



ZEDRA

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# Chair's annual report

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## Embark Investment Pathways

- | Year ended 31 December 2022
- | The ZEDRA Governance Advisory Arrangement (GAA)

September  
2023



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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') for Embark Investment Pathways 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 2nd 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 for this Firm, 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 ('VfM') delivered to pathway investors over the period 1 January 2022 to 31 December 2022. 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

**Quality and investment features (1-7)**

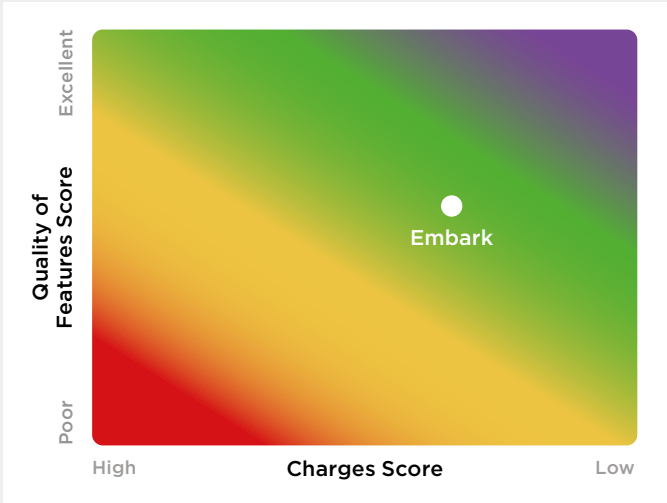
● Excellent   ● Good   ● Satisfactory   ● Poor

**Cost and charge levels (8)**

● Low   ● Moderately Low   ● Moderately High   ● High

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 Quality of Service and Investment Features combined (i.e.1 to 7 in the table above) representing two-thirds of the overall score and the Cost and Charge Level (i.e. 8 in the table above) 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.

In our previous report the GAA challenged the Firm to make improvements in the following areas:

- | **Investment Performance and Risk** – The evaluation of investment performance was carried out outside the reporting period and did not include performance metrics vs stated benchmarks nor did they include risk adjusted metrics.
- | **Administration and Operations** – Processing of the [core financial transactions](#). The GAA noted that it expects to see an improvement in the administration service, particularly for transfers.

The GAA is pleased to report that the Firm has made progress in addressing both of these points and we cover these areas later in the report.

The Firm also completed its acquisition from Lloyds in 2022, although the Firm remains as a separate business unit for the purpose of Investment Pathways customers.

The GAA has not raised any concerns with the Firm during 2022 and there are no specific areas identified where the GAA has challenged the Firm to make improvements. However, we have made a number of observations this year which have been shared with the Firm:

- | **Product Strategy Design and Investment Objectives** – Consider if sufficient data is available to enable the Firm to capture customer behaviours and preferences within Investment Pathways to help future development of the Pathway product. This could be extended to consider attitudes on [ESG](#) and sustainable investing.
- | **Product Strategy Design and Investment Objectives** – 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 continues to be an evolving area.

- | **Investment Performance and Risk** – The Firm actively monitors the risk of the Investment Pathways by assessing volatility. The GAA would encourage the Firm to consider alternative measures of risk, that may be more material or tangible for investors, and aligning such measures to any known investor preferences.
- | **Communications** – The GAA noted that the quality of communications was good, but that there could be more specific tailoring for Investment Pathways customers.
- | **Administration and Operations** – The GAA noted that whilst the Firm confirmed by enquiry the review and testing of the effectiveness of the Business Continuity Plan and its tech/admin provider during the year, it did not receive the evidence of this to confirm by inspection. The GAA encourages the Firm to review its processes to demonstrate the robustness of its ongoing services.
- | **Engagement and Innovation** – The GAA would encourage the Firm to continue looking at ways to improve engagement with Pathway investors, including opportunities to capture customer feedback which can then be used to refine product development.

We also concluded that the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations and stewardship were adequate but noted the limitations of implementing such considerations within the Investment Pathways framework. We do, however, anticipate the continued evolution of thinking in this area and working towards more sustainable investment options and working practices. We would like to see the Firm continue discussions in this area and consider implementing sustainable investment options where appropriate.

The FCA introduced new requirements last year requiring 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 that 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.

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

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

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

## Alan Greenlees

Chair of the ZEDRA Governance Advisory Arrangement  
for Embark Investment Pathway

September 2023



**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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Alternatively, you can contact the GAA directly at [ZGL.gaacontact@zedra.com](mailto:ZGL.gaacontact@zedra.com)



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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.**

## 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 and to undertake comparisons of the Firm's product against a suitable comparator group of providers for certain Quality of Service and Investment Features and Cost and Charges.
- | 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 (the 'Quality of Service and Investment Features'), 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 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 and Investment Features considered have 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 and 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 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 will then 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 any 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 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 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 [pathway 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 23, 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.

Embank's Investment Pathways Governance Framework sets how the situations where changes are proposed to the Investment Pathways.

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 is in line with CPI +1%, with a risk target 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.

Changes to the underlying funds in Pathway 2 were made in 2022, following reviews from an external party and then discussed with the Investment Committee.

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 customers 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. An annual review of Investment Pathways solutions is carried out with the last reviews being in May 2022 and April 2023 (signed-off July 2023).

## The Firm's strengths

The GAA had previously observed that there was little ongoing evidence of Pathways reviews, whereby they would be assessed for their ongoing appropriateness for investors. This area has been worked on during the year.

The Firm reviews the ongoing appropriateness of the performance objectives for each Pathway on a quarterly basis. This review is conducted by an external party for added robustness.

The reviews are thorough and check criteria against longer term objectives, as well as against fund benchmarks. The reviews also comment on suitable risk metrics and include commentary on the ongoing suitability of the underlying funds within each Pathway.

ESG considerations are beginning to feature within Investment Pathway 1 and Investment Pathway 3 using the BlackRock MyMap 4 fund, but not the full Pathways range.

## Areas for improvement

### GAA observations

The Firm should consider if sufficient data is available to capture customer behaviours and preferences within Investment Pathways to help future development of the Pathway product. This could be extended to consider attitudes on ESG and sustainable investing.

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 continues to be 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). This review is provided by an external third party and discussed with the Investment Committee and underlying fund manager, BlackRock.

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

The reviews also include analysis of the volatility of Pathway performance.

### The Firm's strengths

The Firm uses an external provider for the performance measurement, ensuring that there is a level of independence and robustness in the reporting. The Firm meets quarterly with both this party and the fund manager, BlackRock, to discuss market developments.

### Improvements since last year

The GAA challenged the Firm to improve its reporting, specifically with regards to performance measurement versus benchmark and also risk metrics.

The Firm has improved this area by including the use of an external party to support reporting requirements.

### Net Investment Performance

The [net investment performance](#) of the investment pathways strategies 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	-12.0%	-11.7%
2	-40.2%	-40.1%
3	-12.0%	-11.7%
4	1.2%	1.5%

## 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.

This assessment identified the one-year net investment performance return (in absolute terms) for each Pathway when considered relative to the comparator group.

Investment Pathway	
1	Performance is <b>slightly below</b> the average taken across the comparator group.
2	Performance is <b>significantly below</b> the average taken across the comparator group.
3	Performance is <b>slightly below</b> the average taken across the comparator group.
4	Performance is <b>in line</b> with the average taken across the comparator group.

## Areas for improvement

### GAA Observations

The Firm actively monitors the risk of the Investment Pathways by assessing volatility. The GAA would encourage the Firm to consider alternative measures of risk, that may be more material or tangible for investors, and aligning such measures to any known investor preferences.

## 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 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

The communications provided cover a good level of information, including signposting for assistance on pension matters outside of Embark.

A risk questionnaire is available to those investors who wish to review their selection.

### The Firm's strengths

The Firm have a full suite of online communications. Literature and documents are reviewed at least annually as part of the Document Management Process. A high-level review was completed in December 2022.

Pathway investors have access to an Investment Pathways tool, which was developed in conjunction with LikeMinds, a specialist 'Direct to Customer' financial services marketing agency. One aspect of this planning and decision making tool enables investors to review how much they have saved, what might be need in retirement and how long their money might last. LikeMinds worked with the Firm to create a series of customer personas, and then used these customer personas to undertake customer testing of various aspects of the site which led to a series of recommendations adopted during the development of the website. Switching online is available.

## Improvements since last year

The GAA had previously observed that the suite of communications available to customers was not as comprehensive as possible, but was reflective of the developing Pathways market. Pleasingly, further reviews and enhancement of the communications suite has continued during the year.

## 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 policyholders over 2022 were average relative to the comparator group.

## Areas for improvement

### GAA observations

The GAA noted that the quality of communications was good, but that there could be more specific tailoring for Investment Pathways customers.

## 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 where, for example, Terms of Reference are provided for key committees, reviewed on a regular basis, with clearly defined scope. We would expect to see evidence of the key committees operating during the year with minutes or meeting packs demonstrating that the key scope elements of the committee remit have been adequately covered.

There should be a transparent and documented process for appointing and monitoring service providers, with evidence of regular reviews being undertaken and changes being made as required.

### The Firm's approach

Product governance is managed for the Embark Corporate Services Limited Board through three Board committees Group Risk Committee, Executive Customer Committee and Group Change Committee. These are supported by three Proposition Ownership Groups for Pensions, Investments and Platform each with their own sub-committee/group for development and customer fair value analysis.

The Firm has a supplier management framework when using external providers, including new asset managers.

A formal Document Management Process is in place to ensure that all investor communications are reviewed regularly and remain fit for purpose.

Embank Investment Services (EIL) undertake all monitoring of the Firm's Investment Pathways managers together with other managers outside of pathways.

Investment performance is discussed by the Investment Committee and any proposed changes are taken to the Executive Committee for formal review.

### The Firm's strengths

The Firm has set up an Investment Committee which meets both quarterly and annually. In depth annual reviews are provided by an independent third party which with the Investment Committee will make recommendations to the Firm's Executive Customer Committee for decision making.

The Executive Committee Terms of Reference require it to meet at least ten times a year.

The Supplier Management framework is used when appointing external providers. Appointment of internal service providers is done through the corporate governance structure and intergroup agreements.

## Areas for improvement

### GAA observations

The GAA previously observed that the Firm had not yet embedded thorough governance owing to the infancy of the Pathways business. However, this is no longer an issue with the governance framework being managed through formalised committees and the creation in February 2023 of the Investment Pathways Governance Framework for existing customers on Investment Pathways changes.



## 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

Embank Investment Services was acquired by Lloyds Banking Group in 2022. All [Pathway investments](#) are ring-fenced from the Firm's assets.

Customers are provided with information with regards to pension scams in wake-up communications and there are signposts to the FCA facilities on the website.

Staff undertake training to identify and warn customers of potential scams where these are identified. Staff also receive training on identifying and engaging effectively with vulnerable customers.

The Firm has implemented the requirements of the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 so that any new request to transfer is subject to the enhanced due diligence and checks required to comply with the regulations.

### The Firm's strengths

Embank Investment Services have a AKG rating of B+, which is one of the highest possible financial security ratings available.

Investors are covered under the Financial Services Compensation Scheme, capped at the standard £85,000 level.

### 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

The majority of processes are automated and core financial transactions, such as investment dealing, are completed by straight through processing.

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.

There was one data breach identified in 2022. This was reported to the ICO and they were satisfied with the remediation taken and took no further action.

No complaints were identified for the Pathways customers during 2022. The GAA has not seen the Firm's current version of the complaints process policy.

### The Firm's strengths

Embark were acquired by Lloyds in 2022. That acquisition appears to have been well received by staff. There was no loss of team or need to change team structure as the Firm continues to operate as a distinct business with its own brand and is kept as a separate entity to grow from other non-advised books of business.

Administration performance has been almost 100% of expected service standards.

The Firm created a Penetration Testing Policy in 2022 which was last reviewed in April 2022. There is a Business Continuity & Disaster Recovery Policy which was last reviewed in May 2021.

## Improvements since last year

The GAA challenged the Firm in last year's review to improve the processing of the core financial transactions, particularly for transfers, as part of an improvement in administration services for customers. A large proportion of core transactions are fully automated including those for investment switches and for taking retirement benefits.

The GAA is happy to confirm that the issues regarding transfers has been rectified and senior management receive monthly reports regarding administration KPIs for transactions that do not have straight-through processing.

## 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 policyholders over 2022 were average, i.e. relative to the comparator group.

## Areas for improvement

### GAA Observations

The GAA noted that whilst the Firm confirmed by enquiry the review and testing of the effectiveness of the Business Continuity Plan and its tech/admin provider during the year, it did not receive the evidence of these to confirm by inspection. The GAA encourages the Firm to review its processes to demonstrate the robustness of its ongoing services.



## 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

The Firm has continued to evolve its customer offering, including the online facilities and use of an Investment Pathways tool.

No customer satisfaction surveys were completed during the period mainly due to the relatively low number of customers. However, usual practise is to include customer research as part of the annual review process done on the Firm's behalf by an external partner. As these external parties own the client relationship, then there is no guarantee that feedback is actively sought nor shared with the Firm. The limited feedback that has been reported confirms that there are no concerns with the Firm's platform.

### The Firm's strengths

Products, including Investment Pathways, are reviewed on annual basis in line with the Product Governance Framework and consider development opportunities for further innovation.

## Areas for improvement

### GAA observations

The GAA previously observed that the Firm 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 pathway investors' surveys. No progress has been made in this area and the GAA would still like to see improvements here.

## 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; and
- | 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 platform administrative charge is determined by assets held by the customer in the Pathway and is therefore variable, with smaller pots paying higher fees.

### The Firm's strengths

There are no additional or hidden charges paid by customers.

The Firm do utilise their external party to monitor member charges across the market, to ensure that fees remain competitive. The previous benchmarking report was completed in 2021.

Transaction charges are paid by members separately, but the GAA's analysis has considered these to be very reasonable given the asset allocations used in the Pathways.

We observed a range of member charges across the investment pathways. These include investment charges for the funds as well as a platform/administrative charge. The platform charge is variable and is dependent on the customers pot value.

For the purposes of below and owing to the small sample set, we have included a consistent charge for easier comparison based on an average platform charge across the membership. The total charges are as follows:

Investment Pathway	
1	0.74%
2	0.76%
3	0.74%
4	0.74%

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.

### Improvements since last year

The Firm has taken on board previous observations and has a more robust process of assessing and disclosing transaction costs for the GAA.

### 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 policyholders over 2022 were average relative to the comparator group.

### Areas for improvement

The GAA did not identify any specific areas for improvement.



# 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 and stewardship. The GAA will consider 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 9, 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

The Firm has an ESG policy which 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 Investment Pathway funds currently provided do not have explicit ESG objectives but are ESG aware and use ESG building blocks where appropriate.

ESG considerations are beginning to feature within Investment Pathway 1 and Investment Pathway 3 using the BlackRock MyMap 4 fund,

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

## **Areas for improvement**

### **GAA observations**

The GAA would expect to see continued progress on the integration of ESG financial considerations within the investment options and anticipate further discussions with asset managers, appreciating that this continues to be an evolving area.



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# Appendix A: Comparison report

The FCA requires 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 of 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.

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 to carry out the required comparisons 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 or 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

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.

This assessment identified the one year net investment performance return (in absolute terms) for each Pathway when considered relative to the comparator group.

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

Investment Pathway	
1	Performance is <b>slightly below</b> the average taken across the comparator group.
2	Performance is <b>significantly below</b> the average taken across the comparator group.
3	Performance is <b>slightly below</b> the average taken across the comparator group.
4	Performance is <b>in line</b> with the average taken across the comparator group.

### 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 2022 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 2022 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 and 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 2022 were average relative to 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 early 2023.

Members of the GAA had a meeting with representatives of Embark to kick off the Value for Money assessment process for the 2022 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 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.

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 our Value for Money assessment framework and scoring methodology to ensure this continued to be applied consistently. Whilst the Value for Money assessment framework itself remains largely unchanged from the previous year, significant work has taken place reviewing and developing the data request and the approach for Firms to provide information in response to the data request, to make the process more efficient.

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
Kick off meeting	15/02/2023
Issue data request	24/02/2023
Site visits	12/04/2023 14/04/2023
GAA panel review meeting	19/04/2023
Discuss provisional scoring	27/06/2023

## Concerns raised, and challenges made with the Provider by the GAA and their response

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 pathway investor 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 and contact address to write to 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 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. More information on ZEDRA can be found at [www.zedra.com/GAA](http://www.zedra.com/GAA)

The members of the ZEDRAGAA 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. The majority of ZEDRA Governance Ltd’s Client Directors act as representatives of ZEDRA Governance Ltd on the GAA.

The Board of ZEDRA Governance Ltd has also appointed Dean Wetton, acting on behalf of Dean Wetton Advisory UK Ltd, to the GAA. Dean Wetton and Dean Wetton Advisory UK Ltd are independent of ZEDRA.

The Board of ZEDRA Governance Ltd has appointed either a specific named Client Director of ZEDRA Governance Ltd or Dean Wetton of Dean Wetton Advisory Ltd to act in the capacity of Chair of the GAA in respect of each Firm.

More information on each of ZEDRA’s Client Directors, their experience and qualifications can be found at [www.zedra.com/people](http://www.zedra.com/people)

Information on 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 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)

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## 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.

## 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.

## Relevant Scheme

A personal pension scheme or stakeholder pension scheme for which direct payment arrangements are, or have been, in place, and under which contributions have been paid for two or more employees of the same employer.

## 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.



## Appendix E: Data table

Investment pathway	Number of customers during 2022	Assets under management as at 31/12/22
1	30	£1.79m
2	7	£0.34m
3	282	£16.15m
4	75	£3.28m
<b>Total</b>	<b>394</b>	<b>£21.56m</b>





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