

# Vanguard Independent Governance Committee - Terms of Reference

In these terms of reference, the following terms shall have the following meanings:

“**COBS**” means the Conduct of Business Sourcebook of the Financial Conduct Authority (as amended). “**FCA**” means the Financial Conduct Authority

“**Vanguard**” means Vanguard Asset Management Limited, a private limited company (company number 7243412) whose registered office is at 4th Floor, The Walbrook Building, 25 Walbrook, London EC4N 8AF and acting in its capacity as operator of a personal pension scheme “The Vanguard Personal Pension Scheme” established under trust deed dated 8<sup>th</sup> May 2018.

“**pathway investors**” means an investor that makes an investment that corresponds to the [investment pathway](#) options in [COBS 19.10.17R\(1\)](#).

## Purpose

The purpose is to ensure that pathway investors benefit from independent review of the investments they invest in. The specific objective of the Independent Governance Committee (IGC) is to assess whether Vanguard provides value for money for its pathway investors, and provide an independent consideration of Vanguard’s policies on:

1. (i) ESG financial considerations;
2. (ii) non-financial matters;
3. (iii) stewardship; and
4. (iv) where applicable, other financial considerations to the extent that they pose a particular and significant risk of financial harm to pathway investors.

## Authority

The IGC operates independently of Vanguard.

The IGC is authorised to seek and Vanguard is required to provide the IGC with any information or support, at Vanguard’s expense, to the extent that it is necessary and proportionate to enable the IGC to discharge its duties under the COBS rules, FCA policy statements and guidance and other regulatory requirements or guidance in force or published from time to time.

Vanguard will provide the IGC with:

- detailed information about the benefits and services of the pathway investments and the costs and charges borne by pathway investors, together with such other information that the IGC reasonably requests in connection with the discharge of its duties. The IGC will agree with Vanguard detailed relevant information to be provided and appropriate timescales for its provision; and
- the services of independent professional advisers at the request of the IGC including, but not limited to, independent investment and legal advisers.

## Duties

The IGC will act solely in the interests of relevant pathway investors and must discharge its responsibilities in a manner which is at all times consistent with the requirements of the FCA rules set out in COBS. In the event of any discrepancy between these terms of reference and the requirements of COBS, the requirements of COBS will prevail.

The IGC will act in the interests of relevant pathway investors both individually and collectively. Where there is the potential for conflict between individual and collective interests, the IGC will manage this conflict effectively.

The IGC is not expected to deal directly with complaints from pathway investors.

#### **A. Value for money**

The IGC will assess the ongoing value for money for pathway investors delivered by a pathway investment particularly, though not exclusively, through assessing the three factors in A1–A3 below, taking into account the specific points in A4–A6:

- 1) the level of charges and costs in particular:
  - a) administration costs and any transactions costs borne by pathways investors; and
  - b) any other charges borne by pathways investors and any costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the drawdown fund of the pathways investors;
- 2) investment performance; and
- 3) the quality of service including whether:
  - a) the communications are fit for purpose and properly take into account the characteristics, needs and objectives of the pathways investors; and
  - b) core financial transactions are processed promptly and accurately, such as processing contributions, transfers and death benefits;
- 4) as part of the ongoing value for money assessment, the IGC will need to consider whether to assess the pathway investment on an individual basis or on an aggregated basis using cohorts of sufficiently similar pathway investments, or a combination of both, to enable the IGC to produce a value for money assessment that is the most useful for the pathway investors, but which is also appropriate and proportionate in the circumstances;
- 5) as part of the ongoing value for money assessment in A1(a), A2 and A3, the IGC will need to:
  - a) consider whether the individual pathway investments or cohorts of pathway investments, or a combination of both, would be most appropriate to be part of pathway investment comparators taking into account the proportionality and usefulness of each;
  - b) (where it selects cohorts of pathway investments as part of its pathway investment comparators) select sufficiently similar pathway investments that enable the IGC to produce an assessment that is the most useful for the pathway investors;
  - c) select a small number of reasonably comparable pathway investment comparators (including those which could potentially offer better value for money in respect of factors A1(a), A2 and A3);
  - d) use reasonable endeavours to obtain and compare the relevant data that it needs to carry out useful assessments in respect of the factors set out in A1(a), A2 and A3, in a manner which is proportionate to the likely pathway investor benefits that will result from the IGC assessing the data;
  - e) assess the pathway investment by reference to the pathway investment comparators based on factors A1(a), A2 and A3 (to the extent that there is publicly, or readily, available information about the pathway investment comparators in respect of those factors); and
  - f) consider whether any of the pathway investment comparators offer better value for money for pathway investors based on factors A1(a), A2 and A3 (to the extent that there is publicly, or readily, available information about the pathway investment comparators in respect of those factors);
- 6) as part of the assessment of the quality of services in A3, the IGC will need to assess:
  - a) whether the pathway investment offered by Vanguard is designed and managed in the interests of pathway investors and has a clear statement of aims and objectives;
  - b) whether the characteristics and net performance of the pathway investment are regularly reviewed by Vanguard to ensure alignment with the interests of pathway investors and that Vanguard takes action to make any necessary changes.
- 7) In the context of the IGC's assessment of ongoing value for money for pathways investors:
  - a) The administration charges and transaction costs borne by pathway investors are likely to represent value for money when the combination of the charges and costs, and the investment performance and services are appropriate:

- i) for the pathway investors; and
  - ii) when compared to other reasonably comparable options on the market.
- 8) The IGC should take into account the considerations in A9, as part of the IGC's:
  - a) decision referred to in A4 about whether to carry out its ongoing value for money assessment of the pathway investment by assessing the pathway investment on an individual or cohort basis; or
  - b) selection of pathway investment comparators under A5(a)-(c).
- 9) The considerations referred to in A8 are:
  - a) (where cohorts are proposed), any characteristics that it would be appropriate and proportionate for the IGC to use, in the particular circumstances of the pathway investment, as part of its cohort selection criteria; and
  - b) (if the IGC has used cohorts of pathway investments in any part of its ongoing value for money assessment whether it would be appropriate and proportionate to also assess any particular pathways investments within the cohorts on an individual basis in order to be able to carry out the most useful assessment).
- 10) As part of the IGC's selection of scheme comparators or investment pathways comparators under A5(a)-(c), the IGC will need to include scheme comparators or pathway investment comparators that potentially offer better value for money in respect of the factors set out in A1(a), A2 and A3 (based on whatever information is publicly, or readily, available and is relevant to those factors).
- 11) There is no expectation that the IGC will carry out a comparison of all of the comparable pathway investments A5.

## **B. ESG**

1. Where Vanguard has an investment strategy or makes investment decisions which could have a material impact on pathway investors' investment returns, the IGC will consider and report on:
  - (a) the adequacy and quality of Vanguard's policy (if any) in relation to ESG financial considerations;
  - (b) the adequacy and quality of Vanguard's policy (if any) in relation to non-financial matters;
  - (c) how the considerations or matters in (a) and (b) are taken into account in Vanguard's investment strategy or investment decision making; and
  - (d) the adequacy and quality of Vanguard's policy (if any) in relation to stewardship.
2. Where Vanguard does not have a policy in relation to ESG financial considerations, non-financial matters or stewardship, the IGC will in each case consider and report on Vanguard's reasons for not having a policy.
3. Where Vanguard has not already adequately taken into account, in its investment strategy or investment decision making, other financial considerations that pose a particular and significant risk of financial harm to the pathway investors, the IGC will also:
  - (a) consider and report on the adequacy and quality of the policy (if any) in relation to those other financial considerations, and whether and how those considerations are taken into account in Vanguard's investment strategy or investment decision; or
  - (b) consider and report on Vanguard's reasons for not having a policy in relation to those considerations.

4. The IGC will consider and report on the extent to which Vanguard has implemented its stated policies in relation to the considerations in 1 and 2 and where applicable 3 above.

### **C. Raising concerns**

5. In relation to the IGC's remit of review, the IGC will raise with Vanguard any concerns it may have:
  - (a) in relation to any of the matters it has assessed or considered;
  - (b) where the IGC is unable to obtain or has difficulties obtaining from Vanguard the information it requires; or
  - (c) where the IGC finds that any investment pathway comparators offer better value for money for pathway investors than the pathway investment based on the factors set out in A1(a), A2 and A3.
6. Once a decision has been made to offer a pathway investment, the IGC must raise any concerns:
  - (a) in good time to give Vanguard an opportunity to consider and address the IGC's concerns, before the pathway investment is offered to retail clients; and
  - (b) on an ongoing basis in relation to the pathway investment the IGC will escalate concerns as appropriate where Vanguard has not, in the IGC's opinion, addressed those concerns satisfactorily or at all.
7. If, having raised concerns with Vanguard about the matters in the IGC's remit of review, the IGC is not satisfied with the response, the IGC Chair may escalate concerns to the FCA if the IGC thinks that would be appropriate but must first have given Vanguard a right to respond.
8. The IGC may also alert pathway investors and make its concerns public.

### **D. Annual report**

9. The Chair of the IGC will be responsible for the production of an annual report setting out the following, in sufficient detail, taking into account the information needs of pathways investors:
  - a) the IGC's opinion on:
    - (1) the value for money delivered by a pathway investment particularly against the matters listed at A1-A6 above and a statement setting out their overall assessment of whether the pathway investment provides value for money;
    - (2) the adequacy and quality of Vanguard's policies or the reasons for not having policies, in relation to the matters listed under B1 and B2 and (if applicable) B3;
  - b) the extent to which Vanguard has implemented its stated policies in relation to the consideration and matters in B1 and B2 and (if applicable) B3;
  - c) an explanation on how the IGC carried out their assessment of ongoing value for money. This must include demonstrating how the factors set out in A1-A3 have been fully and properly considered;
  - d) the reasons:
    - (1) for the IGC's overall assessment of whether the pathway investment provides value for money;
    - (2) where the IGC assessed the pathway investment using cohorts of pathways investment for the purposes of its general assessment in A4 or used cohorts as part of the pathway investment comparators in A5, why the IGC considers it is appropriate and

- proportionate to use cohorts of pathway investments and the IGC's reasons for using the characteristics that it used to select the cohort; and
- (3) why the IGC considers that the pathway investment comparators it selected for the purposes of its assessment under A5 provided a reasonable comparison against the pathway investment;
  - e) how the IGC has considered pathway investors' interests;
  - f) any concerns raised by the IGC with Vanguard and the response received to those concerns;
  - g) how the IGC has sufficient expertise, experience and independence to act in pathway investors' interests;
  - h) how each independent member of the IGC, together with confirmation that the IGC considers these members to be independent has taken into account COBS 19.5.12 G; and
  - i) the arrangements put in place by Vanguard to ensure that the views of pathway investors are directly represented to the IGC; and
  - j) administration charges and transaction cost information complying with COBS 19.5.16R.
10. The Chair of the IGC will ensure the annual report is produced by 30 September each year, in respect of the previous calendar year.
  11. The IGC will retain copies of any evidence used in their assessment of ongoing value for money for a minimum of six years.
  12. Where an IGC is unable to obtain the information it requires to assess or to consider and report the matters in the IGC's remit of review, the IGC should explain in the annual report why it has been unable to obtain the information and how it will take steps to be granted access to that information in the future.

### **Vanguard's Duties**

Vanguard will:

1. Take reasonable steps to ensure that the IGC acts and continues to act in accordance with its terms of reference.
2. Take reasonable steps to provide the IGC with all information reasonably requested by the IGC in good time for the purposes of carrying out its role.
3. Provide the IGC with sufficient resources as are reasonably necessary to allow it to carry out its role independently.
4. Have arrangements to ensure that the views of pathway investors can be directly represented to the IGC.
5. Take reasonable steps to address any concerns raised by the IGC under its terms of reference.
6. Take reasonable steps to address any concerns raised by the IGC before the firm offers the pathway investment, and provide written reasons to the IGC as to why it has decided to depart in any material way from any advice or recommendations made by the IGC to address any concerns it has raised.
7. Have arrangements for sharing confidential and commercially sensitive information with the IGC.
8. Have arrangements to ensure maintenance of records and the ability to effect retrieval of all changes concerning the investment pathways related user interface journeys and the ability for these to be made available in good time at the reasonable request of the IGC;
9. Use best endeavours to obtain, and should provide the IGC with, information on the costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the assets which could impact a pathway investment, including transaction costs. Information about costs and charges more broadly should also be provided, so that the IGC can properly assess the value for money of a pathway investment and the funds held within these.
10. Provide secretarial and other administrative support to the IGC. The nature of the support, including how it is provided and by whom, should not conflict with the IGC's ability to act independently.
11. Provide safe custody of all IGC related materials and documentation (not including, unless specifically requested, the personal notes of relevant IGC members) for a minimum period of 6

years from the relevant materials/documentation inception or such other period as may be agreed between the IGC and Vanguard from time to time.

12. Make the IGC's terms of reference and the IGC's three most recent annual reports available in a way designed to bring them to the attention of pathway investors by placing them in an appropriately prominent and relevant position on its website, and by providing them on request to pathway investors.

## **Composition**

The IGC will comprise 7 members, a majority of which will be independent of Vanguard. The Chair will be involved in the appointment and removal of all other IGC members.

In appointing independent IGC members it will be determined if such a member is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, that member's judgement.

Independent is defined as not:

1. Being an employee of Vanguard or paid by them for any role other than that which they will fulfil on the IGC;
2. Having been an employee of Vanguard within the last five years, and;
3. Having, or have had within the last three years, a material business relationship with Vanguard.
4. Independent IGC members who are individuals are appointed for fixed terms of no longer than five years, with a cumulative maximum duration of ten years.
5. Individuals acting as the representative of an independent corporate member are appointed to the IGC for a maximum duration of ten years.
6. Independent IGC members who are individuals, including those representing independent corporate members, are not eligible for reappointment to the IGC until five years have elapsed, after having served on the firm's IGC for the maximum duration of ten years.
7. Vanguard employees who serve on the IGC should be subject to appropriate contractual terms so that, when acting in the capacity of an IGC member, they are free to act within the terms of reference of the IGC without conflict with other terms of their employment. In particular, when acting as an IGC member, an employee will be expected to act solely in the interests of pathway investors and should be able to do so without breaching any terms of their employment contract.
8. Vanguard should replace any vacancies that arise within IGCs as soon as possible and, in any event, within six months.

All independent members will be appointed following an open and transparent process.

## **Chair**

Vanguard shall appoint the chair of the IGC, who must be independent (as defined above) and as required by COBS. The Chair must remain independent throughout the duration of their appointment.

In the temporary absence of the Chair, another independent IGC member may be nominated by the Chair or may be elected by the other independent IGC members to act as Chair for the duration of the meeting, subject to the quorum requirements being met.

The Chair's primary responsibilities are chairing the meetings of the IGC and production of the annual report. However, the Chair is also responsible for:

1. Ensuring that the IGC meets at appropriate intervals throughout the year;
2. Ensuring that the IGC devotes sufficient time and attention to the matters within its remit;
3. Seeking to ensure that IGC members have the appropriate information and advice to enable the IGC to discharge its duties;
4. Overseeing the activities of the IGC;
5. Reporting to Vanguard on the IGC's activities and any points of concern or challenge; and
6. Ensuring that the regulatory requirements in relation to the IGC are being met.

## **Meetings**

IGC members shall meet at least quarterly or, more frequently, if required.

The IGC will meet, or otherwise make decisions to discharge its duties, using a quorum of at least three members, with the majority of the quorum being independent.

Minutes of the meeting will be circulated to:

- All members of the IGC; and
- Relevant employees of Vanguard as determined by the Chair of the IGC.

The proceedings of the IGC can take the form of physical meeting and other such forms e.g. email, telephone and video conference as determined by the Chair of the IGC.

## **Attendees**

Other individuals, including but not limited to employees of Vanguard, may be invited to attend all or part of any IGC meeting provided this has been approved by the Chair.

## **Indemnity**

Except to the extent that any claim or liability arises as a result of any IGC member's fraud, willful misconduct, breach of contract or negligence, Vanguard shall defend the IGC collectively (and its members, individually) from, and indemnifies the IGC collectively (and its members, individually) against, all loss, damage and expense suffered or incurred by IGC collectively (and its members, individually) in connection with:

1. any actions taken or decisions or omissions made in its/their delivery pursuant to these terms of reference; and
2. any claim brought by a third party against IGC collectively (and its members, individually) in connection with the IGC.

For the avoidance of doubt Vanguard will not be liable to the IGC members' under the indemnity set out above for any indirect or consequential loss or damage.

## **Confidentiality**

Any material, whether written or oral, provided to the IGC and discussed by IGC members and other attendees at meetings, which are not publicly available, are considered to be confidential by Vanguard. The IGC will work with Vanguard to manage concerns around confidentiality in the context of the IGC's duties and powers as described in these terms of reference.

## **Data security**

The IGC will adhere to Vanguard's policies on information and data security, which will be provided to the IGC members on appointment and as and when they are updated.

## **IGC effectiveness review**

The IGC will review its own effectiveness annually by conducting an assessment of its performance against its legal duties and responsibilities. Any changes the IGC considers appropriate following the effectiveness review will be recommended to Vanguard for approval.

## **Review and approval of terms of reference**

These terms of reference are drafted and maintained by Vanguard company secretariat and must be approved by the Vanguard board. These terms of reference are subject to review at least annually or as otherwise required by Vanguard. The IGC will review the terms of reference at least annually and report any changes it considers necessary or appropriate to the Vanguard board for consideration.