Link Fund Solutions Limited

Governance Advisory Arrangement

Annual report to unitholders

of the

LF Stakeholder Pension Scheme

for the period

1st January 2020 to 31st March 2021

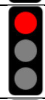
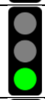
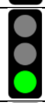
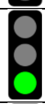
Contents

Chair's report

I am pleased to present the report of the Governance Advisory Arrangement ("the Committee") of the LF Stakeholder Pension Scheme ("SPS") for the period between 1st January 2020 and 31st March 2021. The Committee's sole objective is to ensure that you are getting "value-for-money" ("VfM") from your pension plan and in your dealings with Link Fund Solutions Limited ("LFSL").

Since our last report, Sarah Farrant has been appointed chair of your Committee and Peter Maher has been appointed as a Committee Member to replace Chris Murray who retired with effect from 31st May 2020.

Summary evaluation

What overall level of VfM do we think the SPS provides to investors?	
Is the default investment strategy suitable for most investors?	
Does the default investment strategy have clear aims and objectives?	
Does LFSL regularly review the characteristics and net performance of its funds?	
Does LFSL take prompt action to ensure alignment of interests between the funds and the members	
How well are core financial transactions processed?	
How competitive are the charges associated with the SPS that are borne by investors?	
How competitive are direct and indirect costs associated with managing and investing funds, including transaction costs?	
Investment performance of default fund during growth phase (assessed over three years)	
Investment performance of default fund during de-risking phase (assessed over three years)	
Investor experience (service received)	
Investor experience (quality of communications)	
Environmental, social and governance credentials	

Pensions Freedoms	

Why aren't all traffic lights green?

In 2019, LFSL developed an "Optimisation Plan", which was designed to give members a more appropriate range of funds and default investment strategies whilst benefitting from lower fund costs. The initial timetable had a completion date of 31st March 2020. The target was not achieved and the plan now has a revised target date of Quarter 4 2021. While Covid 19 will have had an impact, we remain disappointed in a further 18 month delay given the concerns we have been raising for a number of years.

We therefore feel that some areas that were previously assessed as amber should be reassessed as red, as they are long overdue for resolution. The Committee is disappointed with the outcome as the impact on each member is material, both in relation to the returns and the risks.

At 31st March 2021, the default strategy continues to be 100% invested in UK equities until five years before retirement age. Thereafter, the default lifestyle option means that the equity funds are switched into cash - in tranches of 20% each year - over the period leading up to retirement.

We believe that exclusive exposure to one stock-market during the "growth" phase of investment concentrates risk unduly in a single market, thereby maintaining a higher level of investment risk than would exist in a more diversified portfolio.

During the implementation of the Optimisation Plan, your Committee's input has been (and will continue to be) invited at all stages of the Plan's evolution. Despite plenty of pressure on LFSL and assurances it would be fully implemented by 31st December 2020, this is not the case and we continue to work with LFSL to bring this to a speedy conclusion.

During the last quarter of the reporting period, LFSL confirmed that they would reduce the charges for the existing range of funds, to reflect the delays incurred by members.

The proposed default investment strategy, range of funds, associated costs and options for taking retirement benefits are all being evaluated in association with the Optimisation Plan. We are working with LFSL on the ongoing charges and the service provision to ensure value-for-money for investors.

How we have considered your interests

Over the reporting period we have again considered the appropriateness of the default investment strategy and other funds that have been made available to investors, annual management charges and transaction costs, service delivery and how LFSL is addressing environmental, social and governance matters associated with the underlying funds. Again, we don't feel sufficient progress has been made and we continue to work with LFSL to improve matters.

We are disappointed that the improvements detailed in the Optimisation Plan have not been implemented to any great effect. The FCA is aware of our concerns.

Expertise, independence and experience of members of the Committee

When first establishing the Committee, our chair was keen to ensure that collectively, we had the necessary skills to evaluate all of the areas required by the FCA in our assessment of VfM and that each member was able to bring creative solutions to issues that we were likely to face. This meant inviting accomplished professionals with broad experience in their respective fields. Full details of your committee are contained in Appendix 1.

A conflicts policy is in place, although to date, there have been no circumstances where this has had to be invoked.

Administration of the LF Stakeholder Pension Scheme

The SPS is currently administered by Capita, however, LFSL has determined that the service levels and the cost implications are no longer meeting requirements and as such it has concluded that the SPS in future should be administered by Equiniti. This is expected to be from the fourth quarter of 2021. This will provide much improved technical capability including web access for members.

Pension Freedoms

With effect from April 2015 Government introduced something called 'Pension freedoms' which grants greater flexibility around access to your pension benefits. Unfortunately, the SPS does not offer such freedoms and therefore members wishing to avail of such flexibility will be required to transfer away from the trust.

Vulnerable Persons Policy

The FCA has concluded that one in two individuals could be deemed vulnerable. LFSL has a 'Vulnerable Persons Policy', but it is only identifying a small minority of investors as vulnerable. We would encourage LFSL to review the effectiveness of the policy.

Your views – how we take them into account

We have yet to contact investors directly in order to establish their views, although our analysis of member data has given us a fair idea of the overall membership of the SPS.

We believe that it would only be appropriate to approach investors directly (by letter) where issues arise which could lead to fundamental decisions that might otherwise be incorrect, leading to inappropriate outcomes. To date, we have not encountered such a situation.

Environmental, social and governance ("ESG") strategy

Despite there being no specific ESG mandates within the funds held by the members, the Committee is able to report on some aspects, mainly around governance. The Committee expects the financial services industry to secure better information about the underlying companies in the future.

Historically investors have focused on financial outcomes from investing capital, but companies, policy makers and investors are now looking for non-financial goals. Going forward, the Committee will report on the non-financial performance, starting with the use of carbon.

In the next section of our report, we have outlined our thinking on how we will take ESG matters into account.

The future

Whilst we had hoped to be reporting to you this year on the implementation of the Optimisation Plan, little meaningful progress has been made and the Committee feels it necessary to register on your behalf its extreme disappointment.

We believe that the comprehensive delivery of the Optimisation Plan will result in significant improvements in the default investment strategy, fund choice and charges, all of which should contribute to improved value-for-money from your SPS and we are pressing LFSL hard to ensure that is delivered by 31 December 2021.

Sarah Farrant FIA
Chair

Developments over the period

There have been a number of significant changes to the SPS over the period covered by this report.

Optimisation Plan

In 2019, LFSL developed an "Optimisation Plan", which was designed to give members a more suitable range of funds and default investment strategies whilst benefitting from lower fund costs. They key features of the Plan are as follows:

- Merger of the LF Stakeholder Pension Trust and the LF Personal Pension Trust to ensure members can benefit from improved economies of scale.
- Introduction of targeted default investment strategies to enable members to align their investment strategy with how they expect to take their benefits at retirement (cash, drawdown or taking an annuity)
- Transfer of the administration of the SPS from Capita to Equiniti to achieve cost savings for the SPS and to enhance the member experience from improved administration service and communication and functionality from web access.
- Improve the ESG characteristics for the underlying assets for the portfolio as a whole.
- The new investment funds have lower charges.

The initial timetable had a completion date of 31st March 2020. This was then pushed back to 31 December 2020. This later target has not been achieved and there is now a revised target date of Quarter 4 2021.

This Optimisation Plan needs approval by the FCA and the membership. The Committee believes that, once implemented, the SPS should offer better outcomes and a better experience for members. At this stage it is difficult for us to comment on the value for money that the new structure will offer members.

Withdrawal of the drawdown option

Over the period covered by this report, the FCA introduced a requirement that pension funds should offer their members four investment pathways once they reached their normal retirement age. This was an administratively complex requirement and so it only had to be offered by pension funds with a minimum number of members that were likely to select this option. Following a review of the membership, LFSL decided not to offer investment pathways and, as a consequence, removed the current drawdown option. A small number of members were affected by the closure of this option which resulted in a number of complaints. As a gesture of goodwill, LFSL refunded to those members affected, the implementation fee that had been charged to set up the drawdown option.

Change in investment strategy

Over the reporting period the Committee has worked with LFSL to update the current investment strategy of the SPS. LFSL has reviewed both the funds available to members and the structure of the default investment strategies. The new funds should have much lower investment charges, which feed through the Ongoing Charges Figure.

The original Optimisation Plan assumed that the investment funds would be transferred to their new allocations at the same time as the administration was transferred from Capita to Equiniti. Following the delays in implementation, the Committee asked LFSL to see if it was possible to move, at least some of, the investment funds prior to the transfer of the administration so that members could benefit from the reduction in overall charges sooner.

One of the aims of the Optimisation Plan is to reduce the overall costs to members. Due to the delay in its implementation LFSL agreed to rebate a portion of the fees charged to members from January 2021 until the Optimisation Plan is implemented. The rebate is adjusted monthly based on the actual fees charged, to date the rebate has reduced the fees charged to members by c. 8.5% per annum, per Fund. In March 2021 LFSL were able to further reduce the charges paid by members invested in the LF Tracker Pension Fund by switching to a cheaper share class in the underlying L&G (N) Tracker Fund.

Environmental, social and governance strategy

Introduction

The UK Government has been one of the foremost in creating a code of good conduct for companies. There have been many policies instigated over the years, and the Environmental, Social and Governance (ESG) policy is the latest manifestation, which is looking to build on previous initiatives.

An ESG policy is not to be confused with an ethical policy, although these are also likely to be referenced when assessing a company's overall ESG policy. Such a policy is looking to encourage good practice in relation to every aspect of a business. There are many aspects involved in a company's ESG rating, from remuneration policy to the impact of the business on the environment.

This document sets out the Committee's current approach to ESG and how the Committee believes it should be factored into the processes. Our approach will be developed further as ESG policy in the fund management industry evolves over the coming years.

Environmental, Social and Governance Issues

The Committee's objective is to ensure that investment managers have the financial interests of members as their first priority when reviewing investments, as well as assessing the non-financial goals.

The Committee may take ESG considerations into account only when these factors do not contradict, or actively support, the primary objective or where these considerations are specified within the mandate of the funds used. In the case of passive equity funds, there is an expectation that all fund managers will be active as shareholders, and will apply their own ESG policies.

Over the last five years, we have seen considerable change in the approach to all issues surrounding ESG, from reporting to the implications for investment returns. The Committee feels that ESG factors will have a significant impact on future risks and potential returns from all assets. Since the 31st December 2019 there has been a sea change with the number of funds on offer mushrooming, and the fund manager industry is attempting to standardize the ESG investment and reporting to bring clarity to investors.

The issue facing investors is how to reflect ESG risks in portfolios when the majority of the fund options are relatively new (less five years) and there is limited ESG experience amongst fund managers. The shortage of expertise in the wider market increases the risks associated with integrating ESG into the default funds under the Optimisation Plan, although we are aware that the regulators are expecting imminent change.

During the discussions around the implementation of the Optimisation Plan, the Committee encouraged LFSL to use ESG funds where possible. Under the proposals, LFSL planning to use the following funds:

> L&G Future World ESG Developed Index Fund– a passive global equity fund, with a benchmark of the FTSE All-World ex CW Climate Balanced Factor Index
>
> L&G Future World Multi-Index 4 Fund – a multi-asset fund, where the majority of the assets are invested in ESG assets.

The Committee continues to encourage LFSL to use ESG funds where possible.

In the case of active funds, each fund manager will have an ESG policy, which should be integrated into the overall investment management process. The Committee will review the ESG policy and highlight any issues with LFSL. Our approach is one of "positive engagement".

Voting Rights attaching to Investments

LFSL delegates to the investment managers responsibility for exercising rights (including voting rights) attaching to investments and encourages the managers to exercise those rights.

The investment managers are expected to provide regular reports for LFSL, detailing their voting activity.

Review from 1st January 2020 to 31st March 2021

Investment review

The LF Stakeholder Pension Scheme (formerly “Nationwide Building Society Stakeholder Pension Scheme”) uses a single institution to administer and manage the Scheme. Legal & General Investment Management, LGIM, manage all the underlying assets.

The available fund range is shown below:

- LF Tracker Pension Fund
- LF Corporate Bond Pension Fund
- LF Cash Pension Fund

At 31st March 2021, approximately 80% of the SPS’s assets were held in the LF Tracker Pension Fund. Your Committee’s task is to ensure the suitability of each fund.

There is a simple de-risking (or “life-styling”) arrangement in the run-up to retirement so that investors are not exposed to the full volatility of equity (share) markets at a time when it could be too late to recover from a sudden fall in those markets. The Default “Lifestyling” allows for switches from the Tracker fund into the Cash Pension Fund in 20% tranches over the five years leading up to their selected retirement date. Arguably, this type of life-styling (targeting cash) could be appropriate for members who wish to take their benefits as a cash lump sum.

Following the advent of “pension freedoms” in 2015, members of Workplace schemes are typically offered several life-styling options. Under the “Optimisation Plan” LFSL are introducing additional life-styling options to cater for different intended outcomes, such as income drawdown or annuity purchase.

Suitability of funds

The SPS should be operated in the interests of members reflecting the current environment for savers (which can change over time), rather than assuming it will remain suitable indefinitely. Investment mandates for the SPS are set out in the Appendix 2.

We have therefore made assumptions about the needs of the majority of members. Factors we would consider when selecting a default fund are as follows:

1) Time horizon

2) Risk profile

3) Financial knowledge and experience of members

4) Liquidity

5) Return targets

Our report is divided between return-seeking assets and de-risking assets.

Return-seeking: LF Tracker Fund

Performance

This fund was created when the contract was designed and is wholly invested in the L&G (N) Tracker Trust. The mandate for the underlying fund is set out in Appendix 2.

Over the reporting period, the fund has delivered unattractive risk-adjusted returns for the members as a result of Covid 19. The behaviour of the fund illustrates the risks of a single market fund – an issue which has been raised by the Committee repeatedly since the Committee was appointed. The longer term record has been sound, but investors have suffered from the underperformance of the UK stock market relative to others across the world over this reporting period.

Whilst the fund is benchmarked against the FTSE All Share Index, we are not permitted to use the index data for charts and tables. Hence, we are using the L&G UK Index Trust Fund, which tracks the FTSE All Share Index and has ongoing fund charges of 0.13% per annum. After taking into account the charges, fund performance has been in line with expectations.

Environmental Social and Governance, ESG

Turning to the specific ESG factors, carbon and shareholder voting. The table below sets out the carbon reserves and the carbon intensity of the fund.

Fund	*Carbon Reserves - tonnes*		*Carbon Emissions - tonnes*	
LF Tracker	6,897	CO2 emissions per $1 million of market cap	137	CO2 emission per $1 million of sales
Unit holders	2,867,130	CO2 emissions for units held	42,144	CO2 emissions for units held

The tables give the unit holders details of how many tonnes of carbon dioxide have been released into the atmosphere to secure their returns over a year, using data available as at 31st March 2021.

The goal is to allow members to see whether the carbon footprint is contracting over time.

The table shows the voting record of LGIM in relation to the underlying fund for the year to 31st March 2021.

Number of equity holdings	587
No of Resolutions	11,452
No. of votes where L&G could vote	100.00%
% of votes with management	93.09%
% of votes against the management	6.90%

LGIM voted with the management most of the time.

Where LGIM did declare some detail around its voting patterns, 9 out of the 11 votes against management was in relation to remuneration, and only one was in relation to the company's plans around tackling climate change – Barclays Bank.

While no doubt these steps are positive, one hopes that LGIM are working behind the scenes to effect change, so that the recorded carbon usage, one of the prime goals of the Committee, reduces over time as well as senior management seek an appropriate level of renumeration for the tasks they are undertaking.

De-risking funds - Cash and Corporate Bond

Performance

The Cash and Corporate Bond funds have clear investment objectives, as shown below.

Fund	Investment objectives
Cash	To achieve a high level of return consistent with a high degree of capital security
Corporate Bond	To produce a high level of income consistent with long-term preservation of capital in sterling terms

These funds are invested in two separate asset classes, each with its own benchmark index. When they were created in 2001, the expectation was that on retirement, 25% of a member's retirement fund would be taken as a tax-free lump sum and the balance would be used to purchase an annuity (providing an income in retirement). A cash fund is generally considered to be a suitable investment to support the withdrawal of a lump sum at retirement.

Before the advent of "pension freedoms" in 2015, the majority of bond funds in personal pension plans were designed to mirror movements in annuity rates. Annuity rates are driven by mortality rates, government and corporate bond yields, as well as interest rate/inflation linked swaps. The price of annuities is closely linked to movements in the yield on UK government bonds with a duration reflecting the life expectancy of the annuitants. The FTSE Government Bond All Stocks index is widely considered to be a suitable index for this purpose.

However, as stated above, we are unable to use the FTSE data, so we have replaced that with the L&G All Stocks Gilt Index Trust, which tracks the gilt market. The fund has charges of 0.15% per annum.

The original provider, Nationwide, opted for a different approach and selected a bond fund that was intended to deliver an absolute total return through the L&G Sterling Income Fund (a corporate bond fund). The construction of this fund is very different to one that is designed to track annuity prices. Hence, there is no guarantee of a high correlation between the two, as illustrated in the table below.

By flat-lining the Government Bond index fund in the graph below, we can see that members have incurred greater risk, relative to movements in annuity prices, but they have not been rewarded with higher returns. The correlation over the whole period has been 0.34, which is not ideal.

There is a clear mismatch with annuity rates. Imminently the members are going to see a switch into the Sterling Corporate Bond Index Trust under the proposed Optimisation plan, which will allow those members seeking to hedge themselves against movements in annuity rates.

The Cash fund performed in line with expectations, but relative to inflation, the purchasing power of the savings continues to shrink, which the members need to be fully informed about.

Environmental Social and Governance

We are reporting on the ESG performance of the L&G Sterling Income fund, the underlying asset to the Link Corporate Bond fund.

The Corporate Bond fund does not have ESG filters applied directly as part of the investment process. However, credit analysts will consider the ESG scores for each issuer when assessing a bond. Like many bond managers LGIM do not collate the same data around voting with and against the management, where LGIM has a vote as an equity shareholder. Therefore, there is no record of whether LGIM's views on the ESG policies are reflected in their bond buying decisions.

The Corporate Bond, through the Sterling Income fund, owns 2 equities and the voting record is as below:

Number of equity holdings	2
Number of Resolutions	34
No. of votes where L&G could vote	100.00%
% of votes with management	70.59%
% of votes against the management	26.47%

There are no details on the why LGIM voted against management, but LGIM view the votes to be insignificant.

In the case of the Cash fund, the cash deposits are placed with a series of banks, and as a depositor, the investors have no voting power. Again, LGIM do not collate the data around their voting record, for those publicly quoted institutions, where they are also shareholders.

Suitability

LF Tracker Fund

There is a limited amount of data on the membership profile. There is no requirement for LFSL to ask each member about their attitude to risk, time horizons and investment objectives. Neither is there any information about the financial knowledge and experience of participants. Some data is available about the number of members invested in each fund, their ages and the average value of their holding, which is shown in the table below.

Date	*Fund*	*Number of Members*	*Value*	*Value per member*	*Average age*	*Weighted Average Age*
31-Dec-16	LF Tracker Fund	20,456	297,475,616	14,542	45.1	47.2
31-Dec-17	LF Tracker Fund	19,635	322,334,827	16,416	45.6	47.6
31-Dec-18	LF Tracker Fund	18,931	279,208,135	14,749	46.3	48.2
31-Dec-19	LF Tracker Fund	18,262	323,655,323	17,723	47.0	48.8
31-Mar-21	LF Tracker Fund	17,449	296,933,429	17,017	47.8	49.4

It should be noted that membership of the Scheme is relatively young. Assuming the selected retirement ages for workplace schemes are between 60 and 65 the time-frames for these investments (before they will be drawn upon) are likely to be between 10 and 15 years (based on the average age above). In view of these time-frames, we believe that the fund is likely to be suitable for an investor with a “medium” attitude to investment risk.

At every opportunity, members should be informed of the specific risks, such as the single market risk of holding this fund.

Knowing the past performance of the funds, we can estimate the contribution regimes for the plans. Contribution levels may indicate that the members’ earnings were below average for the UK. Lower earnings probably mean that members are less likely to seek professional pensions advice so they are less likely to appreciate the implications of taking benefits now, leaving them with less savings to provide for them later in life.

The average size of individual pension funds could indicate that members are likely to incur income tax on their benefits, which could be mitigated by spreading the withdrawals. The Committee would encourage LFSL to promote the benefits of financial education amongst members, to reduce the risks of them making inappropriate decisions. Any checks and balances can only help members to question whether their actions are appropriate.

Most members have sold their units in the LF Tracker Fund by the age of 65, with only 1.3% of the £297 million assets in the LF Tracker Fund being held by members over age 65.

LF Corporate Bond and Cash (ex Money Market) funds

The information about the members for each of these funds are shown below.

31st December 2016

Fund	*Number of Members*	*Value*	*Value per member*	*Average age*	*Weighted Average Age*
LF Money Market	2,645	31,927,919	12,071	59.0	61.7
LF Corporate Bond	5,305	23,637,915	4,456	46.3	51.1

31st December 2017

Fund	*Number of Members*	*Value*	*Value per member*	*Average age*	*Weighted Average Age*
LF Money Market	2,682	36,140,830	13,470	59.4	61.9
LF Corporate Bond	5,039	24,068,752	4,776	46.7	51.4

31st December 2018

Fund	*Number of Members*	*Value*	*Value per member*	*Average age*	*Weighted Average Age*
LF Cash	2,770	39,349,027	14,205	59.8	62.3
LF Corporate Bond	4,794	22,664,718	4,728	47.2	51.9

31st December 2019

Fund	*Number of Members*	*Value*	*Value per member*	*Average age*	*Weighted Average Age*
LF Cash	2,877	43,741,481	15,204	60.3	62.5
LF Corporate Bond	4,587	23,493,107	5,122	47.7	52.4

31st March 2021

Fund	*Number of Members*	*Value*	*Value per member*	*Average age*	*Weighted Average Age*
LF Cash	3,116	50,874,168	16,327	60.9	63.0
LF Corporate Bond	4,319	22,368,930	5,179	48.4	52.7

The weighted average age of unitholders is as expected for the Cash Fund, if funds are being held by individuals approaching retirement. After a number of years of asking LFSL to inform the members about the impact of inflation on the real value of the units in the Cash Fund, the Committee now demand that all the holders of the Cash fund are sent an explicit letter stating the inflation risks.

The average age and weighted average age for the Corporate Bond Fund are relatively low, at 48.2 and 52.7 years. With the imminent shift of the money in the Corporate Bond Fund from the L&G Sterling Income fund to the Sterling Corporate Bond Index fund, albeit temporarily, the Committee demand these unit holders are made aware of the inflation risks which will have an impact on the real value of their pension funds over the long term.

Taking Benefits

LFSL is now collating more granular records of how the members are taking their benefits, which is a positive step.

Over the reporting period some 287 members took benefits mainly as lump sums, with the average of £15,000. Most of these members were between 55 and 75, which is in line with expectations. 159 of these members were taking benefits of £10,000 or more, where there is a risk where income tax could have been an issue when drawing down the benefits. Reassuringly 77 of these members did secure advice, directly or through pensions guidance web sites such as Pensions Wise, which is positive.

The hope is that under the new proposed arrangements, members will have access to further facts and help through the Equiniti systems, which shall help each member make a more informed decision.

Over the reporting period 289 members transferred their pension pots away from LFSL. Despite the regulatory environment, an increasing number of individuals are sold pension scams products. The Committee would encourage LFSL to adopt checks and balances to avoid this arising. The Committee would like to receive quarterly schedules setting out the details of the transfers out, specifically the sums transferred and to whom the payments were made.

The Committee would encourage LFSL to collate the data going forward, and consider creating a list of “accredited” pension providers, and when a transfer is requested to a pension provider not on the list, there is a need for a sign off by an oversight committee.

Charges

The costs for the default funds need to be competitive. For the majority of the reporting period the charges for the funds have been as shown below, highlighted in blue. As a result of the delays to the implementation of the Optimisation Plan, LFS offered to reduce the charges for the funds, by applying a discount, which is on pro rata basis to the charges levied. The allocation of the rebate was agreed to by the Committee and has been in place since 1st January 2021.

Towards the end of March 2021, LFSL managed to secure a further reduction in the charges for one of the funds, the UK Equity Index fund from the 25th March 2021, where the charges on the underlying funds were reduced by 0.30% per annum.

The charges for the funds, when compared with other funds in the other Work Place pension, are set out as below:

Fund	*Ongoing Charges Ratio*	*Discount since 1 Jan 2021*	*LGIM Fund reduction*	*Operating Charges Ratio net of*
				-
UK Index				
LF Tracker Fund	1.01%	0.09%	0.30%	0.62%
Aegon ishares UK Equity Index	0.37%			0.37%
L&G PMC UK Equity Index	0.51%			0.51%
Bond				
LF Corporate Bond	1.03%	0.09%		0.94%
Aegon UK Corporate Bond	0.59%			0.59%
L&G PMC Pre-Retirement Fund	0.53%			0.53%
Cash				
LF Cash	0.12%	0.01%		0.11%
AEGON Cash Pathway	0.37%			0.37%
L&G PMC Cash Fund	0.50%			0.50%

While the discount is welcome, the operating charges ratio, net of the discounts, are still above the charges levied under other Workplace arrangements for the majority of the funds invested for investors. Aegon and Legal & General confirm that these charges are the averages, but if any scheme approached them, they would expect to negotiate the terms based upon the quality of the scheme data.

For most of the period the LFSL charges exceeded the limits for a Workplace pension plan, and exceed those permitted for a default fund, bar the Cash fund, within a plan that is used for auto-enrolment purposes. Over the period the Committee has continued to ask for a review of charges for these funds, culminating in the fee reductions.

Other potential charges

All administration costs are included within each fund's annual management charge.

For SPS, LFSL currently makes no charge for the following:

Transaction
Plan set up
Transfer-in
Transfer-out to UK scheme
Transfer-out to overseas scheme
Fund Switch
Pension Splitting on Divorce
Small pot lump sum payment
Account closure fee

Arranging death benefits
Annual Statements
Duplicate copies of correspondence
Account closure

All switches take place on a bid to bid basis, i.e. they will be free of charge. Whilst LFSL does not currently charge for any of the above, it reserves the right to do so in the future. The processing of pension sharing orders, for example, can be particularly complex and a specialist's technical input may be required.

Members may find it difficult to compare LFSL's costs with other providers' charges because products with a lower AMC may charge administration fees for transactions that LFSL currently provides at no additional cost.

Liquidity

All funds available through the Scheme continue to provide daily liquidity to investors and there are no reports of members being unable to buy or sell funds during the period.

Customer Experience

The Scheme has always had a fairly basic level of customer service; however, as competitors have materially added to their customer service proposition, especially as regards online servicing, the SPS has not kept pace. In parallel with the Optimisation Plan, LFSL has been reviewing the administration service offered to the SPS and with the proposed move to Equiniti we expect to see an improvement in service offering for customers, and the speed and quality of reporting to the Committee. It is disappointing that implementation of this change has been delayed.

There was also a breach during the year relating to significant delays in issuing annual statements. This was caused by a wish to include additional wording in the statements to deal with market falls in March 2020 due to Covid, with delays in securing internal approvals within LFSL [and also to some extent from the Capita team]. Plans are in place to ensure there are no similar delays this year.

Having said all of that, the SPS service statistics show that it has generally maintained an adequate level of service, with a steady stream of positive feedback and a low level of complaints, with a dip during April and May 2020 as a result of the transition to home working due to Covid. This has however seen a degradation in recent months, we believe due to the decision to withdraw drawdown as an option, which coincided with, and may have been the cause of, a significant increase in call volumes in February and March 2021. There were a number of complaints concerning this decision, including how it was communicated. We understand that LFSL has taken the decision to refund the fee paid for drawdown in all cases other than where the drawdown was already effectively complete.

Communications

During the year the Committee established a process for review of SPS communications, prioritising those communications with the highest risk and impact on customers. The Committee suggested a number of changes to improve the clarity of communications; we understand that any changes to the letters concerned also await the move to Equiniti.

Vulnerable Customers

Your Committee has considered and discussed with LFSL at length the position of vulnerable customers. The Committee is looking to LFSL to enhance the policies to protect vulnerable customers. The Committee has also proposed additional wording and declarations relating to such customers which will be considered for inclusion in the new suite of communication materials once the administration is transferred to Equiniti.

Please see experience of complaints and telephony services, below:-

Complaints			**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Complaints	% of complaints acknowledged or expected resolution date communicated within 5 days	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
% Complaint Acknowledgments	Underlying data - # Complaint acknowledgments in 5 days		1	2	1	1	3	1	2	1	1	8	4	4
% Complaint Acknowledgments	Underlying data - # Complaint acknowledgments		1	2	1	1	3	1	2	1	1	8	4	4

Standard of telephony Service	**Measure**	**Target**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
% Speed of Answer	% of calls answered within 20 seconds during the reporting period	80%	94.80%	93.30%	89.60%	73.80%	72.60%	92.10%	87.40%	91.30%	93.00%	82.00%	83.90%	82.80%
% Speed of Answer	Underlying Data - # Calls answered in 20 secs		528	465	540	280	392	466	466	400	428	806	512	409
% Speed of Answer	Underlying Data - # Calls offered		557	499	603	379	540	506	533	438	512	983	610	494
% Abandonment Rate	% of calls abandoned during the reporting period	5%	0.40%	1.60%	0.80%	3.10%	7.8%	1.0%	2.3%	2.30%	0.70%	2.30%	3.20%	2.10%
% Abandonment Rate	Underlying Data - # Calls abandoned		2	8	5	12	42	5	12	3	12	32	13	16
% Abandonment Rate	Underlying Data - # Calls offered		557	499	603	379	540	506	533	438	512	983	610	494

Areas requiring attention

As mentioned above, in 2019, LFSL developed an “Optimisation Plan”, which was designed to give members a more suitable range of funds and default investment strategies whilst benefitting from lower fund costs. The initial timetable had a completion date of 31st March 2020. This was then pushed back to 31 December 2020. This later target has not been achieved and there is now a revised target date of Quarter 4 2021.

Unfortunately, the plan is still behind schedule and most issues that your Committee has previously identified have yet to be addressed. It is vitally important that this date does not slip further and the Plan is implemented on time. All the areas requiring attention that we highlighted last year are listed below and should be rectified by the implementation of this Plan.

- Updating the mandate of the LF Tracker Fund
- Reducing the charges of the LF Corporate Bond Fund and the LF Tracker Fund
- Introducing appropriate lifestyling options for members

The further areas that we have identified in this period that require attention are set out below.

Web Access

Most product providers in the market place now offer their members online servicing to their accounts. We understand that this should be available once the administration of the SPS is transferred to Equiniti. To remain competitive in the market it is important that this function is available to members and that the communications are clear and informative.

Communications

In the past year, your Committee implemented a strategy for reviewing the communications issued to members to ensure that they were clear and concise and they could be easily understood by members. The suggested changes we highlighted are yet to be implemented. We understand that the communications will be updated once the administration of the SPS passes to Equiniti.

The Committee feels that it is important that appropriate risk warnings are contained in the communications so that members can have a clear understanding of the risks posed by their chosen investment strategy or course of action.

Ongoing analysis of how unitholders are taking their benefits

Ongoing analysis of those members taking benefits and the funds sold shall help inform whether the default investment strategies are suitable. The Committee will be asking for this data regularly to allow for more in-depth analysis.

ESG Reporting

This has only recently been introduced by the FCA and at present the level of reporting available from investment funds is still developing. Next year we would like to see more detailed reporting, an analysis of how the investment strategy of the fund has performed against the ESG targets and to improve the ESG characteristics for the underlying assets of the portfolio as a whole.

Value for money after implementation of the Optimisation Plan

Once the Optimisation Plan is complete, the Committee intend to review the value for money the new strategy offers members.

Provision of information

The Committee has failed to receive timely management information from LFSL which has made it difficult to oversee the pension fund. Over recent years the Committee has worked with LFSL to clarify the information we require and to set out a timetable for provision of that information. LFSL has failed to meet these requirements. It is important for these deadlines to be met next year.

Appendix 1 - Constitution of the Committee

The Committee is comprised of four independent members and one member appointed by LFSL. FCA guidance was observed over selection of the employer-appointed member. Committee members during the year were:

Sarah Farrant (Chair)

Professional qualifications

- Fellow of the Institute of Actuaries

Ms Farrant has been a qualified actuary for over 25 years. She has been Scheme Actuary to many schemes, including a number of FTSE 100 and FTSE 250 companies and has enjoyed senior roles with national employee benefit consultancies and a “Big four” firm of Chartered Accountants.

Naomi L’Estrange
Managing Director of 20-20 Trustee Services Limited

Professional qualifications

- Solicitor (current practising certificate)
- Qualified Executive Coach
- Certificate in Advanced Business Management from Ashridge

Ms L’Estrange has 20 years’ experience as a pension lawyer and a director of the Pension Protection Fund. She advised the Institute of Actuaries and many individual pension schemes and was seconded to Government to advise on Pensions Act 2004.

As the PPF’s Director of Strategy and Policy, Ms L’Estrange has worked with various Government departments and the EU on matters of pension policy. She is a professional trustee to a number of pension schemes of all types.

Mark Garnett
Director of Advisory Investment Services Limited

Professional qualifications

- Associate of the Chartered Institute for Securities & Investment
- Associate of the Chartered Insurance Institute

Mr Garnett provides investment management and advice for pension schemes and was a former Partner of Smith & Williamson Investment Management LLP.

He advises employers and boards of trustees on investment strategy for Defined Benefit.

Adam Tookey
Head of Product, Link Fund Solutions Limited

Mr Tookey is responsible for the development and on-going product management of all funds operated by Link Fund Solutions Limited, including those offered through the Pension Scheme.

He has more than 20 years' asset management experience, working for a number of global firms.

Peter Maher
National Head of Employee Benefits Consultants, Tilney Smith & Williamson

Professional Qualifications

- Member of the Chartered Insurance Institute (CII) and is Diploma Level 4 qualified

Mr Maher has over 30 years' worth of experience in the employee benefits and independent trustee arena.

He provides advice in connection with the design, implementation and administration of employee benefit structures and the communication of those structures to employees.

In addition, Peter acts as independent trustee to occupational pension and life assurance schemes.

He has more than 20 years' asset management experience, working for a number of global firms.

Appendix 2 - Investment

Fund Details

The available fund range is shown below:

- LF Tracker Pension Fund
- LF Corporate Bond Pension Fund
- LF Cash Pension Fund

Risk Assets

LF Tracker Pension Fund “aims for long-term capital growth by each investing in a single authorised collective investment scheme.

The underlying funds are L&G (N) Tracker Trust, Legal & General Sterling Income Fund and Legal & General Sterling Liquidity Plus Fund”.

The limited number of funds available means that the selection process cannot truly be driven by members’ needs. We have therefore made assumptions about the needs of the majority of members. Factors we would consider when selecting a default fund are as follows:

1) Time horizon
2) Risk profile
3) Financial knowledge and experience of members
4) Liquidity
5) Return targets

This fund was created when the contract was designed and is wholly invested in the L&G (N) Tracker Trust. The mandate for the underlying fund is shown below.

“Investment objective and policy: L&G (N) Tracker Trust aims to track the capital performance of the UK equity market, as represented by the FTSE All-Share Index, by investment in a representative sample of stocks selected from all economic sectors.

Securities in the FTSE All-Share Index will be held with weightings generally proportionate to their company’s market capitalisation. From time to time non-index constituents may be held as a result of a corporate action and these holdings will be sold or transferred as soon as reasonably practical.”

Cumulative performance of the fund (i.e. total return) is shown below, over various periods to 31 March 2021.

Fund Statistics to 31st March 2021	3 months	1 year	3 years	5 years	10 years
LF Tracker Fund	3.36%	30.80%	8.38%	30.05%	61.15%
Pensions UK All Companies	*4.59%*	*34.95%*	*10.58%*	*30.94%*	*78.87%*
L&G UK Index Trust	*5.34%*	*27.67%*	*9.73%*	*35.41%*	*76.12%*

The colour coding outlines the quartile position of the fund relative to its peers

1st Quartile
2nd Quartile
3rd Quartile
4th Quartile

The table below uses three measures of performance over 5 years to 31 December 2019 to help identify whether investors have been rewarded for the risks taken in each of the funds.

Fund Statistics to 31st March 2021	Volatility	Jensens Alpha	Maximum Drawdown/Fall
LF Tracker Fund	16.71	0.11	-34.57
Pensions UK All Companies	*15.72*	*0*	*-33.96*
L&G UK Index Trust	*16.03*	*-0.10*	*-31.84*

The fund has delivered returns in line with expectations, but the wider market, including a wide range of active funds, has outperformed.

Glossary

The Committee has selected three fund characteristics to help members appreciate the risks and the rewards of their selections.

"Volatility" illustrates the level of risk over the last five years. The unit price will vary from day to day and will oscillate around the average returns for the period. Deviation against the long-term averages will provide a measure of risk; greater deviation in the unit price = higher volatility = higher risk. Ideally, a fund will have a deviation in line with (or less than) its benchmark, which is highlighted in light blue. The lower the volatility, the higher will be its quartile ranking.

Where a fund is more volatile than the benchmark index, an investor should expect to achieve a higher return, relative to the benchmark index. This is to compensate them for the higher level of risk.

"Jensen's Alpha" ("Jensen's Information Ratio") is a measure of the marginal return a fund has achieved, relative to its peer group, i.e. other comparable funds, net of fees, adjusted for volatility (hence risk). The ratio provides investors with a simple measure of whether a fund manager has performed better than his or her peers, allowing for the risks taken. It may be regarded as a measure of the skill of a fund manager. Ideally, the value should be above zero and a higher number is better.

"Maximum drawdown/fall" is the maximum percentage loss incurred by unitholders within the last five years. The Committee has taken the maximum unit price over the last five years and compared it with the minimum price over the subsequent period. The purpose is to provide investors with an assessment of the maximum potential loss of capital, assuming no further contributions were made to the fund over the remaining period. The greater the fall, the higher will be the down-side risk associated with

owning that asset during the period. A top quartile rating is given to funds with the lowest fall in fund value.

The quartile positions reflect where the fund stood at 31 December 2019, relative to its peers.

Risk Averse Assets

The risk averse assets are the Cash and the Corporate Bond funds. The fund returns are as shown below

Fund Statistics to 31st March 2021	*3 months*	*1 year*	*3 years*	*5 years*	*10 years*
LF Cash	0.01%	0.70%	1.86%	2.27%	4.21%
Pensions Money Market	*-0.13%*	*0.38%*	*1.04%*	*1.59%*	*2.88%*
LIBOR 3 month	*0.01%*	*0.14%*	*1.71%*	*2.58%*	*5.99%*
LF Corporate Bond	-0.05%	9.58%	8.37%	19.79%	61.18%
IA Sterling Corporate Bond	*-3.25%*	*9.02%*	*13.12%*	*25.26%*	*63.89%*

Performance of the LF Cash Fund is in line with expectations, i.e. at a discount to LIBOR, with the underperformance reflecting charges for the fund. The returns are ahead of its peer group.

The LF Corporate Bond Fund has been good at delivering positive absolute returns as a result of its short duratio. Over the longer term, returns have been in line with expectations. The current manager has a solid record across all his funds and LGIM has a good record of performance across all of its investment grade corporate bond funds.

Return metrics for the LF Corporate Bond Fund are solid, relative to its peers and its benchmark; the IA Sterling corporate bond sector. We have previously noted changes to the underlying funds and their benchmarks, and our concerns in relation to these changes.

The table sets out the risk metrics for the last 5 years to the 31st March 2021.

Fund Statistics to 31st March 2021	*Volatility*	*Jensens Alpha*	*Maximum Drawdown/Fall*
LF Corporate Bond	3.62	2.09	-8.36%
IA Sterling Corporate Bond	*4.94*	*0.00*	*-9.32%*

In summary, the performance of both funds has been satisfactory, relative to their benchmarks.

Charges

The charges for the funds are set out above, but there are other potential charges, which the FCA had previously suggested should be collated and published, but the financial industry has yet to agree on the methodology.

For SPS, LFSL currently makes no charge for the following:

Transaction
Plan set up
Transfer-in
Transfer-out to UK scheme
Transfer-out to overseas scheme
Fund Switch
Pension Splitting on Divorce
Small pot lump sum payment
Account closure fee
Arranging death benefits
Annual Statements
Duplicate copies of correspondence
Account closure

All switches take place on a bid to bid basis, i.e. they will be free of charge. Whilst LFSL does not currently charge for any of the above, it reserves the right to do so in the future. The processing of pension sharing orders, for example, can be particularly complex and a specialist's technical input may be required.

Members may find it difficult to compare LFSL's costs with other providers' charges because products with a lower AMC may charge administration fees for transactions that LFSL currently provides at no additional cost.

Liquidity

All funds available through the Plan continue to provide daily liquidity to investors and there are no reports of members being unable to buy or sell funds during the period.

Appendix 3 – Environmental Social and Governance Assessment

The reporting of ESG is relatively new, and relatively patchy in that there is no uniform methodology which is employed by all investment institutions.

Therefore, the data to hand is relatively poor, but the hope is that the reporting will improve over the coming period.

Governance

To date the most commonly used assessment of governance is voting by shareholders at general meetings of the companies held by the funds. Even though LGIM does consider ESG when analysing bonds and cash deposits, they do not report on their voting activity where they own the shares.

The governance report focuses on the number of votes taken and the number of times when this shareholder voted against the management. LGIM continues to support most management teams most of the time.

Interestingly there is a single vote against climate change strategies, which is interesting as companies are very much in the regulatory firing line to reduce the size of their carbon footprint.

By collating data over time, the hope is that we will secure a better picture about the governance of the funds held.

Environment

The Committee identified carbon as the first and most measurable item which the Committee can report on, and is the most important in relation to addressing the climate change challenge.

There are two main numbers widely used. The first is the amount of carbon owned by the underlying companies as reserves underground. And they are measured as the amount of carbon dioxide they would produce if extracted and burnt. Most investors now realise that most of these carbon reserves will remain untapped and left where they are.

The second and more important is the amount of Carbon Dioxide used to create $1 million of sales. The idea is that the amount of carbon dioxide will reduce over time as companies find lower carbon solutions in the manufacturing processes as well as the service sector. The Committee has identified this metric as the prime goal over the long term.

In addition, the report will report on the amount of carbon dioxide produced by the SPS in its totality. The goal is to reduce carbon dioxide produced over time.

Summary

The underlying data around all ESG measurements is developing, and they will become more sophisticated over time.