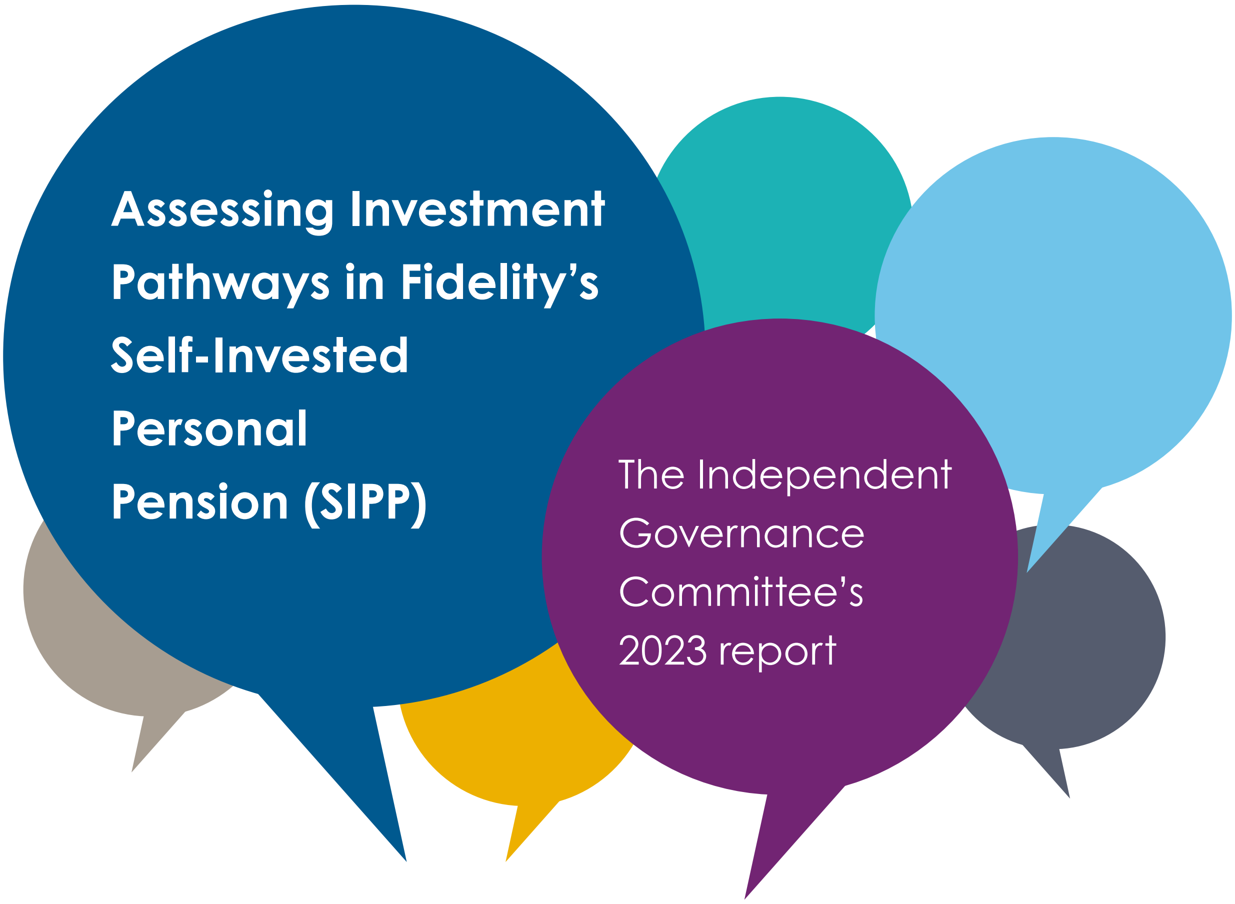

Assessing Investment Pathways in Fidelity's Self-Invested Personal Pension (SIPP)

The Independent Governance Committee's 2023 report

Acting in your best interests

Fidelity INTERNATIONAL

Contents

Introduction

We are the Independent Governance Committee (or IGC, for short). We have been in existence from April 2015, but since April 2020 we have been responsible for scrutinising Fidelity's Investment Pathways used by the Self-Invested Personal Pension (SIPP), to see if they provide customers with Value for Money, as well as Fidelity's sustainable investing policies. The document that sets out what we do and how we do it is called a Terms of Reference and ours can be downloaded here.

We always act in customers' best interests, which means we must act independently from Fidelity. This is why we always have a majority of IGC members who are independent of the pension provider. Of our six members, four are independent (including the Chair) and two are representatives from Fidelity. By the end of 2023, all members of the IGC will be independent of Fidelity.

Our responsibility in this review is to represent the interests of customers and consider the Value for Money that customers receive when using Investment Pathways. These were introduced in October 2020.

Our 2023 report

This report covers the period from 1 January 2022 to 31 December 2022.

While it has now been a couple of years since the Investment Pathways were launched, we note that the take up remains lower than we expected. So far, the majority of customers have chosen to retain their current investments when they begin to access their retirement savings.

Many Fidelity customers take their own advice to meet their needs and tend to have confidence in their own investment decisions.

As we did last year, we have reviewed the communications and call centre scripts to check that customers are being made aware of the availability and benefits of Investment Pathways. We are comfortable that this is continuing to happen, both at the point of access and as they drawdown on their savings for retirement needs.

Following our assessment this year, we have concluded that Fidelity has met our expectations and offers customers Value for Money when using Investment Pathways.

For more information about anything covered in this report, to ask us questions or provide feedback, please get in touch using the contact details on page 13.

Fidelity's Investment Pathways

Investment Pathways are an initiative driven by the Financial Conduct Authority (FCA) that aims to ensure anyone who is accessing their pension pot has the option of choosing from simple, good-value investments that broadly match their retirement goals.

Each of the four Investment Pathways has a five-year objective set by the FCA, and Fidelity has provided an investment fund to match each objective as set out here.

Investment Pathway 1 – I have no plans to touch my money in the next five years

Invests in	Fidelity Diversified Markets Fund
Risk rating	Lower risk … Higher risk ① ② ③ ④ ❺ ⑥ ⑦ Potentially lower returns … Potentially higher returns
Strategy	This fund aims for long-term growth and controls risk by varying the types of investments it holds in response to market conditions. Up to half of the fund can be held in more defensive investments.
Consider	As with any fund that aims for growth, there is also the possibility of a fall in value, particularly in the short term.

Investment Pathway 2 – I plan to use my money to set up a guaranteed income (annuity) within the next five years

Invests in	Fidelity Pre-Retirement Bond Fund
Risk rating	Lower risk … Higher risk ① ② ③ ❹ ⑤ ⑥ ⑦ Potentially lower returns … Potentially higher returns
Strategy	This fund aims to preserve your annuity purchasing power by holding investments that are similar to those that affect annuity prices.
Consider	If the fund does not achieve its goal, there is a risk that the annuity you eventually set up will give you a lower income than you were hoping for.

Investment Pathway 3 – I plan to start taking my money as a long-term income within the next five years

Invests in	Fidelity Multi Asset Balanced Income Fund
Risk rating	Lower risk … Higher risk 1 2 3 **4** 5 6 7 Potentially lower returns … Potentially higher returns
Strategy	This fund aims to provide capital growth and has a long-term income target of 3-5% a year. It holds a broad range of investments. To manage risk, some of these will be relatively defensive.
Consider	Investments with the potential to achieve long-term growth also come with the risk that they will fall in value, and there is no guarantee that the fund will meet its income target.

Investment Pathway 4 – I plan to take out all my money within the next five years

Invests in	Fidelity Cash Fund
Risk rating	Lower risk … Higher risk **1** 2 3 4 5 6 7 Potentially lower returns … Potentially higher returns
Strategy	This fund aims to preserve the value of your capital. It holds low-risk, cash-based investments, such as deposits, that may pay a low level of income.
Consider	This is a low-risk investment. However, when interest rates are low, it is possible that charges may be more than the growth in your investment. In addition, the longer you hold your investment, the more its real value may be eroded by inflation.

Value for Money

To support our Value for Money analysis in this report, Fidelity agreed to participate in an industry benchmarking survey for the year to 31 December 2022. This was conducted by independent pension consultants Redington Limited (Redington).

The survey compared Fidelity's Investment Pathways to those offered by six other providers. Redington analysed all providers by dividing their customer bases into cohorts or groups and compared the costs, returns and quality of service. Cohorts were based on relevant customer characteristics such as pot size, age and investment choices.

Comparisons can be useful if the data is available, relevant and valid. However, each pension provider has developed different investment strategies to meet the objectives of each of the four Investment Pathways.

We think this cohort approach is a proportionate way of collecting the right amount of detail and market insight to inform our overall assessment on each of the key factors set by the FCA. Looking at different cohorts meant that the comparisons have a good chance of being on a like-for-like basis.

We found that comparing Fidelity with other providers gave us helpful insight to our overall assessment of Value for Money, alongside the evidence we collect directly from Fidelity during the year.

What we assess

To see if customers are receiving Value for Money from Investment Pathways, we monitor Fidelity's performance against certain standards, so we can see where Fidelity is performing well and where it needs to do more. In determining Value for Money, we assess:

- The costs and charges that customers pay
- The performance of the investments available to customers
- The quality of service provided to customers

Following our assessment this year, and after examining each of these criteria, we have concluded that Fidelity has met our expectations and offers customers Value for Money when using Investment Pathways.

Our conclusions

The following pages explain how we have reached our conclusions. When assessing each section, we have looked to provide a view of how Fidelity has done against the expectations we had at the beginning of this review period:

- **Not met** – Where Fidelity has failed to meet our expectations
- **Partly met** – Where Fidelity has met some of our expectations, but we would like to see greater progress
- **Met** – We are happy that Fidelity has achieved the standard we expect
- **Exceeded** – Fidelity has outperformed our expectations

We have not formally escalated any concerns to Fidelity, but we have highlighted a few areas where improvements could lead to enhanced Value for Money.

Our analysis

Value for Money criteria	Score
Costs and charges	Met
Investment performance	Met
Quality of service	Met

Costs and charges – what customers pay

As in our previous report, we would like to open this section by setting out some of the technical language that is used whenever charges are discussed.

While we generally try to avoid jargon wherever possible, we feel it is important to use this language for precision when talking about charges.

We also recognise that customers will see it elsewhere when they look at financial products, including pensions, and this gives us an opportunity to explain what the terms mean.

Investment charges: These are set by the fund manager and pay for managing the investments in the fund, together with legal and trading costs. The investment charges are expressed as a percentage that is applied to the value of the investment. For example, an investment charge of 0.20% means a charge of 20p a year for every £100 invested, which would make a total charge of £200 if someone had £100,000 in their pension account.

Service fee: This pays for the administration of the pension account and all the services offered, including guidance tools and the investing platform. The service fee charged depends on how much money is held in the account (as set out on page 9).

Transaction costs: These costs are included within the unit price of each investment fund and relate to the costs of buying and selling investments within the fund.

Investment charges	Transaction costs (outside the investment charge)
Fund management	Broker fees
Legal fees	Commission costs
Trading charges	Stamp duty
	'Slippage' and 'swing pricing'

Note: 'Slippage' describes any trade when the price that is paid is different to the one that was expected. This tends to happen when markets are very volatile. 'Swing pricing' is a way of ensuring that the transaction costs related to investments or withdrawals from a fund are paid for by the people making them, rather than all the investors in a fund.

One element that we like about Fidelity's costs and charges is that it has a straightforward structure in place. This has an investment charge that should be easy for customers to understand and is available for them to review on the Personal Investing website. Costs and charges are also covered by the Key Investor Information Documents (generally known as KIIDs) that customers are required to read before they can make an investment. We also review transaction costs closely as part of our wide oversight role for Fidelity's workplace investing pensions, as these are the same for the Pathways in both types of pension.

Investment Pathway	Investment charge	Transaction costs	Service fees
Investment Pathway 1 – The Fidelity Diversified Markets Fund	0.25%	0.09% (9p per £100 invested)	Based on entire Fidelity Personal Investing platform holdings. Total asset value: • Less than £7.5k – 0.35% if a regular savings plan is in place (£45 otherwise) • £7.5k-£250k – 0.35% • £250k-£1m – 0.20% • Over £1m – no charge
Investment Pathway 2 – The Fidelity Pre-Retirement Bond Fund	0.25%	-0.04% (-4p per £100 invested)	
Investment Pathway 3 – The Fidelity Multi Asset Balanced Income Fund	0.40%	0.10% (10p per £100 invested)	
Investment Pathway 4 – The Fidelity Cash Fund	0.15%	0.00% (0p per £100 invested)	

Costs are for the year to end December 2022.

We believe investment charges, Fidelity's service fee and transaction costs are reasonable compared with the market and represent Value for Money. We note, in particular, that transaction costs are low compared with other providers and the governance around transaction costs is a strength of Fidelity's.

Investment performance

We receive a report covering the performance of the Investment Pathways every six months. We then use this information to determine if performance is in line with our expectations as well as discussing any areas where we have concerns.

Fidelity also monitors the absolute and relative net performance over one, three and five years of all the underlying funds used by the Pathways.

The industry benchmarking survey once again noted the wide variety of approaches that different pension providers use for their Pathways. While Fidelity's approach was among the most cautious for Pathway 4, it is worth noting that it served customers particularly well in 2022 relative to the market. That said, it may not always be competitive over five years and is unlikely to achieve a real return in a higher inflation environment. Fidelity reviewed the objectives of fund and structure and is comfortable with its approach, but we expect regular reviews to continue.

From a longer-term perspective, the Pathways continue to perform to expectations. We have no concerns so far about their performance against objectives and they have performed in the middle of peers. Fidelity reviews the suitability of Investment Pathways on an annual basis and will be doing so again in 2023.

Quality of service

We now turn to quality of service, which we have split into several areas as this criterion covers a much wider range of topics than the other two.

We have provided specific conclusions for each of these areas and our overall finding for quality of service is that Fidelity has met our expectations.

Investment governance

The four Pathways are in place as required by regulations and are designed and managed in the interests of investors. They also have a clear statement of aims and objectives, and Fidelity has a robust governance framework for looking after them.

In 2022, Fidelity introduced a revised Governance Framework that created an additional Forum dedicated to the Investment Pathways.

The Investment Pathways Sub-Forum will meet every six months to consider the Pathways and provide us with updates on their work. We consider this to be a positive development and we are pleased Fidelity is putting a specific focus on Pathways given their potential importance to customers' life in retirement.

We conclude that Fidelity has met our expectations in this area.

Investment policies and sustainability

Our responsibility when it comes to Fidelity's investment policies is to ensure they are in place, set out what is expected and are followed.

During the review period, we took a close look at Fidelity's approach to engagement and its sustainable investing policy, which covers how Fidelity considers sustainability in the Investment Pathways. We also challenged Fidelity on how it is implementing sustainability and reviewed its governance process for making changes to policy and how this was implemented.

The industry benchmarking survey noted that Fidelity's Investment Pathways have some of the highest levels of sustainability integration, thanks to Fidelity's approach of embedding environmental, social and governance (ESG) principles in its investment decisions. In addition, most of the Pathways have high MSCI ESG scores and lower than average (based on the median) carbon intensity metrics.

We also reviewed a wide range of Fidelity's policies focusing on the financial considerations around sustainable investing, non-financial matters, other financial considerations and stewardship. These policies meet our expectations and have been implemented in the way we expect.

We are satisfied that the investment policies are adequate, of good quality and have been implemented effectively.

Administration

Fidelity is not yet able to give us management information purely for customers using Investment Pathways, within their Personal Investing customer base, so we have looked at evidence of its wider retirement activities for its SIPP customers. We have asked for this management information to be developed ahead of the 2024 reporting period.

Fidelity does a lot of work with customer feedback and we then receive regular reports summarising the latest findings. Fidelity SIPP customers have been particularly positive about how easy it is to do business with Fidelity, the way that Fidelity's offering meets their needs and how much they trust Fidelity. However, market performance has hit customers' perception of Value For Money and made many customers less tolerant of poor investment performance or service issues.

Fidelity has two payment days for regular income each month, unlike most providers who can make payments throughout the month. We have previously raised this with Fidelity for consideration and note their response, which was that they feel the restrictions are needed for operational efficiency. We also note that ad hoc payments can be made at any time throughout the month. The payment processing times for tax-free cash were also slower than average.

On the positive side, the industry benchmarking survey highlighted that Fidelity's call answering is better than average and while its call lengths were longer than average, this was not an indication of poor service.

Fidelity's initial application process for Investment Pathways is a phone conversation followed by a written application, with a dedicated Retirement Specialists line to support this process. It has a maximum wait time of 48 hours, but many appointments are same day. We also note that Fidelity offers free guidance and paid-for advice through in-house teams, whereas most providers make referrals to external advisers.

Once everything is set up, customers can then access and make changes by phone, in writing and online. The access by customers of online services, both desktop and app, was one of the strongest in the industry benchmarking survey. This also observed that Fidelity is faster than the average in the time it takes to set up the Pathways and switch investments.

We monitor complaint levels closely and have identified that although there haven't been many complaints about Investment Pathways, they do represent a high percentage of the overall number of customers using the Pathways.

After taking a close look at this issue, we are satisfied that this is due to Fidelity's approach to complaints. The point where a customer query becomes a complaint varies between providers and Fidelity is very cautious on this front, treating even a mild expression of dissatisfaction as a complaint, when other companies wouldn't. This is a deliberate decision that helps it identify customer needs and areas for service improvement, though it does have the effect of skewing its figures.

The most common complaint is around the time it takes for customers to transfer their pensions to Fidelity. This may be a result of the actions of the third-party pension provider they are transferring their pensions away from, as the information we receive doesn't specify which company is at fault.

We are satisfied that core financial transactions have been processed properly and accurately.

Communications

Fidelity provides overall guidance and information to support customers, including communications that have addressed the financial challenges people have faced in 2022.

Fidelity also talks broadly to customers about the value of understanding investment principles and reviewing their portfolios, but it does not talk specifically about fund choices or drawdown decisions. This is because it is unable to give personal recommendations. Customers using drawdown do receive emails about markets, new investment ideas and managing their money in general terms.

Most communications then direct customers to the Fidelity website where they can find podcasts, documents and articles on current investment conditions.

Fidelity's communications take into account the needs of different customers, with a process that identifies vulnerable customers and ensures they are communicated with through their preferred channels. This includes providing different versions of documents and having screen readers on its website. Customers with more than £250,000 to invest also receive a dedicated Relationship Manager who they can call at any time and book annual reviews of their investments.

Given the diverse nature of the Personal Investing customer base, Fidelity needs to ensure its communications are written and designed at a level that is accessible to everyone, so its customers can understand the decisions that are required of them.

We are particularly encouraged by the evidence from the industry benchmarking survey that showed Fidelity had above-average reading ease scores for most of its communications that were reviewed. Documents were also shorter and more succinct with good use of graphic design to aid understanding, though Fidelity's Pathways webpages were among the wordiest in the survey.

We also like the fact that Fidelity was one of the few providers in the survey who measured the impact of communications on customer behaviour. It has a team focused on continuous improvement, which is currently working on the online drawdown and tax-free cash journeys.

In our last report, we raised our concerns with Fidelity about how risk is communicated. We want to ensure customers can see the differences between the risks inherent with each Pathway.

We also suggested that customers need support to help them to manage drawdown on a more personal level. There need to be tools which cover sequencing risk, impact of large withdrawals and how to deal with longevity risk.

We are disappointed that although there has been some preliminary thinking in this area, there have been no changes to the customer experience over the year. We want Fidelity to prioritise these enhancements.

While there are some areas where we feel value for money could be enhanced, we conclude that overall Fidelity's communications are fit for purpose and it has met our expectations in this area.

Feedback and contacts

We value the feedback we receive, either from Fidelity's reporting or directly from customers. It helps us consider the interests of all customers by understanding what is going well and where improvements may be needed.

If there's anything that you would like to tell us, please just:

- Email: ZGL.FidelityIGCChair@zedra.com
- Send a letter to: Fidelity IGC Chair, ZEDRA, Park House, Park Square East, Leeds, LS1 2PW

Introducing the IGC

Skills, experience and independence

The IGC Board remained unchanged in 2022. Roger Breeden leads our Administration Sub-Committee, with Dianne Day leading our Communications Sub-Committee and Gerald Wellesley heading the Investment Sub-Committee. Together, we have the expertise and independence to act solely in customers' interests when assessing the Value for Money of their Fidelity pensions.

Reviewing our effectiveness

In 2021, we carried out an effectiveness review led by Fidelity's company secretariat team. This external review followed the same process that would be used to review a company Board. The review involved a mix of questionnaires, meeting observations and interviews with IGC members. During 2022, we ensured that all required actions were implemented and we scheduled our next effectiveness review for 2024. We also discussed how we operate and looked at ways we can improve our governance at the end of each meeting, with a process of continual improvement in mind.

We are comfortable with the support provided by Fidelity. There has been an investment in meeting the costs of independent advice and the benchmarking study, alongside the internal governance framework to support the IGC.

Members of the IGC

Kim Nash –
Independent Chair

Kim is Managing Director at ZEDRA Governance Limited (ZEDRA), joining them in February 2012. Kim is a qualified actuary and previously worked for Willis Towers Watson as an actuarial benefits consultant. Kim is able to bring her significant DC experience both as a Trustee and a member of a governance committee to lead the IGC to develop the Value for Money framework and make comparisons on Fidelity's performance against the wider industry. Kim was reappointed to the Chair in 2020, for her final five-year term.

Dianne Day –
Independent Member

Dianne is a Client Director at Independent Trustee Services Ltd (ITS). She joined ITS in 2015, specialising in defined contribution (DC) schemes. Dianne holds the PMI Certificate in DC Governance and is a Fellow of the Financial Services Institute of Australasia. She has worked for major investment firms in senior communications and management roles. Dianne applies her extensive DC governance and communications experience to help with the evaluation of Fidelity's customer service, communications and engagement programmes. Dianne was appointed in January 2020 for an initial five-year term.

Gerald Wellesley –
Independent Member

Gerald is a Professional Trustee and Client Director of Vidett Trust Corporation Limited. He has over 35 years' experience in the finance industry, 20 years as pension trustee and 3 years in HR management. His current portfolio of trusteeships includes chair, sole trustee and subcommittee positions with DB and DC schemes and DC Master Trusts. He brings strengths in the investment and financial management disciplines, together with more broadly-based trustee skills. He was previously at BNY Mellon where he led the corporate strategy for the UK and European pensions industry. Gerald was appointed in April 2020 for an initial five-year term.

Roger Breeden –
Independent Member

Roger Breeden is a Trustee Executive with independent trustee company BESTrustees, which he joined in 2021, and specialises in workplace Defined Contribution and Master Trust pension schemes. His financial services experience spans more than 40 years, the majority of which was with Mercer where most recently as a Partner he led the launch and successful authorisation of a Master Trust establishing operational and governance systems and processes. He started his career as a personal financial adviser which provided him with day-to-day experience of the needs of pension scheme members while both building and drawing down on their savings. Roger was appointed in September 2021 for an initial five-year term.

Daniel Smith –
Fidelity Representative

Daniel is Head of UK Full Service – Workplace Investing, leading the overall strategic and corporate management of Fidelity's DC businesses in the UK. He joined Fidelity in 2002 and has more than 25 years' experience in the corporate pensions market. Daniel ensures that the Independent Members of the IGC are provided with all the necessary support and information to undertake their roles effectively. In addition, he ensures that the IGC members have full access to Fidelity resources and are consulted on business strategy and change projects.

James Carter –
Fidelity Representative

James is Head of Pension Products and Policy with more than 20 years' experience in the workplace pensions market. He is responsible for the product implementation and management of Fidelity's workplace pension products. James also leads Fidelity's engagement with the government, regulators and industry bodies in the development of pension policy, and the business analysis of the impact and opportunities of new pensions regulations. Prior to joining Fidelity, James was a Director in Willis Towers Watson's pension consulting business, having also worked for KPMG and Aon, advising trustees and employers operating large DC pension schemes.

Changes to the IGC after the review period

On 30 June 2023, James Carter and Daniel Smith stepped down from the IGC, with Jackie Wells joining us as a new independent member on 1 July 2023. Another independent member is due to be appointed later in the year.

Jackie Wells –
Independent Member

Jackie is an independent policy consultant and a governance professional. She has worked in the pension sector for many years and was involved in a wide range of policy initiatives, including stakeholder pensions and the implementation of the Pensions Commission recommendations. Jackie then completed an MSc in Gerontology and shifted her focus towards a wider range of ageing issues including later life finances. Jackie now works with pension schemes on issues such as value for money, is a member of Guiide's Governance Committee overseeing DB to DC transfer advice and is a trustee of Age UK Wiltshire.

Independence

ZEDRA, ITS, Vidett, BESTrustees, and Jackie Wells are independent of Fidelity and are satisfied that they continue to meet the independence criteria set by the FCA:

- They or their representatives are not directors, managers, partners or employees of Fidelity, or any company within the groups, or paid by them for any role other than as members of the IGC, nor are they members of the share option or performance related pay schemes of Fidelity, nor have they been within the last five years
- They do not have a material business relationship of any description with Fidelity or any company within their group, and have not done so within the last three years (except as trustee of Fidelity's Master Trust)

We record any potential conflicts of interest in a log and consider them in accordance with our conflicts of interest policy.

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