MOBIUS LIFE

STEWARDSHIP & ENGAGEMENT POLICY
2020 ANNUAL REPORT

Who we are

Mobius Life is an authorised unit-linked UK life insurance company. We are an independently owned business committed to helping UK institutional pension schemes and asset managers implement their investment strategies and meet their investment objectives. We offer clients access to an investment platform operating within a life company structure, supported by a wide range of investment services.

Established in 1996, our roots stem from a multi-manager business and in 2014 we refocused our business as an independent institutional platform, whilst preserving our solutions-orientated mindset. This fostered the development of our expertise in supporting solution design and execution for pension schemes. This capability, alongside an appetite to offer clients a bespoke experience has driven our growth; we now invest over £23 billion of assets (31st December 2020) on behalf of DB (Defined Benefit) and DC (Defined Contribution) pension schemes.

Our focus is to build a cost effective solution to help trustees of pension schemes achieve their objectives, shouldering the implementation burden and operational risks for the scheme and their consultants. This allows trustees and their consultants to focus on their investment strategy and understanding asset manager practices.

Our clients typically have a long investment horizon and beyond the moral drivers to ensure good stewardship in their investments, a sustainable approach to investing is necessary in order to meet their goals. We actively engage with our consultant partners to ensure we understand the requirements of their advised pension schemes, adding their requested investments to our fund universe to align with their investment strategy and beliefs.

We welcome the introduction of the UK Stewardship Code 2020 by the Financial Reporting Council as it raises the bar for stewardship standards across the industry. We are uniquely positioned between pension schemes and asset managers, and we are constantly finding new methods to harness our position to encourage better practice and to facilitate greater transparency for pension scheme trustees. Despite the pandemic, 2020 has been a year of significant progress as we increased our engagement with asset managers and provided more in depth ESG reporting to clients.

Further developments in regulation mean trustees must consider how they incentivise asset managers to invest in accordance with their own beliefs on issues such as climate change and board diversity. We have always set minimum requirements on asset managers prior to investing, ensuring they satisfy our criteria as well as from a stewardship perspective. We believe our robust approach to investment governance enables trustees to promote and realise effective stewardship through the platform.

As a testament to our progress, the independent industry judges at the UK Pensions Awards have recognised Mobius Life as the Institutional Platform Provider of the Year in 2019 and 2020.

> " Our independence is what differentiates us. We avoid the potential conflicts of other ownership models and this allows us to focus on supporting long term value creation for our clients. "
>
> Adrian Swales,
> Chief Executive Officer

We have linked the sections of this report to the principles of the UK Stewardship Code 2020, which can be viewed here.

Principle 1: Purpose, strategy & culture

Our clients

All of our clients are UK registered pension schemes to whom we issue a Mobius Life unit-linked policy. Our policyholders will take advice from an independent consultant and use our platform to execute their investment strategy.

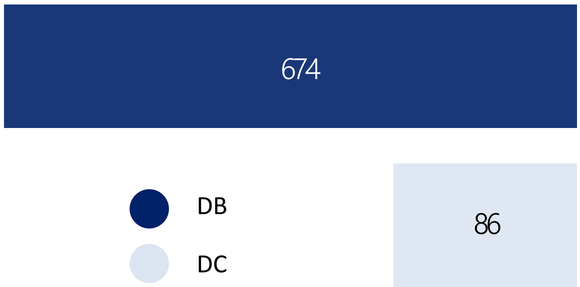
Much of our initial and ongoing communications are with consultants appointed by the pension schemes. Over time, our relationships with the consultant community has developed, with the trustees' decision to use Mobius Life being supported by consultants.

In our early years of growth, consultants would predominantly advise trustees to use our services for DB pension schemes to help them implement their initial and ongoing advice. Our ability to accommodate a wide range of strategies, including LDI (liability-driven investments) and income distributing funds all in one place has made us extremely attractive to trustees of small and medium sized pension schemes.

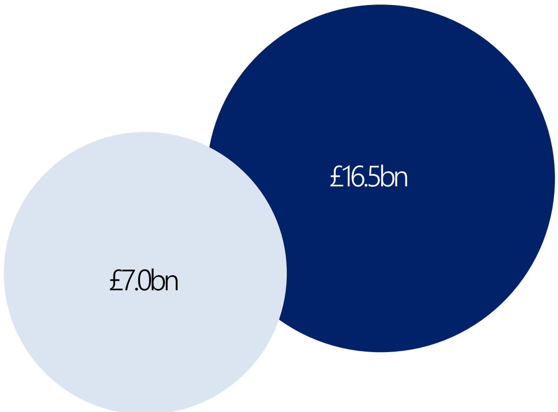
As we have grown, asset aggregation has allowed us to negotiate more attractive fees with asset managers and to pass the financial benefits onto our clients. Also the development of our services and increased product range has attracted larger DB and DC pension schemes to use our platform solution. Our capability to build bespoke blended investment structures for clients has helped in this regard, with DC clients now representing around a third of the total assets under administration.

As a consolidator of assets, governance reporting remains a fundamental part of the service we offer to clients. The ability for a pension scheme to view their portfolio of investments in one place is integral to our solution and we provide an automated report on a daily basis, detailing holdings, unit prices and transactions.

Number of pension schemes - 31.12.20



Assets under administration - 31.12.20



We provide our clients with monthly valuation statements, quarterly reports and annual reports. We have a dedicated Client Relations team to support our clients, their consultants and audit partners with their day to day enquiries. We regularly engage with our clients to discuss ways to improve client outcomes, holding both operational and strategically focused meetings, with client feedback and requirements raised at the appropriate level for consideration. We believe we have a strong understanding of our clients and how we can continue to help them reach their objectives.

" We continually strive to improve our client proposition by regular engagement with our adviser partnerships to explore different ways to support schemes' unique requirements. "

Laura Catterick,
Commercial Director

Asset allocation breakdown

With many DB pension schemes still addressing funding gaps, allocations are still typically growth-orientated with LDI used alongside to provide a liability hedge and capital efficiency. In 2020 we made available a structured equity solution that can be tailored to fit the specific needs of a pension scheme, to support in the management of equity risk exposure through the market cycle. During 2020, our DB schemes showed more signs they were maturing with consultants looking for assets contractual in nature through either credit-orientated cashflow approaches or real assets that provide a secure income. In one case, we supported a scheme looking for a buy-in opportunity with a third party insurer, by building a specific asset portfolio and managing the asset transition between the counterparties.

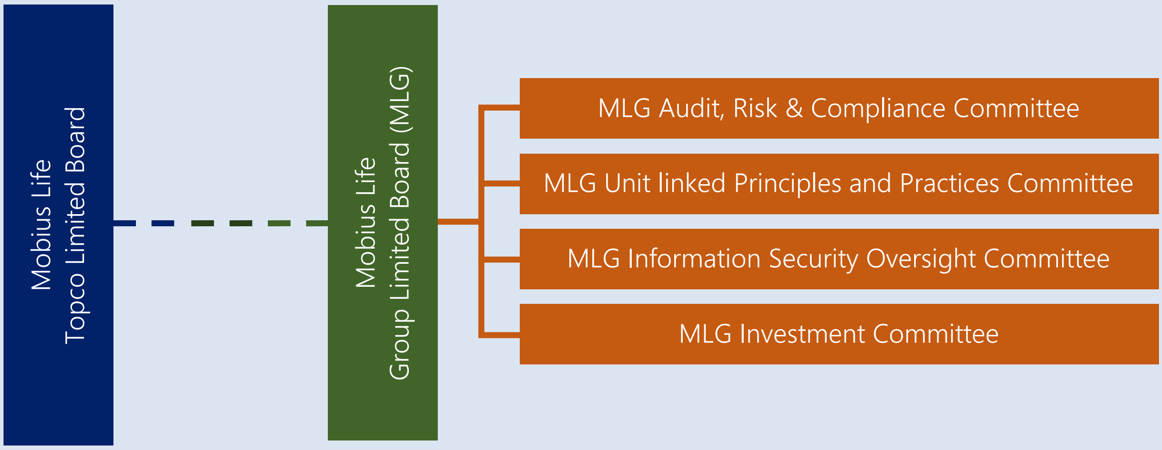
Our DC pension schemes and mastertrusts have unique structures in place to facilitate the investment glide path for their members' retirement journeys. These range from building block lifestyling approaches to target date fund approaches. Allocations to liquid risk assets such as equities and diversified growth funds are used in accumulation phases, de-risking to fixed income securities as members approach the pre-retirement phase. Increasing demand for ESG integration, stewardship disclosure, and the need for diversification and yield through alternative assets was evident in 2020.

Working remotely in 2020 presented an opportunity for us to engage more actively with our consultants' investment professionals, who drive asset allocation reviews on behalf of pension scheme trustees. This allowed us to enhance our understanding of pension scheme requirements and identify how we can further support them in meeting their objectives. One such requirement was higher yield through alternative credit strategies to help clients close their funding gap, and as a result we sought to make available semi-opened structures that provide illiquid exposures.

> " The low-yielding environment and the drive to make real impact from capital investments will push investors towards alternative assets. We recognise this and have been taking measured steps to bring these solutions to our clients. "
>
> Mithesh Varsani, CFA
> Head of Investments

Our structure

Mobius Life is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. We have a rigorous corporate governance framework overseen by the Board, consisting of a majority of independent non-executive directors.



The Board delegates certain functions to sub-committees, without abdicating its own responsibilities. Delegation is formal and involves the following:

- Formal terms of reference are established and approved for each committee of the Board.
- The committees' terms of reference are reviewed once a year.
- The committees are appropriately constituted with due regard to the skills required by each committee.
- The Board establishes a framework for the delegation of authority to management.

As such, the MLG Investment Committee (IC) was established by the Board and is responsible for assisting the Board in discharging their duties relating to the safeguarding of assets and the review and implementation of investment strategy. The committee has investment oversight of all external unit links and internal unit linked funds in accordance with the PRA's Prudent Person Principle investment rules and the FCA's permitted links rules. The committee has oversight of Mobius Life Limited's adoption, alignment and adherence to industry standards related to the principles and practices to asset ownership.

Employee training is key to ensuring that knowledge and skill development is encouraged through the business to aid the process of responsibility delegation. Our view is that while employee training has been successful, we can always do more and increase its breadth and importance in overall company culture. We will continue to expand this, with a focus on our e-learning in the current environment. Diversity and inclusion training is high on the agenda as a near term development, scheduled to be rolled out in the coming year.

We have also made excellent progress in our recruitment, growing our workforce while ensuring we maintain diversity in the workplace. Out of our 50 employees, 20 are women with the ratio of women to men increasing year-on-year. We will continue to offer equal opportunities in our recruitment, hiring on the basis of having the appropriate competency for the role.

Permissible investments

Mobius Life writes unit-linked policy contracts whereby the liabilities to policyholders are 100% matched with assets, which are invested in line with the instructions of a policyholder. Mobius Life does not bear any investment risks on behalf of the policyholder. Investments made available must have a profile and duration that are consistent with policyholder interests.

We expect our clients to work with their consultants to understand their requirements and to undergo an investment selection process which considers the investment and stewardship approaches of a range of asset managers.

Before investing, alongside our investment due diligence, we complete an operational due diligence for each new investment to understand the compatibility with our dealing and operational model. We have a dedicated and experienced due diligence oversight team responsible for the initial and ongoing operational review of funds.

As part of the initial onboarding process for any new investment, we expect every manager to provide their Stewardship Code, or equivalent, and their policies relating to their ESG approach. Failure of the manager to meet any of our minimum requirements for investment would prevent us from investing on behalf of our clients. This is the strongest incentive we can give to asset managers to encourage appropriate stewardship.

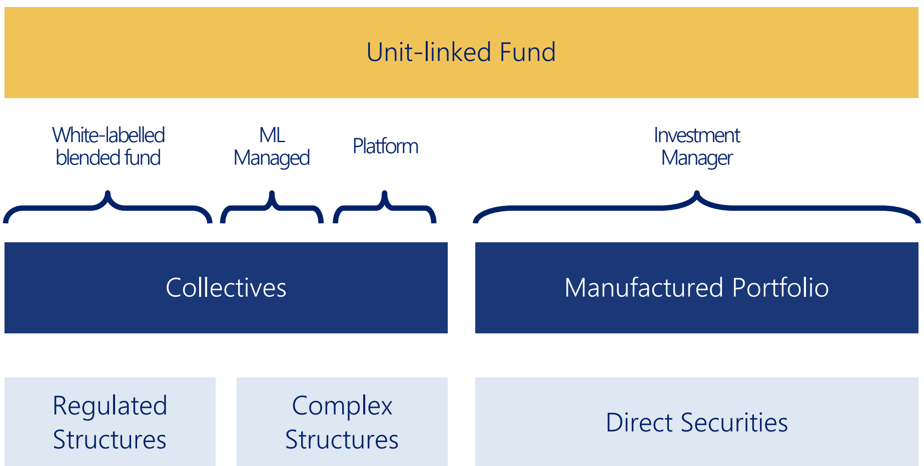
The majority of our investments are in authorised structures (e.g. UCITS, NURS) that are classified as permitted links in accordance with the FCA's Conduct of Business Sourcebook (COBS). These provide a framework for investments acceptable for a unit-linked life insurance policy and are a requirement for our DC clients.

The permitted links rules are highly prescriptive with only certain fund structures considered acceptable - those with stringent risk controls, investment restrictions and liquidity requirements. The IC maintain and monitor a pre-approved range of fund structures that satisfy the permitted links guidance.

For DB clients, we may invest in products that do not satisfy permitted links rules as they are non-standard structures. In these instances we undertake enhanced due diligence on new investments to understand the associated risks, including but not limited to valuation uncertainty and liquidity risk. The reviews are undertaken by our qualified investment team, who are all CFA Charterholders. In doing this due diligence, Mobius Life are compliant with the expectations outlined under the Prudent Person Principle (PPP).

Mobius Life also offer a small range of funds managed internally by our Investment Team, who have discretion over the selection of underlying investments. Mobius Life Managed funds hold collective investment schemes or other reinsured funds. These funds are managed in accordance with Mobius Life's investment philosophy and processes, where any proposed investments undergo a full investment due diligence and must be approved by the IC before investment.

Mobius Life also work with asset managers to provide unique solutions to the marketplace. Where Mobius Life manufactures a solution for an asset manager, this takes place through an investment management agreement (IMA). In order to appoint an asset manager we undertake rigorous due diligence to understand their ability to implement the specific strategy, ensuring they are fit for purpose and have the appropriate investment processes in place. In doing so, we take into account our regulatory obligations and ensure we put in place prudent investment guidelines for the portfolio such that assets are invested in accordance with PPP.



Monitoring and engagement

It has always been our policy to ensure we hold managers to account for their actions and to act in the best interest of our clients. We contact each of the asset managers we invest with on an annual basis to ensure they are complying with our governance requirements at a company level and in their investment approach.

We require asset managers to provide an annual attestation of compliance for each fund we invest in, to confirm it continues to operate in line with its investment objectives. This includes a request for details of their latest stewardship code, engagement and ESG policy, as well as details of any material events and compliance with regulatory requirements. Failure to complete the attestation would lead us to reconsider our relationship with the manager and take appropriate recourse through our investment committee.

69 asset manager attestations in 2020

A significant development in 2020 was the roll out of our ESG questionnaire for multiple asset classes, which we designed to introduce additional scrutiny on asset managers. The questionnaire is split into two sections, with the first focusing on the asset manager business and its attitude, capability and implementation for investing responsibly. We ask managers questions such as: do they have a dedicated ESG team? And do they incorporate climate change into decision-making? The second section focuses on the engagements and votes made between the asset manager and its underlying investments at a fund level. It is this more granular information that will allow trustees to contextualise the approaches of asset managers and to understand how scheme assets are being invested in relation to their own morals and beliefs. This includes understanding voting patterns on the companies owned and detailing outcomes from fund manager engagement.

ESG questionnaire responses in 2020

116 funds

5 asset classes

41 questions

We prioritised our approach to contacting the asset managers on the basis of client demand to ensure we were supporting as many of our clients as possible in the first round of questions. We continue to strengthen our client reporting team to ensure we are able to collect and report regular fund level information from asset managers. We will work to improve this capability and meet the increasing needs of our clients. As part of this, reporting will need to improve for various asset classes as currently the requirements are very much tilted towards voting and engagement behaviours of listed equities managers. For example, the scope for reporting approaches to good stewardship in fixed income funds is relatively limited. We also expect our asset managers to begin reporting against the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD).

We have engaged with consultants on both active and passive funds that have investment processes targeting specific ESG-driven outcomes. As active approaches to improving stewardship, or having a positive impact on society, are often more expensive or difficult to understand, the demand has been more gradual for these products - though we expect this to change over time.

> " Passive ESG approaches have so far proved to be a sensible means of integration for clients. We have taken a systematic approach to adding these investments, whilst also considering the feasibility of more active approaches. "
>
> Joshun Sandhu, CFA
> Lead Investment Strategist

Anticipating risks and improving market function

As a regulated life insurance company we must undertake our own risk and solvency assessment (ORSA) as set out by the PRA under the Solvency II Directive. The ORSA process links to our risk appetite statements and tolerances for risks to the business and capital planning projections. The aim is to understand and project our risks and solvency capital in a forward looking assessment. This is conducted annually, prepared by our Chief Risk Officer with input from our Chief Actuary and detailed oversight is performed by our Audit, Risk & Compliance Committee.

Of course, the largest risk the industry faced over the year was the Covid-19 pandemic and our ability to continue servicing our clients during these unprecedented times. Our priority was first to ensure we were in a position to continue our key functions as staff moved to working from home. This transition was a smooth one as IT developments to our remote desktop capabilities and electronic trading with asset managers ensured our service continued to run seamlessly. Similarly, with all employees provided with the required equipment to work from home, communications with our clients were not compromised.

The Board consulted employees through the issue of a regular Employee Engagement Survey to determine the effects of the Covid-19 pandemic and the impact of home-working on employees. A risk assessment of the office was carried out to enable employees to return to the office on an ad-hoc basis when requested. Employee wellbeing has been at the forefront of our thinking this year and we provided mental and financial wellbeing workshops for employees, with more scheduled for the coming year. Our Investment Team presented to all employees across the business on the implications of climate change and the importance of our role in helping our clients to tackle ESG issues through investments.

Our priority has always been to engage with clients to understand how they view risks and how we can help tackle them, by making available the appropriate investments they require. We play an important role in improving market function by breaking down barriers to capital entry, such as minimum required investment sizes for certain funds. Through our governance, aggregation of assets and our relationships with asset managers, we are able to remove these sorts of implementation hurdles that typically challenge pension schemes. We have made good progress in the last year, bringing more complex solutions to our clients through our specialist funds range. In 2020, this has included alternative credit solutions, giving access to private debt through structures that may otherwise be difficult to access.

A key takeaway from this year is that we can have more of an influence in tackling some of the market-wide challenges impacting asset managers and pension schemes. As an execution-only platform, we do not drive particular initiatives as we are not designing the investment strategy for our clients. However, being more explicit about some of our own views and seeking transparency may in fact add more value than we expect and encourage similar stances from some of the organisations we work with. For example, while ESG and specifically climate change risks are well documented, we have taken opportunities to raise awareness of such issues in our discussions with consultants.

Regarding stewardship at a company level, the ML Group Equal Opportunities Policy and the ML Group Modern Slavery Statement were approved by the Board respectively in March 2020. Although we are operating in a very low risk environment, we are doing all we can to ensure that slavery or human trafficking does not affect any part of our business either directly or via our suppliers. We have established a Social & Charities Committee (SCC) with the aim of promoting social wellbeing and having a positive impact in the local area. The Mobius Life Executive Committee has approved an initial budget for charitable donations, with a charity to be chosen each year. The SCC will also consider how Mobius Life may additionally contribute to these charities through specific tasks or projects.

" Implementing new risk systems in 2020 supported continuous improvement in our processes and controls. Further roll-out in 2021 will also enable granular assessment of risks and our control effectiveness. "

Rowena Scarbrough,
Chief Risk Officer

Collaborative engagement and escalation

A useful example of how we have engaged with our industry can be found in the background work we undertook prior to the launch of our ESG questionnaire and reporting service. We recognised a lack of detail in the information being provided by asset managers on their engagement and voting practices; we needed to understand what asset managers were able to reasonably provide and whether this would be comprehensive enough to meet the needs of our clients.

Having put together questions that we believed were suitable to achieve sufficient transparency, we engaged with asset managers, trustees and consultants to refine the questions. There were some difficulties in ensuring the data was detailed enough but also in a format that is reportable and quantifiable. Tackling these issues has allowed us to gather pertinent ESG data to satisfy the regulatory requirements for trustee disclosures and allow for useful comparison and monitoring in future years. We have received industry recognition for the quality of our report and its effectiveness in supporting implementation statements. It has also created a framework for 2021 to engage with our asset managers and ensure they are making the appropriate changes to their investment processes.

We continue to develop the service and intend to make several enhancements in 2021. We have already been engaging with asset managers around the potential limitations of their current reporting. For example, it's clear that the current framework for analysing engagement with companies is not fit for private markets managers given the comparatively significant control these asset managers tend to have over their investments. Instead of voting, there should be more of a focus on the active influence on management and decision-making in order to understand approaches to good stewardship.

We will need to adapt the service through time to account for more complex asset classes, especially as we see increased allocations in this space. The natural next step would be to help facilitate comparison between asset managers and similar funds.

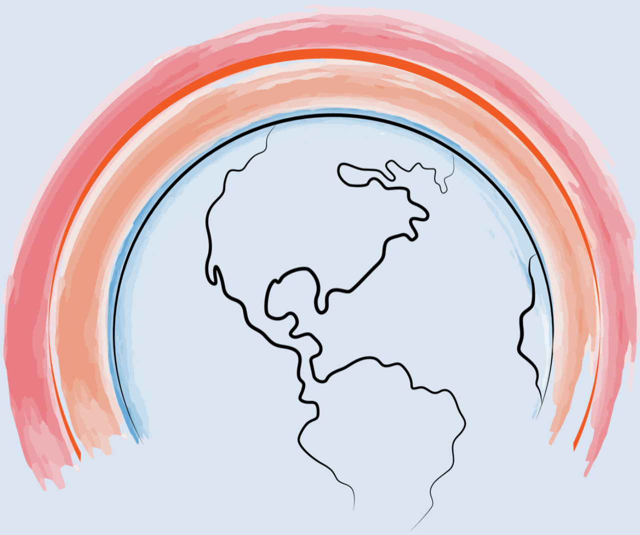
We have been in ongoing discussions with the Investment Association as they have developed the idea of the LTAF (Long-Term Asset Fund) structure, which is hoped to offer wide access to less regularly traded assets, such as infrastructure and private companies. These conversations have been supplemented by our experience in constructing portfolios for our DC clients, leaning on our experience in managing cashflows between assets that trade with different frequencies.

We are encouraged to monitor further developments in 2021, after the Chancellor of the Exchequer Rishi Sunak pledged in November 2020 to have the first LTAF launched within a year. We are simultaneously in discussions with consultants, and directly with clients, around the existing capability in this space, hoping the LTAF will widen the toolkit available when we are looking to allocate to illiquid asset classes for our DC clients.

> " We engaged with our investment community to ensure our clients' interests were put first. This allowed us to create an effective ESG reporting service that provides greater transparency and disclosure. "
>
> Daniel Ormond, CFA
> Senior Investment Analyst

Additionally, we took significant strides in developing our capabilities within climate change. We conducted extensive research into upcoming regulatory changes such as trustee reporting under the Task Force on Climate-related Financial Disclosures (TCFD) requirements. In doing so, we engaged with asset managers and service providers to establish the types of information we could obtain and make available for our clients. In particular, our focus was on service providers who offer climate modelling tools. These would allow clients to see the potential implications of both a warming planet and a reduced reliance on fossil fuels for asset class returns. In 2021 we plan to engage with consultants and clients around reporting and tools as a first step to help them contextualise the impacts that climate change can have on their ability to meet their long term objectives. We expect climate change to be at the forefront of our clients' thinking in the coming years. Our research into this area has influenced investment management decisions within our Mobius Life Managed funds, where we are beginning to integrate funds that consider ESG and climate factors within the investment process.

Climate change



Real world climate risks and impacts are already underway and will continue to manifest over multi decades.

Economic impacts will be material on market-wide indicators such as GDP growth, interest rates, inflation and more.

Climate risks are systemic and cannot be avoided, and so they must be considered on a strategic basis by all investors.

physical risk

Relates to the physical impacts of climate change such as rising temperatures, rising sea levels and increased frequency & severity of extreme weather events

transition risk

Relates to risks and opportunities from the realignment of our economic systems towards low-carbon, climate-resilient and carbon-positive solutions

Voting

We expect consultants to understand the decision-making approach of the funds they advise our clients to allocate to. Similarly, we expect them to understand what this means for the voting approaches of their chosen asset managers. We hold units in funds rather than shares in underlying companies. Therefore, we have effectively delegated voting responsibility to the asset managers and so our priority when investing is to ensure asset managers have a coherent voting policy in place. We expect asset managers to vote in line with their documented voting policy. In the comparatively rare scenario that we hold direct securities, these are typically done via an IMA with an investment manager. In these instances we will ensure that the voting practices of the asset manager are reflected as part of the IMA with responsibility delegated to the asset manager where appropriate.

There are a few methods we can follow in order to improve outcomes and transparency in regards to voting. We work with our clients to either make particular funds available or use our infrastructure to build investment products to accommodate a particular approach to voting. For example, we have explored holding direct securities and appointing an external party to vote on them for specific clients. A key driver of the applicability of such a product will be the costs associated, particularly for clients working with stricter cost constraints. Increasingly an important role for us is to provide transparency to the voting and engagement practices of asset managers. Our ESG questionnaire tackles this directly at the fund level, asking asset managers for a breakdown of votes made for and against management while identifying when asset managers have abstained from votes or used a third party. We also ask for more detailed information around some of the key votes and engagements to provide further context to our clients.

The majority of funds on the platform will approach stock lending within UCITS rules, including restrictions on eligibility and diversification of collateral. As part of the ESG questionnaire, we ask for opening and closing stock lending balances as well as asking whether funds report on the percentage of their holdings that have been voted on. We have included these questions in order to identify scenarios where stock lending practices are having a negative impact on an asset manager's ability to enact their voting policy. We have not experienced this yet in our engagements with asset managers.

Example reporting

Conflicts of interest

Uniquely, we do not represent proprietary funds and therefore avoid conflicts of interest associated with proprietary fund providers. Mobius Life do not offer advice to policyholders and do not advise investment managers on their investments. It is therefore unlikely that a conflict of interest would arise between the investment interests of our policyholders and the position of the Mobius Life Group. Our Conflicts of Interest Policy is available on request.

Mobius Life's policyholders are classified as professional investors, except for those with less than £10m in assets or fewer than 50 members. All of our policyholders are UK registered pension schemes who will therefore make investments on the Mobius Life platform following advice from an external authorised entity. In the rare instance that Trustees have not taken advice, they will sign confirmation that they have not taken advice from Mobius Life.

As part of our governance process, all Mobius Life staff receive Conflicts of Interest Training upon joining the business and thereafter annually. Any potential or actual conflicts are recorded and monitored on our Risk Register. As part of our ongoing monitoring programme, all Mobius Life staff confirm (on a regular basis) whether any new conflicts have arisen.

A conflict of interest could potentially arise where Mobius Life is providing a service to a client and there is a material risk of damage to the interests of a client because Mobius Life:

- Is likely to make a financial gain, or avoid a financial loss, at the expense of the client;
- Has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest;
- Has a financial or other incentive to favour the interests of another client or group of clients over the interests of the client;
- Carries on the same business as the client; or
- Receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for the service.

The existence of a conflict does not depend on a specific intent to disadvantage the client, or even on the awareness of it by either party. This means conflicts are not always self-evident and a periodic review is required to identify new business circumstances and to address any which represent actual or potential conflicts of interest. The Board are subject to the Conflicts of Interest Policy and a periodic review is necessary to address potential conflicts for members.

We expect asset managers we invest with to have the necessary policies in place in order to address and mitigate potential conflicts of interest that arise in their investment and stewardship activity. We have seen conflicts of interest arise from platform ownership structures where the ownership lies with an asset manager or consultant. In these instances, pension schemes may be limited to investment products managed by that asset manager or advised by that consultant. It is our view that our independence and our focus on offering the most efficient investment platform solution to our clients has successfully kept conflicts of interest at bay.

Get in touch

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