

YOUR SUMMARY FUNDING STATEMENT

2022



Dear Scheme member,

This is your 2022 Summary Funding Statement and Annual Update from the Trustees of the Legal Services Commission Staff Pension and Assurance Scheme No.4 ("the Scheme"), who are responsible for overseeing the Scheme and its finances. The Trustees send this report to all scheme members each year to share news about the Scheme and its financial status.

Last year, I reported that our Scheme funding levels had held up well through the pandemic despite investment market volatility. The pandemic was uncharted territory for us all, both as a population but also for the Trustees as investors of the Scheme's assets. We can all be forgiven for hoping that things would 'get back to normal' but as we now know, there is no sign of old-fashioned stability on the horizon anytime soon.

As large parts of the world emerged from the pandemic, we saw a rapid surge in demand for goods and services leading to supply and resource issues. On its own this was a challenge for investors to navigate through but then the shocking invasion of Ukraine by Russia in February saw markets grappling with issues unprecedented in modern times. Of course, this was and continues to be a terrible humanitarian tragedy, as well as a financial shock.

The Trustees focused on these issues in their discussions with our investment managers, seeking to minimise financial impact to the Scheme whilst being conscious of our role as a responsible investor to remove direct exposure to Russian assets. The Trustees continue to scrutinise the Scheme's investments and fund manager throughout these extraordinary times. I am so pleased to share that our investment performance has been strong despite this context. Throughout this volatility, the Scheme has also continued to benefit from a Crown Guarantee, which provides an additional level of security for your pensions.

The Scheme's funding position continued to face challenges this year due to the UK Government's decision to align inflation measures from 2030 (see page 3 for more information). This resulted in a c8% fall in the funding level last year because we hold index-linked gilts to help us manage inflation risk. That fall has been hard to recover from in the face of the many other headwinds facing investors this past year as described above. However, the Scheme funding level is now back on a good trajectory, and we approach the new actuarial valuation in 2022 with a positive outlook.

On a separate topic, the other news for the Scheme this year was the launch of the new member website, PRISM. In time, the additional functionality of PRISM will mean you will be able to manage your pension online much more than you could do with the old website. I really do urge every member to spend a few moments registering for the new site (find out how on page 2). I am sorry we couldn't automatically transfer members existing passwords across to the new site, but the security of your data is paramount, which is why we needed to ask you all to register anew. Go on – do it now!

Best wishes,
Jill Youds, Chair of the Trustees

To find out more about the Trustees of your Scheme, visit:
www.lscpensions.co.uk/media/2017/meet-your-trustees.pdf



KNOW THE SCHEME

Scheme website and launch of new member website

In November 2021 we launched our new secure Scheme website, PRISM. Once registered, the site provides you with all your pension information in one place and allows you to make changes to your personal details. You can also find details of your own pension benefits and have access to regular pension payment statements, expressions of wish and annual pension increase values.

We currently have over 550 members registered for PRISM. **If you haven't already registered, you should register online at www.lscpensions.co.uk. For more information on how to register, see our 'How to Guides' on the Scheme website homepage.** If you have any questions regarding PRISM or how to register, please do not hesitate to get in touch with the Scheme administrator.

You can find this newsletter together with full information about your Scheme benefits and copies of other recent reports on the Scheme website under the 'Scheme Information' section. The website also provides topical news items and contains relevant forms and documents to support you at each step and to explain pension terminology.

As previously advised, since early 2019 we have moved to paperless communication and will only communicate with you via the Scheme website or via email other than in exceptional circumstances. If we do not hold an up-to-date email address for you, you could be missing out on important information about the Scheme and your pension. You can provide us with an email address any time via the Scheme Administrator (contact details on page 4).

Change to Normal Minimum Pension Age (NMPA)

Recent Government legislation has set out that NMPA (the earliest age from which you can take your pension, other than in certain circumstances) will increase from age 55 to age 57 on 6 April 2028. We are currently considering the impact of this announcement and will provide you with more information via the scheme website in due course.

How does your Scheme work?

The LSC Scheme is a final salary pension arrangement otherwise known as a defined benefit scheme. Your pension at retirement is linked to your salary when you left the LSC (or when the Scheme closed on 31 March 2013) and the length of time you have been a member.

Your benefits are paid from the assets of the Scheme. The benefits you receive from the Scheme are ultimately government-backed, however, the Trustees invest the assets of the Scheme with the aim of producing a suitable return each year. For some of you these benefits are now being paid, for others these benefits will be received in years to come when you retire.

Is my pension secure?

The Scheme has a Crown Guarantee from MoJ. This means the Government has guaranteed that the Scheme will have sufficient assets to meet all payment obligations in respect of pensioner members and those whose benefits are preserved for payment when they reach the Scheme retirement age. If a pattern of insufficient funding emerges following an actuarial valuation, then the MoJ will be required to make payments to the Scheme to recover the shortfall. This is intended to ensure that there will always be sufficient money to pay members' benefits.

How is the Scheme doing?

At least every three years, the Scheme Actuary carries out a financial review of the Scheme known as an actuarial valuation. The Actuary estimates the amount of each member's future pension payments and how long each pension is likely to be in payment. The Actuary then adds up all these future payments and works out how much the Scheme might receive from investment returns. The positions of the Scheme over the last 3 years is set out below (noting the 31 March 2022 results are in draft at the moment, pending the finalisation of the Actuary's valuation):

As at 31 March 2020

Assets: There was **£428m** in the Scheme available for paying out benefits

Liabilities: The estimated cost of providing benefits for all Scheme members was **£462m**

Shortfall: There was a shortfall of **£34m**

Funding level: The Scheme had **93%** of the assets estimated to be needed to pay members the defined benefits they had built up

As at 31 March 2021

Assets: There was **£455m** in the Scheme available for paying out benefits

Liabilities: The estimated cost of providing benefits for all Scheme members was **£485m**

Shortfall: There was a shortfall of **£30m**

Funding level: The Scheme had **94%** of the assets estimated to be needed to pay members the defined benefits they had built up

As at 31 March 2022

Assets: There was **£463m** in the Scheme available for paying out benefits

Liabilities: The estimated cost of providing benefits for all Scheme members was **£478m**

Shortfall: There was a shortfall of **£15m**

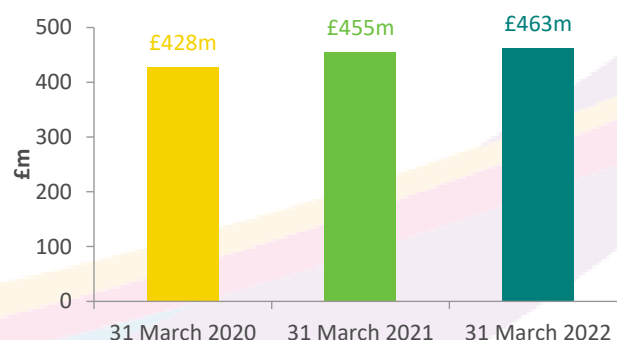
Funding level: The Scheme had **97%** of the assets estimated to be needed to pay members the defined benefits they had built up

How have the Scheme's funding position and assets changed over time?

Since we last updated you, the Scheme's funding position has improved from 94% as at 31 March 2021 to 97% as at 31 March 2022. This is largely due to strong investment returns.

The value of Scheme assets has also increased, as shown in the chart. At times during the year, the value of the Scheme's assets reached £500m for the first time.

In late 2020, the Scheme faced an additional challenge of reform to the RPI inflation measure, as described above. Reflecting the decision by the government to align RPI with CPIH from 2030 onwards led to a reduction in the Scheme's funding level. Since then, the funding level has recovered well and continues to steadily increase.



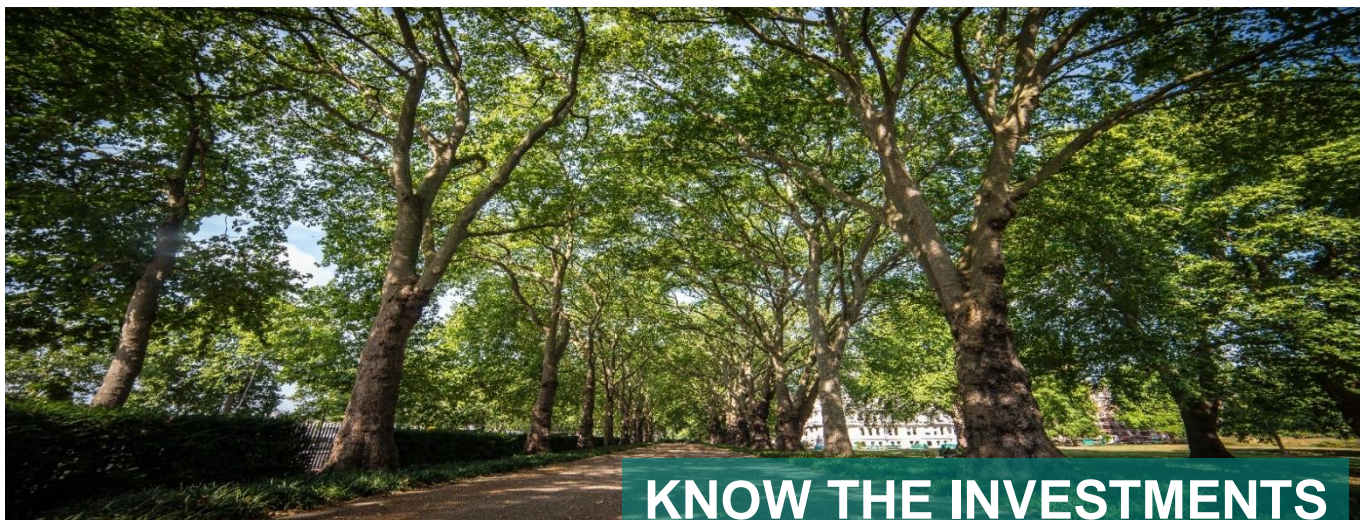
How have the Trustees managed risk over the year?

Throughout the year the Trustees have taken specific actions to manage the most prominent risks facing the Scheme. In particular, the Trustees took action to de-risk the Scheme's investment strategy following close monitoring of the Scheme's funding level. More recently, the Trustees have also taken steps to manage cashflow risk by adopting a cashflow-driven investment strategy. This aims to minimise the risk that there will be insufficient cashflow available to pay your benefits as and when they are due.

The Trustees regularly review their risk register, which outlines the key risks the Scheme faces and the controls in place to protect the Scheme if the risks arise. The Trustees' focus has continued to be on those risks which could most affect the Scheme and its members. Most recently, the Trustees have been considering the impact of current high levels of inflation on members and on the Scheme more widely. An article explaining how this impacts your pension can be found on the homepage of the scheme website ('Protecting your pension in times of high inflation').

Payments made to MoJ

The Trustees can confirm that there have been no payments made to MoJ out of the Scheme's assets in the year to 31 March 2022.



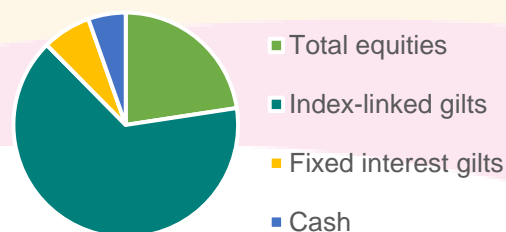
KNOW THE INVESTMENTS

Update on the Scheme's investment strategy

The Scheme's assets are invested by the Scheme's investment manager with the aim of increasing their value and providing income that can be used to pay benefits when they fall due. With the assistance of our advisors, we carefully monitor the investment manager's performance. Over the last three years, the Trustees have developed the Scheme's investment strategy to reduce the risk of significant shortfalls in funding in future.

The Scheme's funds are invested in a mix of assets, and the distribution as at 31 March 2022 is shown in the chart. Broadly, equity investment are shares in listed companies and index-linked gilts are government bonds with an investment return linked to movements in inflation.

Since this date, the Trustees took the decision to de-risk the Scheme's investments, investing a greater proportion of assets in funds which behave similarly to the Scheme's liabilities which helps 'lock in' the strong funding level. As part of the new cashflow-driven investment strategy, the Trustees have also transitioned some of their assets into credit funds, which aim to provide a consistent cashflow into the Scheme which can be used to pay benefits.



Responsible investment

The Trustees continue to invest half of the Scheme's equities in the LGIM Future World Fund, which invests more in companies that exhibit certain characteristics (good value, low volatility, smaller companies and high quality) and that rely less on carbon reserves, incur lower carbon emissions or generate greener revenues compared with the market-cap weighted index. The Trustees continue to challenge their investment manager to ensure the aims of this fund are met and to ensure Environmental, Social and Governance factors are considered more widely in their investments, particularly in light of events such as the invasion of Ukraine in February 2022. A key focus for the Trustees this year will be to map out their approach to climate change risk and responsible investment for the next 3-5 years.

Did you know?

Neither the Trustees nor our advisers can give financial advice but a professional adviser can. If you are thinking of leaving the Scheme or making any changes to your pension arrangement, the Trustees strongly recommend you get advice first. For a list of advisers go to www.unbiased.co.uk or contact the Scheme Administrator.

Please be aware that some criminals will try to target pensions. Our best advice is to not click on any links in emails that you are unsure about and hang up immediately on any unwanted or nuisance callers. For more information about avoiding pension scams, visit www.fca.org.uk/scamsmart.

Further documents

A number of formal documents which provide further information about the Scheme can be requested from the Trustees via the Scheme Administrator. These include the Statement of Funding Principles, which sets out the Scheme's funding plan, and the Statement of Investment Principles, which explains how the Trustees invest the money paid into the Scheme and how they consider environmental issues and climate change in these decisions. The Annual Report and Accounts are also available upon request.

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