the mix of customers surveyed was considered broad enough to be considered representative of Phoenix customers too. Amongst the findings from the most recent survey (early 2022) were the following, where the equivalent results from the previous (late 2020) survey are shown for comparison:

- Customers surveyed still ranked "return" (88%) and "risk" (81%) as the most important factors to take into account when investing. However, "good corporate governance" was also rated highly (77%);
- 90% (up from 89%) of respondents believe that protecting the environment is important;
- 66% (down from 70%) of respondents believe that responsibly invested funds will outperform other funds in the long-term;
- 70% (up from 65%) of respondents believe that it is important to invest in a way that drives positive change (e.g. influencing companies' impact on society, corporate governance or climate impact);
- 70% (up from 66%) of respondents feel that it is important to exclude companies that have a negative impact on society, poor corporate governance or are damaging the environment; and
- 64% (up from 61%) of respondents said that they want to invest in a way that commits to net-zero carbons emission status by 2050 (or earlier).

The consistency in findings since the previous survey is striking, and confirms that Phoenix's emphasis on sustainable and responsible investment is well-placed and aligns with widely-held customer views.

In addition to this regular survey, in 2020, the Phoenix Group commissioned an external agency to carry out research across Phoenix and Standard Life customers in order to understand customer needs and engagement in ESG and the impact this has on brand perceptions (across many industries, and not just financial services) and potential investment decision-making. The research explored questions like:

- What is important for customers with regards to their investments?
- How involved do customers want to be with regards to ESG and their pensions?
- To what extent do customers just expect financial services providers like Standard Life and Phoenix to adhere to ESG principles?

- What do customers think Phoenix and Standard Life are doing regarding ESG?
- What will be relevant to customers in the future regarding ESG and their pensions?
- What language/style/content of communications on ESG is most likely to resonate with customers?

The research took the form of in-depth focus groups (carried out by video conference due to COVID restrictions) and produced a lot of rich, in-depth feedback. In particular, the research highlighted that:

- When it comes to pensions and investments, ESG considerations are not "top of mind" and many customers are not aware of sustainability-related actions being taken by financial services providers like Phoenix.
- When ESG considerations are discussed with them, many customers feel more interested in these issues and would like to consider them in relation to their pension investments. However, customers tend to balance this interest with their desire for good investment returns.
- Many customers would like the choice to set some sort of ESG "level" for their pension savings and then be able to leave Phoenix to manage this on their behalf. Some customers, however, would like a more active role in selecting where their savings should be invested (e.g. excluding certain industries, or targeting certain minimum ESG credentials).
- Customers are open to more communications related to ESG considerations, but would prefer that these are bite-sized and interesting. They also expect more detailed information to be available on the website for those who want it.

These insights are now being used by Phoenix to shape their Responsible Investment planning and communication developments. During 2021, 6 new investment funds were developed, designed to offer Phoenix customers a choice of "low carbon" investment options. It is planned that these will be made available in 2022 and the IGC is looking forward to seeing what further developments are put in place in 2022.

Impact on default funds

In keeping with the research findings mentioned previously, and in response to demand from current and prospective employer clients, in December 2020, Standard Life (another provider within Phoenix Group) launched their new "Sustainable Multi-Asset Default Fund". Designed for those workplace pension arrangements that are looking for a low cost Responsible Investment option for their default fund, the new fund aims to deliver good customer outcomes by investing predominantly in component funds that track ESG-oriented indices rather than whole of market indices.

In particular, the fund aims to deliver a similar risk/return profile to a fund that tracks market indices, but, in addition, to meet the following investment criteria:

- Screening out financially material ESG risks, e.g. controversial weapons, tobacco, thermal coal and unconventional oil/gas, UN Global Compact Violators and severe controversies;
- Sustainable targeting of positive ESG outcomes, reducing carbon intensity by 50% and uplifting green technology solutions by 50%; and
- Influencing positive change through stewardship utilising proxy voting and company engagement to drive positive behaviour.

At launch, 64% of the fund was invested in ESG index-tracking equity portfolios, with the intention of moving as much of the balance (comprising mainly property, bond and cash investments) into appropriate ESG index-tracking funds as soon as they become available from the investment partners that Standard Life uses. At the time of writing this report, that percentage had risen to 68%.

The IGC welcomed this new initiative. However, we were keen that this increased focus on ESG was extended to the equivalent funds that Phoenix offers. As mentioned above, the first steps have been taken within Phoenix to make this a reality. In the meantime, further work has been done within the Standard Life product range to replace Standard Life's range of Active Plus and Passive Plus default funds with a new range of more sustainable defauilt fund options. Wearing our "Standard Life" hats, we welcome these proposals for a new range of default funds to be launched and are keen to see the equivalent options developed for Phoenix customers.

Supporting Material

Value for Money Assessment

Supporting Material

Value for Money Assessment

Assessment Framework

Assessing VfM is not just about what something costs. You also need to look at the quality of what you get in return and how it compares with similar alternatives. That's why, since the IGC was formed in 2015, our VfM assessment has taken into account a number of different aspects of your workplace pension experience, to form a holistic view of the value for money that Phoenix is providing.

As noted in the Chair's introduction, for this year's assessment, we have further revised our VfM framework, to more closely align it to the VfM factors that the FCA have proposed that IGCs should use and, in particular, split out investment performance from all the other investment-related matters that are included in our VfM assessment. While two of the areas that were previously included in the VfM assessment ("Risk and Governance" and "Management Culture") are still monitored by the IGC, as they can influence the outcomes customers receive, we felt it was better to focus our assessment on the FCA's proposed definition of VfM. Thus, our VfM framework now covers the following 5 areas:

- Costs and Charges;
- Investment Performance;
- Investment Services;
- Customer Service; and
- Customer Communication and Engagement.

ESG still being reviewed by the IGC, but as a separate assessment alongside the VfM analysis.

Rating provider performance

In arriving at the performance ratings for each performance area, the IGC carries out a rigorous and wide-ranging analysis of Phoenix performance. We review lots of different information, including regular management information packs that are produced within Phoenix and the wider Phoenix Group, and specially-produced information packs containing the results of detailed investigations that we request.

To the extent we can, we assess Phoenix's performance relative to other workplace pension providers, using data drawn from other IGC reports, industry publications and specially-commissioned benchmarking exercises. The information available tends to be at provider proposition level, rather than at a more granular, employer scheme level. However, where it is possible to identify different groups of customers that get different treatment (particularly on levels of charges), we make sure we are comparing "like with like" as far as we can, in order that any VfM challenges that we make are soundly based. We also use this approach to compare performance across Phoenix and the other pension providers within the Phoenix Group. As explained earlier in the report, the quality of communications and the extent of online facilities varies for different groups of workplace customers across the Group and we do what we can to encourage best practice to be available to all in-scope customers.

We recognise that assessing value for money is not an exact science because some aspects are more difficult to measure than others and individual customers value things differently. Nevertheless, we try to be as objective and fact-based as possible.

All of the performance areas are assessed on a Red/Amber/Green scale, with "speedometer gauges" used to give readers an indication of relative positioning of performance within the broad RAG bands.

For four of the performance areas ("Investment Performance", "Investment Services", "Customer Service" and "Communication and Engagement"), the RAG rating is based on a numerical score from a detailed assessment across a number of sub-areas (see below), as follows:

Green – performance score greater than 70%

Amber – performance score between 40% and 70%

Red – performance score less than 40%

The other areas ("Costs and Charges" and "ESG"), are not currently scored in such a granular way – although the assessment is similarly rigorous and wide-ranging. Rather, the IGC feels it is sufficient to assign a performance rating using a colour-based scale as follows:

Green – no material concerns

Amber – some material concerns found that affect some members

Red – major concerns found (i.e. material concerns that affect a large number of members, or very material concerns that affect some members)

Numerical scoring

For each of the four VfM areas for which we use this approach, Phoenix's performance was rated on a numerical scale (from 0 to 3) across a number of sub-areas, based on the evidence provided to the IGC as well as our own knowledge of the workplace pension market. The sub-areas are broadly the same as those used in last year's IGC report, but with some changes in order to be more explicit about what we are looking for.

By using a similar approach to last year's report, we are able to continue with the historic trend analysis that developing. It also enables comparisons to be drawn across the various books of business in the different companies within the Phoenix Group and highlights areas where internal best practice could be further shared.

The scoring criteria used was the same as that used last year, namely:

0 not offered

1 basic standard

2 beyond basic

3 area of strength

The scores for individual sub-areas are then summed and converted into a percentage score for each of the 4 areas. We have retained the development introduced last year, to identify the key one or two performance sub-areas and give them double weighting in arriving at the percentage score allocated. This is to ensure that the individual RAG ratings are not unduly influenced by less important, but still nice to have, elements of performance.

The sub-areas used for this assessment are as follows, with those that receive a double weighting shown in bold.

Investments:

1. Lifestyling approach and profiles are suitable
2. Performance of all funds vs stated goals
1. **Performance of all ranked funds vs peer groups**
2. Performance of key default/fund vs inflation over long term
3. With-Profits example – 20 year payouts above cpi (the 'consumer prices index' measure of inflation)

Service quality:

1. **Responsiveness to customer need**
2. Relevant experience and expertise of staff
3. Easy access to phone support
4. Easy access to online support (webchat etc.)
5. Clarity of communication in servicing transactions
6. Efficiency and scalability of operational capability
7. **Quality and speed of processing of core financial transactions**
8. Level of automation/straight through processing
9. Ease of transfer by an individual to another provider
10. Ease with which customers can make contact via different channels
11. Customer satisfaction
12. Complaints and complaints handling

Customer Comms and Engagement:

1. **Adoption of "Fit For Purpose Protocol"**
2. Innovation to improve customer experience
3. Feedback from customers driving improvement in communications
4. Digital/online tools
5. Quality of Annual Statements and Key Milestone Communications
6. Initiatives to improve customer experience at retirement

Independent Governance Committee