

Value for Members Assessment

Introduction

Welcome to our annual report on the value that Atlas members receive for the charges they pay and transaction costs attributable to their accounts. 'Value for Members' analysis and reports such as this are a legal obligation for trustees such as us so that we can ensure that we are delivering good value, and so that members and the employers that they work for can also validate that Atlas offers a value proposition.

Our main role within Atlas is to oversee the smooth, safe and efficient running of Atlas for the benefit of all of our members and all of the employers who have chosen Atlas for their workforces. Ensuring Value for Members, or VFM for short, is one of our most important objectives.

In last year's report we noted that there was an emerging consensus on what constitutes good value within pension schemes like Atlas. We were also pleased to note that the consensus was very much aligned to Atlas' VFM policy, which is based on two central tenets:

- lowest cost isn't synonymous with the best value; cheap isn't always cheerful; and
- it isn't always true that you get what you pay for – you can pay too much for not enough.

As in previous years, these beliefs continue to inform our evaluation of Atlas' VFM. There are numerous costs associated with running pension schemes, some predictable and some not. If charges are too low there is insufficient room for improvement and development, both of which are essential given the long-term nature of pensions. (Many of our members today may still be members in 50 or more years.) Conversely, charging disproportionately more than the actual costs experienced can never be in members' interests. Navigating the fine line between charging too little and too much is critical to our VFM assessment.

Building on the evaluations we have carried out in previous years, our focus for this year's evaluation has been in three main areas: first is the introduction of a stronger Environmental, Social and Governance (ESG) overlay to our investment strategy; second is ensuring that the problems that we reported in last year's report, relating to a period of disappointing performance by our administrators, have been resolved; and third is in

developing new ways to try and engage our members, this year through the introduction of video benefits statements, which we first trialled in 2018 and which (following very encouraging feedback from the recipients), we will be rolling out to the wider membership in 2019.

Regulatory expectation

The Pensions Regulator (TPR) – the public body responsible for regulating workplace pensions in the UK - expects trustees to take account of four main attributes in their assessment of VFM. These are:

- Scheme management and governance;
- Administration;
- Investment governance; and
- Communications

Our assessment takes each of these aspects of scheme management into account.

Our VFM Assessment

In making our assessment of whether Atlas levies charges that are fair and reasonable in light of the governance, administration, technological and communications services we deliver, we have considered whether Atlas offers or provides for:

- A good level of services, flexibility and choices to members;
- A governance environment in which good decision-making can thrive;
- An effective, efficient network of service providers and sub-committees (and others) that support both the trustees' day to day and their strategic work;
- Communications that can inform, engage and educate members, and which can give them the confidence to make choices that suit their circumstances, if and when they want to;
- Investment strategies that are designed for appropriate outcomes in an array of different circumstances; the Investment Update provides more detail on developments over this reporting period;
- Robust, accurate, efficient administration platforms;

In assessing the value of the services that Atlas offers members, and the flexibility and choice within that offering, we took into account:

- The flexibility that Atlas members have to increase or reduce their contributions;
- The number of different ways that members are able to contact Capita (Atlas' Administrator) in order to make changes and enquiries or to access information, and the efficiency of those options. Whilst it is our aim for Atlas to be a predominantly on-line experience, it is not exclusively so and members can also write in, e-mail and call the UK based member helpline which is staffed by dedicated, pension-literate service operatives who will link directly to the Atlas administration team if they are unable to resolve the query. We measure how quickly members' queries are resolved and regularly review performance metrics such as how quickly a call is answered and how quickly the query is resolved;
- Very importantly, members do not need to transfer their benefits to another pension provider or to buy another pension product in order to access their pension savings. Instead they can take income and/or cash sums direct from Atlas for no additional charge. They can do this, irrespective of the size of their pension pot, over the short, medium and long term – whether retired or still in work - maximising flexibility and allowing them time and opportunity to manage their retirement income in the most appropriate way. We know from our research that this is a feature shared by few other Master Trusts, and it is a feature that we hope will give confidence to members to transfer-in other pension pots from schemes that do not offer the same flexibility;
- The number, quality and suitability of investment choices available to members during both accumulation (the savings stage) and decumulation (the taking benefits stage);
- Our investment strategy and governance oversight. Last year we reported on the evolution in our investment strategy with the appointment of Schroders to manage the funds that we use in our 'default investment strategies' (the investment strategies we use for members who do not actively choose their own investments). This year we report on another significant change to our investment strategy through the introduction of an investment process which embeds environmental, social and governance (ESG) issues into the investment process.
- That there are no hidden charges - members pay only the charges they've been told about .
- On-line member guidance, modelling tools and educational modules to help guide and support members up to and through retirement.

- In conjunction with Atlas' Executive Team, which has a dedicated Head of Engagement (Roz Watson), we continue to explore tools and strategic partnerships with the aim of providing additional, cost effective education, guidance, advice and support to members to help them make appropriate savings and retirement decisions. This work continues, including a free to use 'Financial Wellness' programme. This is a series of on-line modules designed to help members better understand the complexities of today's financial world and provide help and guidance to improve their financial standing. You can find out more about this at <http://financialwellness.capitaemployeebenefits.co.uk/>
- Atlas members also have use of an online investment tool from our investment partner, Schroders. This tool seeks to explain the basics of the investment process and help members identify what type of investor they may be.

You can find this tool at <http://www.schroders.com/en/insights/invest-iq/investiq/>

A governance environment in which good decision-making can thrive.

In assessing the quality of our governance environment over this period we considered:

- The knowledge and competence of our Board, its Sub Committees and the Atlas Executive (the Capita employees responsible for Atlas' day to day operation and who report to the Trustee Board). We review this structure formally on an annual basis which gives us the opportunity to identify if there is room for improvement;
- The availability and quality of other governance, technical and legal experts we are able to call upon;
- The sufficiency, timeliness and accuracy of scheme performance data and other information available to us to:
 - help us ensure that members' contributions are invested correctly and quickly,
 - ensure that members receive the correct benefits,
 - gain adequate oversight and control to ensure that our strategies are being delivered, and
 - to highlight any areas of concern that we need to focus attention on

As part of our regular Trustee Board and Sub-Committee meetings we undertake a series of formal annual assessments. This includes a review of our own competence and efficiency as a Trustee Board, a review of our Sub Committees – both structures and efficiency - and a review of the collective knowledge and competency of the management team that supports our day to day work ('the Atlas Executive'). We also assess how well our service providers delivered against the performance benchmarks we have set them including:

- the sufficiency and timeliness of legal and other professional advice and support on regulatory and legislative change programmes,
- economic data;
- behavioural data; and
- technology improvements and best practice developments.

We also took into account how well - and how often - we listened to others' voices and opinions – including members, participating employers, prospective employers, professional consultants, trade bodies and the regulatory community. In making this assessment we considered the make-up of our Engagement Sub Committee (which includes two trustees), trustee attendance at our Employer Forums and the feedback we get from our Member Forums and the 'pulse surveys' we undertake. Over the course of this reporting period, we piloted video benefits statements and we subsequently surveyed the recipients to establish whether they preferred this method of engagement. The results were highly encouraging, and we have therefore decided to use video statements for a wider membership from this year on.

We have also reviewed feedback from professional consultants and other third parties during open tender processes and we have regular dialogue with the regulatory community and professional bodies so that we understand – and aim to exceed – the standards set by them.

The transparency and speed of our decision making

Our key consideration for this evaluation was our introduction of a much stronger emphasis on environmental, social and governance (ESG) criteria within our investment strategy. Once we had identified, with help from Schrodgers, a solution which should simultaneously benefit members financially and drive behavioural change within the Boards of investable companies, we introduced the change at our earliest opportunity. Our default strategy now includes a sophisticated ESG filter which we describe in more detail under the **Investment Update** below.

We also considered our Audit Assurance 02/07 evaluation. This is a focussed, independent assessment of our control environment including the quality, quantity and frequency of the data and other information we receive that enables us to take appropriate action when necessary. This evaluation is voluntary and has been adopted by a relatively low proportion of Master Trusts, despite the comfort it can give to us, to our members and to employers;

This year we have also been able to reflect on our application to become an authorised Master Trust. From this year onwards, any Master Trust provider that wishes to operate in the UK must be authorised by The Pensions Regulator (TPR). The criteria, prescribed by law and by TPR, to achieve authorised status were set deliberately high; only Master Trusts which are financially sustainable, have robust governance and administration capabilities and which are run and operated by appropriate persons with the right collective skills and knowledge will meet the criteria. As we progressed our application, we were reassured that the processes and people that were already embedded in Atlas meet the expected standards. During the process we also ensured that the Trustee has access to significant financial assets should they need it to resolve any issues that may arise.

An effective, efficient network of service providers, sub-committees and others that support our day to day and strategic work.

With the exception of the Discretions and Appeals Sub Committee, which meets on an ad-hoc basis, each of our sub Committees meets at least quarterly and provides valuable Trustee support. Our Engagement Sub Committee, Risk and Operations Sub Committee and Discretions and Appeals Sub Committee are chaired by a Trustee Director to give us first-hand oversight and leadership. Our Investment Sub Committee is chaired by Paul Trickett, an independent, highly qualified, investment professional. We undertake annual reviews of the competence, membership and efficiency of each of our Sub Committees.

Our Client and Member Forums are up and running. Our Client Forum is a forum for participating employers to meet and discuss development plans and to air any issues they or their employees are experiencing. Our Member Forum is intended to give members a say in what we do and how we do it. This is predominantly an on-line community to which new members are always very welcome. Users or members interested in joining this group and helping us to shape Atlas' future can contact Atlas' Head of Engagement , Roz Watson, at roz.watson@atlasmastertrust.co.uk.

Communications that can inform, engage and educate members.

We continue to develop our engagement strategy; we have a long-term vision of a highly digitalised future where members can engage with their Atlas savings through the medium that best suits them, such as on-line and through Apps. We are, however, committed to retaining more conventional channels (such as post and telephone) for members who prefer to engage in that way.

Last year, we published our first Atlas Newsletter to members. Our third has recently been published and we intend to continue to publish them at least annually.

As noted above, following a successful trial of our on-line video benefits statements we are now rolling these out to a wider audience. We expect to increase the content of these videos over time, to provide more information, without compromising their aimed-for simplicity. Our member engagement strategy will increase our focus on downloadable video and audio content so that members can learn more about pensions and related topics 'on the go' and at a time of their choosing

Our Engagement Sub-Committee continues to focus on;

- Feedback generally (including feedback from participants and members, in particular through our client and member forums and from members after any specific interactions with Atlas);
- Input from 'Sparks', Capita's dedicated engagement specialist team. This includes valuable insights into optimum engagement strategies gained through focus groups such as 'Language Labs'. These are generally two-hour sessions with a small group of employees during which Sparks measures the level of effectiveness and clarity of current language and communications used to support DC pensions such as Atlas. It gives insight into the best language to use and how and when to use it so that members better understand the world of pensions and related benefits. It also focusses on identifying the channels employees prefer to use to communicate with their pension scheme providers. Our Head of Engagement works closely with the Sparks team to ensure Atlas members benefit from the latest insights and technological developments;
- Specific feedback from participants in respect of 'outcome critical communications' including Trustee newsletters, new member on-boarding communications, accumulation and decumulation investment nudges, retirement wake-up packs and ongoing retirement support;
- External accreditations (e.g. Pension Quality Mark Ready, our Defaqto 5 star rating, our Mastertrust Assurance Framework);

- External accreditation of our service providers (for example Capita's Audit Assurance Framework 01/06 and various credentials and certificates which validate that they meet internationally recognised standards in vitally important matters such as cyber security and business continuity);
- Our communication methodologies and technologies;
- Members' responses to specific and/or targeted communications/messaging;
- Members' responses to different media;
- Feedback from independent evaluators and consultants;
- Feedback on our communication and engagement material from the Pension and Lifetime Savings Association during our application for Pension Quality Mark Ready status.

Investment strategies designed for good outcomes in an array of different circumstances

In assessing the quality of our investment decisions, we took into account:

The quality of Scottish Widows' (see below) investment platform proposition including

- platform costs;
- open architecture capabilities;
- transition management capabilities;
- our (and their) ability to negotiate better or 'favoured nation' terms;
- the security of assets on the platform;
- error remediation process;
- ability to provide data accurately and in a timely manner
- operational effectiveness and efficiency;
- The cyber-attack prevention capabilities and Business Continuity and Recovery processes; and
- Environmental, Social and Corporate Governance (ESG) policies.

In 2018, Scottish Widows announced that, subject to regulatory approval, they intended to buy Zurich's UK pension businesses, including the investment platform that Atlas uses. Regulatory approval has been granted and the transition to Scottish Widows was effective from 1st July 2019. Although the process for regulatory approval is detailed and complex and ensures that policyholders (such as us) retain rights and conditions which are on the same terms as before the change of ownership, we have nevertheless worked with our Executive Team to satisfy ourselves that the transition will be beneficial to us and our members. We consider Scottish Widows to be an excellent partner to support us in the future and look forward to developing our working relationship with them;

- The skills, judgement and competence of our Investment Consultants, and the flexibility we have to use different investment advisers depending on the nature and complexity of the task in hand;
- The performance, suitability and effectiveness of our default strategies. We reviewed our default strategy in 2017 with Paul Trickett, our independent Chair of our Investment Sub Committee. This led to a decision to use an efficient, active investment management strategy in conjunction with Schroders. We reviewed our strategy again in 2018 at which time we determined to increase our Environmental, Social and Governance (ESG) footprint.
- Whether any investment-related conflicts exist that might impede good member outcomes.
- The research capabilities and analytical methodology employed by our Investment Consultants to help inform our investment strategy;
- The ability of our Investment Manager to identify Transaction costs and their willingness to engage with the regulatory requirements for standardised measurement and disclosure of these costs;
- The reasonableness (or otherwise) of those Transaction Costs – see below;

Transaction Costs

Transaction costs play a vital role in the investment returns that members receive. These are the costs incurred by investment managers in pursuit of their investment objectives. They include activities such as buying and selling stocks, taxes payable on stock purchases, commissions to third parties and costs of third-party investment research. Different investment managers and funds have different investment objectives, and therefore transaction costs can and do differ significantly – not just between different investment funds but also within the same fund over a period of time. That is, transaction costs in any particular investment fund in year two may be more or less than the transaction costs incurred in year one, and so on.

From this year onwards, all pension schemes like Atlas are required by law to provide more information about charges and transaction costs to their members. We have created a website specifically for this purpose which members can refer to whenever they wish (<http://www.atlasmastertrust.co.uk/your-money-with-atlas/investment-charges>). There are seven fund series and to help members to identify which fund series link to open, the section name is included alongside the fund series. Understanding the magnitude and effect of charges and transaction costs is also very important to us as trustees. It helps us evaluate whether the fund managers we appoint are efficient and whether the funds we make available to Atlas members represent good value. It doesn't automatically follow that lowest transaction costs are better value. Some investment funds (like our Multi Asset Portfolio funds managed by Schroders) are expected to incur relatively high transaction costs because we expect Schroders to be actively managing the portfolios in accordance with the mandate we gave them. Other fund managers - especially those who are managing a passive mandate - will typically undertake less activity and can therefore be expected to incur lower transaction costs. Our responsibility is to evaluate whether managers are efficient or inefficient, and whether the costs of their activity add to or subtract from investment returns.

To aid our evaluation of the Transaction costs incurred by Schroders during the management of our three core Multi Asset Portfolios (MAPs), we have taken into account the conclusions of an independent report (dated December 2018) undertaken by PTL, a market leading and award winning specialist provider of independent governance services, primarily in respect of UK pension arrangements. Branded as 'Clear Funds' the assessment seeks to evaluate *'the extent to which the transaction costs incurred in the operation of the Fund (the "transaction costs") represent good value for members'*. To help us better understand the detail of the investigative processes undertaken, in early 2018 we asked a member of our Investment Sub Committee to meet with PTL for an overview of the evaluation process. In brief, the Clearfunds process reviews the control environment operated by Schroders to optimise transaction costs. The assessment considers how comprehensive the controls were and obtained evidence that they were being operated, and the quantum and incidence of transactions costs for each of the MAPS Funds mindful of the respective investment objectives.

The assessment was completed via desktop analysis of Schroders documents, such as ISAE 3402 / AAF 01/06 reports and a site visit to Schroders to meet a number of their key operational personnel.

Although we anticipate that new entrants into this emerging 'evaluation market' will bring new tools and insights, and hence increase the sophistication and reliability of such independent reports in future, we were very encouraged by PTL's proposition. More

recently we have been pleased to note that other investment managers have chosen to use the Clearfunds service which we see as an endorsement of their value.

The Clear Fund reports are available on-line to members at (<http://www.atlasmastertrust.co.uk/your-money-with-atlas/investment-charges>). We therefore do not propose to include lengthy extracts from those reports in this value for money report, except to reproduce the conclusion reached by PTL for each of our MAPs which was: *'It is our opinion that the incidence and quantum of transaction costs incurred, and the control environment of those transaction costs in the operation of the Fund, represent good value for members/money.'*

Robust, accurate, efficient administration platforms

As we have noted in each of our Value for Money reports, good administration is a prerequisite for a well-run Master Trust and an area of the utmost importance to us. Our administration service provider is Capita Employee Solutions (CES), whose performance we monitor regularly through our dedicated Head of Operations and formally on a quarterly basis at each of our scheduled Trustee meetings. We review administration more frequently during peaks of activity, such as when on-boarding new schemes or accepting bulk transfers. We may also monitor performance more frequently if there has been any deterioration in performance, as we did last year until we had satisfied ourselves that performance was back in line with the formal agreement, we have with CES. Our Risk & Operations Sub Committee, which also reviews performance at each quarterly meeting, supports us with the monitoring and oversight process. Our Head of Operations acts as a permanent interface with the Atlas administration team. Our assessment took into account:

- Process timing;
- Regular monitoring of administration services against Service Level Agreement;
- The sufficiency and quality of the Management Information that is included in our Administration reports;
- Any qualitative assessments of the administration service from members, including complaints and compliments and responses to surveys and questionnaires;
- Security procedures;
- Data integrity and compliance with data protection legislation;
- Business Continuity Plans that ensure business-critical activities can continue to function in the event of disruption (such as a fire at a particular work site);

- Operational scalability – our ability to increase the size and scale of Atlas without undermining the quality of service delivery;
- Errors and error rectification;
- The Audit Assurance Report 01/06 prepared by Capita, which provides reasonable assurance about the controls within their business;
- Helpdesk performance measurements (both qualitative and quantitative).

In last year's value for money assessment, we were disappointed to have to report that there had been some deterioration in service where, for several months, a number of key tasks were not completed within the agreed time-frames. At that time, we worked closely with the administration team (including frequent – often daily - contact through our Head of Operations) and held meetings with senior managers and directors within Capita's pension administration business. This collaborative approach led to the operational improvements that we are enjoying today. We are pleased to report that the agreed timeframe for each operational activity is now being met consistently.

Charges that are fair and reasonable

Atlas operates on a 'bundled' pricing model, whereby a charge is levied against members' accumulated funds for the provision of all services – Governance, Administration, Investment and member engagement. We apply a single charge (called a Total Expense Ratio – or TER) which varies according to the investments selected by members and can vary depending on the size of the organisation for whom they work. (The economy of scale gained through administering larger workforces usually means a lower administration charge for those organisations.)

Over the course of this year, Atlas has continued to participate in competitive tender processes. These are processes whereby potential clients (or their advisers) ask Master Trusts to tender for their business. This includes detailing the charges that we would apply should we be successful. The feedback we receive from these exercises confirms to our satisfaction that our charges are indeed competitive relative to other Master Trusts, and this knowledge gives us a great deal of confidence about our VFM assessment.

In addition to this valuable feedback our VFM review considered:

- The competitiveness of our TER (during both the saving and spending cycles) compared to our peer group;

- Charges for specific transactions, including transfer penalties, investment switch charges, drawdown charges and UFPLS charges (none of which are charged by Atlas but which are charged by some other Master Trusts);
- Benchmarking exercises – both independent exercises conducted by unconnected parties and those that we have commissioned to help us assess ourselves against competitors.

Investment Update

As we described in last year's report, over the course of 2017 we undertook a fundamental review of our default investment strategy. The default investment strategy is the investment journey that Atlas members automatically join, and stay in, until and unless they choose to invest in one (or more) of the alternative investment options that Atlas offers. Our 2017 review sought to evaluate whether our current default strategy could and indeed should be improved upon; put simply, could we improve the VFM of our investment strategy. This led to a new investment strategy – managed on our behalf by Schroders – which adopts an active, multi asset management style.

Our belief is that, with greater diversification and the application of a degree of active management, this strategy has a likelihood of producing superior returns over the longer term, with acceptable levels of volatility, compared to the more passive, and less diversified, investment strategies that Atlas used previously. Passive management brings with it the advantage of low investment charges but can result in a lack of diversification and constraints on dynamically adjusting allocations across markets. We believe that widening the investment opportunity set is critical to delivering strong long-term returns. The Trustee was conscious that a cost/benefit trade off exists when introducing active management. We were therefore focused on negotiating favourable terms with Schroders which meant that the additional fees were very modest compared to the expected benefits.

It is important to note that the long-term effectiveness of this strategy cannot be readily determined from short term performance since inception. Whilst the initial returns from Schroders have fallen behind benchmark expectations, we do not believe that this is indicative of any weakness in the long-term potential of the portfolios.

Conclusion

To help us reach our conclusion we asked ourselves two questions.

- 1. Does the scope and quality of each service provide good value for the relevant costs and charges incurred by members?

- 2. Does the scope and/or quality of a particular service justify any differences in cost when compared to similar schemes and other options available in the market?’

In respect of the first question, we consider that the foregoing analysis demonstrates that Atlas does indeed provide comprehensive services each of which represents good value for the relevant costs and charges incurred by members.

In respect of the second question, we are confident in our conclusion that all of Atlas’ services compare well to other schemes in the market during both the accumulation phase and (especially) during the decumulation phase. As noted above, we can be confident about this from the fact that we do not levy transactional charges for different services, and from feedback (from intermediaries, trustees and employers) that we receive from tender exercises, which confirm that Atlas is indeed competitive relative to similar offerings available in the Master Trust market.

In conclusion, we are confident that Atlas continues to levy charges that are fair and reasonable in light of the governance, administration, technological and communications services we deliver.

We will of course continue to identify and champion product enhancements and improvements in value that will ultimately enhance member retirement outcomes.

Alan Whalley

Chair of Trustee

Date: 13th September 2019