Link Fund Solutions Limited

Governance Advisory Arrangement

Annual report to unitholders

of the

LF Stakeholder Pension Scheme

for the period

1st January 2021 to 31st December 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"), the Scheme, for the period between 1st January 2021 and 31st December 2021.

The Committee is known for technical reasons as a "governance advisory arrangement" and its objectives are to:

- assess and report annually on the "value-for-money" ("VfM") from your pension plan and in your dealings with Link Fund Solutions Limited ("LFSL").
- consider and report on LFSL's policies on environmental, social and governance (ESG) issues, member concerns and stewardship, and for policies that the Committee oversee.
- identify areas for improvement and make recommendations to the LFSL Board.
- escalate any concerns to the FCA, and bring them to the attention of customers, in the event that LFSL fails to address these concerns appropriately.

There are five of us serving on the Committee – details are contained in Appendix 1. We use our combined knowledge, experience, and skills to oversee the operation of the SPS in the areas of charges and value for money, choice and suitability of funds, communications and access to information, and how you are able to access your pension pot.

Background

The history of the Scheme is one of Nationwide Building Society wishing to create a personal pension product which could be sold through its branches. While there is no doubt most members were sold the product through their branch network, a number of the members were members of workplace pension schemes. The records of the "take-on" process are not easily accessible.

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 and then again to Quarter 4 2021. The current target for implementation is October 2022.

As part of the Optimisation Plan the SPS will be merged with the LF Personal Pension Trust.

All the areas requiring attention that we highlighted in the previous two years are listed below and should be rectified by the implementation of the Optimisation 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

Over the course of the year the underlying funds for the Tracker Fund and the Corporate Bond fund were changed. The Committee supported the changes in the underlying mandates, on the grounds the members would experience lower charges and in turn should achieve more attractive return.

Furthermore, as a result of the delays to the implementation of the Optimisation Plan, LFSL made a positive decision 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 by the Committee and has been in place since 31st December 2020.

Due to the low number of members using the drawdown arrangements LFSL elected not to offer pathway investments to members in the future.

The LF Stakeholder Pension Scheme is currently administered by Capita however, under the Optimisation Plan, this will change to Equiniti. This will provide much improved technical capability including web access for members and should result in reduced administration charges.

Value for Money

The FCA's view of value for money takes into account the costs and charges, investment performance and the quality of the services. By default, the Committee will equally weight all these three factors. The only additional aspect of the "value for money" is the design of the lifestyle investment strategy.

We have therefore assessed VfM across six areas using a **Red**, **Amber,** and **Green** (RAG) rating. The dashboard summarising our findings is set out below – more detailed information is contained in the report.

Overall level of VfM we think the SPS provides to investors	
Investment strategy for the lifestyle solutions	
Reasonableness and competitiveness of Charges	
Investment Choices, Management, and Performance	
Quality of communications and Investor engagement and experience	
Environmental, Social, and Governance (ESG) Considerations	

The SPS does not offer the full range of pension freedom options within the Plan and LFSL has therefore elected, not to offer investment pathways. As a result, the assessment of the VfM of investment pathways is not applicable, which is why it is not reported on here.

There has been an improvement in outcomes for the members over the course of the year, with many of the improvements coming in the last quarter of 2021, but that improvement is not significant enough to warrant a green rating for the Scheme, particularly given the delays implementing the Optimisation Plan.

The overall Value for Money for the Scheme is marked as amber, because the charges and other factors are less than satisfactory.

The investment performance of the funds has been satisfactory, versus the benchmark indices, over the year, especially if you look at the relative returns of the new underlying funds which were put in place in December 2021.

Throughout the year the fund charges have benefitted from the discounting of the underlying fund charges from LGIM, and the fund rebates provided by LFSL as a result of the delay in the implementation of the Optimisation Plan. The hope is that the charges will reduce further over the coming period.

The quality of communications and member engagement, and resulting investor experience remains amber, with no access to an interactive website for the members, poor communications, especially around the risk warnings and vulnerable persons warnings in the letters, and little flexibility to benefit from the Pensions Freedoms unless they transfer out of the Scheme. The continual delay in the implementation of the Optimisation Plan is only extending the poor experience for the members.

Our red rating of the investment lifestyling reflects the fact that there is a series of limited lifestyle flightpaths for the members, and LFSL has been advised that the majority of the members are deemed to be "self-select". Furthermore, the majority of members have elected to adopt a de-risking flightpath, from Global Developed Index Pension and/or the Sterling Corporate Bond Index Pension funds into the Cash fund during the five years running up to their stated normal retirement age for their plans. The Committee is unhappy with this situation, especially as there is going to be a prolonged delay in offering more suitable lifestyle flightpaths for the members, which LFSL has created as being the optimum solutions for the members.

Details of the investment and administration costs and charges, together with the data we have on transaction costs, are on pages 16 -18 of this report. Further details can be obtained on Link's website Link Fund Solutions Pensions (linkassetservices.com). With the planned merger of the SPS with the LF Personal Pension Trust it is not possible or relevant to include an illustration of the compounding effect of the administration charges and transaction costs on the funds of members for the future, as we do not have the details of the fund charges. Therefore, any illustrations based upon the current charges will be meaningless. This information must be provided by LFSL in time for the next annual report of the Committee.

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

It is essential to ensure that collectively, the Committee have the necessary skills to evaluate all of the areas required by the FCA with our governance responsibilities and assessment of VfM, and that each member is able to bring creative solutions to issues that we are likely to face. This meant inviting accomplished professionals with a wealth of experience at senior levels across the industry and considerable subject matter expertise 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.

Pension Freedoms

With effect from April 2015 Government introduced something called 'Pension Freedoms' which grants greater flexibility around access to your pension benefits. 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 have encouraged LFSL to review the effectiveness of the policy.

Your views – how we take them into account

It is our intention to contact members of the SPS directly to seek their views when the Optimisation Plan is implemented. In view of the delay in implementing the Plan, we are disappointed that this contact has been deferred.

In the meantime, we are adopting the following approach:

- Analyse the member data that LFSL provide to us to identify any areas of concern.
- Analyse any feedback, complaints, etc. that is received from members and take any corrective action deemed appropriate.
- Approach members directly (by letter) where issues arise which could lead to fundamental decisions made that might otherwise be incorrect, leading to inappropriate outcomes.

Environmental, social and governance ("ESG") strategy

As a Committee, we are tasked with considering VfM and the potential to deliver long-term returns, so ESG credentials are going to have an increasing impact on those returns. Over the course of the year the underlying funds for the Tracker Fund and the Corporate Bond fund were changed and the Tracker Fund now has more of an ESG focus.

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 2022.

Sarah Farrant
Chair

Communications

Website

The main focus of the Website is to offer the members information about personal pension plans, retirement planning and investment risks in order to help them make informed decisions. The information currently available on the website complies with the regulations.

One of the largest risks facing all members is investment risk as it will have a material impact on the member's benefits and ultimately their standard of living in retirement. The wording around risk is limited, for example under Inflation risk the suggestion is that only Cash Funds and cash deposits found in the other funds are exposed to inflation, when inflation impacts the purchasing power of all pension pots wherever they are invested.

The Website offers no individual functionality to allow individual members to understand the value of their pension pots now and in the future. The GAA understands that when the administration of the Plan is migrated to Equiniti, the members will have the opportunity to access personal information about their own plans.

Standard policy documentation

The documentation is compliant with all the rules and regulations set by the Financial Conduct Authority. The Committee would recommend that the wordings are reviewed urgently to make sure that they are suitable for the members in light of the current practices of Link, in particular the drawdown option.

Correspondence

As reported on last year, the Committee established a process for review of the communications, however the changes we proposed to improve the clarity of communications were awaiting the move to Equiniti and have not been implemented. This is a matter of concern to the Committee.

Vulnerable Customers

In a similar vein, the Committee's proposals, and additional wording to enhance the policies and communications to protect vulnerable customers have not been implemented pending the transfer of administration to Equiniti. In the interim, LFSL does have policies in place, but we would strongly encourage them to consider our suggestions and implement them as a matter of urgency.

Customer Service

Impact of Covid 19

There is no doubt Covid 19 continues to have an impact on the administration of the Plan, with a significant number of Capita staff working from home, disrupting the training of staff, and sharing experience between the team members. Covid 19 has been a contributing factor towards the deterioration of the service to the members for the year.

Service Level Agreement

The key impact on Customer Service during this year is the failure to complete the implementation of the move to Equiniti. Unsurprisingly, the news that Capita has lost the administration contract has accelerated the loss in scheme knowledge and team stability in the Capita administration team.

There has been a further decline in KPIs, with failures in different aspects spread through the year but especially in the call answering KPIs which have been missed for much of the year. The table illustrates the situation versus the previous four years.

Standard of Telephony	*Target*	*Year to*				
		31-Dec-17	*31-Dec-18*	*31-Dec-19*	*31-Dec-20*	*31-Dec-21*
% speed of ansewer						
Calls answered in 20 seconds	80.0%	82.8%	88.4%	87.1%	85.5%	60.0%
Calls abandoned	5.0%	2.1%	2.4%	2.0%	2.4%	13.4%

Despite from the telephony issues, the breaches and complaints have been moderate but with peaks in February to April and particularly in October, largely due to churn in the Capita team. The higher number of complaints reinforces the issues the management of LFSL faces.

Complaints	*Year to*				
	31-Dec-17	*31-Dec-18*	*31-Dec-19*	*31-Dec-20*	*31-Dec-21*
Received	44	15	17	29	73
Upheld	9	5	5	5	24

The delay in the transition has also meant the improvement in service offering for customers, and the speed and quality of reporting to the Committee, has not materialised either, leaving the SPS well behind the market in terms of service offering.

Trading errors

The number of trading errors during the year remain modest, versus the long-term record, and therefore the Committee remains satisfied with LFSL in respect of the trades placed. Here is a summary of the number of trading errors and the costs of indemnifying the client.

Trading errors	*Year to*				
	31-Dec-17	*31-Dec-18*	*31-Dec-19*	*31-Dec-20*	*31-Dec-21*
Number of errors	6	11	11	20	28
Cost of remedial activity - £	205	877	0	0	0

The Committee would like to recognise that LFSL continue to execute all the trades accurately and in a timely way.

Taking Benefits

There is a regular flow of individuals taking their benefits from the Plan. Over the year to the 31st December 2021, 238 members took their benefits, either through taking lump sums or under a Drawdown arrangement, with two of the members taking benefits of more than £100,000, both of which were unadvised nor sought pensions guidance, such as Pension Wise.

Out of the 238, 39 members took advice, and a further 105 took up pension guidance. That leaves some 94 members who did not take advice, 39% of the individuals. We do have some historic data, which is collated to each 31st March. The Committee appreciates that the data is post the reporting period, but it does provide an encouraging picture for the last year. The hope is that the trends in place will continue to improve.

	Year to			
	31-Mar-19	*30-Mar-20*	*31-Mar-21*	*31-Mar-22*
Number of people taking benefits	265	235	186	256
Number advised	54	31	21	48
Not Advised, but pension guided	84	74	71	111
Unadvised	127	130	94	97
% unadvised	**48%**	**55%**	**51%**	**38%**
No. of members taking > £50,000 benefits	7	7	7	13
No of unadvised members, >£50,000 benefits	2	3	3	4
% unadvised with >£50,000 benefits	**29%**	**43%**	**43%**	**31%**

The Committee has two concerns about the behaviour of the members when they take the benefits. The first is around the number of members who take all their benefits as a lump sum, where the values are of sufficient value where income tax would have been levied, some at the highest rates.

The second concern is the number of members where no personal financial advice was secured before taking the benefits. There is no record whether the non-advised individuals approached one of the many information services such as Pension Wise before making a decision. It should be noted that the cost of securing professional independent financial advice is high relative to the value of the pension pots.

Pension Freedoms

The Government has given pension savers a significant number of options on how to manage their pension arrangements. LFSL has limited those options to the membership.

Risks

Risk register

LFSL maintains a risk register covering potential operational risks for all products it operates including the SPS. During the period covered in this report there weren't any red rated risks relating to the SPS.

Operational risks

Over the period the operational risks changed after Capita was informed in April 2021 that the administration of the Plan was moving to Equiniti.

A number of people were lost to the teams looking after the Plan, and Capita did not replace a number of staff after they were transferred internally and left the organisation. Capita is currently experiencing a high turnover of staff across many of their teams, which will increase the operational risks. LFSL mitigated the risks through arranging monthly meetings with Capita, as well as closely monitoring the Service Level Agreement key performance indicators.

Some KPIs breached the target limits, and these were discussed with the Committee regularly to ensure the issues did not become a major problem for the members. Until the administration of the Plan is switched to Equiniti in the autumn of 2022, the operational risks of the Plan will remain at elevated levels. The Committee would like to recognise the commitment made by LFSL to mitigate the operational risks during this period.

Merger risks

There will be merger risks when the Scheme is merged with the LF Personal Pension Trust. LFSL has been working closely with Equiniti to mitigate the risks, and the Committee recognise LFSL's commitment of resources. The timing of the merger has been delayed for too long.

Management Risks

For some time, the Committee has been concerned about the level of resources allocated to the management and administration of the Scheme. The Committee recognises the commitment of LFSL with the allocation of a number of senior staff and the continuity of those staff members. However, the Committee still experiences delays in the provision of information and answering correspondence, and we expect LFSL to improve this.

There is recognition that the LF Personal Pension Trust and the Scheme are a unique business to LFSL at the moment, although there may be plans to grow the business after the implementation of the Optimisation Plan. There are questions around what approach LFSL would take with these pension plans if one or more of the key staff members were to move on.

The hope is that the management risks will reduce when the Optimisation Plan is executed, and the administration of the Scheme moves to Equiniti. Until the transition is completed the management risks are at elevated levels, which has been the case over the reporting period.

LFSL and the Committee have been working closely throughout the year to reduce the management risks.

Investment risks

The membership of the Scheme is diverse, judging by the fund selections and the sizes of the pension scheme pots. The majority of the members bought the product through the Nationwide Building Society and there are no details of the number of the individuals who are members of a workplace pension arrangement.

LFSL has been advised that the majority of the members should be treated as "Self-Select". All the members are subject to the "Security Option", which in the opinion of the Committee operates as a lifestyle flightpath.

The Committee has a concern that the "Self-Select" members might not have been suitably informed when making their decisions and whether the members clearly understood the ramifications of their decisions. The Committee's opinion is supported by the fact that there has been limited engagement by the members in relation to their investments and there are a significant number of "self-select" members where we would have expected investment switches to have taken place.

Consequently, the Committee would strongly encourage LFSL to ensure that the members are given sufficient information to make informed decisions. The objective of the member's education on financial matters is to reduce the risk to members of experiencing excessive volatility in the value of their pension funds as they approach the time they are drawing their benefits, (i.e., when they crystallise their funds).

Governance

The governance of all the funds lies with LFSL.

The management of the underlying assets is delegated to Legal & General Investment Management.

Environmental, Social and Governance (ESG)

LFSL's Environmental, Social, and Governance (ESG) policy for the funds replicates the policy of the underlying funds. LGIM has its own Environmental, Social, and Governance policies, and the Committee receives regular reports on the governance outcomes from each institution.

The issue with the ESG policies is measuring the outcomes to make sure the corporate behaviour across the E, S, and G are improving. While there is no doubt some improvement in the quality and the quantity of the data to measure the outcomes, there will still be a huge amount of variance in the methodology to measure the three factors. The investment management industry appreciates the importance of the standardisation, but until there is more uniformity much of the data is not very useful.

One of the simplest measurements is around carbon, Scope 1 carbon, usage, and reserves. There are still some variances in the calculation around this across the world. As and when there is more useful data on wider ESG considerations we will report on it, until then the focus of the analysis will be on the carbon usage and reserves measurement only.

The ESG data for the funds where there is ESG data is set out in Appendix 3.

Investment

Investment Mandates

Over the course of the year the underlying funds for the Tracker Fund and the Corporate Bond fund were changed. The Committee supported the changes in the underlying mandates, on the grounds the members would experience lower charges and in turn should achieve more attractive return. The Committee would like to recognise the work LFSL undertook for the benefit of the members, as well as the quality of the communications to members.

The changes to the underlying funds resulted in the funds incurring dealing costs, which reflected the unavoidable costs of selling and buying the underlying fund's assets in the stock markets around the world. The table below summarises the amounts transacted at the time and the dealing costs, in cash terms as well as the percentages.

LF Fund	*Transaction*	*Fund*	*Spread*	*Deal Amount - £*	*Spread Amount - £*
LF Tracker Pension Fund	Sell	L&G Tracker Trust	0.10%	315,717,848.77	315,717.85
LF Global Developed Index Pension Fund	Buy	L&G Future World ESG Developed Index Fund C Acc	0.09%	315,717,848.77	284,146.06
LF Corporate Bond Pension Fund	Sell	L&G Sterling Income Fund	0.28%	21,549,120.83	60,337.54
LF Sterling Corporate Bond Index Pension Fund	Buy	L&G Sterling Corporate Bond Index Fund C Acc	0.00%	21,549,120.83	0.00

The charges are in line with expectations, and the trading costs will be offset by the lower fund management charges. We would expect further reductions in costs from the Plan once the Optimisation Plan has been implemented.

Investment outcomes

The Scheme 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 LF Stakeholder policy are set out in the Appendix 2.

The factors one would normally consider when designing a suitable default fund includes issues such as:

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

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

Return-seeking funds - LF Global Developed Index Pension Fund

The underlying fund, gross of charges, continues to track its benchmark indices. Variations in returns since 31st March 2017 reflect the impact of charges and timing differentials in fund pricing (noon every day for the fund and at the close of each day for the index). The fund is behaving in line with expectations.

View - satisfactory

De-risking funds – LF Cash and LF Sterling Corporate Bond Index

The Cash fund has a clear investment strategy. The performance of the funds is in line with expectations.

View - satisfactory

The Sterling Corporate Bond Index fund has held two different underlying funds during the year, the L&G Sterling Income fund and in November 2021, the underlying fund was switched to L&G Sterling Corporate Bond Index Trust. Both underlying funds have performed in line with expectations.

The only issue with each underlying fund is the variance in the returns versus the cost of buying an annuity, which is the prime reason for holding the fund. The Committee has used the government bond market as a proxy to the cost of an annuity. In reality there are no investment funds which track annuity rates perfectly, and so the Committee are happy with the new arrangement in that the fund charges are substantially reduced from the previous arrangements, without reducing the potential long-term returns.

View – satisfactory

Suitability

Risk-seeking 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-Dec-20	LF Tracker Fund	17,449	287,286,912	16,464	47.6	49.2
31-Dec-21	LF Global Developed Index	16,796	315,626,583	18,792	48.2	49.8

"Weighted average" is the average age of members, weighted to reflect the value of the assets they hold, i.e., a larger fund will attract a higher weighting. We have used weighted average as the basis for our comments.

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 timeframes 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 timeframes, we believe that the fund is likely to be suitable for an investor with a "medium" attitude to investment risk.

There are 156 members over age 65 holding units in the LF Global Developed Index fund, with total assets some 1.3% of the overall holdings. We would encourage LFSL to approach these members to ensure that they understand that the profile of this fund is medium risk and may not be appropriate for them.

De-risk funds

Investment in each of the funds is shown below at 31st December 2021, along with an analysis of investors.

31-Dec-16

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
		55,565,834.00			

31-Dec-17

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

31-Dec-18

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

31-Dec-19

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

31-Dec-20

Fund	*Number of Members*	*Value*	*Value per member*	*Average age*	*Weighted Average Age*
LF Cash	3,116	50,870,609	16,326	60.7	62.8
LF Corporate Bond	4,319	22,380,041	5,182	48.2	52.4

31-Dec-21

Fund	*Number of Members*	*Value*	*Value per member*	*Average age*	*Weighted Average Age*
LF Cash	3,195	56,197,942	17,589	61.2	63.2
LF Sterling Corporate Bond Index	4,133	21,412,265	5,181	48.8	53.0

The weighted average age of unitholders is as expected for the Cash Fund, with funds being held by individuals approaching retirement. The Committee notes that there are a significant number of younger members (under age 50) who have a holding in the Cash Fund which we believe is unlikely to be appropriate.

The Committee believes the inflation risk of holding units in the Cash fund has become acute over the last year. The Committee would encourage LFSL to highlight the risks.

The average age and weighted average age for the Sterling Corporate Bond Index Fund are relatively low, at 48.8 and 53 years. Despite the change to the mandate for the fund at the end of the year, inflation remains a risk. Unit holders should be made aware of the inflation risks which will have an impact on the real value of their pension funds over the long term.

Members leaving the Scheme

LFSL is now collating more granular records of how the members are taking their benefits, which is a positive step, as well as details of the number of members not taking advice.

For the year to the 31st December 2021, 585 members transferred their pension pots away from LFSL.

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 below, highlighted in blue. As a result of the delays to the implementation of the Optimisation Plan, LFSL made a positive decision 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 31st December 2020.

The charges for the funds, when compared with the funds' IA Sector Median, are set out as below:

Fund	Ongoing Charges Figure (OCF)	Discount since 1/1/21	OCF (net of discount)
LF Global Developed Index Pension	0.78%	0.09%	0.68%
IA Sector Median	0.86%		0.86%
LF Sterling Corporate Bond Index Pension	0.93%	0.09%	0.84%
IA Sector Median	0.52%		0.52%
LF Cash Personal Pension	0.32%	0.01%	0.31%
IA Sector Median	0.20%		0.20%

- The charges are shown both gross and net of the discounts currently in place.
- The charges for Workplace Pensions generally continue to fall.
- The ongoing charges ratios for the funds was based upon the report and accounts for the funds to December 2021.

Over the period the Committee would like to record on behalf of the members, the appreciation of the subsidy to the members. The subsidy between the 1st January 2021 and 31st December 2021 was £286,618.15.

Funds	*Jan-21*	*Feb-21*	*Mar-21*	*Apr-21*	*May-21*	*Jun-21*	*Jul-21*	*Aug-21*	*Sep-21*	*Oct-21*	*Nov-21*	*Dec-21*	***Total***
LF Global Developed Index Pension Fund	21,328.28	21,483.64	21,730.09	21,730.09	21,793.29	21,809.38	21,814.31	21,927.13	22,015.12	22,168.92	22,071.00	22,168.57	**262,039.82**
LF Sterling Corporate Bond Index Pension Fund	1,671.85	1,650.88	1,612.68	1,612.68	1,616.32	1,604.28	1,604.70	1,586.93	1,598.27	1,582.24	1,569.86	1,533.85	**19,244.54**
LF Cash Pension Fund	434.99	436.87	430.75	430.75	434.63	434.94	444.75	443.23	453.03	458.52	462.37	468.96	**5,333.79**
Total	**23,435.12**	**23,571.39**	**23,773.52**	**23,773.52**	**23,844.24**	**23,848.60**	**23,863.76**	**23,957.29**	**24,066.42**	**24,209.68**	**24,103.23**	**24,171.38**	**286,618.15**

Other potential charges

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

For the 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.

Liquidity

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

Transactional charges

Transaction costs are incurred when a fund manager buys or sells assets on behalf of a fund, e.g., Equities or bonds. Transaction costs represent the average charge over prescribed periods and include both Explicit costs (such as brokers' fees, exchange costs, stamp duty and other taxes), and Implicit costs which is an assessment of the cost of entering or exiting the market (in simple terms the difference between the price of the instrument at the time the order was placed and the actual price at which it was executed). Where a fund invests in other funds, the average transaction costs of those other funds are included as indirect transaction costs (look-through costs).

Comparing portfolio transaction costs for a range of funds may give a false impression of the relative costs of investing in them for the following reasons:

- Transaction costs do not necessarily reduce returns. The net impact of dealing is the combination of the effectiveness of the manager's investment decisions in improving returns and the associated costs of investment.
- Historic transaction costs are not an effective indicator of the future impact on performance.
- Transaction costs vary from country to country.
- Transaction costs vary depending on the types of investment in which a fund invests.
- As the manager's investment decisions are not predictable, transaction costs are also not predictable.
- There can be inconsistency in the Calculation method used by different providers. (Link uses the full PRIIPS "Arrival" method).

The transaction charges for the underlying funds to the 31st December 2021 are as below:

Fund Name	Cost (bps)	Cost (%)
LF Global Developed Index Pension Fund	0.00163	0.163%
LF Sterling Corporate Bond Index Pension Fund	0.00267	0.267%
LF Cash Pension Fund	0.00005	0.005%

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 and then again to Quarter 4 2021. The current target for implementation is October 2022.

Unfortunately, most issues that your Committee has previously identified have yet to be addressed. It is vitally important that the October 2022 date does not slip further, and the Plan is implemented on time.

All the areas requiring attention that we highlighted in the previous two years are listed below and should be rectified by the implementation of the Optimisation Plan.

- Updating the mandate of the LF Global Developed Index Fund
- Reducing the charges of the LF Sterling Corporate Bond Index Fund and the LF Global Developed Index 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 marketplace now offer their members online servicing to their accounts. We understand that this should be available once the administration of the Plan is transferred to Equiniti. To facilitate better outcomes for the members, it is important that this function is available and the communications on the Website are clear and informative.

Communications

Two years ago, 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 highlighted by the Committee are still yet to be implemented in full. We understand that the communications will be updated once the administration of the Plan 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.

One of the most significant risks facing LFSL will be the increasing number of members, who would be classified by the FCA as being vulnerable for the coming period, as the UK faces a "cost of living" crisis.

Ongoing analysis of how unitholders are taking their benefits

In the last report the Committee asked for ongoing analysis of those members taking benefits and the funds sold to help inform whether the default investment strategies are suitable. The Committee would encourage LFSL to provide this data regularly, ideally quarterly, to allow for more in-depth analysis and identify trends so issues do not become problems.

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. Whilst there has been an improvement in the data available this year, the Committee would like to see more detailed reporting next year, together with an analysis of how the fund has performed against the ESG targets and to improve the ESG characteristics for the underlying assets of the portfolio as a whole.

The Committee will engage with LFSL on receiving quarterly reports on the non-financial, i.e., ESG, performance of the funds to ensure the Committee continue to monitor the ESG aspects throughout the year to minimise the risks.

The Committee will engage with LFSL to ensure that L&G shares their corporate engagement with the issuers of bonds, which are held by the Sterling Corporate Bond Index fund.

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

As in previous years, there has been a patchy record of the Committee receiving timely management information from LFSL which has created a challenge for the Committee 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.

Risk Register

To help the minimise the risks to the members, your Committee has asked for LFSL to debrief the Committee on any "red" items which will have or has the potential to have a significant impact on the Plan. We will summarise these findings in the annual report.

Governance reporting, so the quarterly reports should have financial and non-financial reporting.

Lifestyle Investment Solutions

Under the existing arrangements, there is a limited lifestyle investment solution with the end goal of the provision of a cash lump sum just before the benefits are taken.

After the implementation of the Optimisation Plan and the merger of the SPS with the Personal Pension Plan, the Committee would encourage LFSL to create an alternative investment lifestyle solutions for the members who are looking to retain their pension funds throughout their retirement.

Thereafter there should be a concerted communication campaign to remind the members regularly of the benefits of the alternative arrangements.

Provision of Advice

The Committee would like to see an increasing number of members seeking advice or guidance, either through services such as Pensions Wise, or directly, to reduce the risks that the members make poor decisions in relation to their pension pots. The goal is that 100% of the members seek advice or guidance when taking their pension scheme benefits.

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)

Ms Farrant has been a qualified actuary for over 30 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 25 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. She is a member of the Financial Reporting Council's Advisory Board.

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 Pension Scheme.

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 25 years' asset management experience, working for a number of global firms.

Gareth Sawyer
Director, Evelyn Partners Trust Corporation Ltd, Evelyn Partners Financial Services Ltd

Gareth is Evelyn Partners Financial Services Ltd.'s representative on the Committee. He is a financial services and fintech solutions specialist with over 40 years industry experience. A Chartered Practitioner, Fellow of the Chartered Insurance Institute, and Associate of the Pensions Management Institute.

Having worked at major product providers and advisory firms, and established/owned/managed fintech, financial services and trustee businesses, he brings to the committee over 35-years' experience of advising and supporting employers, trustees, and pension scheme members on all aspects of pensions and retirement, and over 20 years establishing and advising personal pension governance committees, and acting as professional trustee to defined benefit and defined contribution pension schemes, as well as establishing and managing personal pensions products and a master pension trust.

Appendix 2 - Investment

Fund Details

The available fund range is shown below:

- LF Global Developed Index Pension Fund
- LF Sterling Corporate Bond Index Pension Fund
- LF Cash Pension Fund

Risk Assets

LF Global Developed Index Pension Fund "aims for long-term capital growth by each investing in a single authorised collective investment scheme.

The underlying funds are L&G Future World ESG Developed Index Fund, Legal & General Sterling Corporate Bond Index 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

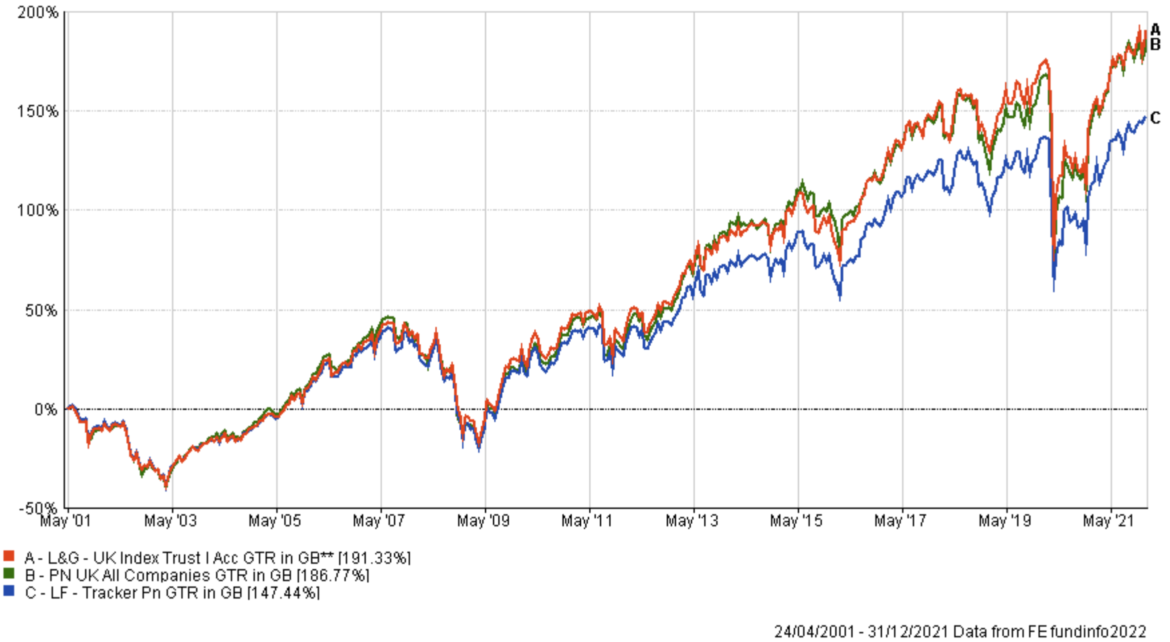
4) Liquidity

5) Return targets

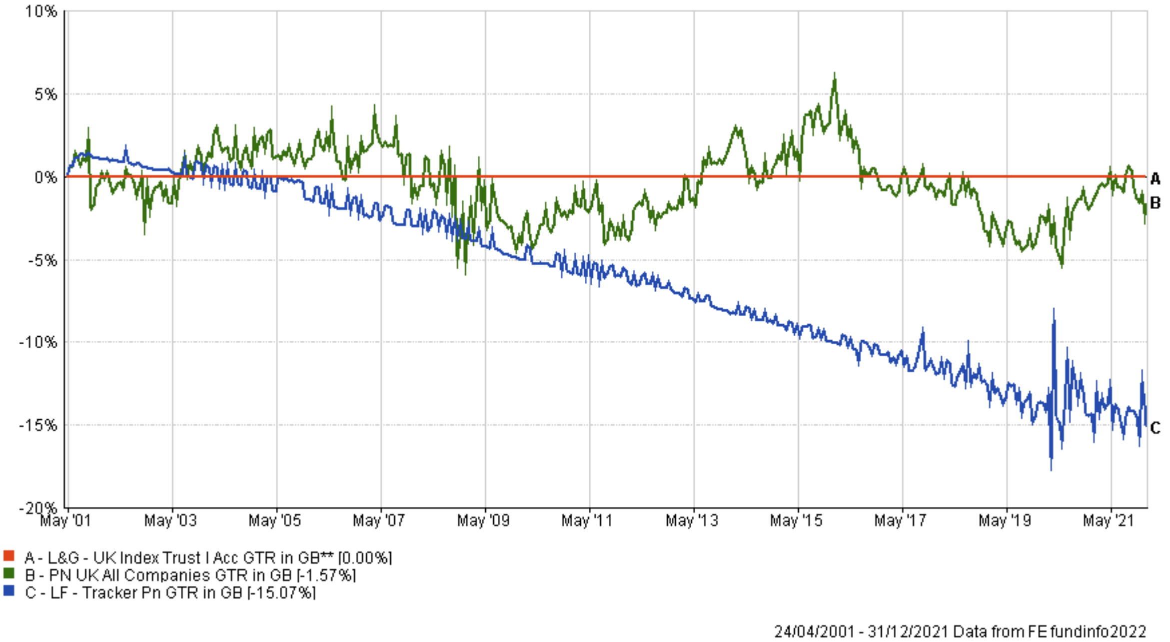
The equity fund is wholly invested in the L&G Future World ESG Developed Index Fund. The mandate for the underlying fund is shown below.

"Investment objective and policy: L&G Future World ESG Developed Index Fund aims to provide a combination of growth and income by tracking the performance of shares in developed companies that demonstrate good environmental, social and governance efforts as represented by the Solactive L&G Enhanced ESG Developed Index"

The new mandate for the fund was put in place in November 2021. And prior to that date the fund tracked the FTSE All Share Index since 31st March 2017. The fund performance has been close to the benchmark indices, and the variances reflect the impact of charges and timing differentials in fund pricing (noon every day for the fund and at the close of each day for the index). The fund is behaving in line with expectations.



The chart illustrates that the performance of the fund is in line with expectation



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

Fund Statistics to 31st December 2021	*3 months*	*1 year*	*3 years*	*5 years*	*10 years*
LF Global Developed Index Pension Fund	2.72%	13.64%	23.25%	23.72%	88.46%
Pensions UK All Companies	*2.50%*	*15.41%*	*28.90%*	*28.55%*	*113.29%*
L&G UK Index Trust	*3.52%*	*17.55%*	*26.17%*	*39.89%*	*108.48%*

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 2021 to help identify whether investors have been rewarded for the risks taken in each of the funds.

Fund Statistics to 31st December 2021	*Volatility*	*Jensens Alpha*	*Maximum Drawdown/Fall*
LF Global Developed Index Pension Fund	16.36	-0.52	-34.57
Pensions UK All Companies	*15.47*	*0*	*-33.96*
L&G UK Index Trust	*15.57*	*0.57*	*-31.84*

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

The only caveat is that the mandate for the fund and the fund was renamed the LF Global Developed Index fund in December 2021, so past performance is no guide to the future returns.

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 2021, relative to its peers.

Risk Averse Assets

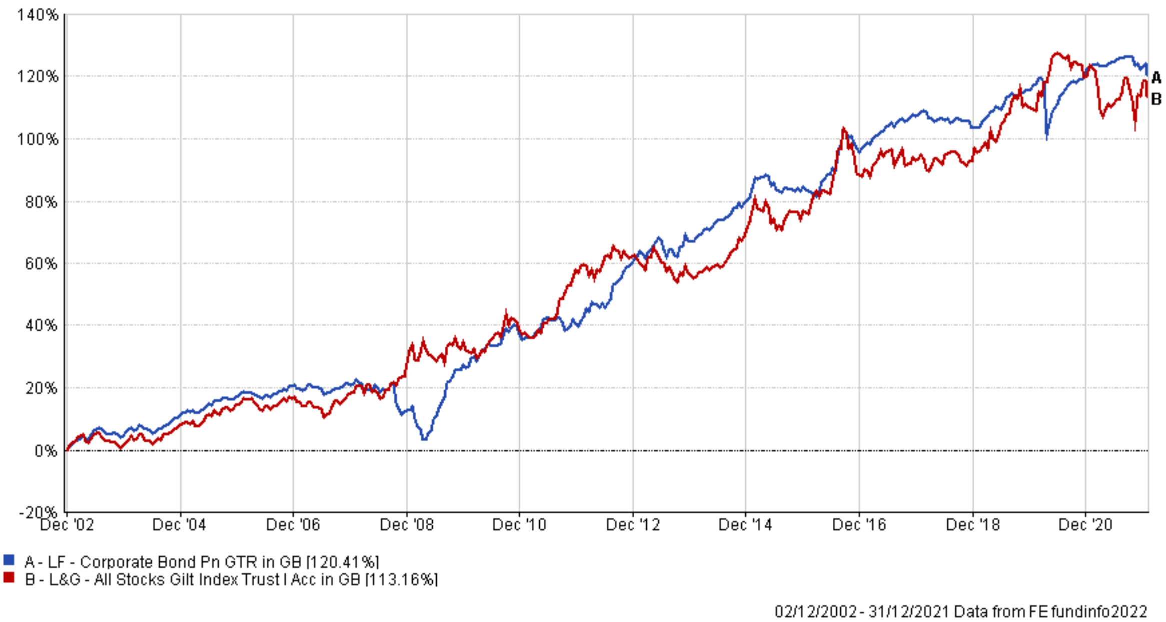
The risk averse assets are the Cash and the Sterling Corporate Bond Index funds. The fund returns are as shown below

Fund Statistics to 31st December 2021	*3 months*	*1 year*	*3 years*	*5 years*	*10 years*
LF Cash	0.00%	0.03%	1.58%	2.06%	3.94%
Pensions Money Market	*-0.02%*	*-0.17%*	*0.79%*	*1.03%*	*2.70%*
Bank of England SONIA	*0.02%*	*0.05%*	*0.96%*		
LF Sterling Corporate Bond Index	-1.96%	-1.33%	8.40%	11.13%	55.49%
IA Sterling Corporate Bond	*0.08%*	*-1.92%*	*15.74%*	*18.89%*	*61.56%*

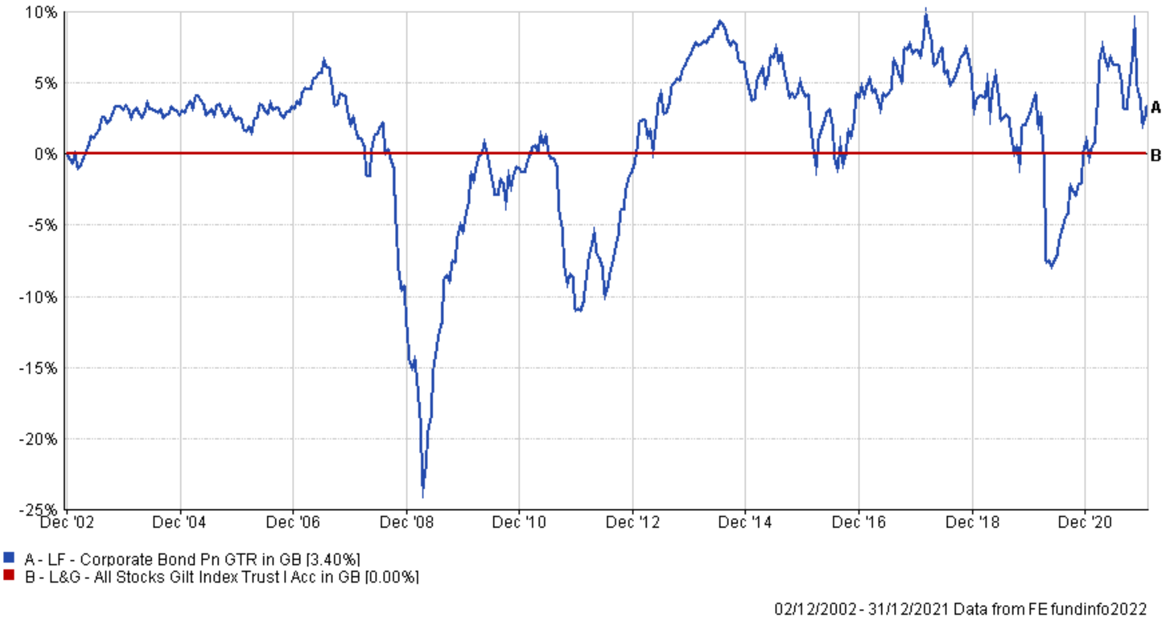
Performance of the LF Cash Fund is in line with expectations, i.e., at a discount to the Bank of England SONIA, with the underperformance reflecting charges for the fund. The returns are ahead of its peer group.

The LF Sterling Corporate Bond Index Fund has been good at delivering positive absolute returns as a result of its short duration. Over the longer term, returns have been in line with expectations.

The only issue with the Corporate Bond fund is the significant underperformance of the fund versus the cost of buying an annuity, which is the prime reason for holding the fund. We are using the government bond market as a proxy to the cost of an annuity.



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.



Return metrics for the LF Sterling Corporate Bond Index Fund are solid, relative to its peers and its benchmark, the IA Sterling corporate bond sector.

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

Fund Statistics to 31st December 2021	*Volatility*	*Jensens Alpha*	*Maximum Drawdown/Fall*
LF Sterling Corporate Bond Index	3.45	-0.28	-8.36%
IA Sterling Corporate Bond	*4.66*	*0.00*	*-9.32%*

In summary, the performance of both funds has been satisfactory, relative to their benchmarks. However, with the change in the mandate for the LF Sterling Corporate Bond Index fund from November 2021, past performance for the fund will not a guide to future returns.

Appendix 3 – Environmental, Social and Governance Reporting

LF Global Developed Equity Index

The underlying fund for the LF Global Developed Equity Index fund migrated from the L&G Global Equity Index fund to the L&G Future World ESG Developed Index over the period. Collating the data for the year would be a challenge as a result of the switching date between the two funds. Therefore, the report will assume that the underlying fund was the L&G Future World ESG Developed Index fund for the year.

	Year to 31.03.21	*Year to 31.12.21*
Number of equity holdings	4,077	1,473
Number of votable meetings	6,779	1,364
No of Resolutions	70,672	17,971
No. of votes where LGIM could vote	99.85%	99.89%
% of votes with management	83.25%	79.96%
% of votes against the management	15.96%	19.85%

Shareholder voting is only part of the governance role L&G performs with the underlying companies. L&G engage with the underlying companies across a range of issues. The table below summarises the main metrics, as well as identifying the areas in which L&G are engaging. We are reporting the data for the year to the 31st March 2022, as the data is not available for the year to the 31st December 2021.

	Year to 31.03.22
No. of engagements	404
No. of companies engaged	254
Eligible Fund value engaged	37.00%
No. of engagements on :	
Environmental	204
Social	147
Governance	203
Other topics	72
Engagement Topics	
Climate Change	123
Remuneration	105
Board composition	69
Climate Impact Pledge	49
Public health	41

In summary the measurement of corporate governance is near the start of a long journey, and there is no doubt that most governance is focused on the Environmental and Governance elements of the metrics. However, at the end of the day every company across the world is selling goods and/or services directly or indirectly to society, and there are social impacts, and they will have to get the Social right, to make sure their businesses will remain relevant. The Committee will encourage Link to engage with all the fund managers, directly and indirectly, around all aspects of governance.

LF Global Developed Equity Index

The carbon intensity and the carbon reserves of the LF Global Developed Equity Index fund is as below over time.

Fund	*Year to 31st March 2021*	*Year to 31st December 2021*
Carbon Reserves (tonnes) - CO2 emissions per $1 million of market	6,897	305
Carbon Emissions (tonnes) - CO2 emission per $1 million of sales	137	22

Source: LGIM

The main reason for the substantial fall in the carbon footprint is down to the change of the mandate for the fund from a “whole of market” fund covering the UK, to a fund with some selective ESG filters which screens out some of the energy companies with their carbon foot prints.