

# INDEPENDENT GOVERNANCE COMMITTEE

Annual Report

For the year ending 31 March 2016



true potential investor

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## INTRODUCTION

Welcome to the first of the Independent Governance Committee's (IGC's) Annual Reports. I am pleased to share with you our progress and to detail the role that we perform on your behalf.

The requirement for a pension provider to establish an IGC became effective from 06 April 2015. IGCs were introduced to protect the interests of members of workplace pension schemes operated by pension providers.

The True Potential IGC has a duty, as a minimum, to:

- Act solely in the interests of workplace scheme members
- Operate independently of True Potential Investments
- Assess and, where necessary, challenge True Potential Investments on whether these workplace pension schemes provide value for money for members.

The Financial Conduct Authority (FCA) rules regarding IGCs can be found at:

**[www.handbook.fca.org.uk/handbook/COBS/19/5](http://www.handbook.fca.org.uk/handbook/COBS/19/5)**

True Potential Investments is fortunate in that it commenced a workplace pension in October 2014 and so has only had to cope with workplace pensions in connection with Auto Enrolment. The biggest challenge for most pension providers is their legacy books – pensions written many years ago with outdated pricing and contractual terms. True Potential Investments has none of this and can focus solely on the interests of clients in the Auto Enrolment scheme.

The absence of legacy business has made the job of the IGC clearer than those with responsibility for legacy schemes. During the IGC's first year we have had four meetings. In addition to the members of the IGC (see Appendix) meetings have been attended by our secretary, James Redhead, (supplied by True Potential Investments) and invited representatives of True Potential Investments including Jamie Sexton, the Head of Auto Enrolment.

### **Brian Shearing**

Chairman, Independent Governance Committee  
True Potential Investments LLP

## PENSION FREEDOMS

In April 2015 new pension legislation came into effect which has become known as 'Freedom and Choice'. Pension scheme members now have much greater flexibility in how they can access their pension pot. The subject of Pension Freedoms is outside the scope of the IGC but it is considered to be a key indicator in determining whether Value for Money is being delivered. Members can draw down a regular or occasional income from their pot, buy a pension annuity or withdraw it as one or more cash lump sums.

The IGC is pleased to note that the True Potential Auto Enrolment scheme offers all available types of pension freedom and thus 'ticks all of the boxes' with regards to freedoms and value for money.

## VALUE FOR MONEY

One of the IGC's main purposes is to act in the interests of members in assessing Value for Money. To do this the IGC needs to assess the quality of the scheme against its cost to members.

The IGC has defined the criteria by which it believes it can assess the ongoing Value for Money for members of the True Potential Investments Auto Enrolment pension scheme. The seven key areas are:

- **Price** - this will cover any costs that relate to your pension pot
- **Default Investment Strategies** - default funds are the fund(s) that your pension contributions are invested in if you do not make any alternative choice
- **Returns on your investment**
- **Flexibility** - members should be able to access their pension savings however they wish
- **Administration** - this will test the level of customer service that you receive and the speed and accuracy of financial transactions
- **Communications** - these should be clear and available in a variety of ways
- **Feedback** - each year from 2016 we will carry out a member survey to gain your view on whether you believe that you are receiving a value for money service. We will publish these results in subsequent annual reports.

## PRICE

True Potential is fortunate in not having any legacy workplace pensions. Thus, the Office of Fair Trading (OFT) report into workplace defined contribution schemes is not applicable to True Potential.

Details of the True Potential Investments Auto Enrolment charges are contained in the next section.

## DEFAULT INVESTMENT STRATEGIES

True Potential Investments use the L&G Multi Index 5 Fund as the default investment option, however we also offer employers four alternative investment options across 4 different risk profiles which fall within the Auto Enrolment charge cap.

These funds are:

Fund	Risk Category	Current Ongoing Charges Figure (OCF)
L&G MULTI-INDEX 3 FUND I-CLASS	Defensive	0.31%
L&G MULTI-INDEX 4 FUND I-CLASS	Cautious	0.31%
L&G MULTI-INDEX 5 FUND I-CLASS	Balanced	0.31%
L&G MULTI-INDEX 6 FUND I-CLASS	Growth	0.31%
L&G MULTI-INDEX 7 FUND I-CLASS	Aggressive	0.31%

In addition to the OCFs True Potential Investments levies a charge of 0.40% per annum which covers the provision of the True Potential Wealth Platform and the pension wrapper itself.

Default funds for Auto Enrolment must have charges capped at 0.75%. Thus, all True Potential Investments default funds are compliant with Auto Enrolment charging provisions. Auto Enrolment employees on the True Potential Wealth Platform are permitted to select any fund on the platform. However, these are likely to carry charges which exceed the 0.75% cap (inclusive of the platform charges).

The IGC notes that regulation from as early as 2017 could make it compulsory for some or all of transaction charges within funds to be included within the charge cap and/or for the charge cap to be reduced.

## RETURNS

The returns achieved by the five default funds (to 31 March 2016) are as follows:

Fund	3 Months	6 Months	1 Year	From 21/08/13
L&G MULTI-INDEX 3 FUND I-CLASS	2.50%	4.28%	0.66%	15.52%
L&G MULTI-INDEX 4 FUND I-CLASS	1.79%	5.02%	-0.31%	17.12%
L&G MULTI-INDEX 5 FUND I-CLASS	1.21%	6.06%	-1.06%	17.54%
L&G MULTI-INDEX 6 FUND I-CLASS	0.76%	6.34%	-2.92%	16.38%
L&G MULTI-INDEX 7 FUND I-CLASS	0.74%	6.57%	-4.29%	14.14%

### L&G Multi-Index 3 Fund I-Class - main features and highlights

**Risk Profile:** Defensive

**Fund Objective highlights:** To provide a combination of growth and income and to keep the fund within a pre-determined risk profile. At least 75% of the fund will be invested in other authorised investment funds. More than 50% will be invested in index-tracking funds operated by Legal and General. More than 50% of the fund will be invested in company and government bonds, of which over 70% will be investment grade. The fund can also have exposure to company shares, UK Commercial property, money market instruments and bank deposits.

**Derivative Usage:** Can only be used to help with efficient day to day management of the fund and to reduce market risk.

**Sector:** IA Mixed Investment 0-35% shares

**Asset Class:** Mixed Asset

**Quartile Ranking over 1 year:** 1st

**Performance over 1 year versus IA Mixed Investment 0-35% shares sector:** Outperformed by +1.93%

**Largest Asset Class:** Global Fixed Income (22.27%)

**Largest Geographical Region:** UK (33.48%)

**Largest single holding:** Legal and General All Stocks Gilt Index I Income Fund

## RETURNS (CONT'D)

### L&G Multi-Index 4 Fund I-Class - main features and highlights

**Risk Profile:** Cautious

**Fund Objective highlights:** To provide a combination of growth and income and to keep the fund within a pre-determined risk profile. At least 75% of the fund will be invested in other authorised investment funds. More than 50% will be invested in index-tracking funds operated by Legal and General. The fund will have exposure of between 50% and 100% to company and government bonds, cash and company shares. Between 70% and 100% of the bonds the fund is exposed to will be investment grade. The fund will also have exposure to UK commercial property, money market instruments and bank deposits.

**Derivative Usage:** Can only be used to help with efficient day to day management of the fund and to reduce market risk.

**Sector:** IA Mixed Investment 20-60% shares

**Asset Class:** Mixed Asset

**Quartile Ranking over 1 year:** 1st

**Performance over 1 year versus IA Mixed Investment 20-60% shares sector:** Outperformed by +1.85%

**Largest Asset Class:** Global Fixed Income (21.57%)

**Largest Geographical Region:** UK (30.99%)

**Largest single holding:** Legal and General Sterling Corporate Bond Index Fund

## RETURNS (CONT'D)

### L&G Multi-Index 5 Fund I-Class - main features and highlights

**Risk Profile:** Balanced

**Fund Objective highlights:** To provide a combination of growth and income and to keep the fund within a pre-determined risk profile. At least 75% of the fund will be invested in other authorised investment funds. More than 50% will be invested in index-tracking funds operated by Legal and General. The fund will have exposure of between 50% and 100% to company shares from around the world. The fund can also have exposure to company and government bonds, cash, UK commercial property, money market instruments and bank deposits.

**Derivative Usage:** Can only be used to help with efficient day to day management of the fund and to reduce market risk.

**Sector:** IA Mixed Investment 40-85% shares

**Asset Class:** Mixed Asset

**Quartile Ranking over 1 year:** 2nd

**Performance over 1 year versus IA Mixed Investment 40-85% shares sector:** Outperformed by 1.69%

**Largest Asset Class:** UK Equities (20.25%)

**Largest Geographical Region:** UK (32.93%)

**Largest single holding:** Sanlam IP L&G UK Index Trust S



## RETURNS (CONT'D)

### L&G Multi-Index 6 Fund I-Class - main features and highlights

**Risk Profile:** Capital Growth

**Fund Objective highlights:** To provide a combination of growth and income and to keep the fund within a pre-determined risk profile. At least 75% of the fund will be invested in other authorised investment funds. More than 50% will be invested in index-tracking funds operated by Legal and General. The fund will have exposure of between 70% and 100% to company shares from around the world. The fund can also have exposure to company and government bonds, cash, UK commercial property, money market instruments and bank deposits.

**Derivative Usage:** Can only be used to help with efficient day to day management of the fund and to reduce market risk.

**Sector:** IA Mixed Investment 40-85% shares

**Asset Class:** Mixed Asset

**Quartile Ranking over 1 year:** 3rd

**Performance over 1 year versus IA Mixed Investment 40-85% shares sector:** Under performed by 0.17%

**Largest Asset Class:** UK Equities (22.73%)

**Largest Geographical Region:** UK (37.38%)

**Largest single holding:** Sanlam IP L&G UK Index Trust S

## RETURNS (CONT'D)

### L&G Multi-Index 7 Fund I-Class - main features and highlights

**Risk Profile:** Aggressive

**Fund Objective highlights:** To provide a combination of growth and income and to keep the fund within a pre-determined risk profile. At least 75% of the fund will be invested in other authorised investment funds. More than 50% will be invested in index-tracking funds operated by Legal and General. The fund will have exposure of between 70% and 100% to company shares from around the world. The fund can also have minor exposure to company and government bonds, cash, UK commercial property, money market instruments and bank deposits.

**Derivative Usage:** Can only be used to help with efficient day to day management of the fund and to reduce market risk.

**Sector:** IA Flexible Investment

**Asset Class:** Mixed Asset

**Quartile Ranking over 1 year:** 3rd

**Performance over 1 year versus IA Flexible Investment sector:** Underperformed by 0.29%

**Largest Asset Class:** UK Equities (28.43%)

**Largest Geographical Region:** UK (28.60%)

**Largest single holding:** Legal and General US Index Trust

## RETURNS (CONT'D)

### True Potential Investments Independent Risk Assessment of LGIM Multi-Index 3-7

True Potential Investments have assessed the SAA models operated by LGIM and their respective asset splits. By inputting the weights for each asset class into True Potential Investments risk assessment model we calculate the expected risk outcome for each fund. This is compared to the risk bands for each risk category devised for True Potential Investments by Morningstar. Where the level of risk can be accommodated within the bands for each risk category we believe that the funds can be considered appropriate for clients expressing a desire for a similar level of risk.

The True Potential Investments fund risk assessment model uses a basic mean variance framework to assess risk. As it is a basic model it does not capture subtle aspects such as hedging, different underlying assets within a fund v those used within the model asset category nor different time periods which can be used to analyse risk. To handle these different variations we discuss risk in more detail with the investment manager and then decide if an adjustment is justified. Where necessary we may make amendments to our model outcomes and discuss the adjustments separately and seek to explain the reasons behind any adjustments we make. Our discussions with LGIM managers reveal a thoughtful underpinning to their risk assessment process. While the data input in their models differ, the approach taken is aligned with the True Potential Investments Morningstar approach.

Based on our raw analysis the LGIM Funds 3-5 remain correctly mapped to the respective True Potential Investments Morningstar risk categories of defensive, cautious and balanced, respectively, LGIM 6 has a Standard Deviation, slightly lower than its capital growth risk band. LGIM 7 has a Standard Deviation lower than expected for an aggressive risk profile. In order to push further up the risk spectrum into the respective higher risk categories, the managers would have to extend into areas that are currently performing poorly i.e. Emerging, Japan and Pacific equity markets. On this basis we would propose to review this matter again with the managers in three months time rather than suggest that the LGIM 6& 7 are not suited to capital growth and aggressive investors.

## FLEXIBILITY

The IGC is pleased that True Potential Investments provides pensions both for Auto Enrolment and generally that offer the maximum in flexibility. Contribution-wise the innovative 'ImpulseSave®' provided by True Potential Investments and incorporated within its Auto Enrolment offering means that contributions from as little as £1 can be paid at anytime via the internet which can be accessed via personal computer, mobile phone and even Apple watch.

Pension benefits can be accessed in every way possible including all methods which came into effect from April 2015.

## ADMINISTRATION

The IGC believes the quality of service that members receive is a key part of value for money. We have looked at the time it takes True Potential to respond to member requests and the quality of True Potential's servicing. The analysis of Auto Enrolment administration is ongoing by the IGC.

It is the intention of the IGC to continue this analysis during the next year in order to provide more information to members in future annual reports.

## COMMUNICATION

The IGC's desire is for members to be able to access their pension information and make changes to their pension arrangements using a means of communication of their choosing.

True Potential is renowned for its leading edge technology. However, it is noted that out of more than 8,000 contributing employees (members) less than 1,500 have accessed their pension accounts. As part of the member survey to take place later in 2016, questions will be included regarding access to pension arrangements.

## FEEDBACK

The IGC has made mention elsewhere within this report of its desire to obtain feedback from scheme members. In addition to the proposed survey of members the IGC will also consider how else it can obtain useful feedback from members.

## REGULATION

We note that the following has been included in the FCA's Business Plan for 2016/17:

### **"Accumulation - effectiveness of Independent Governance Committees**

In 2016/17 we will undertake a review of the effectiveness of Independent Governance Committees (IGCs). The review will assess how effective IGCs are in helping pension providers deliver value for money for workplace pension policyholders. This will include their effectiveness against the recommendations made by the Independent Project Board, where we will work closely with the Department for Work & Pensions (DWP)." The IGC is pleased that FCA intends to undertake this work and we very much look forward to reviewing the outcomes in due course.

## CONCLUSION

The IGC recognises that one of its primary requirements is assessing value for money. This has proved to be somewhat difficult not least because of the lack of a suitable definition of value for money particularly in the context of Auto Enrolment. The IGC implores the various regulators to work towards a common definition in order that all IGCs can work towards assessing Auto Enrolment schemes to the same standards.

The IGC is pleased to note that True Potential does not have the books of legacy business which other pension providers have. During the year 2016/17 the IGC intends to:

- Ensure that a survey of members is carried out
- Review the default investment funds made available by True Potential
- Understand from True Potential how individual employers select and review their default investment strategies
- Monitor the performance standards of the Auto Enrolment administration provided by True Potential
- Monitor the proportion of members who access their pension information online
- Note the outputs that emerge from the FCA's review of IGCs.

## APPENDIX INDEPENDENT GOVERNANCE COMMITTEE: BIOGRAPHIES



**Brian Shearing**  
Independent Chair

Brian Shearing has worked in UK financial services throughout his whole career that now spans more than 40 years. Prior to 1992 he was employed by Standard Life, Equity & Law, Geoffrey Morley and Partners Limited, Merchant Navy Officers Pension Fund and Sanwa International plc. From 1992 onwards Brian has operated as a self-employed management consultant providing services to Life Assurers, Fund Managers, Pension Providers and Wrap Platforms (including corporate propositions) as well as those who supply services to these types of organisation. Expertise across fund management, life assurance, pensions, wrap platforms and service suppliers to those sectors.

Brian has an honours degree in Mathematics & Statistics and he is a Fellow of the Pensions Management Institute, a Fellow of the Chartered Insurance Institute and a Fellow of the Institute of Directors. Recently Brian Shearing and Partners Limited has been elected an Associate Member of the Pension Policy Institute.



**David Keir**  
Head of Research – Saracen Fund Managers

David joined Saracen from Scottish Widows Investment Partnership (SWIP), where he was Investment Director on the UK Equities Desk, running both Institutional and Retail Funds. He was also Head of Research. Before SWIP, David spent 4 years on the UK Equities Desk at Edinburgh Fund Managers. He originally trained with KPMG to become a Chartered Accountant (CA), and is also a CFA Charter holder.

## APPENDIX - IGC BIOGRAPHIES (CONT'D)



### **Sheriden Davy**

Compliance & Risk Director & Partner

Sheriden has spent fifteen plus years working in and around financial services. This includes a number of years working as a Stockbroker & Financial Adviser where he worked both here in the UK and America. Sheriden also worked in Government for a number of years working on the development of financial services legislation, including working with HMT on such initiatives as Automatic Enrolment that he was heavily involved in the policy development of.

Sheriden was seconded from DWP to set up a compliance function for the National Employment Savings Scheme (NEST) to ensure it was delivering against legal & regulatory requirements. He also created and headed up the compliance function for MyCSP, which administers the pensions of £1.5 million Civil Servants. Before Joining True Potential, Sheriden worked at BlackRock where he was Vice President of Compliance monitoring.



### **Russell Hogan**

Managing Partner & CIO

Russell has 30 years of investment experience & spent 17 years at Aegon Asset Management (now Kames Capital) becoming CIO in 1995 and thereafter CEO with responsibility for £33 billion. He joined Dundas Global as a director at inception, becoming a full time member of the team in April 2012. Russell is a Fellow of the Securities Institute and holds a degree in Economics from Strathclyde University and an MBA from the Open University Business School.

## APPENDIX - IGC BIOGRAPHIES (CONT'D)



### Mark Henderson

Senior Partner, True Potential LLP

Mark began his financial services career in private banking with Lloyds, covering investment management and executor and trustee work in the north of England and Scotland. He then moved to Merrill Lynch's International Private Client Division before joining Positive Solutions where he held the position of Director of Wealth Management.

Mark is one of the founding partners of True Potential LLP, initially heading up provider relations. In this role, he was responsible for gaining industry-wide agreements that enabled the firm to develop technology for evaluations, electronic payments and commission statements.

Instrumental in building the True Potential Wealth Platform, Mark is responsible for enhancing the platform's product range which now covers ISAs, GIAs, Pensions and Investment Bonds both onshore and offshore.

More recently Mark has overseen the establishment of True Potential Investments as an investment management firm and the launch of the Wealth Strategy range of funds. These multi asset funds are managed in association with world class global asset managers have attracted over £1.5bn in assets. Further to this the firm now offers the Managed Portfolios Series of 10 portfolios underpinned by the Wealth Strategy Fund range, both being further examples of True Potential using scale to drive down charges and provide clients with great value and choice to meet their investment goals.





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