SW EMBARK INVESTMENT PATHWAYS IGC REPORT

2025

INTRODUCTION

This report sets out the Scottish Widows Independent Governance Committee's (IGC) assessment of SW Embark investment pathways for the year ending 31 December 2025.

This is the first year that the Scottish Widows IGC has had responsibility for overseeing Value for Money (VfM) of the SW Embark investment pathways. Our assessment this year is limited by two important factors:

1. We have not had the opportunity to explore the performance of the products during the course of 2025; and
2. There is currently limited data on which to base a view of VfM. We plan to address these issues during 2026 and so will have a more mature view for next year.

Governance arrangements

From 2021 to 2025, Embark Corporate Services Limited appointed Zedra Governance Ltd as its Governance Advisory Arrangement (GAA). Following Lloyds Banking Group's acquisition of SW Embark, responsibility for independent oversight transferred to the Scottish Widows IGC with effect from 1 January 2026.

Scope of the pathways

SW Embark's[1] investment pathways are designed to meet the needs of a broad customer population, including:

- customers who no longer have access to a financial adviser;
- customers accessing direct to consumer pension propositions through Scottish Widows and Lloyds Banking Group retail brands; and
- customers accessing similar solutions through 'white label' arrangements, where SW Embark provides the underlying product, but it is distributed under another brand. Currently, around 95% of customers access the pathways through this channel.

Customer numbers for this product are expected to increase materially over the next few years across all channels.

Performance, caveats and overall view

SW Embark's investment pathways differ from those offered directly by Scottish Widows, and so far investment performance has been strong relative to both Scottish Widows' investment pathways and competitors, with around two thirds of customers invested in investment pathway 3, which has outperformed over all reported periods.

Given this investment performance, and subject to the data caveats noted above, the IGC considers there is insufficient evidence for 2025 to warrant a change of assessment. We will therefore adopt the **green** RAG rating agreed by the GAA that previously oversaw these investment pathways.

This judgement is, however, provisional and subject to review as we look more closely at SW Embark Pathways.

Priorities for 2026

To support a more robust assessment in future years, the IGC has asked Scottish Widows to focus on:

- improving data quality, particularly in relation to service;
- strengthening insight into customer communications and engagement;
- comparing SW Embark and Scottish Widows investment pathways to identify any potential improvements or opportunities for greater alignment, particularly in relation to the investment strategy; and
- developing a clearer, more joined up reporting approach for future years.

Looking ahead

The IGC recognises that the regulatory and policy environment for retirement products continues to evolve, with legislation just passed in early 2026 and further regulatory consultations expected during 2026. While this creates short-term uncertainty, we welcome the increased focus on the post-retirement market and the opportunity it provides to improve long-term customer outcomes. Once greater clarity emerges, we anticipate it will inform the future shape of the investment pathway propositions.

At the end of 2025, there were 961 customers invested in SW Embark investment pathways, with total assets under management of £58m.

Anna Bradley

IGC Chair

[1] The SW Embark investment pathways are provided via Embark Investment Services Limited, Embark Services Limited and EBS Pensions Limited.

1 THE ROLE OF THE INDEPENDENT GOVERNANCE COMMITTEE

The primary role of the Independent Governance Committee (IGC) is to advise, challenge and influence the workplace pension and investment pathway products provided by SW Embark and Scottish Widows, and to assess whether they deliver Value for Money (VfM) for customers.

Our VfM assessment considers the extent to which the services, benefits and safeguards put in place by SW Embark and Scottish Widows deliver good customer outcomes relative to costs and in comparison with similar products available in the wider market. The IGC operates under formal Terms of Reference, which can be found **here**.

Each year, the IGC carries out a VfM assessment and publishes a report setting out:

- the work we have undertaken during the year; and
- our conclusions on the value delivered to customers.

A majority of Committee members, including the Chair, are independent of Scottish Widows, in line with Financial Conduct Authority (FCA) requirements. Further information about the Committee, including our Terms of Reference, is available on the Scottish Widows website: **scottishwidows.co.uk**

1.1 How the Committee assesses value for money

During the year, the IGC meets regularly to review information provided by SW Embark and Scottish Widows and to provide independent challenge where appropriate. We began receiving investment information relating to the SW Embark investment pathway proposition in the second half of 2025. Where relevant, we compare SW Embark and Scottish Widows products with similar products available across the pensions and investment pathway market.

Our findings are reported under four headings:

- investment performance;
- charges and costs;
- service and communications; and
- engagement and customer support.

In reaching our conclusions, we consider a range of customer experience indicators, including complaints data, service levels and call handling performance. Where necessary, we ask Scottish Widows to undertake additional analysis or research. We also take account of wider economic and social factors, such as inflation and cost-of-living pressures, which may affect customer outcomes.

2 OUR ASSESSMENT
FOR THE PERIOD ENDING DECEMBER 2025

We use a simple RAG rating framework ('Green', 'Amber' or 'Red') for each of the areas considered as part of our VfM assessment, and an overall rating for each product grouping.

The FCA, together with the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR), continues to consult on a future VfM framework and has indicated it may move to a four grade approach. We will consider making changes once the regulatory position is confirmed.

Where a rating other than 'Green' is given, we agree an action plan with Scottish Widows setting out how a 'Green' position will be achieved. A 'Green' rating indicates that we have not identified any material concerns at the time of assessment, but it does not mean that there are no areas for improvement. Customer needs and market conditions continue to evolve, and we expect Scottish Widows to continually seek to improve the value delivered to customers.

RATING DEFINITIONS

Green - No material issues identified; performance broadly in line with expectations, though further improvement may still be possible.

Amber - Specific areas or customer groups require improvement. An action plan is required to return to a Green position.

Red - Performance is below an acceptable level or below comparable market alternatives. Urgent action is required, supported by a clear action plan.

3 INVESTMENT PATHWAYS PRODUCTS

Investment pathway products are designed to support customers who expect to access their pension savings within five years and have now reached that time horizon. We have had limited evidence on which to rate VfM for 2025; the investment performance during 2025 has been positive and continues to compare well with competitors, so we have assessed them as green.

Customer volumes remain low, with 38 customers selecting an investment pathway during the year (down from 76 in 2024), limiting the conclusions that can be drawn from behavioural data. Investment pathway 3 (drawdown) remained the most popular option, accounting for 58% of customers, while investment pathway 4 increased to 37%. Uptake of investment pathway 1 was low (5%) and there were no customers in investment pathway 2, which is not unexpected given customer profile and volumes.

Scottish Widows intends to review the investment pathway proposition more broadly to ensure it remains appropriate and continues to support good customer outcomes. The IGC has asked Scottish Widows to undertake further analysis of the differences between SW Embark and Scottish Widows investment pathway propositions, and to use this to inform any improvements that would be in customers' best interests.

The policy and regulatory environment for retirement products continues to evolve. The Government has recently passed legislation relating to retirement and we now await regulatory consultations which will consult on the detail. Once the policy position becomes clearer, we anticipate it will inform the future shape of the proposition.

We welcome the increased focus on the post-retirement market and the opportunity this presents to improve long-term outcomes for customers using investment pathways.

3.1 Investment pathways explained

Investment pathways were launched in 2021. As customers approach retirement, SW Embark and Scottish Widows engage with them to help explain their options and support decision-making. One option is to move into one of four investment pathways, designed around how a customer expects to access their pension savings within the next five years:

- **Investment pathway 1** – Leave money invested.
- **Investment pathway 2** – Secure a guaranteed income for life (annuity).
- **Investment pathway 3** – Draw money gradually while remaining invested.
- **Investment pathway 4** – Take all money as cash.

3.1.1 INVESTMENT PERFORMANCE

GREEN

SW Embark investment pathway performance in 2025 has been positive and continues to compare well with competitors. This largely reflects a balanced asset allocation, helping to deliver steadier returns across market conditions.

Investment pathways are designed to meet their objectives over a five-year period and are therefore considered short- to medium-term investments.

We are rating investment performance as **green**.

Investment pathway 1 – Leave your money invested has closely tracked competitor averages over all periods.

	1 year (%)	3 year (% p.a.)	4 year (% p.a.)
SW Embark Investment Pathway (BlackRock MyMap 4)	9.1%	9.4%	5.2%
Scottish Widows Investment Pathway 1 (PP4)	7.7%	8.1%	3.8%
Competitor Average	9.1%	9.1%	5.2%

Source: FinXL, as of 31 January 2026. All performance data net of fees (Series 4 for SW), over one-year performance is annualised. Competitor analysis for investment pathways has been undertaken against SW Embark, L&G, LV, Aviva, Aegon, PensionBee, Fidelity, Interactive Investor, NFU Mutual, Standard Life, Quilter, Hargreaves Lansdown, Royal London, Prudential.

Investment pathway 3 – Continue to draw money gradually has delivered strong and consistent performance through a diversified and balanced investment approach. It has performed better than Scottish Widows investment pathway 3.

	1 year (%)	3 year (% p.a.)	4 year (% p.a.)
SW Embark Investment Pathway (BlackRock MyMap 4)	9.1%	9.4%	5.2%
Scottish Widows Investment Pathway 3 (PP4)	7.7%	8.1%	3.8%
Competitor Average	8.1%	7.5%	4.6%

Source: FinXL, as of 31 January 2026. All performance data net of fees (Series 4 for SW), over one-year performance is annualised. Competitor analysis for investment pathways has been undertaken against SW Embark IP 2 'Old and New', L&G, LV, Aviva, Aegon, PensionBee, Fidelity, Interactive Investor, NFU Mutual, Standard Life, Quilter, Hargreaves Lansdown, Royal London, Prudential.

Investment pathway 2 – Secure a guaranteed income for life through the purchase of an annuity is designed to reduce volatility as customers approach annuitisation rather than directly track annuity pricing. Following investment changes in 2022, performance has improved, though it has lagged higher risk comparator funds during market recovery phases.

	1 year (%)	3 year (% p.a.)	4 year (% p.a.)
'Old' SW Embark Investment Pathway 2 (BlackRock 15+ Yr Gilts Fund)	2.2%	-3.4%	-11.8%
'New' SW Embark Investment Pathway 2 (iShare UK Gilts All Stocks Index Fund)	4.2%	Not available	Not available
Scottish Widows Investment Pathway 2 (Pension Protector Fund)	4.9%	1.4%	-6.8%
Competitor Average	4.4%	1.5%	-5.0%

Investment pathway 4 – Take all your money as cash is broadly in line with competitors over shorter periods but has not performed as well as Scottish Widows investment pathway 4.

	1 year (%)	3 year (% p.a.)	4 year (% p.a.)
SW Embark Investment Pathway 4 (Embark BlackRock Cash)	4.2%	4.7%	3.1%
Scottish Widows Investment Pathway 4 (Pension Portfolio C)	7.2%	7.0%	2.6%
Competitor Average	4.4%	4.7%	3%

Source: FinXL, as of 31 January 2026. All performance data net of fees (Series 4 for SW), over one-year performance is annualised. Competitor analysis for investment pathways has been undertaken against SW Embark, L&G, LV, Aviva, Aegon, PensionBee, Fidelity, Interactive Investor, Standard Life, Quilter, Royal London, Vanguard.

3.2 FUND TRANSACTION COSTS

Transaction costs arise when assets within funds are bought and sold. The FCA requires transaction cost information to be provided to the IGC to support VfM assessments. Scottish Widows monitors transaction costs quarterly and investigates instances where costs exceed expectations.

Transaction costs increased slightly during 2025 amid volatile market conditions but remain competitive with the wider market and are slightly lower than transaction costs of Scottish Widows' investment pathways.

Fund Name	December 2024 Transaction Cost (%)	December 2025 Transaction Cost (%)
BlackRock MyMap 4	0.037%	0.056%
iShare UK Gilts All Stocks Index Fund	0.017%	0.055%
BlackRock Cash	0.016%	0.018%
Pension Portfolio Four	0.04%	0.08%
Pension Protector	0	0
Pension Portfolio C	0.04%	0.09%

3.3 COSTS AND CHARGES

GREEN

All charges are below 0.75% with half of the population of customers with charges in the 0.6% to 0.75% range. In 2026, we would like to understand the spread and rationale for the higher end charges.

We are rating costs and charges as **green.**

3.4 QUALITY OF SERVICE

GREEN

No complaints relating to the investment pathways were received during the year. For 2026, we have asked Scottish Widows to focus on addressing data gaps, particularly in relation to service performance, to enable a more complete VfM assessment.

We are rating quality of service as **green.**

3.5 COMMUNICATIONS, ENGAGEMENT AND SUPPORT

AMBER/ GREEN

During 2026, Scottish Widows is reviewing investment pathway communications, including website content and key customer documents, to improve clarity and support decision-making. This work is informed by customer testing, and we will report on progress next year.

Customers are supported through an online decision-making tool and access to colleagues where additional support is needed. Engagement insights remain limited due to low customer volumes, with investment pathway 3 continuing to account for around two thirds of customers and assets.

Work is underway to improve data quality and align reporting with wider Scottish Widows standards, including analysis of customer behaviour at key milestones. This will support deeper insight over time, and we will report further in 2026.

We are rating engagement as **amber/green.**

4 WHAT DOES THE INDEPENDENT GOVERNANCE COMMITTEE DO?

The Independent Governance Committee (IGC) provides independent oversight of SW Embark's investment pathway products and assesses whether they deliver value for money (VfM) for customers.

VfM considers whether the services, investment outcomes and customer protections provided by SW Embark and Scottish Widows are appropriate relative to their costs, and when compared with similar investment pathway products available in the market. The IGC's role is to provide robust challenge and independent judgement, acting in customers' interests.

Scope of the IGC's oversight for SW Embark investment pathways

As part of Lloyds Banking Group's acquisition of SW Embark and its integration into Scottish Widows, responsibility for independent oversight of SW Embark's investment pathways transferred to the Scottish Widows IGC from 1 January 2026. The IGC has completed the annual assessment for the year ending 31 December 2025.

The IGC's oversight of SW Embark investment pathways focuses on customers using non-advised drawdown solutions where an investment pathway has been selected.

How the IGC assesses value for money

In line with Financial Conduct Authority (FCA) requirements, the IGC assesses VfM across three core areas:

- **investment performance**, including responsible investment considerations;
- **costs and charges**; and
- **service quality**, including customer communications and support.

Our findings are reported under four headings:

- investment performance;
- charges and costs;
- service and communications; and
- engagement and customer support.

In reaching our conclusions, we consider a range of evidence, including investment data, service metrics, customer engagement information and complaints. Where evidence is limited or further insight is required, we may ask Scottish Widows to undertake additional analysis. We also take account of wider economic and regulatory developments that may affect customer outcomes.

Regulatory context

The FCA has introduced specific requirements for the governance of investment pathways, including independent oversight by an IGC or GAA, and expectations around responsible investment and market benchmarking.

The FCA, together with the Department for Work and Pensions and The Pensions Regulator, is also developing a wider Value for Money framework aimed at improving transparency and comparability across pension products. While headline conclusions have been published, further detail is still being refined and it is not yet clear when changes will be implemented. The IGC will adapt its approach as required.

From 2023, the introduction of the FCA's Consumer Duty has increased expectations on firms to act in customers' best interests and deliver good outcomes. The IGC considers how SW Embark's investment pathway proposition aligns with these requirements and will continue to reflect this in future reports.

5 WHO ARE THE MEMBERS OF THE IGC?

The FCA requires that the IGC consists of at least five members, the majority of whom are independent, including the Chair. The Chair is required to ensure that the IGC has access to the necessary expertise and, when required, secure additional specialist expertise.

The Scottish Widows IGC was chaired throughout 2025 by Anna Bradley, supported by three further independent members, Mark Thompson, Charles Counsell OBE and Oke Eleazu, and two Scottish Widows members – Maria Herro Bullich and Graeme Bold. The inclusion of two members of the Scottish Widows management team brings considerable subject matter expertise to the Committee and ensures the right resources can be accessed quickly to support the IGC's work.

The members of the IGC bring a wealth of experience at senior levels across the industry, including pension scheme governance, typical pensions practice, investment oversight and customer communications, together with in-depth knowledge of Scottish Widows products.

Further details on each member are available **here**.

Anna Bradley
A specialist in regulation and policy, who brings over 20 years' experience in consumer advocacy to the role.

Mark Thompson
A pensions and sustainable investment expert, with more than 35 years' experience in pension investment.

Charles Counsell OBE
A workplace pensions reform expert and former Chief Executive of The Pensions Regulator, as well as former Chief Executive of the Money Advice Service.

Oke Eleazu
A senior executive with experience across financial services and healthcare, with a strong focus on customer experience and diversity, equity and inclusion.

Maria Herrero Bullich
Chief Customer & Digital Officer, Insurance, Pensions & Investments.

Graeme Bold
Managing Director, Pensions and Retirement.

6 GLOSSARY

A

AMC (Annual Management Charge)

This is how much you are charged to have a workplace pension each year. AMCs are generally applied as a percentage of the assets of the fund, for example 0.5% of fund assets per year. Charges could also include a fixed monetary portfolio management fee.

Annuity

An annuity provides regular, guaranteed taxable income for the rest of your life.

C

Cash and Near-Cash Investments

Cash and near-cash investments are short-term investments that can be quickly and easily converted to cash and have maturity periods of 90 days or less. It is important not to confuse cash as an investment with holding your money in cash in a bank or building society. Examples of near-cash investments are: deposit certificates (a type of short-term bond), foreign currencies marketable securities (that can be turned into cash quickly) and Treasury bills (short-term arrangements issued by the Government).

D

DWP (Department for Work and Pensions)

The British Government department responsible for welfare, pensions and child maintenance policy.
As the UK's biggest public service department, it administers the State Pension and a range of working age, disability and ill health benefits to around 20 million claimants and customers.

E

Equities/Shares

Equities are shares in the ownership of a company. When a company offers shares it is selling partial ownership in the company.

F

FCA (Financial Conduct Authority)

Regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable and promoting healthy competition between financial service providers.

Funds

A fund gives you access to investments, which are chosen and managed for you by a fund manager. A fund manager decides what to invest in and when to buy and sell the investments. The investments in a fund are typically a range of shares in companies or other types of investments, such as property.

I

Investment Pathways

Investment options that are aimed at helping customers who do not use a financial adviser to choose a fund for drawdown that most closely meets their needs.

R

Returns

Return, also called return on investment, is the amount of money you receive from an investment.

S

SRA (Selected Retirement Age)

Selected retirement age is the date when you think you will want to start taking benefits and income from your personal pension. It is not a fixed date, and you do not have to access your pension when you reach this age.

T

Transaction Costs

Transaction costs happen when underlying investments are bought and sold. Investments are bought and sold with a view to improving investment returns; the effect of transaction costs is to reduce these returns. Costs for specific funds are driven by the volume of transactions and the cost associated with each transaction.

V

VfM (Value for Money)

The concept of VfM in everyday life is easily understood as "not paying more for a good or service than its quality or availability justify". In broad terms, VfM in pensions is understood in a similar way; IGCs measure VfM by looking at the benefits delivered through investments, service and engagement, and communications, as against costs and charges.

Volatility

It is normal for the value of your pension to go up and down over the short term. This is because your pension is likely to be invested in company shares and other stock market investments that carry risk. Unlike money held in a bank account, stock market investments tend to go through periods of upwards and downwards price movements, including sudden changes over the short term. This is known as volatility.

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