Legal Services Commission No.4 Pension Scheme

Annual Report and Financial Statements
31 March 2021
Scheme Registration number 10027837

Contents

Section 1 – Trustees and their Advisers

The Trustees

The Trustees of the Legal Service Commission No. 4 Pension Scheme are set out below:

Independent Chair

Jill Youds

Employer nominated	Member nominated
Adam Pirani	Giorgio Bugnatelli
Audrey Fullerton	Rosina Farrell
Peter Church	Roger Hamilton

Secretary to the Trustees	Hymans Robertson LLP

Advisers

The advisers to the Trustees are set out below:

Actuary	Hymans Robertson LLP, Matthew Davis, FIA
Independent Auditor	Crowe U.K. LLP
Legal Adviser	CMS Cameron McKenna Nabarro Olswang LLP
Administrator	Hymans Robertson LLP
Investment Managers	Legal & General Assurance (Pensions Management) Limited ("Legal & General")
Bankers	Barclays Bank Plc
Principal Employer	Ministry of Justice
Pensions Manager	David Collins, Ministry of Justice

Section 2 – Trustees' Report

The Trustees are pleased to present their Annual Report and Financial Statements of the Legal Services Commission No. 4 Scheme ('the Scheme') for the year ended 31 March 2021.

Management of the Scheme

Legal Status

The Scheme is governed by a Definitive Trust Deed and Rules dated 24 November 2010.

The Scheme is a defined benefit final salary scheme and was closed to future accrual with effect from 1 April 2013.

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004. It has a Crown Guarantee under the Legal Aid, Sentencing and Punishment of Offenders Act 2012. Members are contracted out of the State Second Pension (formerly the State Earnings Related Pension Scheme).

Trustees

A list of Trustees is included on page 1.

In accordance with the Trust Deed the Employer has the power to appoint and remove Employer Nominated Trustees.

The members are responsible for electing the Member Nominated Trustees (MNTs). The term of office of MNTs will generally be four years but a Trustee will remain in office until they are formally removed as an MNT following any subsequent nomination and selection process where they are not reappointed or following them ceasing to be eligible.

All Trustees are able to resign at any time.

During the year an MNT selection process was completed. All three MNTs (set out on page 1) were re-elected.

Scheme Management

The Scheme Rules set out the Trustees' duties and responsibilities for running the Scheme. This includes management of the Scheme, setting an appropriate investment strategy, appointment of an administrator, paying the relevant benefits to members and their beneficiaries, keeping proper records of financial transactions and producing the Annual Report and Financial Statements for the Scheme which will be subject to independent audit.

The Scheme Rules stipulate that the Trustees will appoint an Actuary, Auditor, Fund Manager(s), one or more Custodians, and a Legal Adviser.

The Trustees met seven (2020: four) times during the year to consider matters of administration, investment and to discuss relevant issues with the Scheme's external advisers. The Trustees met more frequently this year in light of the COVID-19 pandemic in order to monitor the Scheme's operations and funding more closely as the situation evolved.

Trustees' Report (continued)

Trustee Training

The Pensions Act 2004 requires trustees of an Occupational Pension Scheme to have an appropriate knowledge and understanding of the laws relating to pensions, trust law, the principles relating to the funding of Occupational Pension Schemes, and the investment of the assets of such schemes. The knowledge and understanding required is to ensure Trustees can properly exercise their duties. The Trustees received appropriate training during the year the content of which is recorded in the minutes for the relevant meetings.

The Pensions Regulator has issued a Code of Practice which specifies the areas of knowledge required and has developed an e-learning website (Trustee Toolkit) to help meet this requirement. Trustees are encouraged to complete all modules of this toolkit. All the Trustees have completed all the Pensions Regulator's Trustee Toolkit "Essential" Modules at the time these accounts were produced.

Conflicts of Interest

A Conflicts of Interest Policy is in place to assist the Trustees in identifying, managing and monitoring any conflicts of interest (actual or potential) which may arise in relation to the Scheme. The Policy takes account of the guidance from the Pensions Regulator and the Scheme Rules. Each Trustee declares his or her interests and these are recorded in a register. Any new conflicts are requested to be declared at the beginning of each Trustee meeting.

Risk Management

The Trustees are responsible for the Scheme's financial position and hence the risk management and control systems. Risk management and internal control systems provide reasonable assurance that risks will be identified and managed. These controls also ensure strict compliance with primary legislation and regulation. The Trustees have a risk register to document the key risks for the Scheme and the controls in place for mitigating these risks.

Trustees' Report (continued)

Financial Development of the Scheme

The Accounts are set out on pages 19 to 30. The Accounts have been prepared and audited in accordance with: The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996; and the regulations made under sections 41(1) and 41(6) of the Pensions Act 1995.

The net assets at 31 March 2021 were £454,982,155 which represents an increase of £26,805,508 over the position at 31 March 2020. The reason for this increase is presented below:

	2021 £	2020 £
Member related income	2,544	3,460
Member related payments	(11,353,059)	(11,600,229)
Net withdrawals from dealings with members	**(11,350,515)**	**(11,596,769)**
Net returns on investments	38,156,023	8,875,568
Net increase/(decrease) in fund	**26,805,508**	**(2,721,201)**
Net assets at start of year	428,176,647	430,897,848
Net assets at end of year	**454,982,155**	**428,176,647**

COVID-19

At the time of approval of the financial statements, the COVID-19 virus continues to develop and has been designated a global pandemic by the World Health Organisation. Both short term and long-term effects are unknown but, as for many schemes at this time, the Trustees consider whether there is potential for a significant and enduring impact on the Scheme. Specific actions taken by the Trustees have been as follows:

- The Trustees held an out-of cycle call at the start of the pandemic to assess the potential impact on the Scheme, with a focus on operational issues. All outsourced providers were asked to provide details of their business continuity plans. The Trustees are satisfied that these are appropriate and will allow the Scheme to continue to operate smoothly. At the time of this report there have been no delays to pension payments as a result of the pandemic.
- Frequency of Trustee meetings was increased to monthly (rather than quarterly) over the period April – September 2020, in order to more closely monitor the Scheme's operations and funding level and be able to react more quickly should any issues arise.
- The Scheme's investments were monitored closely throughout the time of the pandemic. There was an initial decrease in funding level although the Scheme was protected by the level of hedging in the strategy. Since then the funding level has returned to pre-Covid levels.

The financial statements are prepared on a going concern basis, which the Trustees believe to be appropriate as they believe that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least the next twelve months. In reaching this conclusion, the Trustees considered the impact of the COVID-19 outbreak and have taken into account plausible downside assumptions of the sponsoring employer to gain comfort that it will continue to make contributions as they fall due. This assessment, together with income and capital growth from its assets, gives the Trustees confidence to prepare the financial statements on a going concern basis.

Trustees' Report (continued)

Crown Guarantee

On 1 April 2013, the Scheme was provided with a Crown Guarantee from the Employer. This provides members of the Scheme with protection that their benefits will be paid as the Employer will ensure the Trustees have sufficient funds available to meet all future payment obligations.

In addition, the Legal Services Commission Occupational Pension and Compensation Transfer Scheme sets out the funding framework of the Scheme which requires actuarial valuations to be conducted at least every three years. If the valuation results identify insufficient funding the Employer will be required to commence payments to the Scheme to meet the shortfall as detailed on the following page.

Funding Level (%)	Recovery Payment Plan
Above 105%	The Employer can elect to withdraw money out of the fund, only to the extent that the funding level does not drop below 105%.
90% – 105%	No recovery plan required.
85% – 90%	No recovery plan required unless two consecutive valuations fall within this funding level. If so, then a 20 year recovery plan is required to restore the funding to 100%.
Below 85%	A 20 year recovery plan to be put in place until the Scheme is back to a fully funded position at 100%. The Employer does have the option of topping up the fund to the desired fully funded position.

Summary of Contributions

The results of the 2019 valuation established a funding level of 96%. No deficit contributions were required from the Employer under the Scheme's funding arrangement as the Scheme was more than 90% funded on the Technical Provisions basis at the valuation date.

Report on Actuarial Liabilities

The Scheme has a funding objective, which is to have sufficient assets to cover its Technical Provisions. The Technical Provisions represent the present value of the benefits members are entitled to at the valuation date, assessed using assumptions set by the Trustee as set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2019 and a summary of the results is set out below:

	31 March 2019
The value of the assets was:	£431m
The value of the Technical Provisions* was:	£451m

*The Technical Provisions represent the estimated cost of providing benefits for Scheme members.

The method and significant assumptions used to determine the Technical Provisions are as follows:

Trustees' Report (continued)

Report on Actuarial Liabilities (continued)

Method

The actuarial method to be used in the calculation of the Technical Provisions is the Projected Unit Method.

Significant actuarial assumptions

RPI inflation	Market implied gilt RPI curve
CPI inflation	RPI curve less 0.7% p.a.
Pre-retirement discount rate	Gilt yield curve plus an addition. The addition is 0.5% p.a. in 2019 and the addition tapers down linearly to no addition by 2039.
Post-retirement discount rate	Gilt yield curve plus an addition. The addition is 0.5% p.a. in 2019 and the addition tapers down linearly to no addition by 2039.
Longevity base tables – post retirement	Club Vita tables
Longevity future improvements	2018 CMI model with a long-term rate of improvement of 1.75% p.a. for males and females and an initial addition 'A' parameter of +0.5 for males and +0.25 for females
Longevity base table – pre retirement	S3PMA for men and S3PFA for women

The next formal valuation of the Scheme is due as at 31 March 2022.

Changes in Benefits of the Scheme

There have been no changes to the benefits of the Scheme during the year.

Guaranteed Minimum Pensions

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. Following the High Court's judgement, the Trustees began looking into equalising GMP and have received training on industry developments and equalisation methods.

During the year, the Trustees formed a GMP equalisation sub-group to progress actions in this area where practical, whilst awaiting further HMRC and public sector guidance. The calculation of the changes to Scheme benefits that will arise from equalising GMPs is complex and the methodology to be adopted in determining the amounts has yet to be agreed. The Trustees will be unable to estimate the overall potential cost of equalisation until detailed calculations on a case-by-case basis have been performed. However, from the initial review performed by the Scheme Actuary (based on an estimate which was calculated for the employer accounts) the overall increase in the liabilities of the Scheme is estimated to be less than 0.05% of the total actuarial liabilities.

A further ruling in the Lloyds case was made on 20 November 2020, relating to Trustees' obligations to equalise GMP in past transfer values. The judge ruled that Trustees had a duty to make a transfer payment that correctly reflected members' rights to equalised benefits, meaning that Trustees may be required to issue top-up payments to members who have exercised their statutory right to transfer since May 1990. The Trustees agreed to adopt an approach to reflect equalised GMP in future transfer values, effective from 1 March 2021.

Trustees' Report (continued)

Report on Actuarial Liabilities (continued)

Pension Increases

On 1 April each year the Scheme awards pensioners and preserved members an increase to their annual pension, which is linked to the change in the Consumer Price Index over the year to the previous September, as required by the Scheme Rules. The change in the Consumer Price Index over the year to September 2019 was 1.7%, therefore a pension increase of 1.7% was awarded to members' pensions on 1 April 2020.

Transfer Values

All transfer values paid and benefits secured by transfer values received during the year were calculated and verified as required under Section 97 of the Pension Schemes Act 1993.

Transfer values paid represented the full value of members' guaranteed benefits. There were no transfers paid at less than the cash equivalent.

No allowance is made for any discretionary benefits when assessing transfer values.

Scheme Membership

The reconciliation of the Scheme membership during the year ended 31 March 2021 is shown below:

Pensioner Members (including spouses and dependants)	Number
As at 31 March 2020	**993**
Prior period adjustments[1]	(1)
As at 1 April 2020	**992**
Retirements	48
New beneficiaries	10
Deaths	(39)
Pensioner members as at 31 March 2021	**1,011**

Included within pensioners are 193 pensioners (2020: 216) whose pensions are part paid from annuities held in the name of the Trustees.

Deferred Pensioner Members	Number
As at 31 March 2020	**1,281**
Prior period adjustments[1]	(8)
As at 1 April 2020	**1,273**
Retirements	(48)
Transfers out	(6)
Deaths	(3)
Deferred pensioner members as at 31 March 2021	**1,216**

[1] Prior period adjustments relate to late notification of movements which occurred in the relevant reporting period.

Trustees' Report (continued)

Investment Policy

Investment Governance

The Trustees rely on the governance activities of their Investment Manager. However, the Trustees are firmly committed to ensuring that their manager prioritises the application of the Financial Reporting Council (FRC) UK Stewardship Code appropriately, as good stewardship can enhance long term portfolio performance, and is therefore in the best interest of all stakeholders of the Scheme. The Trustees also hold their actuary and investment consultants to account be setting them objectives and reviewing progress against them every year.

The Trustees support the principles of the Stewardship Code and in conjunction with the Scheme's Investment Manager, the Trustees apply the seven principles of the Stewardship Code in respect of the Scheme's investment portfolio. The Trustees' full statement on adherence may be found on the FRC website: https://www.frc.org.uk/document-library/corporate-governance/stewardship-statements/lscspas

The Trustees hold regular meetings with their Investment Manager to discuss their corporate governance approach to ensure it continues to meet with the Trustees' approval. In addition, they will continue to monitor the activity and performance of their Investment Manager and to produce a Statement of Investment Principles ("SIP") in accordance with section 35 of The Pensions Act 1995.

You can review the Scheme's Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at: https://lscpensions.co.uk/media/3222/200818lsc-sipmf.pdf. A copy is also available on request from:

Hymans Robertson LLP
One London Wall
London
EC2Y 5EA
Email: lscpensions@hymans.co.uk

Myners

The Myners Code on institutional investment comprises a set of six pension fund investment principles. The Trustees have produced a statement 'Myners Adherence Document' which sets out their adoption of the Code and how they apply the principles in relation to the investment of the assets of the Scheme.

This document is available upon request from Hymans Robertson LLP whose contact details may be found above.

Investment Objective and Strategy

The Trustees' main objective is to have sufficient assets to pay the future benefits from the Scheme.

The Trustees have set an investment strategy which they believe is the most appropriate for the Scheme in the long term taking into account the nature of liabilities they expect to meet.

The Scheme carried out a review of the LDI benchmark in Q1 2020 and subsequently the Trustees agreed to rebalance the LDI portfolio to target 90% interest rate and 70% inflation hedging. In July 2020, the Scheme's gilt basis funding level improved to approximately 94% and in accordance with the Trustees' de-risking plan they agreed to de-risk the investment portfolio, reducing the target allocation to growth assets to 22%, which involved selling £7.1m proportionally from the LGIM World Index – GBP Hedged fund and the LGIM Future World Fund. The proceeds from the sale of equities was invested into the LDI portfolio which was again rebalanced in August 2020.

Trustees' Report (continued)

Investment Policy (continued)

Asset Allocation

The table below shows how the investment assets were split between the Legal and General ("L&G") funds as at 31 March 2020 and 2021. The assets below include only assets under the management of the investment manager and do not include the current assets and current liabilities of the Scheme:

Asset Class	Valuation 31 March 2021		Current Benchmark	Valuation 31 March 2020	
	£	%	%	£	%
Matching assets					
L&G 2032 Index-Linked Gilt	51,256,152	11.4			
L&G 2035 Index-Linked Gilt	10,411,065	2.3	-	3,769,648	0.9
L&G 2040 Index-Linked Gilt	-	-	-	35,297,353	8.4
L&G 2042 Index-Linked Gilt	59,846,904	13.3	-	50,187,886	12.0
L&G 2050 Index-Linked Gilt	34,522,298	7.7	-	55,254,852	13.2
L&G 2055 Index-Linked Gilt	13,693,806	3.1	-	45,525,688	10.8
L&G 2058 Index-Linked Gilt	37,375,440	8.3	-	7,759,681	1.8
L&G 2062 Index-Linked Gilt	-	-	-	27,432,116	6.5
L&G 2068 Index-Linked Gilt	20,202,398	4.5	-	32,144,202	7.7
L&G 2047 Gilt	21,631,435	4.8	-	6,607,181	1.6
L&G 2055 Gilt	1,909,729	0.4	-	-	-
L&G 2060 Gilt	14,121,409	3.2	-	10,688,208	2.5
L&G 2065 Gilt	30,381,285	6.8	-		-
L&G 2068 Gilt	-	-	-	38,891,907	9.3
L&G 2071 Gilt	29,569,203	6.6	-	-	-
	324,921,124	**72.4**	**78**	**313,558,722**	**74.7**
Growth assets					
L&G World Equity Index - GBP Hedged	63,276,654	14.1	11	53,105,833	12.7
L&G Future World Fund	60,406,106	13.5	11	52,833,103	12.6
	123,682,760	**27.6**		**105,938,936**	**25.3**
Sterling Liquidity Fund	77	N/A		-	-
Cash in Transit	163,862	N/A	N/A	268,075	N/A
Other					
L&G Annuity Policies	5,815,000	N/A	N/A	6,817,000	N/A
TOTAL INVESTMENT ASSETS	**454,582,823**	**100.0**		**426,582,733**	**100.0**

* Assets shown on a BID basis where available

Apart from the Legal & General Annuity Policies, all of the investments are pooled investment vehicles. The Gilt Funds, World Equity Funds and Future World Fund are priced and traded weekly by the investment manager on a bid price. The Trustees regard all the investments as readily marketable other than the Legal & General Insured Annuities.

The actual asset allocation is currently not in line with the current benchmark. L&G will rebalance any funds that have moved outside of its control range back towards its central benchmark weighting on a monthly basis.

Trustees' Report (continued)

Investment Policy (continued)

Investment Managers and Custodians

The Trustees have delegated all day to day decisions about investments to the fund manager through a written agreement. When choosing investments, the Trustees and the fund manager (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulation 2005 (Regulation 4). Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 requires that the manager duties also include taking into account social, environmental or governance considerations ("ESG") in the selection, retention and realisation of investments, and voting and Corporate Governance in relation to the Scheme's assets. Specifically, the Trustee have explicitly acknowledged the relevance of climate change and ESG factors in framing their investment beliefs. The strategic benchmark of the Scheme has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Trustees have considered the risks of climate change and consequently have invested 50% of the target allocation to global equities in the LGIM Future World Fund. This fund invests more in companies that have strong ESG scores and less in companies with lower scores. The Trustees have also discussed the potential impact of climate change with their Scheme Actuary and have reflected the risks in their choice of funding assumptions.

The Trustees periodically discuss climate change with Hymans Robertson and their investment manager to consider the potential implications for the Scheme's investments.

As the Scheme's assets are managed on a passive basis, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. However, as mentioned above, the Trustees have invested in a passive fund that tracks an index that is tilted towards companies with strong ESG scores. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which their current strategy has been set. The Trustees review the index benchmarks employed for the Scheme on at least a triennial basis.

The Trustees have considered non-financially material factors when developing their investment strategy. However, the Trustees have agreed not to impose any restrictions or exclusions to the investment arrangements based purely on non-financially material factors.

The Trustees policy on portfolio turnover, stewardship and monitoring is included in the Statement of Investment Principles which is attached to this document.

Legal & General – Managed Fund Assets

Legal & General's investment objective is to maintain the Scheme's distribution of funds close to the strategic benchmark set by the Trustees and within specified control ranges. Changes to the distribution of the funds are achieved by the application of cash flows and switches between the funds where possible.

The managed fund assets (World Equity Funds, Future World Fund and Gilts) are units held within the sector funds of Legal & General. The funds are unitised and the value of the units fluctuate directly in relation to the value of the underlying assets. All units are redeemable at bid prices that are obtained from independent, external pricing sources.

The underlying stocks and shares backing up the value of those units are held in safe custody by their nominees, HSBC Global Investor Services and Citibank.

Trustees' Report (continued)

Investment Policy (continued)

Legal and General – Annuity Policies

The Trustees hold annuity policies with Legal and General which provide a regular guaranteed payment to the Scheme to cover a small number of retired members' benefits.

The annuity policies have been valued by the Scheme Actuary using assumptions consistent with the latest actuarial valuation and rolled forward for market conditions at the net asset date.

Exercise of Voting Rights

The Trustees have delegated the exercise of voting rights to LGIM on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, LGIM have produced written guidelines of their process and practice in this regard. LGIM are actively encouraged by the Trustees to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies. Additional disclosures can be found in the latest SIP in the Appendix 1. The Trustees receive stewardship reports from LGIM detailing voting activity.

Employer Related Investments

There were no employer related investments during the year (2021: £nil).

Trustees' Report (continued)

Investment Policy (continued)

Investment Performance

The Scheme's fund returns before manager charges over recent periods to 31 March 2021 are shown below together with the benchmark adopted by the Trustees:

Legal & General – Pooled Funds Assets

Fund	One year %		Three years % p.a.	
	Fund	Benchmark	Fund	Benchmark
Future World Fund [1]	37.3	37.4	-	-
World Equity Index - GBP Hedged	50.3	50.4	12.0	12.0
2032 Index-Linked Gilt [3]	-	-	-	-
2035 Index-Linked Gilt	(0.3)	(0.3)	3.6	3.6
2042 Index-Linked Gilt	1.3	1.3	3.5	3.5
2050 Index-Linked Gilt	3.2	3.2	3.6	3.5
2055 Index-Linked Gilt	3.5	3.6	3.6	3.6
2058 Index-Linked Gilt	5.5	5.6	3.9	3.9
2068 Index-Linked Gilt	10.8	10.8	4.9	4.9
2047 Gilt [2]	(10.8)	(10.8)	-	-
2055 Gilt	3.5	3.6	3.6	3.6
2060 Gilt [2]	(13.3)	(13.3)	-	-
2065 Gilt [3]	-	-	-	-
2071 Gilt [3]	-	-	-	-
Total [4]	**9.1**	**-**	**5.8**	-

[1] Three-year returns are not yet available for the Future World Fund as the Scheme first invested in this fund in January 2020.

[2] Three year returns for the 2047 and 2060 gilts funds are not applicable as the Scheme first invested in these funds in March 2019.

[3] One and three year returns for the 2032 Index-Linked gilt and the 2055, 2071 Gilt funds are not applicable as the Scheme first invested in these funds in June 2020

[4] The benchmark return is not available due to the central benchmark being suspended for part of the reporting period in order to allow flexibility of where disinvestments were made from funds when cash was required from assets.

The Legal & General funds have performed in line with their benchmarks over one and three years.

The Trustees continue to monitor the performance of the funds on a regular basis.

Statement of Trustees' responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustees. Pension scheme regulations require, and the Trustees are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustees are also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustees are responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Further Information

Internal Dispute Resolution Procedure (IDRP)

It is a requirement of the Pensions Act 1995 that the Trustees of all occupational pension schemes must have an Internal Dispute Resolution procedure (IDRP) in place for dealing with any disputes between the Trustees and the scheme beneficiaries. A dispute resolution procedure has been agreed by the Trustees, details of which can be obtained by writing to Hymans Robertson at the address below.

Contact for Further Information

Any enquiries or complaints about the Scheme, including requests from individuals about their benefits or for a copy of Scheme documentation, should be sent to the Scheme administrators at:

Hymans Robertson LLP
One London Wall
London
EC2Y 5EA

Email: lscpensions@hymans.co.uk

The Money and Pension Service and The Pensions Ombudsman

Members have the right to refer their complaint to The Pensions Ombudsman free of charge. The Pensions Ombudsman deals with complaints and disputes which concern the administration and/or management of occupational and personal pension schemes.

Contact with The Pensions Ombudsman about a complaint needs to be made within three years of when the event(s) the member is complaining about happened – or, if later, within three years of when they first knew about it (or ought to have known about it). There is discretion for those time limits to be extended.

The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London
E14 4PU
Tel: 0800 917 4487
Email: enquiries@pensions-ombudsman.org.uk
www.pensions-ombudsman.org.uk

Members can also submit a complaint form online:
https://www.pensions-ombudsman.org.uk/making-complaint

If members have any general requests for information or guidance concerning their pension arrangements contact:

The Money and Pension Service
Holburn Centre
120 Holburn
EC1N 2TD
Tel: 020 8132 5284
www.Moneyandpensionsservice.org.uk

Further Information (continued)

The Pensions Regulator (TPR)

The Pensions Regulator (TPR) has the objectives of protecting the benefits of members, promoting good administration and reducing the risk of claims on the Pension Protection Fund. TPR has the power to investigate schemes, to take action to prevent wrongdoing in or maladministration of pension schemes and to act against employers failing to abide by their pension obligations. TPR may be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW
www.thepensionsregulator.gov.uk

Pension Tracing Service

The Pension Schemes Registry has been replaced with the Pension Tracing Service and is now provided by the Department for Work and Pensions. Responsibility for compiling and maintaining the register of occupational pension schemes has been passed to The Pensions Regulator.

Contact details for the services are as follows:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU
www.gov.uk/find-pension-contact-details

Approval of the Report by the Trustees

Signed for and on behalf of the Trustees of the Legal Services Commission No. 4 Pension Scheme by:

Jill Francine Youds
Trustee

Peter Church
Trustee

16th September 2021
Date

Section 3 – Independent Auditors' Report

Independent Auditors' Report to the Trustees of the Legal Services Commission No.4 Pension Scheme

Opinion

We have audited the financial statements of Legal Services Commission No.4 Pension Scheme for the year ended 31 March 2021 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent Auditor’s Report (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of trustees

As explained more fully in the Statement of Trustees Responsibilities set out on page 13, the Trustees are responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Scheme’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to wind up the Scheme or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias

- Misappropriation of investment assets owned by the scheme. This is addressed by obtaining direct confirmation from the fund manager of investments held at the Statement of Net Assets date.

- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount of the transactions.

Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Scheme's Trustees, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP
Statutory Auditor
London

Section 4 – Financial Statements

Fund Account for year ended 31 March 2021

	Note	2021 £	2020 £
CONTRIBUTIONS AND BENEFITS			
Other income	4	**2,544**	3,460
		2,544	3,460
Benefits paid or payable	5	**(9,130,858)**	(9,515,636)
Payments to and on account of leavers	6	**(1,548,068)**	(1,563,609)
Administrative expenses	7	**(674,133)**	(520,984)
		(11,353,059)	(11,600,229)
Net withdrawals from dealings with members		**(11,350,515)**	(11,596,769)
RETURNS ON INVESTMENTS			
Investment income	8	**772,853**	784,941
Investment management expenses	9	**(303,192)**	(270,047)
Change in market value of investments	10	**37,686,362**	8,360,674
Net returns on investments		**38,156,023**	8,875,568
Net increase/(decrease) in the Scheme during the year		**26,805,508**	(2,721,201)
Balance of the Scheme at the start of the year		**428,176,647**	430,897,848
Balance of the Scheme at the end of the year		**454,982,155**	428,176,647

The notes on pages 21 to 30 form part of these financial statements.

Statement of Net Assets (available for benefits) as at 31 March 2021

	Note	**2021**	2020
		£	£
Investment assets	10		
Pooled investment vehicles		**448,603,961**	419,497,658
Annuity policies		**5,815,000**	6,817,000
Cash in transit		**163,862**	268,075
		454,582,823	426,582,733
Current assets	11	**872,670**	2,046,058
Current liabilities	12	**(473,338)**	(452,144)
Net assets of the Scheme at the end of the year		**454,982,155**	428,176,647

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities in Section 2 and these financial statements should be read in conjunction therewith.

These financial statements were approved by the Trustees of the Legal Services Commission No. 4 Pension Scheme, and signed for and on their behalf by:

Jill Francine Youds Trustee

Peter Church Trustee

16th September 2021 Date

The notes on pages 21 to 30 form part of these financial statements.

Section 5 – Notes to the Financial Statements

Notes to the financial statements for the year ended 31 March 2021

1 BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis and in accordance with the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland and the guidance set out in the Statement of Recommended Practice (Revised 2018) ("the SORP").

The financial statements are prepared in sterling, which is the functional currency of the Scheme. Monetary amounts in these financial statements are rounded to the nearest £.

2 ACCOUNTING POLICIES IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustee Directors' Report is:

Hymans Robertson LLP

One London Wall

London

EC2Y 5EA

3 ACCOUNTING POLICIES

The Scheme functional and presentation currency is pounds sterling. The principal accounting policies, which have been consistently applied during the year, are set out below.

3.1 Benefits

Pensions payable in respect of the Scheme year are accounted for by reference to the period to which they relate. Refunds and lump sums are accounted for by reference to the later of the date of retirement or leaving the Scheme, or the date the option is exercised.

3.2 Transfers

Transfer values to other pension arrangements are accounted for when the liability for any pension benefits in respect of a transferring member passes to the receiving scheme.

3.3 Expenses

Administrative and investment management expenses are accounted for on an accruals basis.

3.4 Income

Annuity income is accounted for by reference to the period to which it relates.

Notes to the financial statements for the year ended 31 March 2021 (continued)

3.5 Investments

Pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager.

Annuity policies have been valued by the Scheme Actuary using assumptions consistent with the latest actuarial valuation and rolled forward for market conditions at the net asset date.

The changes in investment market values are accounted for in the year in which they arise and include profits and losses on investments sold as well as unrealised gains and losses in the value of investments held at the year end.

4 OTHER INCOME

	2021	2020
	£	£
Bank interest	**111**	2,188
Income from HMRC in relation to GMP reconciliation	**-**	857
Sundry income	**-**	71
Transfer calculation fees	**2,433**	344
	2,544	3,460

5 BENEFITS PAID OR PAYABLE

	2021	2020
	£	£
Pensions	**8,192,935**	7,902,408
Commutations and lump sum retirement benefits	**912,109**	1,578,427
Lump sum death benefits	**25,814**	34,801
	9,130,858	9,515,636

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2021	2020
	£	£
Individual transfers to other schemes	**1,548,068**	1,563,609

Notes to the financial statements for the year ended 31 March 2021 (continued)

7 ADMINISTRATIVE EXPENSES

	2021	2020
	£	£
Audit fees	**16,420**	7,960
Actuarial and consulting fees	**359,341**	305,539
Other expenses	**298,372**	207,485
	674,133	520,984

8 INVESTMENT INCOME

	2021	2020
	£	£
Income from annuity policies	**772,853**	784,941

9 INVESTMENT MANAGEMENT EXPENSES

	2021	2020
	£	£
Investment management expenses	**303,192**	270,047

Notes to the financial statements for the year ended 31 March 2021 (continued)

10 INVESTMENTS

10.1 INVESTMENT RECONCILIATION

	Opening value	***Purchase cost***	***Sales proceeds***	***Change in market value***	***Closing value***
	£	**£**	**£**	**£**	**£**
Pooled investment vehicles	**419,497,658**	220,827,244	(230,409,303)	38,688,362	**448,603,961**
Annuity policies	**6,817,000**	-	-	(1,002,000)	**5,815,000**
	426,314,658	220,827,244	(230,409,303)	37,686,362	**454,418,961**
Cash in transit	**268,075**				**163,862**
TOTAL NET INVESTMENTS	**426,582,733**				**454,582,823**

£220,827,244 of the purchases and sales of the pooled investment vehicles included in the table above represents the de-risking of the portfolio by reducing the target allocation of the growth assets to 22% from 24% and changes to the LDI portfolio to better reflect the liabilities of the Scheme. The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

10.2 POOLED INVESTMENT VEHICLES (PIV)

The holdings in pooled investment vehicles at the year end comprise:

	2021	2020
	£	£
Pooled Investment Vehicles		
Growth assets		
World Equity fund - GBP Hedged	**63,276,654**	53,105,833
Future World fund	**60,406,106**	52,833,103
Matching assets		
Fixed Interest and Index-Linked Gilt funds	**324,921,124**	313,558,722
Liquidity assets		
Sterling Liquidity Fund	**77**	-
	448,603,961	419,497,658

Notes to the financial statements for the year ended 31 March 2021 (continued)

10 INVESTMENTS (CONTINUED)

10.3 ANNUITY POLICIES

The Trustees hold annuity policies with Legal and General which provide a regular guaranteed payment to the Scheme to cover a small number of retired members' benefits. No collateral is held in relation to these assets.

As at 31 March 2021, the Actuary valued the annuity policies at £5,815,000 (2020: £6,817,000).

The annuity policies have been valued by the Scheme Actuary using assumptions consistent with the latest actuarial valuation (dated 2019) but allowing for updated member data and market conditions at the net asset date.

10.4 CONCENTRATION OF INVESTMENTS

The following investments account for more than 5% of the Scheme's total net assets (including current assets and liabilities) as at 31 March 2021 (or accounted for more than 5% as at the prior year end, 31 March 2020):

Investment	**2021 £**	**2021 % of net assets**	2020 £	2020 % of net assets
Legal & General World Equity Index Hedged Fund	**63,276,654**	**13.9**	53,105,833	12.4
Legal & General Future World Fund	**60,406,106**	**13.3**	52,833,103	12.3
Legal & General 2042 Index Linked Gilt Fund	**59,846,904**	**13.2**	50,187,886	11.7
Legal & General 2032 Index Linked Gilt Fund	**51,256,152**	**11.3**	-	-
Legal & General 2058 Index Linked Gilt Fund	**37,375,440**	**8.2**	-	-
Legal & General 2050 Index Linked Gilt Fund	**34,522,298**	**7.6**	55,254,852	12.9
Legal & General 2065 Gilt Fund	**30,381,285**	**6.7**	-	-
Legal & General 2071 Gilt Fund	**29,569,203**	**6.5**	-	-
Legal & General 2068 Index Linked Gilt Fund	**-**	**-**	32,144,202	7.5
Legal & General 2055 Index Linked Gilt Fund	**-**	**-**	45,525,688	10.6
Legal & General 2068 Gilt Fund	**-**	**-**	38,891,907	9.1
Legal & General 2040 Index Linked Gilt Fund	**-**	**-**	35,297,353	8.2
Legal & General 2062 Index Linked Gilt Fund	**-**	**-**	27,432,116	6.4

10.5 INVESTMENT TRANSACTION COSTS

Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustees to quantify such indirect costs. There are no direct transaction costs in the current and preceding year.

10.6 INVESTMENTS FAIR VALUE HIERARCHY

The fair value of financial instruments has been prepared using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the assessment date;
Level 2	Inputs other than the quoted prices included within Level 1 which are observable (i.e. developed for the asset or liability, either directly or indirectly);
Level 3	Inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Notes to the financial statements for the year ended 31 March 2021 (continued)

10 INVESTMENTS (CONTINUED)

10.6 INVESTMENTS FAIR VALUE HIERARCHY (CONTINUED)

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

As at 31 March 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Pooled investment vehicles	**-**	**448,603,961**	**-**	**448,603,961**
Annuity policies	**-**	**-**	**5,815,000**	**5,815,000**
Cash in transit	**163,862**	**-**	**-**	**163,862**
	163,862	**448,603,961**	**5,815,000**	**454,582,823**

As at 31 March 2020	Level 1	Level 2	Level 3	Total
	£	£	£	£
Pooled investment vehicles	-	419,497,658	-	419,497,658
Annuity policies	-	-	6,817,000	6,817,000
Cash in transit	268,075	-	-	268,075
	268,075	419,497,658	6,817,000	426,582,733

10.7 INVESTMENT RISKS

This note discloses information in relation to certain investment risks to which the Scheme is exposed to at the end of the reporting period. These risks are as follows:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk comprises currency risk, interest rate risk and other price risk as follows:

- Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Notes to the financial statements for the year ended 31 March 2021 (continued)

10 INVESTMENTS (CONTINUED)

10.7 INVESTMENT RISKS (CONTINUED)

The Trustees determine their investment strategy after taking advice from the investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy. The Trustees manage investment risks, including credit risk and market risk on an ongoing basis.

The Scheme aims to invest its assets to ensure the security, quality and liquidity of the portfolio as a whole, and in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

Further details of the objectives of the Trustees have been provided in the Investment Policy under "Investment Objective and Strategy". The Trustees have selected appropriate pooled investment vehicles that meet the investment strategy.

Further information on the Trustees' approach to risk management, credit and market risk is set out below.

(i) Credit risk

The Scheme invests in pooled investment vehicles of £448,603,961 (2020: £419,497,658) and annuity policies of £5,815,000 (2020: £6,817,000) and is therefore indirectly exposed to credit risk in relation to the holdings in these investments. Pooled investment vehicles and annuity policies are unrated due to their nature.

The annuity policies are with Legal & General and the investment adviser monitors any changes to the operating environment of Legal & General on an ongoing basis.

The credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of the investments amongst a number of pooled arrangements. The investment advisor appointed by the Trustees carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled managers.

Pooled investment arrangements used by the Scheme comprise unit linked insurance contracts of £448,603,961 (2020: £419,497,658) and units in open-ended investment funds of £nil (2020: £nil).

A summary of the pooled investment vehicle's direct credit risk for the Scheme is as follows:

Type of vehicle	31 March 2021 £	31 March 2020 £
Unit linked insurance contract	448,603,961	419,497,658

The Scheme is also indirectly exposed to credit risks arising on the government bonds held by the gilt and index-linked gilt funds although the extent of the risk is dependent on the portfolio held at the time. This risk is mitigated by only holding government bonds where the credit risk is minimal.

The above disclosure applied to both the current and preceding year-end.

Notes to the financial statements for the year ended 31 March 2021 (continued)

10 INVESTMENTS (CONTINUED)

10.7 INVESTMENT RISKS (CONTINUED)

(ii) Currency risk

The Scheme is subject to currency risk because the LGIM Future World Fund valued at £60,406,106 at 31 March 2021 (2020: £52,833,103) invests in foreign companies. This means that the value of this fund may be affected favourably or unfavourably by fluctuations in currency rates. The LGIM World Equity Index Hedged Fund valued at £63,276,654 at 31 March 2021 (2020: £53,105,833) hedges foreign currency back to Sterling and therefore does not have any currency risk.

(iii) Interest rate risk

The Scheme is subject to interest risk in the matching asset portfolio of £324,921,123 (2020: £313,558,722). The Trustees have set a target benchmark of 78% (2020:76%) of total invested assets for the matching assets excluding the annuity policies. At the year end, 72.4% (2020:74.7%) of the portfolio was held in matching assets, based on the fair value of investments. The split between the matching and growth assets is usually maintained within control ranges by the investment manager by automatically rebalancing back to the central benchmark when required, but the Trustees have currently suspended this due a strategy review that is being considered in light of recent changes to RPI assumptions. The Trustees continue to monitor the benchmark allocation on a regular basis to ensure that this is consistent with the overall strategy of the Scheme.

The annuity policies valued at £5,815,000 (2020: £6,817,000) are also subject to interest risk as any changes to interest rates would affect the value of the annuity policies.

Under the matching asset portfolio and annuity policies, if interest rates fall/inflation rises, the value of these investments will rise to help offset the corresponding increase in value of the liabilities. Similarly, if interest rates rise/inflation rates fall, these investments will fall in value, as will the value of the liabilities.

(iv) Other price risk

Other price risk arises principally in relation to a proportion of the Scheme's growth portfolio covering the World Equity and Future World Funds totalling £123,682,760 (2020: £105,938,936). The Scheme has set a target asset allocation of 22% (2020: 24%) of total investments excluding the annuity policies being held in the growth portfolio. At the year end, 27.6% (2020: 25.3%) of the portfolio was held in growth assets, based on the fair value of investments. The split between the matching and growth assets is usually maintained within control ranges by the investment manager by automatically rebalancing back to the central benchmark when required, but the Trustees have currently suspended this due a strategy review that is being considered in light of recent changes to RPI assumptions. The Trustees continue to monitor the benchmark allocation on a regular basis to ensure that this is consistent with the overall strategy of the Scheme. The Scheme manages the overall exposure to other price risk by constructing a diverse portfolio of investments across various markets.

Notes to the financial statements for the year ended 31 March 2021 (continued)

11 CURRENT ASSETS

	2021	2020
	£	£
Cash balances	**872,615**	2,045,259
Other debtors	**55**	799
	872,670	2,046,058

12 CURRENT LIABILITIES

	2021	2020
	£	£
Unpaid benefits	**35,723**	120,347
Tax deducted from pensions	**90,645**	95,327
Other creditors	**37,943**	65,411
Accrued Expenses	**309,027**	171,059
	473,338	452,144

13 TAXATION

The Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income (see Note 8) to which they relate.

14 RELATED PARTY TRANSACTIONS

Three Trustees were deferred members, two Trustees were pensioners and one Trustee was an independent Chair (i.e. not a member of the Scheme) during the year. During the year the Scheme paid £4,575 (2020: £9,458) in relation to Trustee fees and expenses. This is included in other expenses in Note 7.

15 EMPLOYER RELATED INVESTMENTS

There were no employer related investments at 31 March 2021 (2020: £nil) or at any time during the year.

Notes to the financial statements for the year ended 31 March 2021 (continued)

16 GMP EQUALISATION

As explained on page 6 in the Report on Actuarial Liabilities, on 26 October 2018 and 20 November 2020, the High Court handed down judgments involving the Lloyds Banking Group's defined benefit pension schemes. The judgments concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgments arise in relation to many other defined benefit pension schemes. The Trustees of the Scheme are aware the issue will affect the Scheme and have set up a GMP equalisation sub-group to consider this issue and make decisions on next steps where practical, whilst awaiting further guidance from HMRC and from the government on approach for public sector schemes. Under the rulings, schemes are required to backdate benefits and transfer outs in relation to GMP equalisation and provide interest on the backdated amounts. From the initial review performed by the Scheme's Actuary the overall increase in the liabilities of the Plan is estimated to be around 0.05% (c. £225.000) however the Scheme's Actuary is currently unable to provide an analysis of liability relating to backdated amounts and the future liability. As the Trustees do not expect these to be material to the financial statements a liability in respect of these matters has not been included in these financial statements.

Section 6 – Independent Auditor’s Statement about Contributions

Independent Auditor's Statement about Contributions to the Trustees of the Legal Services Commission No.4 Pension Scheme

Statement about contributions payable under the schedule of contributions

We have examined the summary of contributions to Legal Services Commission No. 4 Pension Scheme (the “Scheme”) for the year ended 31 March 2021 which is set out in the Trustees’ Report on page 5.

In our opinion contributions for the Scheme year ended 31 March 2021 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 12 November 2019.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Responsibilities of trustees

As explained more fully in the Statement of Trustees’ Responsibilities, the Scheme’s Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme. The Trustees are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions.

Auditor’s responsibilities for the statement about contributions

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the scheme's trustees, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the scheme's trustees those matters we are required to state to them in an auditor’s statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme’s Trustees as a body, for our work, for this statement, or for the opinion we have formed.

Crowe U.K. LLP
Statutory Auditor
London

Section 7 – Implementation Statement

Legal Services Commission Staff Pension and Assurance Scheme (No 4) - Implementation Statement

Statement of Compliance with the Stewardship Policy for the Legal Services Commission Staff Pension and Assurance Scheme (No4) ("the Scheme") for the year ending 31 March 2021.

Introduction

This is the Trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustees have complied with the Scheme's Stewardship Policy during the period from 1 April 2020 to 31 March 2021.

Stewardship policy

The Trustees' Stewardship (voting and engagement) Policy sets out how the Trustees will behave as an active owner of the Scheme's assets which includes the Trustees approach to;

the exercise of voting rights attached to assets; and

undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Scheme's Stewardship Policy is reviewed on an annual basis in line with the Scheme's Statement of Investment Principles (SIP) review which was last completed on 22 September 2020.

The following changes were made to the Stewardship Policy during the last year:

- Consideration of investments managers' responsibilities regarding investment decisions and engagement on underlying holdings within funds.
- Consideration of conflicts of interest arising in the management of the Scheme and statement that appropriate conflicts of interest policies are in place with underlying managers.

You can review the Scheme's Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at: https://lscpensions.co.uk/media/3222/200818lsc-sipmf.pdf

The Trustees have delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment manager. The Trustees believe it is important that their investment manager takes an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

The Trustees own engagement activity is focused on their dialogue with their investment manager, which is undertaken in conjunction with their investment advisers. The Trustees meet regularly with their manager and the Trustees consider the manager's exercise of their stewardship both during these meetings and through quarterly reporting provided by their manager.

The Trustees also monitor their compliance with their Stewardship Policy on a regular basis and are satisfied that they have complied with the Scheme's Stewardship Policy over the last year.

Voting activity

The Trustees seek to ensure that their manager is excising voting rights and where appropriate, to monitor the manager's voting patterns. The Trustees also monitor the investment manager's voting on particular companies or issues that affect more than one company.

The Trustees invest with one manager, Legal and General Investment Management ("LGIM") and the Scheme invests in two equity funds managed by LGIM. The manager has reported on how votes were cast in these funds during the reporting period as set out in Table 1 below:

Table 1: LGIM voting data

Voting data	World Equity Index Fund - GBP Currency Hedged	Future World Fund
Proportion of Scheme assets	14.12%	13.47%
Did the manager employ the house voting policy in managing the fund?	Yes	Yes
Was use made of any proxy voting service during the year?	Yes – Institutional Shareholder Services (ISS)	Yes – Institutional Shareholder Services (ISS)
No. of meetings eligible to vote at during the year	3,421	3,250
No. of resolutions eligible to vote on during the year	40,987	39,016
% of resolutions voted	99.84%	99.80%
% of resolutions voted with management	81.38%	81.79%
% of resolutions voted against management	18.07%	17.61%
% of resolutions abstained	0.55%	0.60%
% of meetings with at least one vote against management	6.04%	5.69%

Significant votes

The Trustees have asked LGIM to report on the most significant votes cast within the two equity funds. They were asked to explain the reasons why votes identified were significant, the size of the position in the funds, how they voted, any engagement they undertook with the company and the outcome of the vote. As there is a lot commonality between the holdings in both equity funds, LGIM's voting activity shown in Table 2 below covers both funds. This voting activity has been identified by the Trustees as being of greater relevance to the Scheme.

Table 2: LGIM significant votes for the World Equity Index Fund - GBP Currency Hedged and Future World Fund

Date	Company	Subject (theme and summary)	Manager's vote and rationale	Outcome and why considered significant
05 May 2020	Lagardere	Shareholder resolutions for the proposal of 8 new directors to the Supervisory Board of Lagardere, as well as to remove all the incumbent directors.	**Manager voted in favour of 5 of the new directors and voted off 5 of the incumbent directors**. The proposals were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. LGIM believes the managing partner has a tight grip on the company, despite only having 7 % share capital and 11% voting rights. The company strategy had not been value-enhancing and the governance structure of the company was not allowing challenges to management.	Shareholders did not give majority support to proposed candidates (approximately 30-40% support). There was significant media and public interest on this vote given the proposed revocation of the company's board.
30 Jul 2020	Olympus Corporation	To elect director at the company's annual shareholder meeting held on 30 July 2020.	**Against the resolution** – LGIM have a policy that on a global level every board should have at least one female director and aspire to at least 30% female representation. Last year LGIM contacted the largest companies in the MSCI Japan which did not have any women on the board that they would vote against the chair of the nomination committee in order to signal a need for action.	Resolution passed (95% supported it). This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity.

18 Sep 2020	Pearson	To amend the remuneration policy.	**Against the resolution -** The company put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution was seeking shareholder approval for the grant of a co-investment award, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the role. Shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.	Resolution passed. (67% supported it). The company has had strategy difficulties in recent years and is a large and well-known UK company. Given the unusual approach taken by the company this vote was deemed to be significant.
23 Oct 2020	Qantas Airways Limited	To approve changes to the long-term incentive plan and to approve the remuneration report.	**Against changes to the incentive plan but for the remuneration report -** The COVID crisis has had an impact on the Australian airline company's financials. The remuneration report was approved given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, LGIM had concerns as to the quantum of the 2021 LTIP given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice.	Both resolutions passed (90% and 91% supported respectively). It highlights the challenges of factoring in the impact of the COVID situation into the executive remuneration package.
22 Nov 2020	Whitehaven Coal	To approve capital protection of shareholders. Request for report	**For the resolution** – LGIM publically advocate for a decline in fossil fuel consumption in line with global climate targets, with	Resolution did not pass (4% supported it). The vote received media scrutiny and is

		on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.	capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.	emblematic of a growing wave of 'green' shareholder activism.
03 Feb 2021	Imperial Brands plc	To approve remuneration report and remuneration policy.	**Against both resolutions** – The company appointed a new CEO during 2020, who was granted a significantly higher base salary than his predecessor, with consequential effect on short- and long-term incentives, as well as pension contributions. Further, the company did not apply best practice in relation to post-exit shareholding guidelines as outlined by both LGIM and the Investment Association. An incoming CEO with no previous experience in the specific sector, or CEO experience at a FTSE100 company, should have to prove her or himself beforehand to be set a base salary at the level, or higher, of an outgoing CEO with multiple years of such experience. Further, LGIM would expect companies to adopt general best practice standards for the remuneration structure.	Both resolutions passed (60% and 95% supported respectively). LGIM are concerned over the ratcheting up of executive pay and believe executive directors must take a long-term view of the company in their decision-making process, hence the request for executives' post-exit shareholding guidelines to be set.
11 Feb 2021	Tyson Foods	To report on human rights due diligence.	**Against the resolution** – The pandemic highlighted potential deficiencies in the application of the company's human rights policies. Due to insufficient testing, social distancing and non-comprehensive COVID-19 reporting, it is believed to have been over 10,000 cases and 35 deaths, consequently opening the company up to human rights and labour rights violation risks. LGIM believes that companies should uphold their duty to ensure the health and safety of its	Resolution did not pass (17% supported it). This vote was deemed significant as LGIM's clients were particularly interested in the outcome.

			employees over profits and that although measures were put in place, more could have been done. Additionally, producing the report could offer an opportunity to re-examine the steps taken and identify potential shortfalls.	

Trustees’ engagement activity with LGIM

Over the 12 months to 31 March 2021, the Trustees met with LGIM virtually on 15 September 2020 and 22 October 2020. At these meetings voting and engagement were discussed as well as proposed methodology changes to the Future World Fund.

The Trustees also receive quarterly reporting on LGIM’s engagement activity. LGIM carried out 891 engagements with 665 companies over 2020. Engagements primarily focused on climate change, with other key topics being remuneration, diversity, board composition and strategy. The main method of engagement was written engagements.

Review of policies

The Trustees have committed to reviewing LGIM’ RI policies on an annual basis. This review was last undertaken by the Trustees at a meeting with LGIM on 15 September 2020. This considered the manager’s broader approach to responsible investment issues, their voting policies and changes in approach by the manager over the year.

The Trustees and their advisors remain satisfied that LGIM’s responsible investment policies and voting policies remain suitable for the Scheme.

Appendix 1: Statement of Investment Principles

Statement of Investment Principles Legal Services Commission No.4 Pension Scheme August 2020

Statement of Investment Principles

This is the Statement of Investment Principles made by the Trustees of the Legal Services Commission Staff Pension and Assurance Scheme No.4 ("the Scheme") in accordance with the Pensions Act 1995. It is subject to periodic review by the Trustees at least every three years and more frequently as appropriate.

In preparing this Statement, the Trustees consulted with the Ministry of Justice ("MoJ") as Scheme Sponsor and have taken written advice from the Investment Practice of Hymans Robertson LLP. In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Trustees' adoption of the Code is provided in a separate Myners Adherence Document.

The Scheme has a Crown Guarantee from the Secretary of State for Justice. However, the Scheme continues to treat the Statement of Investment Principles requirements, from Section 35 of the Pensions Act 1995, as applying to the Scheme, other than Section 35(5). If upon being consulted by the Trustees about the Statement of Investment Principles the Principal Employer objects to the inclusion in it of any category of investment, the Trustees shall omit such category of investment.

Scheme Objective

The Scheme closed to future accrual of all benefits on 31 March 2013. The Trustees' main objective is to have sufficient assets to pay the future benefits from the Scheme.

The funding position is monitored regularly by the Trustees and formally reviewed at each actuarial valuation, at no more than three-year intervals.

Investment Strategy

The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme. All day to day investment decisions have been delegated to the Scheme's manager, Legal & General Investment Management ("L&G"). L&G are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Scheme's strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests. The Scheme benchmark is consistent with the Trustees' views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy is reviewed from time to time and takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), together with the level of disclosed surplus or deficit (relative to the funding bases used). The Trustees monitor funding level against a de-risking trigger plan. As funding level increases, further de-risking is expected. The Trustees also monitor investment performance relative to their agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following formal actuarial valuations of the Scheme, and will normally be reviewed annually. In reviewing strategy, the Trustees will seek written advice as required. The current target asset allocation for the Scheme is set out in the Appendix.

To achieve their objectives the Trustees have agreed the following:-

Choosing investments

The Trustees have decided to invest in a range of pooled funds managed by L&G. The L&G funds are managed on a passive (index-tracking) basis, whereby the investment manager seeks to match, rather than exceed the performance of the benchmark index.

Statement of Investment Principles (continued)

After seeking appropriate investment advice, the Trustees have given L&G specific directions as to asset allocation and which funds to invest in. As L&G manages a number of funds on behalf of the Scheme, they have also been given instructions on controlling the split between the funds within set control ranges (see Appendix). The two L&G World Equity Funds invest in individual stocks in such a way as to replicate, as closely as possible, the composition of the benchmark indices. The Trustees have chosen to invest some of the equity allocation in an index-tracking fund that overall has a bias towards companies which have a more positive impact on climate change than the market cap-weighted index. The other L&G funds are single stock index-linked gilt funds, which means each fund invests in one single gilt issue and the split between the funds broadly matches the Scheme's underlying liabilities. In adopting this approach, the Trustees are satisfied that the overall portfolio is suitably diversified as regards asset class, geographic spread and the number of stocks held.

Manager appointments

The Trustees have appointed the investment manager to deliver a specific benchmark, which overall will align to deliver the broader Scheme investment strategy. The Trustees ensure that their manager engagement has clearly defined benchmarks, objectives and management parameters.

The Trustees invest in pooled funds where the objectives of the funds and the policies of the investment manager are evaluated by the Trustees to ensure that they are appropriate for the needs of the Scheme.

Remuneration to the manager is determined at inception based on commercial considerations and set on an ad valorem basis. The Trustees periodically review the fees paid to its manager against industry standards.

The duration of a mandate is determined by the Trustees at the inception of each mandate. The Scheme invests in open-ended funds with no pre-determined term of appointment. The Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. The Trustees recognise the long-term nature of the liability profile and appoints their manager to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The Trustees monitor their manager's performance against their respective benchmarks on a quarterly basis over a long-term time horizon of at least 3 years. The Trustees also measure their funds' tracking errors against benchmarks. The manager is expected to provide explanation for any significant deviations away from the benchmark.

Advice

The Trustees seek and consider written advice from a suitably qualified person when determining the appropriateness of a manager and fund for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If an investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability.

Kinds of investments that may be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, either directly or through pooled funds. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable to the circumstances of the Scheme.

Statement of Investment Principles (continued)

Balance between different kinds of investments

The Scheme's investment manager will hold a mix of investments which reflect the benchmark and targets which have been set by the Trustees. Within each of the two World Equity Funds, the manager will maintain a diversified portfolio of stocks through investment in pooled vehicles.

Risk

The Trustees monitor risk in two ways. As indicated above, they have set a strategic asset allocation benchmark for the Scheme. They assess risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. They also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Trustees provide a practical constraint on Scheme investments deviating greatly from the Trustees' intended approach by adopting a specific asset allocation benchmark and by agreeing benchmark asset allocations and tracking error requirements with L&G.

All of the Scheme's assets are invested with a single manager, L&G, exposing the Scheme to a degree of manager risk. The Trustees are comfortable with this risk on the basis that the funds are managed on a passive basis, which has a lower reliance on manager skill than an active manager. The Trustees monitor L&G on a regular basis in conjunction with their investment consultants.

The Trustees do not expect their manager to take excess short-term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the discount rate assumed by the Trustees in funding the Scheme.

Realisation of investments

The Scheme's investments may be realised quickly if required. The L&G funds trade weekly.

Portfolio turnover

The Trustees have expectations of the level of turnover within each fund which is determined at the inception of the fund (after 2020), based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expects the manager to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustees will challenge their manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustees will request turnover costs incurred by the manager over the Scheme reporting year. Where possible the Trustees will compare costs to the theoretical portfolio turnover and cost for an appropriate index.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including Environmental, Social and Governance (ESG) factors, is relevant at different stages of the investment process. The Trustees have explicitly acknowledged the relevance of climate change and ESG factors in framing their investment beliefs and these are set out below:

Statement of Investment Principles (continued)

Strategic considerations

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Given the inherent uncertainty, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark. The Trustees have discussed the potential impact of climate change with their Scheme Actuary and have reflected the inherent uncertainties in their choice of funding assumptions. The Trustees periodically discuss climate change with Hymans Robertson and their investment manager to consider the potential implications for the Scheme's investments.

Selecting investment managers

As the Scheme's assets are managed on a passive basis, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which their current strategy has been set. The Trustees review the index benchmarks employed for the Scheme on at least a triennial basis.

Consideration of non-financially material factors in investment arrangements

The Trustees have considered non-financially material factors when developing their investment strategy. However, the Trustees have agreed not to impose any restrictions or exclusions to the investment arrangements based purely on non-financially material factors.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with the investment manager and the monitoring of compliance with agreed policies.

Responsibility for investment decisions has been delegated to the investment manager which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where the manager is responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and ensures that their manager has an appropriate conflicts of interest policy in place. The manager is required to disclose any potential or actual conflict of interest to the Trustees.

Statement of Investment Principles (continued)

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The investment manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustees have reviewed the voting policies of their investment manager and determined that these policies are appropriate. On at least an annual basis, the Trustees request their investment manager to provide details of any change in their house policy. Where appropriate, the Trustees engage with and may seek further information from their investment manager on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but believe it is appropriate for the Scheme's investment manager to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustees review engagement activity undertaken by their investment manager as part of their broader monitoring activity.

Monitoring

The investment manager reports on voting activity to the Trustees on a periodic basis. The Trustees monitor the investment manager's voting activity and may periodically review their voting patterns. Where the Trustees deem it appropriate, any issues of concern will be raised with the investment manager for further explanation.

The Trustees meet with their investment manager on at least an annual basis. The Trustees provide their investment manager with an agenda for discussion, sometimes including issues relating to individual holdings and, where appropriate, ESG issues. The manager is challenged by the Trustees and advisors on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

The Trustees have published a statement setting out their application of the UK Stewardship Code on the Financial Reporting Council website.

Additional voluntary contributions (AVCs)

In the period until 31 March 2013, members were able to purchase additional years' service in the Scheme by way of paying additional voluntary contributions.

Statement of Investment Principles (continued)

Appendix

The Scheme's overall target is to be invested 78% in gilts (matching assets) and 22% in growth assets. In order to maintain this target, the Trustees have set L&G a central benchmark and control ranges as follows:

L&G funds, benchmark and control ranges

Fund	Benchmark	Central benchmark %	Control ranges %
World Equity		**22.0**	**+/- 1.50**
Future World Fund	FTSE AW excluding Controversial Weapons, Climate Balanced (UKPN)	11.0	-
World Equity Index Fund (GBP Hedged)	FTSE World Index - GBP Hedged (excluding the advanced emerging markets)	11.0	-
LDI Gilt Funds		**78.0**	**+/- 1.50**
Total		**100.0**	

The Future World Fund is a pooled fund that aims to track a FTSE global equity index that invests more in companies that exhibit certain investment characteristics (good value, low volatility, smaller companies and high quality) whilst also combining with a bias towards companies that rely less on carbon reserves, incur lower carbon emissions or generate greener revenues compared with the market cap-weighted index. The manager also has discretion to remove companies that do not agree to meet future Climate Impact Pledge objectives.

The World Equity Index Fund (GBP Hedged) is a pooled fund that aims to track a FTSE global equity index that invests on a market cap-weighted basis, which means that it invests in companies in proportion to their value relative to the whole of the global equity market. Foreign currencies are hedged back to Sterling in the fund with the objective of removing foreign currency risk.

L&G's rebalancing and cashflow policy

Investment and disinvestment of L&G funds is applied in order to maintain the Scheme's asset distribution as close as possible to the above central benchmark. On a monthly basis, should these transactions prove insufficient to maintain the Scheme's weightings within the control ranges, L&G will rebalance any funds that have moved outside of its control range back towards its central benchmark weighting. Cashflows to and from the gilt funds are always applied to the shortest dated fixed interest gilt fund. There is no central benchmark split between the gilt funds, and therefore there is no automatic rebalancing between these funds back to a central benchmark. Both the gilts benchmark and the actual split between the individual gilt funds are reviewed by the Trustees from time to time.

In order to help pay the Scheme's benefits, Notional Dividend Income Payments are paid to the Trustees' bank account when income from the relevant L&G funds is distributed.