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

The Independent Governance Committee's 2024 report

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EXECUTIVE SUMMARY

Welcome to the 2024 annual report from the Fidelity Independent Governance Committee (IGC). We are responsible for assessing Fidelity's Investment Pathways used by customers invested in the Self-Invested Personal Pension (SIPP), 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 can be downloaded here.

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. To do this, we work independently of Fidelity.

Our 2024 report

This report covers the period from 1 January 2023 to 31 December 2023. In it, we assess in detail the Value for Money customers received from Investment Pathways. We look at Fidelity's performance against certain standards, so we can see where Fidelity is performing well and where it needs to do more. This focuses on three areas:

- **Costs and charges:** What customers pay for their pension
- **Investments:** The performance of their pension and how Fidelity looks after it
- **Quality of service:** Fidelity's administration and communications.

For each area, we use ratings that give a view of how Fidelity has done against the expectations we had at the beginning of the 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

Following our assessment this year, and after examining each of our criteria, we have concluded that Fidelity has met our expectations and offers the majority of customers Value for Money when using Investment Pathways. The one exception is for customers with smaller pots who are paying Fidelity's £90 a year service fee. We explain more about this on page 8.

In addition, the Financial Conduct Authority (FCA) expects IGCs to compare Fidelity against other providers on each of the above three factors. We are obliged to highlight to Fidelity or employers where better Value for Money might be available elsewhere. As it has for the last few years, Fidelity participated in an industry benchmarking survey for 2023, which is run by Redington. This is something we are in favour of, as it gives us a rich source of information to draw on.

The survey uses a cohort approach, which we think is a sensible 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 means the comparisons have a good chance of being on a like-for-like basis.

There were several areas where Fidelity performed well against other providers:

- A high proportion of customers had a completed expression of wish form in place.
- An above-average proportion of customers had online access set up and used it over the year.
- Carbon intensity scores for the Pathway funds were towards the lower end.
- Transaction costs were towards the lower end of the range.

There were also a few areas we would like Fidelity to focus on:

- We would like to see more materials that can help customers manage regular drawdown. We think any tools should use the data that Fidelity already holds about customers and include the ability to save any information that customers put in, so they can come back to it.
- We recognise that Fidelity is not going to be prioritising the separation of Investment Pathway customer data in the short term. However, we do believe Fidelity should be analysing customer behaviour to see if this aligns to the Pathways they have chosen and to consider if more support is needed.
- The increased fees for customers with smaller pot sizes (<£25,000) mean that a high proportion of these customers are not being provided with Value for Money. We would like Fidelity to consider how it supports customers with these size pots to help them achieve good outcomes, as well as the marketing material it provides for new joiners with this size of fund.

At the end of 2023, the IGC was representing the best interests of 305 SIPP customers with £23 million of retirement savings.

For more information about anything covered in this report, to ask us questions or tell us what you think, please do get in touch. We really do 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

Kim Nash
Chair, Independent Governance Committee
September, 2024

INTRODUCING 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	Lower risk/returns — Higher risk/returns L1 L2 **M1** M2 H
Strategy	This fund aims for long-term growth and controls risks 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.
Main criteria we monitor:	The performance of the Pathway over the long-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	Lower risk/returns — Higher risk/returns L1 **L2** M1 M2 H
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. In addition, the value of the fund may be influenced by changes in interest rates.
Main criteria we monitor:	How well the Pathway reflects changes in annuity rates over time.

Investment Pathway 3

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

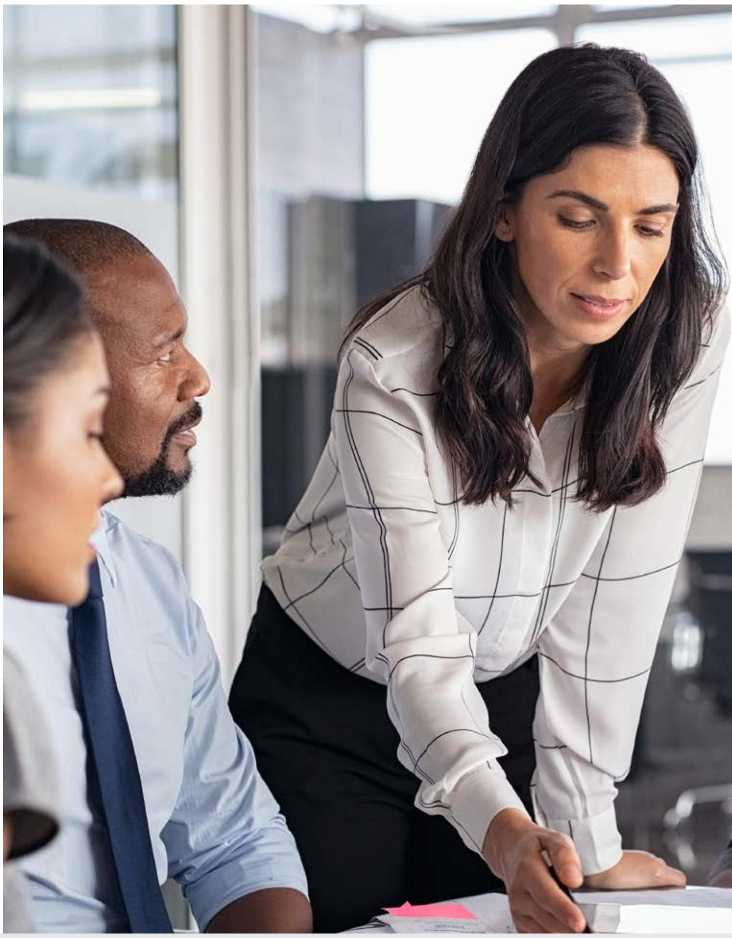
Invests in	**Fidelity Multi Asset Balanced Income Fund**
Risk	Lower risk/returns L1 L2 **M1** M2 H Higher risk/returns
Strategy	This fund aims to provide capital growth and has a long-term income target of 3-5% a year. It holds a broad range of investments. To manage risk, some of these will be relatively 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.
Main criteria we monitor:	How much income the Pathway is generating relative to its objective.

Investment Pathway 4

I play to take out all my money within the next five years

Invests in	**Fidelity Cash Fund**
Risk	Lower risk/returns **L1** L2 M1 M2 H Higher risk/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 interests 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.
Main criteria we monitor:	The performance of the Pathway over the short-term.

One point we have commented on in the past is that there is limited take-up of the Investment Pathways by customers of the Fidelity SIPP – with most choosing to remain in their current investments when they enter drawdown. The industry benchmarking survey confirmed this remained the case. It also observed that take-up of Fidelity's Pathways was much lower than it was with many other providers. We have asked Fidelity to consider the potential reasons for this and if there is anything within the retirement journey that might be the cause.



OUR ANALYSIS

Value for Money criteria	Status
Costs and charges	**Met** (For non-contributing members with less than £25,000 pots, this is not met)
Investments	**Met**
Quality of service	**Met**

Costs and charges – what customers pay

As in previous years, we would like to start this section by setting out a few key terms that are used when talking about costs and charges:

- **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 amount charged depends on how much money is held in the account.
- **Transaction costs:** These relate to the costs of buying and selling investments within the fund and they are included within the unit price. They cover a wide range of areas, including broker fees, commission and stamp duty. In addition, there can be 'slippage' – a cost created when a trade's actual price is different to the expected price – and 'swing pricing', which is a way of ensuring that big investments or withdrawals from a fund are paid for by the people making them, rather than all the fund holders.

	Yearly investment charge	Yearly transaction costs	Service fees
Investment Pathway 1 The Fidelity Diversified Markets Fund	0.25%	0.16%	Based on entire Fidelity Personal Investing platform holdings: **Total asset value:** Under £25k - 0.35% if regular saving (£90 otherwise) £25k-£250k - 0.35% £250k-£1m - 0.20% £1m+ - 0.20% for first £1m, no further charge over £1m
Investment Pathway 2 The Fidelity Pre-Retirement Bond Fund	0.25%	0.00%	
Investment Pathway 3 The Fidelity Multi Asset Balanced Income Fund	0.40%	0.16%	
Investment Pathway 4 The Fidelity Cash Fund	0.15%	0.00%	

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We remain happy with the investment charges for the Investment Pathways funds themselves, including the transaction costs associated with them.

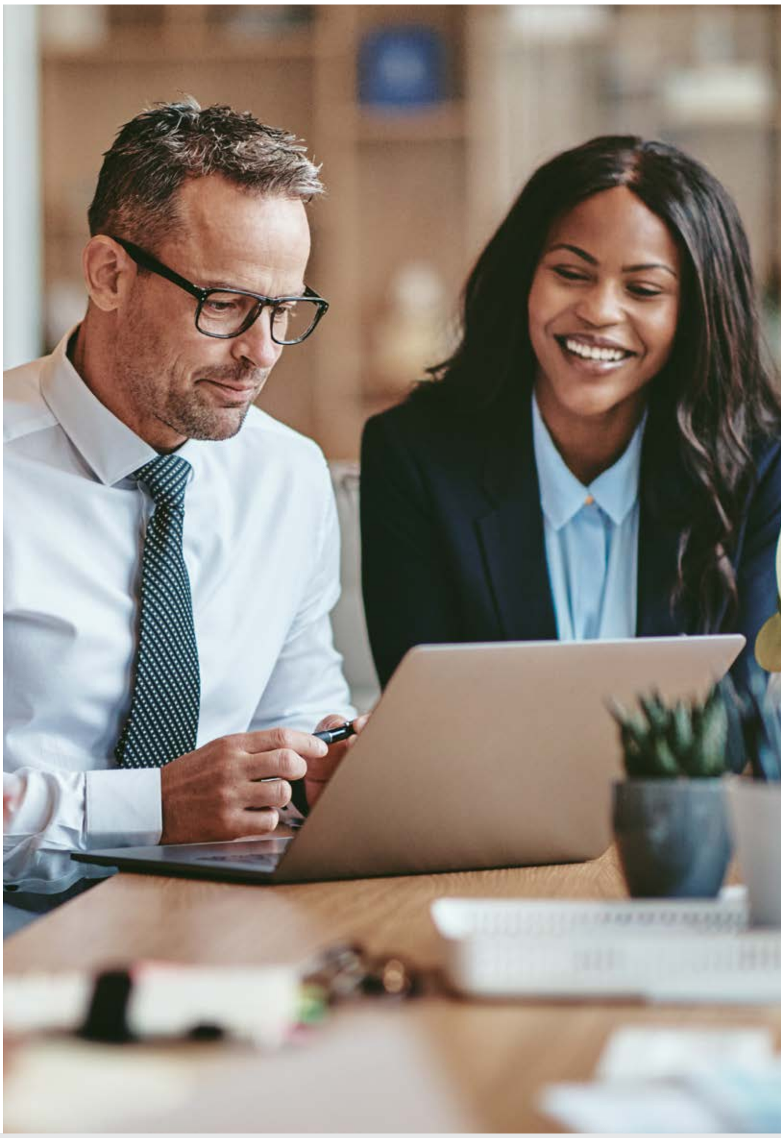
However, we do have some concerns about a change in the service fee that makes it more expensive for Personal Investing customers with lower balances. It has risen from £45 a year to £90 a year for those who have less than £7,500 invested in their pension. It has also risen from 0.35% to £90 a year for those with between £7,500 and £25,000 invested. Customers who have regular savings plans pay the standard 0.35% fee in both cases instead, but we expect that those in drawdown are a lot less likely to be adding to their savings, so will not benefit from these lower rates.

For those paying the £90 charge, this means that their overall yearly fee could be significant compared with other pension schemes. For example, a customer with £10,000 invested in Pathway 4 could be paying £115 (1.15%) a year for their investment. We asked Fidelity to give us their rationale for this change and to explain how they consider it to continue providing Value for Money.

They told us that over the last five years, they have kept their prices the same, while making significant enhancements to their service. Even with the increased minimum fee, the charges are significantly below the costs of providing the service to these accounts. They also highlighted that the very low minimum amounts for Regular Savings Plans are a simple and inexpensive way to avoid any fee increase.

We have noted their response and also their figures that suggest only a very small number of customers are currently affected. However, we have a responsibility to everyone using the Investment Pathways and we also think it is worth keeping in mind that the number of affected customers may rise in future. After all, customers are likely to withdraw more of their savings the longer they spend in drawdown.

We believe that for the specific group of customers affected by the £90 charge, Fidelity's Investment Pathways do not provide Value for Money. We have asked Fidelity to consider how these customers are supported and to look at the marketing material for new joiners with this size of fund. We would also suggest that customers currently in this situation review their arrangements and consider if they should move their pension savings elsewhere.



Investment

Performance

We review the Pathways every six months to check performance and that the investment strategies remain aligned to the five-year objectives. We also receive reports from Fidelity about its ongoing monitoring of absolute and relative net performance over different time periods for the underlying funds used by the Pathways.

Investment Pathways were introduced to customers in October 2020 and reached a three-year track record during 2023. While it is too soon to assess whether the five-year objectives have been achieved, we do have an interim review that looks at the Pathways' performance and returns, together with analysis from the industry benchmarking survey.

In terms of the context for this performance, the three years to October 2023 saw a sudden spike in inflation in the aftermath of the global pandemic, followed by a sharp increase in interest rates after a decade of historic lows.

- **Investment Pathway 1:** This is designed for customers who do not plan on touching their money within five years. Currently, the Pathway lags behind inflation over the three years it has been in place (its target is to beat inflation), while its volatility is slightly above its target of 6% to 8%.
- **Investment Pathway 2:** This is designed for customers who wish to purchase an annuity within the next five years. It aims to help customers achieve this by aligning its returns to the change in annuity rates, with the aim of ensuring the value of the annuity that customers can purchase remains relatively constant over time. The Pathway has achieved this main goal, but it's worth noting it also aims to achieve returns that are above zero and its performance was -8.7% a year over the three years. As such, we feel this Pathway is only suitable for customers looking to purchase an annuity.
- **Investment Pathway 3:** This is designed for customers who plan on taking long-term income drawdown. It aims to generate a positive absolute return over five years and provide an ongoing income of more than 3% a year over the same period. Although the Pathway has underperformed the comparable Pathway from other companies, it is on track to meet its objectives.
- **Investment Pathway 4:** This is designed for customers who plan on taking their money as cash within five years. When compared with other Pathways through the benchmarking survey, it has seen lower returns over one year and higher over three years – largely because of its unusual focus on investing 100% in money markets. We have commented in the past this decision to use a money-market fund, as many comparable Pathways from other companies take a more diversified approach that includes various levels of growth investments. We will keep the appropriateness of Fidelity's decision to use this approach under review, as it may not maintain its spending power over the medium term. However, Fidelity has reconfirmed that it believes the approach is suitable for this Pathway, especially given its short-term focus. Through the design of this Pathway, Fidelity has focused on protecting capital value as opposed to increasing risk for the prospect of slightly higher returns.

While we have identified several aspects of the performance that we want to look at more closely in the coming years, we think it is in line with expectations given the market backdrop. We have also asked Fidelity to make sure the objectives remain aligned with customers' goals.

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Investment Pathway	Fund	Yearly returns to 31 December 2023 (after investment charges)	
		One year	Three years (% a year)
Pathway 1	Fidelity Diversified Markets Fund	11.1%	1.6%
Pathway 2	Fidelity Pre-Retirement Bond Fund	5.9%	-8.7%
Pathway 3	Fidelity Multi-Asset Balanced Income Fund	3.5%	-1.0%
Pathway 4	Fidelity Cash Fund	4.6%	1.9%

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

Governance

Our role is to make sure Fidelity's investment policies are in place, set out what is expected and are followed. In our previous report, we highlighted changes to Fidelity's governance structure that aimed to remove potential internal conflicts of interest. We have now monitored Fidelity's governance over the year and are happy to say it is working as expected.

Fidelity has procedures in place to regularly review the returns and risk outcomes of the relevant funds for each Investment Pathway, to check that they are being managed within fund parameters. We have seen examples of steps taken to investigate the causes when these go out of line with expectations. Steps are also taken to challenge investment managers and make changes where appropriate.

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

Quality of service

Administration

Fidelity remains unable to give us management information that focuses purely on customers using Investment Pathways within their Personal Investing customer base. It has told us that it recognises the importance of providing this data and it continues to explore solutions, but it believes that this will not be possible in the short term.

We are disappointed that our data requests have not been prioritised. Fidelity has told us this is due to the complexities of systems and processes. We have also not received any indications that Fidelity plans to do this in the immediate future. We have highlighted to Fidelity that we believe it may become increasingly difficult for us to carry out a Value for Money assessment with the broad data currently available.

That said, for the moment, we continue to have no concerns with the data we receive based on Fidelity's full customer base as we have no reason to believe that it would not be indicative of the service received by Investment Pathways customers.

Fidelity was able to confirm that four complaints were received from Investment Pathways customers in 2023. We looked at the source of complaints, and there was no trend that gave us any concerns. No complaints were lodged with the Pensions Ombudsman.

Last year, we highlighted concerns about Fidelity having several complaints that took longer than eight weeks to resolve. We're pleased that it has focused on this area and brought the figures down. The industry benchmarking survey showed that Fidelity had very low levels of complaints and most were resolved within three days.

One significant improvement for Fidelity's administration in 2023 was the launch of a fully online drawdown journey. This was introduced late in the year, so we don't have any data on customer satisfaction yet, but we have been given a walk-through of the journey and we believe it is a positive development. We look forward to reviewing customer satisfaction data during 2024.

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

Communications

Compared with other pension providers, Fidelity was in the middle of the pack on ease of reading measures this year. It also has a high proportion of customers using online accounts and providing necessary information, such as expression of wish forms.

One area that we asked Fidelity to look at in last year's report was how it helps customers understand risk. We believe it is important that customers can see how risk varies between the Pathways, so they can make sense of their options and the likely outcomes.

Fidelity told us it carried out a review of its communications and drawdown process, and it is comfortable that risks are identified appropriately. It also stated that it has no plans to develop its tools further in this area during 2024. However, we continue to believe that customers need more support with some of the more complicated decisions that can be involved in income drawdown and managing money in retirement. As we have been stating for some time, we think this includes the development of its tools.

This being said, we do like the way Fidelity's new online journey links customers to fund factsheets at an appropriate time. This is something we encouraged Fidelity to introduce in our previous report.

Fidelity receives feedback from customers in a number of ways, including NPS satisfaction surveys, 'deep-dive' user experience research and customer panels that test understanding of communications and perceptions about the proposition. In the year under review, we saw Fidelity's forum in action and are pleased with the extra information it is supplying that supports our work.

We would like to finish by highlighting a new FCA requirement for companies to provide warnings to customers who hold significant proportions of their pensions in cash. While it is not our role to monitor Fidelity's compliance with regulations, we did like how Fidelity incorporated this message in the online customer retirement journey. It serves as another nudge to encourage customers to think carefully about the suitability of their investment strategy in retirement.

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

SUSTAINABILITY

This year we have added an extra section on sustainability as we know it is an important topic for many customers. While we cannot directly affect Fidelity's approach to sustainability or corporate engagement, it is our responsibility to check the policy is in place, it sets out what is expected and that Fidelity is following it.

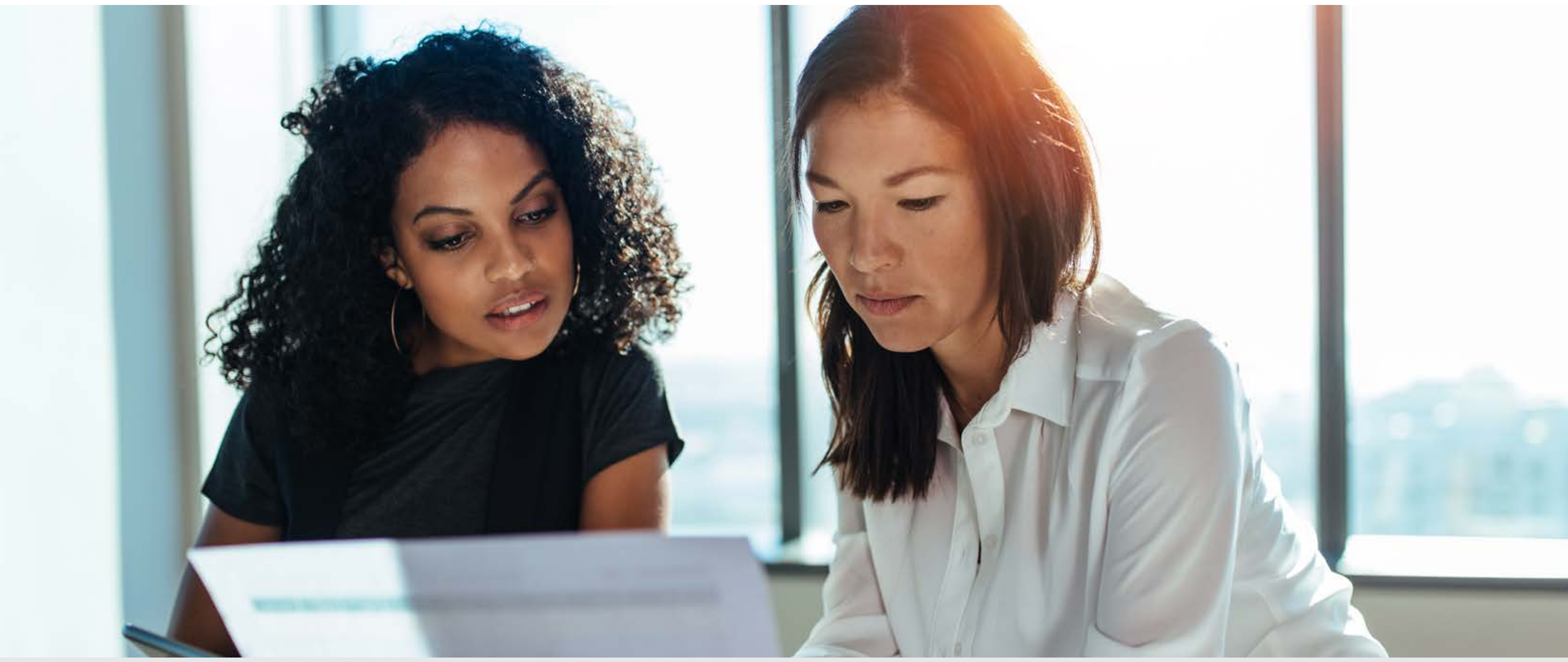
We have confirmed Fidelity has a sustainable investing policy, with accountability for its development, content and operation, along with a review and sign off process that ensures effective input, challenge and oversight.

During the year under review, we challenged Fidelity on how it implements the policies, and it has strengthened some of the questions that it will ask the underlying managers in 2024. We have also encouraged Fidelity to give us more information about how it regularly challenges managers about their approaches for making decisions with sustainability in mind.

Each of the four Investment Pathways funds is managed using Fidelity's sustainability process, which integrates sustainability factors into all decisions, with a particular focus on carbon reduction targets. There are minimum ESG ratings for each fund, using MSCI, and these have been maintained or exceeded.

Investment Pathway	Fund	Minimum MSCI rating	MSCI rating as at 31 December 2023
Pathway 1	Fidelity Diversified Markets Fund	A or above	A
Pathway 2	Fidelity Pre-Retirement Bond Fund	A or above	A
Pathway 3	Fidelity Multi-Asset Balanced Income Fund	A or above	A
Pathway 4	Fidelity Cash Fund	A or above	AA

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



Skills, experience, and independence

The IGC Board changed significantly during 2023. On 30 June, Fidelity Representatives James Carter and Daniel Smith stepped down. This made the Board fully independent. We then added two new independent members during the second half of the year – Jackie Wells and Matt Cuhls. As a group, 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

At the end of every meeting, we discuss how we operate and look at ways we can improve our governance, with a process of continual improvement in mind. This was no different in 2023. With the addition of two independent members, we took the opportunity to review the way we collect and review information from Fidelity throughout the year, for our Value for Money assessment.

To streamline this process and increase inclusivity of all IGC members, we decided to do this as one committee. This led to the elimination of sub-committees in favour of meeting more frequently. So far, we have found this more streamlined approach more effective. We have a full effectiveness review proposed for 2026.

We remain 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 at the end of 2023

Kim Nash – Independent Governance Committee 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.

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 is an associate of PPI, a trustee of Age UK Wiltshire and an insight expert at the International Longevity Centre UK.

Matt Cuhls – Independent Member

Matt has 23 years of experience in the pensions industry having performed a variety of senior roles delivering or overseeing customer service, product and process design and investment management. He is currently a Board member of Scottish Widows and Chair of a not for profit community bank, and has previously been a Managing Director within Phoenix Group and CEO of ReAssure Ltd for 10 years. He has been closely involved with the work of Independent Governance Committees since their inception.

Former members of the IGC who left during 2023

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.

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.

Independence

ZEDRA, ITS, Vidett, BESTrustees, Jackie Wells and Matt Cuhls 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 a 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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