



ZEDRA

DO MORE. ACHIEVE MORE.

# Chair's annual report

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## Embark Investment Pathways

- | Year ended 31 December 2021
- | The ZEDRA Governance Advisory Arrangement (GAA)

September  
2022



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# Executive summary

**This report on the Investment Pathways policies provided by Embark Corporate Services Ltd (Embark) ('the Firm'), has been prepared by the Chair of the ZEDRA Governance Advisory Arrangement ('the GAA') and sets out our assessment of the value delivered to pathway investors and our view of the adequacy and quality of the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship.**

Further background on the activity of the GAA and details of the credentials of the GAA can be found in Appendices B and C respectively. The GAA works under Terms of Reference, agreed with Embark the latest version of which is dated 8 April 2022 and are publicly available (see Appendix C).

This is our 1st annual report on Investment Pathways policies provided by the Firm. Investment Pathways were launched by the Firm on 1 February 2021 and made available to customers on the open market.

As Chair of the GAA, I am pleased to deliver this value assessment of the Embark Investment Pathways. The GAA has conducted a rigorous assessment of the Value for Money delivered to [pathway investors](#) over the period from launch to 31 December 2021. The GAA has developed a Framework to assess Value for Money which balances the quality of services and investment performance provided to pathway investors against what they pay for those services and investment performance. Further details are set out on page 7.

### A COLOUR CODED SUMMARY OF THE GAA ASSESSMENT

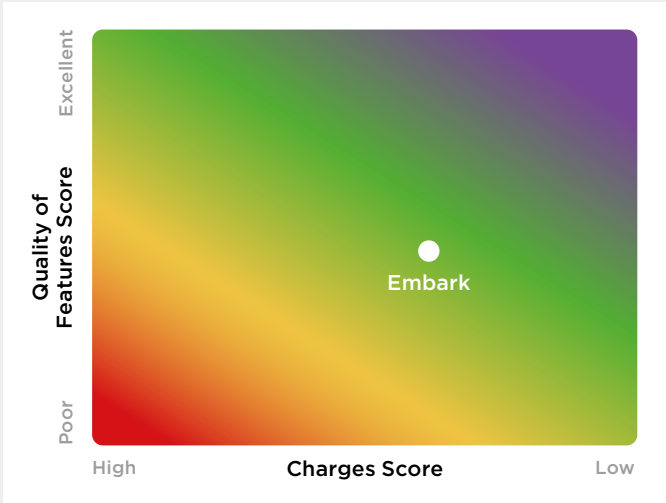
	Weighting toward VfM assessment*	Investment Pathways
1. Product strategy design and investment objectives	13%	●
2. Investment performance and risk	13%	●
3. Communication	20%	●
4. Firm governance	3%	●
5. Financial security	7%	●
6. Administration and operations	7%	●
7. Engagement and innovation	3%	●
8. Cost and charge levels	33%	●
<b>Overall value for money assessment</b>	<b>100%</b>	<b>●</b>

\* May not add to 100% due to rounding

<p><b>Quality and investment features (1-7)</b></p> <p>● Excellent ● Good ● Satisfactory ● Poor</p>	<p><b>Cost and charge levels (8)</b></p> <p>● Low ● Moderately Low ● Moderately High ● High</p>
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The Overall Value for Money rating is determined on a rating scale based on the product of the overall scores for the individual Features and the weightings shown in the above table. The Investment and Quality Features combined representing two-thirds of the overall score and the Cost and Charge Level representing one-third of the overall score. It is visually represented by the heatmap below.

### VALUE FOR MONEY SCORING



## The overall conclusion is that Embark Investment Pathways provide **good value for money.**

There are a number of specific areas identified where the GAA has challenged Embark to make improvements:

- | While the Firm is somewhat limited by the newness of the product, the performance evaluation was carried out outside the reporting period and did not include performance metrics vs stated benchmarks nor did they include risk adjusted metrics. The GAA expects to see a marked improvement in this area in the future years.
- | The GAA will review processing of the **core financial transactions** again in 2022 and expects to see an improvement in the administration service, particularly for transfers.

The GAA has also made a number of observations as follows:

- | The GAA expects to see evidence of a review of the Pathway Products with regard to the appropriateness for policyholders in 2022.
- | The GAA would expect to see continued progress on the integration of **ESG** financial considerations within the investment options within Embark Investment Pathways, appreciating that this is an evolving area.
- | The communications provided were of a good standard but as the product is nascent the suite is not yet comprehensive, and some areas require further development which will naturally occur with greater use.
- | Due to the short time the product has been established; the GAA has not received full evidence of the governance processes in action. However, the GAA will seek evidence of the operation of the full governance processes for future assessments.

- | Embark should consider how to develop its proactive engagement with **pathway investors** in order to obtain broader feedback on its product, for example through the use of policyholder surveys. We would expect satisfaction surveys or other forms of feedback are incorporated into the processes going forward.

- | The GAA is not comfortable with the process for gathering and evaluating **transaction costs** and would expect to see a marked improvement in this process in the next year.

Further work needs to be carried out as it is currently not feasible to implement specific policies due to the limited scale of the Pathways product and the large scale nature of the funds used. However, this constraint does not restrict the development of policies on ESG, Stewardship and non-financial matters. In particular we would expect to see the ESG policy sufficiently characterise the relevant risks or opportunities and seek to appropriately mitigate those risks and take advantage of those opportunities.

Details of the numbers of pathway investors and their funds were supplied to the GAA for the assessment and are summarised in Appendix E.

We also concluded that the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship were adequate, however further work is needed to develop them and there was limited evidence to support how these policies have been integrated into business processes.

Where we have used technical pensions terms or jargon, these are explained in the glossary in Appendix E.

The FCA has introduced new requirements this year. One of these new changes require us to undertake a comparison with other similar options available in the market. If an alternative scheme(s) would offer better value, we must inform the pension provider. I can confirm that we have not considered it necessary to make this notification this year. Our view on each Feature we are required to make a comparison on is included in the relevant section of the report. Details of how we selected the comparator group, and a consolidated view of our comparator findings is set out in Appendix A.

The GAA has not raised any concerns with Embark during the year.

I hope you find this value assessment interesting, informative and constructive.

## Clare James

Chair of the ZEDRA Governance Advisory Arrangement

September 2022



**If you are a policyholder or pathway investor and have any questions, require any further information, or wish to make any representation to the GAA you should contact:**

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# Overview of the value assessment

The GAA has assessed the Value for Money delivered by the Firm to its pathway investors by looking at costs versus investment and service benefits. More detail about how we have done this is set out below.

## Regulatory changes

The Framework used for this year's assessment has been updated to reflect changes to the Conduct of Business Sourcebook (COBS) in effect from the 2021 assessment year. This has included an explicit assessment of [net investment performance](#), and the assessment of any charges the [pathway investors](#) might need to pay in operating their policy which are in addition to any [annual management charges](#) and [transaction costs](#). Our framework already included assessment of communications and processing of [core financial transactions](#). These changes have been reflected in the assessments reported on in sections 2. Investment Performance and Risk, 3. Communication, 6. Administration and Operations and 8 Cost and Charge Levels.

In addition, the regulatory changes introduced a requirement to undertake comparisons of the Firm's product offering against a suitable comparator group of providers products across net investment performance, communications, processing of core financial transactions, and costs & charges. We have included comments on these comparisons in each relevant section of the report. Details of how the comparator group was selected and a consolidated view of the comparison outcomes are included in Appendix A.

## Our approach

The GAA believes that value for money is subjective and will mean different things to different people over time, depending on what they consider important at that time.

What is clear is that it is always a balance of cost versus investment and service benefits. Our fundamental approach has therefore been to compare all the costs paid by pathway investors against the investment performance and quality of services provided to pathway investors.

The key steps for the GAA in carrying out the Value for Money assessment are:

- | Issuing a comprehensive data request to the Firm, requesting information and evidence across a wide range of quality features, including net investment performance, as well as full information on all costs and charges, including transaction costs.
- | Attending a number of formal meetings with representatives of the Firm to interrogate the data provided and to enable the GAA to question or challenge on any areas of concern. All such meetings have been documented by formal minutes and a log is also maintained containing details of any challenges raised, whether informally or through formal escalation.
- | Once the Firm has provided all information and evidence requested, the GAA has met to discuss and agree provisional Value for Money scoring using the Framework developed by the GAA.
- | The provisional Value for Money score, including a full breakdown, has then been shared and discussed with the Firm.

The Framework developed by the GAA to assess overall Value for Money for pathway investors involves rating the Firm against eight different Features covering Quality of Service, Investment Performance and Strategy, and the Costs and Charges borne by the pathway investors. This assessment is undertaken of the Firm's product(s) relative to the GAAs view of good practice.

The Quality of Service Features and Investment Features have been determined based directly on the FCA requirements for assessing ongoing Value for Money set out in COBS 19.5.5, in particular services relating to communications with pathway investors and processing of core financial transactions. The Quality of Service features considered has been expanded to include other aspects the GAA considers important based on the GAA's experience of conducting Value for Money assessments over the past several years, such as the Firm's governance structure, the financial security for pathway investors, the Firm's approach to engagement and innovation, and a wider overview of the administration quality and processes.

Within each of the Quality of Service Features and in the assessment of Investment Features are several sub-features. These sub-features are each scored using a numerical scoring system of 0 to 4, where 4 is 'excellent', 3 is 'good', 2 is 'satisfactory', 1 is 'poor' and 0 is 'non-compliant or insufficient information has been provided'. Scoring is aided by means of score descriptors, developed for each sub-feature, ensuring the GAA adopts a consistent approach to scoring across clients. Each set of score descriptors outline what the GAA would expect to see in order to achieve each numerical score. The scores for each sub-feature are then aggregated to the Feature level based on the GAAs view of the relative value of the sub-feature to the pathway investors.

The GAA then went on to consider the value represented by the Cost and Charge Levels which pathway investors have to bear. The assessment of Cost and Charge Levels is primarily driven by the level of ongoing charges for investment management, administration, and platform fees. The GAA also considers the transaction costs and how they are controlled, and any additional costs the pathway investors pay in the investment and management of their policies.

The Cost and Charge Levels are rated on a numerical scale of 1 to 4 where 4 is 'low' charges, 3 is 'moderately low' charges, 2 is 'moderately high' charges and 1 is 'high' charges. This assessment takes into account information available to the GAA on general levels of costs and charges for investment pathways providers in the marketplace.

The scores for each Feature are then combined using the weightings set out in the table in the Executive Summary to determine an Overall Value for Money rating. The weightings used are based on the GAAs views of the relative importance to the pathway investors of each Feature. The weightings are tilted towards the Features and sub-features which have been identified in the regulations relevant to forming this assessment of value. Where possible, the GAA has taken into account the likely needs and expectations of this group of pathway investors, based on the information made available by the Firm.

In the sections on the following pages, we have described the Firm's approach to delivering each of the Features, and the rating the GAA has awarded, together with any areas for improvement we have identified.

In addition, there is a section setting out the GAA's views on the adequacy and quality of the Firm's policies on [ESG](#) financial considerations, non-financial considerations, and stewardship. Whilst this is a largely qualitative assessment the GAA has considered the Firm's policies in comparison to others the GAA has knowledge of.

An assessment has also been made of the net investment performance, quality of communication, quality of the administration service including processing of core financial transactions, and costs and charges relative to a suitable comparator group of [pathway investment](#) providers. Comments on the outcome of these assessments is included in the sections for the relevant Features. We have also considered whether an alternative provider would offer better Value for Money so that we can inform the Firm if we believe this to be the case. Details of the comparisons, including how the comparator providers and pathway investment products were determined is set out in Appendix A.



# 1. Product strategy design and investment objectives

**Value score:**  Excellent  Good  Satisfactory  Poor

## What are we looking for?

We expect to see an investment strategy for the default that is designed and managed taking the characteristics of [pathway investors](#) into account, that there is clear rationale for the selection of each fund used to support the investment pathways, evidenced by appropriately defined risk ratings, and consideration of the investment time horizon and age profile of the pathway investors.

We want to see that all investment options have clear statements of aims and objectives – in particular that as well as qualitative objectives, there are quantitative objectives in place, that investment performance outcomes can objectively be measured against. Ideally, we would like to see evidence that these objectives link back to the needs of pathway investors.

We are also looking for evidence of a robust ongoing review process for the pathways investment options, and evidence that the Firm has taken steps to implement changes to the investment options, where appropriate, to ensure alignment with pathway investors interests.

Whilst policies on [ESG](#) financial considerations and non-financial matters are considered separately on page 15, we expect to see evidence of how these matters are taken into account in the design of the investment pathways strategies and in investment decision making.

## The Firm's approach

The investment strategies and objectives for Investment Pathways were in line with the requirements.

The Pathway 1 design (for customers who have no plans to touch their money in the next 5 years) takes into account that customers had not decided on their retirement pathway. The return benchmark was to in line with CPI +1%, with a risk target is to deliver a return profile with less than 40% of the equity volatility both over a rolling five year period.

The Pathway 2 design (for customers planning to set up a guaranteed income ([annuity](#)) within the next 5 years) targets the tracking of annuity pricing, with a risk target to minimise the deviation from this pricing.

The Pathway 3 design (for customers who plan to start taking their money as a long-term income over the next 5 years) intends to deliver returns in line with CPI 1.5%, with a risk target of less than 50% of equity volatility, both over a rolling five year period.

The Pathway 4 design (for customers who plan to take all of their money out within the next 5 years) anticipates the members need for a low risk approach and looks to deliver returns in line with the Bank of England cash rate over a rolling 3 year period.

The return and risk objectives for each Pathway were clearly stated. Embark undertake a review of the expected outcomes compared to the return objective on a quarterly basis to ensure the strategy remains in line with the expectations.

A bespoke portfolio of fund specific ESG credentials which align with Embark's beliefs are set out in their ESG policy but this is not currently feasible due to the scale of constraints.

## **The Firm's strengths**

The design process and initial implementation has been done well but as the product is relatively new the first formal full review will take place during 2022.

## **Areas for improvement**

### **GAA observations**

The GAA expect to see evidence of a review of the Pathway Products with regard to the appropriateness for policyholders in 2022.

The GAA would expect to see continued progress on the integration of ESG financial considerations within the investment options within Embark Investment Pathways, appreciating that this is an evolving area.



## 2. Investment performance and risk

**Value score:**  Excellent  Good  Satisfactory  Poor

### What are we looking for?

We would expect to see a robust governance framework under which investment performance is monitored on a regular basis. Performance should be measured against investment objectives, including against a measurable and stated benchmark. Performance should be net of fees. In addition to the stated benchmark comparison risk adjusted returns should also be considered.

Where there are any concerns over investment performance, we expect to see evidence of appropriate action being taken, which may include engagement with investment managers and/or implementing changes to fund options. We also expect to see evidence that the strategies are effective and take into account the [pathway investors](#)' attitudes to risk.

### The Firm's approach

Embark undertake quarterly fund performance reviews, including assessment of fund performance in light of recent market movements, and against long term objectives (once a sufficient track record has been established).

Performance is evaluated net of investment fees (but not all fees) compared to the benchmark.

### The Firm's strengths

The Firm evaluates performance against the Pathway long term objectives, for example Pathway 1 ('Don't Touch It Pathway') evaluates investment performance against 'CPI +1% over rolling five years'.

### Net investment performance

The net investment performance of the investment pathways strategies for the period 1 February 2021 to 31 December 2021 and, where available, the performance of the benchmarks against which those funds are measured by the Asset Manager are set out in the following table.

Investment Pathway	Net Investment Performance	Benchmark
1	8.6%	N/A (6.4% est.)
2	-4.6%	-4.4%
3	8.6%	N/A (7.1% est.)
4	-0.05%	0.1%

## Comparator results

We have assessed how the [net investment performance](#) provided to the Firm's [pathway investors](#) compares to other sufficiently similar investment pathways arrangements. This takes account of both the nature of the provider and the performance of the investments being offered relative to an appropriate benchmark.

This assessment identified that the one year net investment performance when considered against the fund benchmark for the Firm's pathway investors over 2021 and relative to the comparator group for each investment pathway solution is as set out in the table below.

Investment Pathway	
1	Performance <b>exceeding</b> benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data.
2	Performance <b>exceeding</b> benchmark, suggesting performance is comparable or better with that expected of a similar investment solution, noting limitations of comparator data.
3	Performance <b>broadly in line</b> with benchmark, suggesting performance is comparable with that expected of a similar investment solution, noting limitations of comparator data.
4	Performance <b>broadly in line</b> with benchmark, suggesting performance is comparable with that expected of a similar investment solution, noting limitations of comparator data.

## Areas for improvement

### GAA challenge

While the Firm is somewhat limited by the newness of the product, the performance evaluation was carried out outside the reporting period and did not include performance metrics vs stated benchmarks nor did they include risk adjusted metrics. The GAA expects to see a marked improvement in this area in the future years.



## 3. Communication

**Value score:**  Excellent  Good  Satisfactory  Poor

### What are we looking for?

As a minimum we expect communications to be fit for purpose, clear and engaging and to be tailored to take into account [pathway investors'](#) characteristics, needs and objectives.

We would expect to see a comprehensive suite of communications in place suitable for pathway investors, and which enable them to choose the relevant investment pathways.

In a high quality communication service offering we would expect a substantial online offering, with a range of online support materials such as online drawdown modellers to enable personalised calculations with various selectable options. We would expect telephone support to be available, with good evidence of telephone scripts, call monitoring and staff training.

Additionally, we would expect pathway investors to be able to switch investment pathways online and to have support and financial guidance available if they wish to leave or switch from their current investment pathway. In particular, we would expect there to be appropriate risk warnings built into the process.

We would expect the provider to ensure there is clear signposting to pathway investors on where they can obtain additional guidance and advice on their drawdown and retirement options.

### The Firm's approach

Copies of Embark's investment pathways communications were provided to us for review. The communications provided a good level of information, including signposting for assistance on pension matters outside of Embark. The majority of actions, including switching and selling, that a customer will undertake in relation to their accounts will be processed automatically via 'straight through processing' with a few exceptions.

### The Firm's strengths

All information and support are provided online and via telephone helplines.

## Comparator results

We have assessed how the communication materials provided to the Firm's pathway investors compare to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's pathway investors over 2021 were average relative to the comparator group.

## Areas for improvement

### GAA observations

The communications provided were of a good standard but as the product is nascent the suite is not yet comprehensive and some areas require further development which will naturally occur with greater use.

## 4. Firm governance

**Value score:**

Excellent

Good

Satisfactory

Poor

### What are we looking for?

We would expect to see a comprehensive governance structure in place for appointing and monitoring service providers, with evidence of regular reviews being undertaken and active changes being made as required.

### The Firm's approach

Embark have a supplier management framework when using external providers, including new asset managers. Performance is monitored through quarterly and annual reviews.

### The Firm's strengths

There is a Supplier Management framework used when appointing external providers, including new external asset managers. The performance is monitored through quarterly and annual reviews

Appointment of internal service providers is done through the corporate governance structure and intergroup agreements.

### Areas for improvement

#### GAA observations

Due to the short time the product has been established, the GAA has not received full evidence of the governance processes in action. However, the GAA will seek evidence of the full governance processes for future assessments.

## 5. Financial security

**Value score:**

Excellent

Good

Satisfactory

Poor

### What are we looking for?

We look for information about the financial position of the Firm supported by evidence such as accounts as well as ratings from third party rating agencies, where available.

We also look for information about how the assets are protected, for example in the event of fraud or bankruptcy, at both Firm and manager level. This could relate to FCA or PRA protection, ringfencing or the structure of the underlying product.

We are looking for evidence of a clear process to warn [pathway investors](#) about fraud and scams and for Firms to be actively monitoring for possible scamming activity.

### The Firm's approach

Embark Group (EGL) have a AKG rating of B+, although they were acquired by Lloyds Banking Group in 2022 which will see an increased rating in the 2022 Report.

Policyholders benefits are covered at the standard FSCS level for firms which are not insurers.

In terms of customer information, there are warnings and information with regards to pension scams and signposts to the FCA Scamsmart, and ActionFraud information on the website and in communications. Staff undertake training to identify and warn customers of potential scams where these are identified.

### The Firm's strengths

Embark Group (EGL) were acquired by Lloyds Banking Group on 1/2/22, therefore it is expected this will provide enhanced financial security.

### Areas for improvement

The GAA did not identify any specific areas for improvement.



## 6. Administration and operations

**Value score:**

Excellent

Good

Satisfactory

Poor

### What are we looking for?

We expect Firms to have robust administration processes in place with appropriate service standard agreements and regular monitoring and reporting around adherence to those service standards. In particular, we are seeking evidence that **core financial transactions** are processed promptly and accurately, such as processing drawdown payments, transfers processing and death benefit payments.

We look for evidence of regular internal and external assurance audits on controls and administration processes. In particular, we are looking for a robust risk control framework around the security of IT systems, data protection and cyber-security. We would expect to see evidence that cyber-security is considered as a key risk by the Firm's relevant risk governance committee and that appropriate monitoring, staff training and penetration testing is put in place.

We expect Firms to have a comprehensive business continuity plan and evidence of its effectiveness through appropriate testing or in maintaining continuity of business during the COVID-19 pandemic.

We would expect to see a low level of substantive complaints and demonstration of a clear process for resolving complaints.

### The Firm's approach

Embark's Business Continuity policy was tested during the COVID-19 pandemic and was deemed to be effective. The majority of processes are automated and therefore a high number of customers tasks undertaken continued to be within the required timescales during 2021. Some elements of core financial transactions such as dealing are completed by straight through processing and therefore administration performance has been almost 100% of expected service standards. However, transfers onto the platform have been much lower, especially during July 2021 where performance to expected service standards dropped below 20%.

The Firm has a robust risk control framework around IT security. This includes policies on Encryption, Wireless Network Access, Remote Access, Information Security Incidents and Information Security.

No complaints were identified for the Pathways customers during 2021, although we were provided with a copy of the policy.

## **GAA Note regarding corporate restructure**

No activity during 2021. In 2022 Embark was acquired by Lloyds Banking Group and is now a wholly owned subsidiary of Scottish Widows Group Ltd.

To date there have been no restructures that have had a direct impact on the business.

## **Comparator results**

We have assessed how the quality and timeliness of the administration services, including core transaction processing, provided to the Firm's pathway investors compare to other sufficiently similar investment pathway arrangements.

This assessment identified that the administration services provided to the Firm's pathway investors over 2021 were below average relative to the comparator group.

## **The Firm's strengths**

Where possible, transactions are done by straight through processing, which reduces the probability of error and ensures the timeliness of actions.

## **Areas for improvement**

### **GAA challenge**

The GAA will review the core financial transactions again in 2022 and expects to see an improvement in the administration service, particularly for transfers.

## 7. Engagement and innovation

**Value score:**



Excellent



Good



Satisfactory



Poor

### What are we looking for?

We expect to see evidence that the investment pathways product is reviewed at least annually, with new products or services being developed taking into account [pathway investors'](#) characteristics, needs and objectives.

We are looking for evidence of regular, proactive engagement with pathway investors to obtain feedback and for this feedback to be taken into account when reviewing the product offering.

### The Firm's approach

During the assessment period Embark expended the production features on the main platform and built their own User Interface which enhanced the adviser and customer experience for users. This platform was available to all investment pathways investors.

During the assessment period there were no client satisfaction surveys undertaken. Embark have confirmed that no issues have been raised with regards to the product or website.

### The Firm's strengths

The Firm acts as a platform for other providers and is able to tailor products to their particular requirements.

## Areas for improvement

### GAA observations

Embark should consider how to develop its proactive engagement with pathway investors in order to obtain broader feedback on its product, for example through the use of policyholder surveys.

We would expect satisfaction surveys or other forms of feedback are incorporated into the processes going forward.

## 8. Cost and charge levels

**Value score:**  Low  Moderately Low  Moderately High  High

### What are we looking for?

The GAA has considered the overall level of charges borne by [pathway investors](#) over the year. This included assessing:

- | The fund [annual management charges](#), administration charges and [transaction costs](#) being borne by pathway investors.
- | Any other charges being paid by pathway investors to manage, access and invest their drawdown funds.
- | The process for collecting and monitoring overall member charges, including transaction costs.
- | How the Firm monitors charges.
- | Whether the overall level of charges is reasonable, bearing in mind the nature of the investment, level of performance, and degree of risk management.
- | The distribution of charges across pathway investors.

Whilst we have considered the average total costs and charges payable by pathway investors we have noted where there may be notable outliers such as high charges for small pots.

### The Firm’s approach

Investment charges are relatively modest and applied as relevant for each pathway. The Embark Administrative charge is determined by assets in the Pathway and is therefore variable, with smaller pots paying higher fees. All fees, the combination of the Embark Administration Charge and the Fund Charge, were under or close to 0.76% and above 0.48%.

### The Firm’s strengths

The GAA was provided with comprehensive details of pathway investor charges including transaction costs calculated on the DC workplace methodology.

The GAA was provided with evidence of a robust governance framework for reviewing costs and charges, including transaction costs.

We observed a range of charges across the investment pathways offered with the average charge applied being as follows:

Investment Pathway	
1	0.69%
2	0.72%
3	0.68%
4	0.71%

The GAA rating reflects the charges applied for the investment pathways made available by the Firm, and we believe that the Firm offers appropriate charges to pathway investors. The GAA considers the charges to be moderately low.

## Comparator results

We have assessed the overall cost and charge levels payable by the Firm's pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider and each investment pathway solution.

This assessment identified that the overall cost and charge level paid by the Firm's pathway investors over 2021 were higher than the median of the comparator group.

## Areas for improvement

### GAA observation

The GAA is not comfortable with the process of gathering and evaluating transaction costs and would expect to see a marked improvement in this process in the next year.

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# ESG financial considerations, non-financial matters and stewardship

## What are we looking for?

Where the Firm has an investment strategy or makes investment decisions which could have a material impact on [pathway investors](#)' investment returns, the GAA will assess the adequacy and quality of the Firm's policy in relation to [ESG](#) financial considerations, non-financial matters, how these are taken into account in the Firm's investment strategy or investment decision making. We will also form a view on the adequacy and quality of the Firm's policy in relation to stewardship.

We expect the Firm's policy in relation to these considerations:

- a) sufficiently characterises the relevant risks or opportunities;
- b) seeks to appropriately mitigate those risks and take advantage of those opportunities;
- c) is appropriate in the context of the expected duration of the investment; and
- d) is appropriate in the context of the main characteristics of the actual or expected pathway investors.

We also expect that the firm's processes have been designed to properly take into account the risks or opportunities presented.

Whilst this formal requirement falls outside the overall Value for Money assessment, the GAA's Value for Money framework does take into account, where relevant, when scoring the area of Product Strategy Design and Investment Objectives on page 1, how the Firm has integrated ESG financial considerations and non-financial matters in the Firm's investment strategy and investment decision making.

## The Firm's approach

Embark has an ESG policy. The policy states that ESG issues are important and that as a sign of this commitment Embark has signed up the UN Principles of Responsible Investment. The Firm has yet to fully characterise the risk and opportunities relevant to ESG. The implementation of the Pathway Funds were limited to off the shelf options at launch.

The Firm has no specific policy on Stewardship and non-financial matters in addition to the ESG Policy.

## **Areas for improvement**

The GAA concluded that the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship were adequate, however further work is needed to develop them and there was limited evidence to support how these policies have been integrated into business processes.

### **GAA observations**

Further work needs to be carried out as it is currently not feasible to implement specific policies due to the limited scale of the Pathways product and the large scale nature of the funds used. However, this constraint does not restrict the development of policies on ESG, Stewardship and non-financial matters. In particular we would expect to see the ESG policy sufficiently characterise the relevant risks or opportunities and seek to appropriately mitigate those risks and take advantage of those opportunities.

# Appendix A: Comparison report

Commencing with the 2021 year assessments the FCA introduced a requirement that a comparative assessment be made of certain sub-features of the Value for Money assessment. The GAA is required to compare the Firm's offering against a selected group other similar product options available in the market based on publicly available information. If an alternative scheme(s) would offer better value, we must inform the pension provider.

As this is the first year when these disclosures are required the availability of public information relating to the sub-features that need to be compared is limited prior to the publication of this year's reports. ZEDRA's GAA operates for a number of Firms, all of whom have agreed that the GAA can make use of the data we have gathered on their offerings in order to improve the meaningfulness of the comparisons undertaken this year. This is done on an anonymised basis.

## How the comparators were selected

The GAA has selected a number of comparator products that we determined are sufficiently similar products to those provided by the Firm for this purpose. The selection was based on the following broad criteria:

- | Type of product i.e. whether accumulation or pathways, and within accumulation whether the product is a SIPP of workplace group personal pension.

- | Products where Firms provide similar services, for example in the case of a SIPP whether the provider has responsibility for setting and monitoring the investment strategy.
- | Similar membership cohort, for example staff schemes for staff of the provider.

Based on these criteria we believe that the comparator products chosen will provide a reasonable comparison for the [pathway investors](#) of the Firm.

## Comparison of net investment performance

The GAA has faced some challenges in identifying suitable comparators for the comparison of investment performance since different firms have adopted different [pathway investment](#) solutions with significantly different levels of risk exposure. In addition, the risk and return performance relates to different periods depending on when the Firm launched investment pathways. The comparison of risk adjusted net investment returns has therefore been limited this year and we have therefore focused on whether the return has been below, broadly in line or ahead of an appropriate benchmark taking into account the nature and risk profile of the investment pathway solution.



The GAA's conclusion for each investment pathway solution is set out in the table below:

Investment Pathway	
1	Performance <b>below</b> benchmark, suggesting better performance might have been achieved from a comparable investment solution, whilst noting limitations of comparator data.
2	Performance <b>below</b> benchmark, suggesting better performance might have been achieved from a comparable investment solution, whilst noting limitations of comparator data.
3	Performance <b>broadly in line</b> with benchmark, suggesting performance is comparable with that expected of a similar investment solution, noting limitations of comparator data.
4	Performance <b>broadly in line</b> with benchmark, suggesting performance is comparable with that expected of a similar investment solution, noting limitations of comparator data.

### Comparison of communication provided to pathway investors

We have assessed how the communication materials provided to the Firm's pathway investors compares to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the communication materials provided to the Firm's pathway investors over 2021 were average relative to the comparator group.

### Comparison of administration services

We have assessed how the quality and timeliness of the administration services, including core transaction processing, provided to the Firm's pathway investors compares to other sufficiently similar investment pathway arrangements.

This assessment identified that the administration services provided to the Firm's pathway investors over 2021 were average relative to the comparator group.

### Comparison of costs and charges

We have undertaken the comparison of cost and charge levels considering three categories of charges:

- | Annual management charge
- | Transaction costs
- | Other costs & charges

We have assessed the overall cost and charge levels payable by the Firm's pathway investors in comparison to other sufficiently similar investment pathways arrangements. This takes account of the nature of the provider.

This assessment identified that the overall cost and charge level paid by the Firm's pathway investors over 2021 were higher than the median of the comparator group.



# Appendix B: GAA activity and regulatory matters

This section describes the work that the GAA has done over the year and also covers the other matters which we are required to include in our annual report.

## GAA engagement and actions this year

We prepared and issued a request for data on all the relevant workplace pension policies in late 2021.

Members of the GAA had a meeting with representatives of Embark to kick off the Value for Money assessment process for the 2021 calendar year and to discuss and agree timescales.

Members of the GAA had a meeting with representatives of Embark to discuss the information that had been provided in response to the data request. This was an opportunity for members of the GAA to meet key personnel with responsibility in the various different areas including investment strategy and how this has evolved, investment governance, approach to [ESG](#), non-financial matters and stewardship, administration and communications and risk management. In some cases given COVID-19 considerations, this meeting was virtual.

Members of the GAA had a meeting with representatives of Embark to discuss the GAA's provisional scoring of Value for Money of the in-scope Embark [pathway investments](#).

As part of the Value for Money assessment process, Embark has provided the GAA with all the information that we requested, including evidence in the form of minutes and other documentation to support areas of discussion at the site visit.

In particular, the GAA has seen evidence of ESG integration within Embark's investment decision process.

The GAA held several meetings during the year to review and discuss the information we received and to develop and improve the way that we assess Value for Money and report on this.

Over the last year the GAA reviewed and evolved our Value for Money assessment framework to include a broader range of evaluation criteria, which is reflected in this report. Some of these changes were made in response to regulatory amendments relating to the Value for Money assessment criteria.

The GAA documents all formal meetings with Embark and maintains a log which captures any concerns raised by the GAA with Embark, whether informally or as formal escalations.

The key dates are:

Item	Date
Issue data request	10/12/22
Kick off meeting	08/12/22
Site visit	11/3/22
GAA panel review meeting	20/04/22
Discuss provisional scoring	12/05/22

The GAA has not raised any concerns with Embark during the year covered by this report. The arrangements put in place for pathway investors' representation

The following arrangements have been put in place to ensure that the views of pathway investors can be directly represented to the GAA:

- | The role of the GAA and the opportunity for pathway investors to make representations direct to the GAA has been and will continue to be communicated to pathway investors via Embark.
- | Embark will receive and filter all policyholder communications, to ensure that this channel is not being used for individual complaints and queries rather than more general representations which may be applicable to more than one pathway investor or group of pathway investors. Where Embark determine that a communication from a pathway investor is a representation to the GAA, it will be passed on in full and without editing or comment for the GAA to consider.

In addition, the GAA has established a dedicated inbox at [zgl.gaacontact@zedra.com](mailto:zgl.gaacontact@zedra.com) so that pathway investors can make representation to the GAA direct.

Embark will include details of this contact e-mail address on: <https://embarkmyretirement.co.uk/making-your-decision/governed-advisory-arrangement-for-investment-pathways/>



## Appendix C: ZEDRA GAA credentials

In February 2015 the Financial Conduct Authority (FCA) set out new rules for providers operating workplace personal pension plans (called relevant schemes) to take effect from 6 April 2015. From that date, providers had to have set up an Independent Governance Committee or appointed a Governance Advisory Arrangement whose principal functions would be to:

- | Act solely in the interests of the [relevant policyholders](#) of those pension plans, and to
- | Assess the 'value for money' delivered by the pension plans to those relevant policyholders.

These requirements were then extended to Firms providing investment pathways in respect of [pathway investors](#) from 1 February 2021.

The FCA rules also require that the Chair of each Independent Governance Committee and Governance Advisory Arrangement produce an annual report setting out a number of prescribed matters.

The ZEDRA Governance Advisory Arrangement ('the GAA') was established on 6 April 2015 and has been appointed by a number of workplace personal pension providers and investment pathways providers. ZEDRA is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments we act as an independent trustee on several hundred trust-based pension schemes and we sit on a number of IGCs. We have oversight or responsibility for in excess of £120bn of pension assets.

More information on ZEDRA Governance Ltd can be found at [www.zedra.com/pension-schemes](http://www.zedra.com/pension-schemes)

The members of the GAA are appointed by the Board of ZEDRA Governance Ltd. The Board is satisfied that individually and collectively the members of the GAA have sufficient expertise, experience, and independence to act in the interests of relevant policyholders or pathway investors.

The Board of ZEDRA Governance Ltd has appointed ZEDRA Governance Ltd to the GAA, including as Chair. All of ZEDRA Governance Ltd's Client Directors act as representatives of ZEDRA Governance Ltd on the GAA and Clare James currently represents ZEDRA Governance Ltd in the capacity of Chair. More information on each of ZEDRA Governance Ltd's Client Directors, their experience and qualifications can be found at [www.zedra.com/zedra-team](http://www.zedra.com/zedra-team)

Dean Wetton, acting on behalf of Dean Wetton Advisory UK Ltd, is also appointed to the GAA. Dean Wetton and Dean Wetton Advisory UK Ltd are independent of ZEDRA Governance Ltd. Information on Dean's experience and qualifications can be found at [www.deanwettonadvisory.com](http://www.deanwettonadvisory.com)

The GAA has put in place a conflicts of interest register and maintains a conflicts of interest policy with the objective of ensuring that any potential conflicts of interest are managed effectively so they do not affect the ability of ZEDRA Governance Ltd or Dean Wetton Advisory UK Ltd to represent the interests of relevant policyholders or pathway investors.

The terms of reference agreed with the Firm can be found at: [www.embarkmyretirement.co.uk/making-your-decision/governed-advisory-arrangement-for-investment-pathways](http://www.embarkmyretirement.co.uk/making-your-decision/governed-advisory-arrangement-for-investment-pathways)



## Appendix D: Glossary

### Active management

The investment of funds where the skill of the fund manager is used to select particular assets at particular times, with the aim of achieving higher than average growth for the assets in question.

### Annual management charge (AMC)

A deduction made by the pension provider or investment manager from invested assets, normally as a percentage of the assets. The AMC is generally how the pension provider or investment manager is paid for their services.

### Annuity

A series of payments, which may be subject to increases, made at stated intervals, usually for life. If the annuity is 'joint life', it will continue to a spouse (usually at a lower rate) after the death of the original person receiving the payments ('the annuitant').

### COBS

The Code of Business Sourcebook prepared by the Financial Conduct Authority (FCA). In particular when we use COBS in this report we are referring to Chapter 19 of the COBS which sets out the provisions relevant to the Value for Money Assessment of workplace pensions.

### Core financial transactions

The essential processes of putting money into a pension policy or taking it out, namely:

- | Investment of contributions.
- | Implementation of re-direction of future contributions to a different fund.
- | Investment switches for existing funds, including life-styling processes.
- | Settlement of benefits – whether arising from transfer out, death or retirement.

### Decumulation

The process of converting pension savings to retirement income.

### Environmental, social and governance (ESG)

These are the three main factors looked at when assessing the sustainability (including the impact of climate change) and ethical impact of a company or business. ESG factors are expected to influence the future financial performance of the company and therefore have an impact on the expected risk and return of the pension fund investment in that company.

## Flexible access

This refers to accessing pension savings in the form of income and/or lump sums. Pension savings that are not being accessed immediately will generally remain invested.

## Life-styling

An automated process of switching investment strategy as a policyholder approaches retirement, in a way that is designed to reduce the risk of a policyholder's retirement income falling.

## Net investment performance

The investment performance of the fund after deducting all asset management charges, administration charges, taxes and fees for managing the fund including any transaction costs.

## Pathway investor

A retail client investing in a Firm's pathway investment offering.

## Pathway investment

A drawdown fund which is either a capped drawdown pension fund or a flexi-access drawdown pension fund.

## Relevant policyholder

A member of a relevant scheme who is or has been a worker entitled to have contributions paid by or on behalf of his employer in respect of that relevant scheme.

## Transaction costs

A combination of explicit and implicit costs included within the price at which a transaction (i.e. buying or selling an asset) takes place.

## With profits

An insurance contract that participates in the profits of an insurance company. The insurance company aims to distribute part of its profits to with-profits policy holders in the form of bonuses.



## Appendix E: Data table

Investment pathway	Number of customers during 2021	Assets under management as at 31/12/21
1	29	£1.6m
2	7	£0.34m
3	183	£11.5m
4	49	£2.07m
<b>Total</b>	<b>268</b>	<b>£15.61m</b>



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