

Legal Services Commission No.4 Pension Scheme

Annual Report and Financial Statements

31 March 2018

Scheme Registration number 10027837

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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

Adam Pirani

Audrey Fullerton

Peter Church

Member nominated

Giorgio Bugnatelli

Rosina Farrell

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 (formerly known as Crowe Clark Whitehill LLP)

Legal Adviser

CMS Cameron McKenna Nabarro Olswang LLP

Administrator

Hymans Robertson LLP

Investment Managers

Legal & General Assurance (Pensions Management) Limited ("Legal & General")

Newton Investment Management Limited ("Newton")

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 2018.

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 he or she is formally removed as an MNT following any subsequent nomination and selection process where he or she is not reappointed or following him or her ceasing to be eligible.

All Trustees are able to resign at any time.

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 Annual Report and Accounts 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 four times during the year to consider matters of administration, investment and to discuss relevant issues with the Scheme's external advisers.

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 degree and knowledge of understanding is required to ensure Trustees properly exercise their duties. The Trustees received appropriate training during the year which is recorded at 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 of the Trustees have completed all of 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 which is reviewed as an agenda item at each Board 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.

Financial Development of the Scheme

The Accounts are set out on pages 16 to 26. 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 2018 were £414,359,588 which represents a decrease of £2,973,817 over the position at 31 March 2017. The reason for this decrease is presented below:

	2018 £	2017 £
Member related income	328	3,179
Member related payments	(9,414,152)	(8,978,252)
Net withdrawals from dealings with members	(9,413,824)	(8,975,073)
Net returns on investments	6,440,007	78,522,270
Net (decrease)/increase in fund	(2,973,817)	69,547,197
Net assets at start of year	417,333,405	347,786,208
Net assets at end of year	414,359,588	417,333,405

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.

Crown Guarantee (continued)

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 2016 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 2016 and a summary of the results is set out below:

	31 March 2016
The value of the assets was:	£347m
The value of the Technical Provisions* was:	£362m

*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:

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Report on Actuarial Liabilities (continued)

Significant actuarial assumptions

RPI inflation	Market implied gilt RPI curve
CPI inflation	RPI curve less 0.9% p.a.
Pre-retirement discount rate	Gilt yield curve plus 0.5% p.a.
Post-retirement discount rate	Gilt yield curve plus 0.5% p.a.
Longevity base tables – post retirement	Club Vita tables
Longevity future improvements	2014 CMI model, assuming 'non-peaked' short term improvements, with a long term rate of improvement of 1.5% p.a. for men and women
Longevity base table – pre retirement	S2PMA for men and S2PFA for women

The next valuation is due to be carried out at 31 March 2019.

Changes in Benefits of the Scheme

There have been no changes to the benefits of the Scheme during the year. However, a change to the terms for calculating the pension for a member who retires early was implemented on 1 October 2017. After the Scheme year, a change to the terms for calculating trivial commutation lump sums for members with small pensions was implemented on 1 May 2018.

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 2016 was 1.0%, therefore a pension increase of 1.0% was awarded to members' pensions on 1 April 2017.

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 2018 is shown below:

Pensioner Members (including spouses and dependants)	Number
As at 1 April 2017	908
Retirements	43
New beneficiaries	2
Beneficiary ceased	(1)
Deaths	(19)
Full commutation	(1)
Pensioner members as at 31 March 2018	932

Included within pensioners are nil (2017: nil) pensioners whose pensions are paid from annuities held in the name of the Trustees.

Deferred Pensioner Members	Number
As at 31 March 2017	1,455
Prior period adjustments ¹	(6)
As at 1 April 2017	1,449
Retirements	(43)
Full commutation	(1)
Transfers out	(4)
Deferred pensioner members as at 31 March 2018	1,401

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

Investment Policy

Investment Governance

The Trustees rely on the governance activities of their Investment Managers. However, the Trustees are firmly committed to ensuring that their managers prioritise 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 support the principles of the Stewardship Code and in conjunction with the Scheme's Investment Managers, 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/FRC-Documents/Corporate-Governance/Stewardship-Code/LSCSPAS.pdf>.

The Trustees hold regular meetings with their Investment Managers 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 Managers and to produce a Statement of Investment Principles ("SIP") in accordance with section 35 of The Pensions Act 1995. A copy is 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 Trustees made three changes to the Scheme's investment strategy over the year.

The first change was a decision to move 50% of the Scheme's global equity holdings into a sterling hedged version of the global equity fund. This had the effect of hedging 50% of the Scheme's overseas currency exposure from its global equity holdings. This decision was made to reduce investment risk in the Scheme, and to benefit from any future sterling appreciation at a time when sterling appeared undervalued compared to historic standards.

The second change was to restructure the Scheme's index-linked gilt holdings in order to provide a better match to the liabilities. The index-linked gilts are held to reduce investment risk by matching the movements in the value of the Scheme's liabilities.

The third change was to reduce the overall target allocation to growth assets from 32% to 29% of total Scheme assets. The target allocation to liability matching assets therefore increased from 68% to 71% of total Scheme assets. This change followed improvements in the Scheme funding level, meaning that investment risk could be modestly reduced.

Asset Allocation

The table below shows how the investment assets were split between the Legal and General ("L&G") and Newton portfolios and their distribution as at 31 March 2017 and 2018. The assets below include only assets under the management of investment managers and do not include the current assets and current liabilities of the Scheme:

Asset Class	Valuation 31 March 2018		Current Benchmark	Valuation 31 March 2017	
	£	%		£	%
Matching assets					
L&G 2032 Index-Linked Gilt	12,249,016	3.0		-	-
L&G 2035 Index-Linked Gilt	13,958,713	3.4		9,817,155	2.4
L&G 2037 Index-Linked Gilt	26,161,703	6.5		29,277,453	7.2
L&G 2040 Index-Linked Gilt	37,300,173	9.2		16,853,574	4.1
L&G 2042 Index-Linked Gilt	24,771,158	6.1		48,661,675	11.9
L&G 2047 Index-Linked Gilt	22,555,395	5.6		51,363,535	12.7
L&G 2050 Index-Linked Gilt	55,597,379	13.7		19,673,927	4.8
L&G 2055 Index-Linked Gilt	17,316,877	4.3		43,371,404	10.6
L&G 2058 Index-Linked Gilt	25,086,732	6.2		-	-
L&G 2062 Index-Linked Gilt	19,117,137	4.7		33,336,146	8.2
L&G 2068 Index-Linked Gilt	38,499,431	9.5		24,953,845	6.1
	292,613,714	72.2	71.0	277,308,714	68.0
Growth assets					
L&G World Equity Index	33,971,356	8.4		74,780,686	18.3
L&G World Equity Index - GBP Hedged	34,162,442	8.5		-	-
Newton Real Return Fund	44,221,638	10.9		55,674,822	13.7
	112,355,436	27.8	29.0	130,455,508	32.0
Cash in Transit	236,000	N/a		105,250	N/a
Other					
L&G Annuity Policies	7,878,000	N/a		8,953,000	N/a
TOTAL INVESTMENT ASSETS	413,083,150	100.0		416,822,472	100.0

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

Investment Managers and Custodians

The Trustees have delegated all day to day decisions about investments to the relevant fund managers through a written agreement. When choosing investments, the Trustees and the fund managers (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 managers' duties also include taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments, and voting and Corporate Governance in relation to the Scheme's assets.

Investment Managers and Custodians (continued)

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 and Index Linked 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.

Newton – Real Return Fund

The Newton Fund is managed to seek a minimum return of cash, based on the one month LIBOR + 4% per annum over five years before fees. In doing so, they aim to achieve a positive return on a rolling three year basis. A total return is comprised of long term capital growth and income by investing in a broad range of assets.

The Fund will invest anywhere in the world to gain exposure to equities, bonds, currencies, commodities and property primarily through stock exchange listings. To reduce risk the Fund may invest in derivatives with the aim of generating returns and reducing the overall cost or risks to the Fund.

The shares are uncertified and held in the name of the Scheme. The appointed trustee and depositary is National Westminster Bank Plc who has appointed a custodian entity in Belgium, BNY Mellon SA/NV.

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 their two managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

Accordingly, the managers have produced written guidelines of their process and practice in this regard. The managers 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.

Employer Related Investments

There were no employer related investments during the year (2017: £nil).

Investment Performance

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

Legal & General – Managed Funds Assets

Fund	One year %		Three years % p.a.	
	Fund	Benchmark	Fund	Benchmark
World Equity Index	2.59	2.50	10.88	10.81
World Equity Index - GBP Hedged ¹	n/a	n/a	n/a	n/a
2035 Index-Linked Gilt	0.81	0.81	n/a	n/a
2037 Index-Linked Gilt	0.90	0.90	n/a	n/a
2040 Index-Linked Gilt	1.07	1.07	n/a	n/a
2042 Index-Linked Gilt	1.50	1.50	n/a	n/a
2047 Index-Linked Gilt	1.37	1.37	n/a	n/a
2050 Index-Linked Gilt	1.72	1.72	n/a	n/a
2055 Index-Linked Gilt	1.45	1.45	n/a	n/a
2058 Index-Linked Gilt ¹	n/a	n/a	n/a	n/a
2062 Index-Linked Gilt	0.48	0.48	n/a	n/a
2068 Index-Linked Gilt	0.22	0.10	n/a	n/a
Total	2.12	n/a³	10.09	n/a³

¹ One and three years returns for the World Equity Index - GBP Hedged Fund and the 2058 Index-Linked Gilt Fund are not applicable as the Scheme first invested in these funds in June 2017.

² Three year returns for the index-linked gilts funds are not applicable as the Scheme first invested in these funds in October 2015.

³ 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 broadly in line with their benchmark over one and three years.

Newton – Real Return Fund

Fund	One year %		Three years % p.a.		Since inception ¹ % p.a.	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Real Return	-1.3	4.4	1.1	4.3	2.9	4.4

¹ The inception date is the date of the Scheme's initial investment in the fund (December 2013).

The fund has underperformed its benchmark over the above periods.

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 Internal Dispute Resolution (IDRP) procedure 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: lcpensions@hymans.co.uk

The Pensions Advisory Service and The Pensions Ombudsman

Members have the right to refer their complaint to The Pensions Ombudsman free of charge. With effect from 1 April 2018 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:

www.pensions-ombudsman.org.uk/our-service/make-a-complaint/

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

The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB
Tel: 0300 123 1047
www.pensionsadvisoryservice.org.uk

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:

Julianes Trustee

Rosina C Farrell Trustee

16/10/18 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 the Legal Services Commission No.4 Pension Scheme for the year ended 31 March 2018 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 2018, 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 Regulations 3 and 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.

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 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.


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 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 audit work has been undertaken so that we might state to the 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 and the Trustees as a body, for our audit work, for this report, or for the opinion we have formed.

Crowe U.K. LLP
Statutory Auditor
London


24 October 2018

Section 4 – Financial Statements

Fund Account for year ended 31 March 2018

	<i>Note</i>	2018 £	2017 £
CONTRIBUTIONS AND BENEFITS			
Other income	3	<u>328</u>	<u>3,179</u>
		328	3,179
Benefits paid or payable	4	(8,230,991)	(7,562,594)
Payments to and on account of leavers	5	(681,646)	(985,062)
Administrative expenses	6	<u>(501,515)</u>	<u>(430,596)</u>
		(9,414,152)	(8,978,252)
Net withdrawals from dealings with members		(9,413,824)	(8,975,073)
RETURNS ON INVESTMENTS			
Investment income	7	2,204,022	901,243
Investment management expenses	8	(225,897)	(173,816)
Change in market value of investments	9	<u>4,461,882</u>	<u>77,794,843</u>
Net returns on investments		6,440,007	78,522,270
Net (decrease)/increase in the Scheme during the year		(2,973,817)	69,547,197
Balance of the Scheme at the start of the year		417,333,405	347,786,208
Balance of the Scheme at the end of the year		<u>414,359,588</u>	<u>417,333,405</u>

The notes on pages 18 to 26 form part of these financial statements.

Statement of Net Assets (available for benefits) as at 31 March 2018

		2018	2017
	Note	£	£
Investment assets	9		
Pooled investment vehicles		404,969,150	407,764,222
Annuity policies		7,878,000	8,953,000
Cash in transit		236,000	105,250
Other investment balances		223,600	-
		413,306,750	416,822,472
Current assets	10	1,391,390	860,383
Current liabilities	11	(338,552)	(349,450)
Net assets of the Scheme at the end of the year		414,359,588	417,333,405

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 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:

Julian Trustee

Rosine C Farrell Trustee

16/10/18 Date

The notes on pages 18 to 26 form part of these financial statements.

Section 5 – Notes to the Financial Statements

Notes to the financial statements for the year ended 31 March 2018

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) (Amendment) Regulations 1996, Financial Reporting Standard (FRS 102) – The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised November 2014) ("the SORP").

2 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.

2.1 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.

2.2 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.

2.3 Transfers

Transfer values from and to other pension arrangements are accounted for when the liability for any pension benefits in respect of a transferring member passes to or from the Scheme.

2.4 Income

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

2.5 Expenses

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

Notes to the financial statements for the year ended 31 March 2018 (continued)

3 OTHER INCOME

	2018	2017
	£	£
Bank interest	160	273
Sundry income	-	2,906
Transfer calculation fees	168	-
	<u>328</u>	<u>3,179</u>

4 BENEFITS PAID OR PAYABLE

	2018	2017
	£	£
Pensions	6,946,069	6,770,779
Commutations and lump sum retirement benefits	1,231,962	765,801
Lump sum death benefits	52,960	26,014
	<u>8,230,991</u>	<u>7,562,594</u>

5 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2018	2017
	£	£
Refunds to members leaving service	1,088	-
Individual transfers to other schemes	680,558	985,062
	<u>681,646</u>	<u>985,062</u>

Notes to the financial statements for the year ended 31 March 2018 (continued)

6 ADMINISTRATIVE EXPENSES

	2018	2017
	£	£
Audit fees	9,820	28,120
Actuarial fees	421,126	386,449
Other expenses	70,569	16,027
	<u>501,515</u>	<u>430,596</u>

Following the certification of a new Schedule of Contributions in November 2016, it was agreed that from this date all expenses that were due but had not been paid and any subsequent expenses are to be paid out of the assets of the Scheme.

7 INVESTMENT INCOME

	2018	2017
	£	£
Income from pooled investment vehicles	1,416,750	-
Income from annuity policies	787,272	901,243
	<u>2,204,022</u>	<u>901,243</u>

8 INVESTMENT MANAGEMENT EXPENSES

	2018	2017
	£	£
Investment management expenses	<u>225,897</u>	<u>173,816</u>

Following the certification of a new Schedule of Contributions in November 2016, it was agreed that from this date all expenses that were due but had not been paid and any subsequent expenses are to be paid out of the assets of the Scheme.

Notes to the financial statements for the year ended 31 March 2018 (continued)

9 INVESTMENTS**9.1 INVESTMENT RECONCILIATION**

	<i>Opening value</i>	<i>Purchase cost</i>	<i>Sales proceeds</i>	<i>Change in market value</i>	<i>Closing value</i>
	£	£	£	£	£
Pooled investment vehicles	407,764,222	303,315,812	(311,647,766)	5,536,882	404,969,150
Annuity policies	8,953,000	-	-	(1,075,000)	7,878,000
	416,717,222	303,315,812	(311,647,766)	4,461,882	412,847,150
Cash in transit	105,250				236,000
Other investment balances	-				223,600
TOTAL NET INVESTMENTS	416,822,472				413,306,750

During the year the Scheme transitioned £298,902,832 between the pooled investment vehicles as part of the ongoing review of the investment strategy of the Scheme. These amounts are included in both sales and purchases in the table above.

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.

9.2 POOLED INVESTMENT VEHICLES (PIV)

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

	2018	2017
	£	£
Pooled Investment Vehicles		
Growth assets		
World Equity fund	33,971,356	74,780,686
World Equity fund - GBP Hedged	34,162,442	-
Real Return fund ¹	44,221,638	55,674,822
Matching assets		
Index-Linked Gilt funds	292,613,714	277,308,714
	<u>404,969,150</u>	<u>407,764,222</u>

¹ The real return fund includes a variety of investments including bonds, equities, commodity funds, infrastructure funds and cash instruments.

Notes to the financial statements for the year ended 31 March 2018 (continued)

9 INVESTMENTS (CONTINUED)

9.3 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 2018, the Actuary valued the annuity policies at £7,878,000 (2017: £8,953,000).

The annuity policies have been valued by the Scheme Actuary using assumptions consistent with the latest actuarial valuation (dated 2016) but allowing for updated member data and market conditions at the net asset date.

9.4 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 2018 (or accounted for more than 5% as at the prior year end, 31 March 2017):

Investment	2018 £	2018 % of net assets	2017 £	2017 % of net assets
Legal & General 2050 Index Linked Gilts Fund	55,597,379	13.4	-	-
Newton Real Return	44,221,638	10.7	55,674,822	13.3
Legal & General 2068 Index Linked Gilts Fund	38,499,431	9.3	24,953,845	6.0
Legal & General 2040 Index-Linked Gilts Fund	37,300,173	9.0	-	-
Legal & General World Equity Index Hedged Fund	34,162,442	8.2	-	-
Legal & General World Equity Index Fund	33,971,356	8.2	74,780,686	17.9
Legal & General 2037 Index Linked Gilts Fund	26,161,703	6.3	29,277,453	7.0
Legal & General 2058 Index Linked Gilts Fund	25,086,732	6.1	-	-
Legal & General 2042 Index Linked Gilts Fund	24,771,158	6.0	48,661,675	11.7
Legal & General 2047 Index Linked Gilts Fund	22,555,395	5.4	51,363,535	12.3
Legal & General 2062 Index Linked Gilts Fund	19,117,137	4.6	33,336,146	8.0
Legal & General 2055 Index Linked Gilts Fund	17,316,877	4.2	43,371,404	10.4

9.5 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.

9.6 INVESTMENTS FAIR VALUE HIERARCHY

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

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Inputs 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 2018 (continued)

9 INVESTMENTS (CONTINUED)

9.6 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 2018	Level 1 £	Level 2 £	Level 3 £	Total £
Pooled investment vehicles	-	404,969,150	-	404,969,150
Annuity policies	-	-	7,878,000	7,878,000
Cash in transit	236,000	-	-	236,000
Other investment balances	223,600	-	-	223,600
	459,600	404,969,150	7,878,000	413,306,750

As at 31 March 2017	Level 1 £	Level 2 £	Level 3 £	Total £
Pooled investment vehicles	-	407,764,222	-	407,764,222
Annuity policies	-	-	8,953,000	8,953,000
Cash in transit	105,250	-	-	105,250
Other investment balances	-	-	-	-
	105,250	407,764,222	8,953,000	416,822,472

9.7 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.

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.

Notes to the financial statements for the year ended 31 March 2018 (continued)

9 INVESTMENTS (CONTINUED)

9.7 INVESTMENT RISKS (CONTINUED)

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 £404,969,150 (2017: £407,764,222) and annuity policies of £7,878,000 (2017: £8,953,000) and is therefore directly 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 £368,861,512 (2017: £352,089,400) and units in open-ended investment funds of £44,221,638 (2017: £55,674,822).

The Scheme is also indirectly exposed to credit risks arising on the government bonds held by the index-linked gilt funds and a proportion of the real return fund as detailed in note 9.2 although the extent of the risk is dependent on the portfolio held at the time. This risk is mitigated in the index-linked gilt funds by only holding government bonds where the credit risk is minimal and in the real return fund through investment restrictions in place with the investment manager.

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

(ii) *Currency risk*

The Scheme is subject to currency risk because a proportion of the underlying investments in the world equity funds valued at £68,133,798 (2017: £74,780,686) and the real return fund valued at £44,221,638 (2017: £55,674,822) are held in overseas markets although the extent of the risk is dependent on the portfolio held at the time. Over the year, the Trustees moved 50% of the Scheme's world equity fund holdings into a sterling hedged world equity fund as detailed in note 9.2, in order to hedge half of the currency exposure from world equities. The overseas currency in the original world equity fund is not hedged back to sterling, and it is up to the real return manager to decide whether hedging is put in place. Therefore, the value of the Scheme's assets may be affected favourably or unfavourably by fluctuations in currency rates. The real return manager accepts currency risk when they believe it is attractive from a risk/reward perspective.

(iii) *Interest rate risk*

The Scheme is subject to interest risk in the matching asset portfolio of £292,613,714 (2017: £277,308,714).

The annuity policies valued at £7,878,000 (2017: £8,953,000) 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.

Notes to the financial statements for the year ended 31 March 2018 (continued)

9 INVESTMENTS (CONTINUED)

9.7 INVESTMENT RISKS (CONTINUED)

(iii) *Interest rate risk (continued)*

The real return fund of £44,221,638 (2017: £55,674,822) is also exposed to some interest rate risk although the extent of the risk is dependent upon their portfolio at the time. The investment manager will consider the risk and expected reward when determining which investments to invest in.

(iv) *Other price risk*

Other price risk arises principally in relation to a proportion of the Scheme's growth portfolio covering the world equity fund and real return fund totalling £112,355,436 (2017: £130,455,508) although the extent of the risk is dependent on the portfolio of the funds held at the time. The Scheme has set a target asset allocation of 29% (2017: 32%) of total investments excluding the annuity policies being held in the growth portfolio. At the year end, 28% (2017: 32%) of the portfolio was held in growth assets, based on the fair value of investments. The split between the growth funds is allowed to drift in line with market movements, so therefore there is no automatic rebalancing back to a central benchmark. The Trustees will continue to monitor the allocation on a regular basis to ensure that this is consistent with overall strategy of the Scheme. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

10 CURRENT ASSETS

	2018	2017
	£	£
Cash balances	1,391,390	854,563
Sundry debtor	-	5,820
	<u>1,391,390</u>	<u>860,383</u>

Notes to the financial statements for the year ended 31 March 2018 (continued)

11 CURRENT LIABILITIES

	2018	2017
	£	£
Unpaid benefits	156,472	-
PAYE due to HMRC	-	81,528
Deferred annuity income	53,954	74,224
Due to administrators	1,925	-
Due to Auditors	17,000	13,000
Due to Actuaries	41,447	134,884
Due to Legal advisors	13,030	-
Due to Trustees	2,568	-
Investment management fees due	52,156	45,814
	<u>338,552</u>	<u>349,450</u>

12 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 7) to which they relate.

13 RELATED PARTY TRANSACTIONS

Five Trustees were deferred members, one Trustee was a pensioner and one Trustee was an independent Chair (i.e. not a member of the Scheme) during the year. During the year the Scheme paid £13,430 (2017: £5,438) in relation to Trustee fees and expenses. This is included in other expenses in Note 6.

14 EMPLOYER RELATED INVESTMENTS

There were no employer related investments at 31 March 2018 (2017: £Nil) or at any time during the year.

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 2018 which is set out in the Trustees' Report on page 4.

In our opinion contributions for the scheme year ended 31 March 2018 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 2 November 2016.

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

24 October 2018

