

# Legal Services Commission No.4 Pension Scheme

Annual Report and Financial Statements

31 March 2017

Scheme Registration number 10027837

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## Section 1 – Trustees and their Advisers

### The Trustees

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

#### Independent Chair

Jim Shearer (resigned 31 March 2017)

Jill Youds (appointed 31 March 2017)

#### Employer nominated

Adam Pirani

Audrey Fullerton

Peter Church

#### Member nominated

Giorgio Bugnatelli

Rosina Farrell

Roger Hamilton

#### Secretary to the Trustees

Hymans Robertson LLP

### Advisers

The advisers to the Trustees are set out below:

#### Actuary

Hymans Robertson LLP, Matthew Davis, FIA

#### Independent Auditor

Crowe Clark Whitehill LLP

#### Legal Adviser

Nabarro LLP ("CMS Cameron McKenna Nabarro Olswang LLP" from 1 May 2017)

#### Administrator

Hymans Robertson LLP

#### Investment Managers

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

Newton Investment Management Limited ("Newton")

#### Bankers

Barclays Bank Plc

#### Principal Employer

Ministry of Justice

#### Pensions Manager

David Collins, Ministry of Justice

## Section 2 – Trustees' Report

The Trustees are pleased to present their Annual Report and Financial Statements of the Legal Services Commission No. 4 Scheme ("the Scheme") for the year ended 31 March 2017.

### Management of the Scheme

#### Legal Status

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

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

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

#### Trustees

A list of Trustees is included on page 1.

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

The members are responsible for electing the Member Nominated Trustees (MNT). In accordance with the Occupational Pension Scheme (Member-Nominated Trustees and Directors) Regulations 1996, MNTs are nominated by the members to serve for a period of 3 years.

All Trustees are able to resign at any time.

#### Scheme Management

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

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

The Trustees met four times during the year to consider matters of administration, investment and to discuss relevant issues with the Scheme's external advisers.

#### Trustee Training

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

The Pensions Regulator has issued a Code of Practice which specifies the areas of knowledge required and has developed an e-learning website (Trustee Toolkit) to help meet this requirement. Trustees are encouraged to complete all modules of this toolkit.

### Conflicts of Interest

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

### Risk Management

The Trustees are responsible for the Scheme's financial position and hence the risk management and control systems. Risk management and internal control systems provide reasonable assurance that risks will be identified and managed. These controls also ensure strict compliance with primary legislation and regulation.

### Financial Development of the Scheme

The Accounts are set out on pages 16 to 25. The Accounts have been prepared and audited in accordance with: The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996; and the regulations made under sections 41(1) and 41(6) of the Pensions Act 1995.

The net assets at 31 March 2017 were £417,333,405 which represents an increase of £69,547,197 over the position at 31 March 2016. The reason for this increase is presented below:

	2017 £	2016 £
Member related income	3,179	2,297
Member related payments	(8,978,252)	(7,983,339)
Net withdrawals from dealings with members	(8,975,073)	(7,981,042)
Net returns on investments	78,522,270	6,315,498
Net increase/(decrease) in fund	69,547,197	(1,665,544)
<b>Net assets at start of year</b>	<b>347,786,208</b>	<b>349,451,752</b>
<b>Net assets at end of year</b>	<b>417,333,405</b>	<b>347,786,208</b>

### Crown Guarantee

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

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

**Crown Guarantee (continued)**

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

**Summary of Contributions**

The results of the 2016 valuation established a funding level of 96%. No deficit contributions were required from the Employer under the Scheme's funding arrangement as the Scheme was more than 90% funded on the Technical Provisions basis at the valuation date.

**Report on Actuarial Liabilities**

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

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2016 and a summary of the results is set out below:

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

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

The method and significant assumptions used to determine the technical provisions are as follows:

**Method**

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

**Report on Actuarial Liabilities (continued)****Significant actuarial assumptions**

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

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

**Changes in Benefits of the Scheme**

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

**Pension Increases**

In September 2015 the CPI was actually negative. Therefore there was no increase to annual pensions in April 2016.

However, given that CPI was negative, the Rules of the Scheme are such that there was no reduction in annual pensions either.

**Transfer Values**

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

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

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

## Scheme Membership

The reconciliation of the Scheme membership during the year ended 31 March 2017 is shown below:

Pensioner Members (including spouses and dependants)	Number
<b>As at 31 March 2016</b>	<b>891</b>
Prior Period Adjustments <sup>1</sup>	1
<b>As at 1 April 2016</b>	<b>892</b>
Retirements	40
New beneficiaries	8
Deaths	(31)
Full commutation	(1)
<b>Pensioner members as at 31 March 2017</b>	<b>908</b>

Included within pensioners are 0 (2016: 0) pensioners whose pensions are paid from annuities held in the name of the Trustees.

Deferred Pensioner Members	Number
<b>As at 31 March 2016</b>	<b>1,512</b>
Prior Period Adjustments <sup>1</sup>	(11)
<b>As at 1 April 2016</b>	<b>1,501</b>
Retirements	(40)
Transfers out	(6)
<b>Deferred pensioner members as at 31 March 2017</b>	<b>1,455</b>

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



## Investment Policy

### Investment Governance

The Trustees rely on the governance activities of their Investment Managers. However, the Trustees are firmly committed to ensuring that their managers prioritise the application of the Financial Reporting Council (FRC) UK Stewardship Code appropriately, as good stewardship can enhance long term portfolio performance, and is therefore in the best interest of all stakeholders of the Scheme.

The Trustees support the principles of the Stewardship Code and in conjunction with the Scheme's Investment Managers, the Trustees apply the seven principles of the Stewardship Code in respect of the Scheme's investment portfolio. The Trustees' full statement on adherence may be found on the FRC website:

<https://www.frc.org.uk/FRC-Documents/Corporate-Governance/Stewardship-Code/LSCSPAS.pdf>.

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

Hymans Robertson LLP  
One London Wall  
London  
EC2Y 5EA

Email: [lscpensions@hymans.co.uk](mailto:lscpensions@hymans.co.uk)

### Myners

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

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

### Investment Objective and Strategy

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

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

The Trustees made one change to the Scheme's investment strategy over the year. The overall target allocation to growth assets was reduced from 35% to 32% of total Scheme assets. The target allocation to liability matching assets therefore increased from 65% to 68% of total Scheme assets. This change followed improvements in the Scheme funding level, meaning that investment risk could be modestly reduced. Strong performance from the Scheme's liability matching assets relative to the growth assets meant that the matching portfolio allocation had increased to above the 65% target, so the change in overall benchmark did not require any transactions.

### Asset Allocation

The table below shows how the investment assets were split between the Legal and General ("L&G") and Newton portfolios and their distribution as at 31 March 2016 and 2017. The assets below include only assets under the management of investment managers and do not include the current assets and current liabilities of the Scheme:

Asset Class	Valuation 31 March 2017		Current Benchmark	Valuation 31 March 2016	
	£	%		£	%
<b>Matching assets</b>					
L&G 2035 Index-Linked Gilt	9,817,155	2.4	-	11,598,084	3.5
L&G 2037 Index-Linked Gilt	29,277,453	7.2	-	24,804,308	7.4
L&G 2040 Index-Linked Gilt	16,853,574	4.1	-	13,920,608	4.1
L&G 2042 Index-Linked Gilt	48,661,675	11.9	-	39,654,781	11.8
L&G 2047 Index-Linked Gilt	51,363,535	12.7	-	40,983,977	12.2
L&G 2050 Index-Linked Gilt	19,673,927	4.8	-	15,439,076	4.6
L&G 2055 Index-Linked Gilt	43,371,404	10.6	-	33,957,535	10.1
L&G 2062 Index-Linked Gilt	33,336,146	8.2	-	24,712,724	7.3
L&G 2068 Index-Linked Gilt	24,953,845	6.1	-	17,583,375	5.2
	<b>277,308,714</b>	<b>68.0</b>	<b>68.0</b>	<b>222,654,468</b>	<b>66.2</b>
<b>Growth assets</b>					
L&G World Equity Index	74,780,686	18.3		59,343,304	17.6
Newton Real Return Fund	55,674,822	13.7		54,538,221	16.2
	<b>130,455,508</b>	<b>32.0</b>	<b>32.0</b>	<b>113,881,525</b>	<b>33.8</b>
Cash in Transit	<b>105,250</b>	<b>N/a</b>	<b>N/a</b>	<b>85,750</b>	<b>N/a</b>
<b>Other</b>					
L&G Annuity Policies	8,953,000	N/a	N/a	10,567,000	N/a
<b>TOTAL INVESTMENT ASSETS</b>	<b>416,822,472</b>	<b>100.0</b>		<b>347,188,743</b>	<b>100.0</b>

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

### Investment Managers and Custodians

The Trustees have delegated all day to day decisions about investments to the relevant fund managers through a written agreement. When choosing investments, the Trustees and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulation 2005 (Regulation 4). Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 requires that the managers' duties also include taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments, and voting and Corporate Governance in relation to the Scheme's assets.

### Investment Managers and Custodians (continued)

#### Legal & General – Managed Fund Assets

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

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

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

#### Newton – Real Return Fund

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

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

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

#### Legal and General – Annuity Policies

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

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

### Exercise of Voting Rights

The Trustees have delegated the exercise of voting rights to their two managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their process and practice in this regard. The managers are actively encouraged by the Trustees to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

### Employer Related Investments

There were no employer related investments during the year (2016: £nil).

### Investment Performance

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

### Legal & General – Managed Funds Assets

Fund	One year %		Three years % p.a.	
	Fund	Benchmark	Fund	Benchmark
World Equity Index	32.9	32.8	16.4	16.4
2035 Index-Linked Gilt	15.8	15.8	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>
2037 Index-Linked Gilt	18.9	18.9	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>
2040 Index-Linked Gilt	21.5	21.5	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>
2042 Index-Linked Gilt	23.2	23.2	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>
2047 Index-Linked Gilt	25.9	25.8	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>
2050 Index-Linked Gilt	27.8	27.8	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>
2055 Index-Linked Gilt	28.4	28.4	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>
2062 Index-Linked Gilt	35.2	35.2	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>
2068 Index-Linked Gilt	42.1	42.0	N/A <sup>[1]</sup>	N/A <sup>[1]</sup>
<b>Total</b>	<b>28.0</b>	<b>N/A <sup>[2]</sup></b>	<b>16.3</b>	<b>N/A <sup>[2]</sup></b>

<sup>[1]</sup> Three year returns are not applicable as the Scheme first invested in these funds in October 2015.

<sup>[2]</sup> The benchmark return is not available due to the central benchmark being suspended for part of the reporting period in order to allow flexibility of where disinvestments were made from funds when cash was required from assets.

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

### Newton – Real Return Fund

Fund	One year %		Three years % p.a.		Since inception <sup>[1]</sup> % p.a.	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Real Return	2.9	4.4	3.8	4.5	4.2	4.5

<sup>[1]</sup> The inception date is the date of the Scheme's initial investment in the fund (December 2013).

The fund has underperformed its benchmark over the above periods.

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

## Statement of Trustees' responsibilities

The financial statements are the responsibility of the Trustees. Pension scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes".

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

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

The Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions (other than voluntary contributions) payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

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

## Further Information

### Internal Dispute Resolution Procedure (IDRP)

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

### Contact for Further Information

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

Hymans Robertson LLP  
One London Wall  
London  
EC2Y 5EA

Email: [lscpensions@hymans.co.uk](mailto:lscpensions@hymans.co.uk)

### The Pensions Advisory Service

The Pensions Advisory Service (TPAS) exists to assist members and beneficiaries of schemes in connection with difficulties which they have failed to resolve with the Trustees or Administrators of the Scheme. TPAS may be contacted at:

The Pensions Advisory Service  
11 Belgrave Road  
London  
SW1V 1RB  
[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

### The Pensions Ombudsman

The Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme. After 6 April 1997, any such complaints should firstly be addressed to *the Scheme Adjudicator* as identified under the dispute resolution procedures. Enquiries to the Ombudsman should be addressed to:

The Pensions Ombudsman  
11 Belgrave Road  
London  
SW1V 1RB  
[www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

### The Pensions Regulator (TPR)

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

The Pensions Regulator  
Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

### Pension Tracing Service

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

Contact details for the services are as follows:

Pension Tracing Service  
The Pension Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

[www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

### Approval of the Report by the Trustees

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



Trustee



Trustee

24.10.2017

Date



## Section 3 – Independent Auditors' Report

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

We have audited the financial statements of Legal Services Commission No. 4 Pension Scheme (the "Scheme") for the year ended 31 March 2017 which comprise the fund account, the statement of net assets and the related notes set out therein.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### Respective responsibilities of Trustees and Auditors

As explained more fully in the Statement of Trustees Responsibilities, Trustees are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report, which comprises the Trustees' Report and the Actuarial Certificate to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



**Opinion on the accounts**

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2017 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



**Crowe Clark Whitehill LLP**

Statutory Auditor

London

Date

24 October 2017

## Section 4 – Financial Statements

Fund Account for year ended 31 March 2017

	Note	2017 £	2016 £
<b>CONTRIBUTIONS AND BENEFITS</b>			
Other income	3	<u>3,179</u>	<u>2,297</u>
		<b>3,179</b>	<b>2,297</b>
Benefits paid or payable	4	<b>(7,562,594)</b>	(7,853,741)
Payments to and on account of leavers	5	<b>(985,062)</b>	(129,225)
Administrative expenses	6	<u><b>(430,596)</b></u>	<u>(373)</u>
		<b>(8,978,252)</b>	<b>(7,983,339)</b>
<b>Net withdrawals from dealings with members</b>		<b>(8,975,073)</b>	<b>(7,981,042)</b>
<b>RETURNS ON INVESTMENTS</b>			
Investment income	7	<b>901,243</b>	925,864
Investment management expenses	8	<b>(173,816)</b>	-
Change in market value of investments	9	<u><b>77,794,843</b></u>	<u>5,389,634</u>
<b>Net returns on investments</b>		<b>78,522,270</b>	<b>6,315,498</b>
<b>Net increase/(decrease) in the Scheme during the year</b>		<b>69,547,197</b>	<b>(1,665,544)</b>
<b>Balance of the Scheme at the start of the year</b>		<b>347,786,208</b>	<b>349,451,752</b>
<b>Balance of the Scheme at the end of the year</b>		<u><b>417,333,405</b></u>	<u><b>347,786,208</b></u>

The notes on pages 18 to 25 form part of these financial statements.

## Statement of Net Assets (available for benefits) as at 31 March 2017

		2017	2016
	Note	£	£
Investment assets	9		
Pooled investment vehicles		407,764,222	336,535,993
Annuity policies		8,953,000	10,567,000
Cash in transit		105,250	85,750
		<u>416,822,472</u>	<u>347,188,743</u>
Current assets	10	860,383	790,814
Current liabilities	11	(349,450)	(193,349)
Net assets of the Scheme at the end of the year		<u>417,333,405</u>	<u>347,786,208</u>

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

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

A. Gullerion Trustee

Adam W Trustee

24.10.2017 Date

The notes on pages 18 to 25 form part of these financial statements.

## Section 5 – Notes to the Financial Statements

Notes to the financial statements for the year ended 31 March 2017

### 1 BASIS OF PREPARATION

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

The Scheme has elected to early adopt the amendments to FRS 102 issued by the Financial Reporting Council in respect of fair value hierarchy disclosure requirements for financial instruments held at fair value as permitted for retirement benefit schemes.

### 2 ACCOUNTING POLICIES

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

#### 2.1 Investments

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

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

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

#### 2.2 Benefits

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

#### 2.3 Transfers

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

#### 2.4 Income

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

#### 2.5 Expenses

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

## Notes to the financial statements for the year ended 31 March 2017 (continued)

**3 OTHER INCOME**

	2017	2016
	£	£
Bank interest	273	1,209
Sundry income	2,906	1,088
	<u>3,179</u>	<u>2,297</u>

**4 BENEFITS PAID OR PAYABLE**

	2017	2016
	£	£
Pensions	6,770,779	6,705,171
Commutations and lump sum retirement benefits	765,801	943,512
Lump sum death benefits	26,014	205,058
	<u>7,562,594</u>	<u>7,853,741</u>

**5 PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

	2017	2016
	£	£
Individual transfers to other schemes	<u>985,062</u>	<u>129,225</u>

**6 ADMINISTRATIVE EXPENSES**

	2017	2016
	£	£
Audit fees	28,120	-
Actuarial fees	386,449	-
Other expenses	16,027	373
	<u>430,596</u>	<u>373</u>

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

## Notes to the financial statements for the year ended 31 March 2017 (continued)

**7 INVESTMENT INCOME**

	2017	2016
	£	£
Income from annuity policies	<u>901,243</u>	<u>925,864</u>

**8 INVESTMENT MANAGEMENT EXPENSES**

	2017	2016
	£	£
Investment management expenses	<u>173,816</u>	<u>-</u>

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

**9 INVESTMENTS****9.1 INVESTMENT RECONCILIATION**

	Opening value	Purchase cost	Sales proceeds	Change in market value	Closing value
	£	£	£	£	£
Pooled investment vehicles	336,535,993	-	(8,180,614)	79,408,843	407,764,222
Annuity policies	10,567,000	-	-	(1,614,000)	8,953,000
	<u>347,102,993</u>	<u>-</u>	<u>(8,180,614)</u>	<u>77,794,843</u>	<u>416,717,222</u>
Cash in transit	85,750				105,250
<b>TOTAL NET INVESTMENTS</b>	<u>347,188,743</u>				<u>416,822,472</u>

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.



## Notes to the financial statements for the year ended 31 March 2017 (continued)

**9 INVESTMENTS (CONTINUED)****9.2 POOLED INVESTMENT VEHICLES (PIV)**

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

	2017	2016
	£	£
<b>Pooled Investment Vehicles</b>		
<b>Growth assets</b>		
World Equity fund	74,780,686	59,343,304
Real Return fund <sup>1</sup>	55,674,822	54,538,221
<b>Matching assets</b>		
Index-Linked Gilt funds	277,308,714	222,654,468
	<b>407,764,222</b>	<b>336,535,993</b>

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

**9.3 ANNUITY POLICIES**

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

As at 31 March 2017, the Actuary valued the annuity policies at £8,953,000 (2016: £10,567,000).

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

**9.4 CONCENTRATION OF INVESTMENTS**

The following investments account for more than 5% of the Scheme's total net assets (including current assets and liabilities) as at 31 March 2017:

Investment	2017 £	2017 % of net assets	2016 £	2016 % of net assets
Legal & General World Equity Index Fund	74,780,686	17.9	59,343,304	17.0
Newton Real Return	55,674,822	13.3	54,538,221	15.6
Legal & General 2047 Index Linked Gilts Fund	51,363,535	12.3	40,983,977	11.8
Legal & General 2042 Index Linked Gilts Fund	48,661,675	11.7	39,654,781	11.4
Legal & General 2055 Index Linked Gilts Fund	43,371,404	10.4	33,957,535	9.7
Legal & General 2037 Index Linked Gilts Fund	29,277,453	7.0	24,804,308	7.1
Legal & General 2062 Index Linked Gilts Fund	33,336,146	8.0	24,712,724	7.1
Legal & General 2068 Index Linked Gilts Fund	24,953,845	6.0	17,583,375	5.0



## Notes to the financial statements for the year ended 31 March 2017 (continued)

**9 INVESTMENTS (CONTINUED)****9.5 INVESTMENT TRANSACTION COSTS**

Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustees to quantify such indirect costs.

**9.6 INVESTMENTS FAIR VALUE HIERARCHY**

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

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

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

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

  

As at 31 March 2016	Level 1 £	Level 2 £	Level 3 £	Total £
Pooled investment vehicles	-	336,535,993	-	336,535,993
Annuity policies	-	-	10,567,000	10,567,000
Cash in transit	85,750	-	-	85,750
	<b>85,750</b>	<b>336,535,993</b>	<b>10,567,000</b>	<b>347,188,743</b>

## Notes to the financial statements for the year ended 31 March 2017 (continued)

**9 INVESTMENTS (CONTINUED)****9.7 INVESTMENT RISKS**

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

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

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

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

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

The Scheme aims to invest its assets to ensure the security, quality and liquidity of the portfolio as a whole, and in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme. Further details of the objectives of the Trustees have been provided in the Investment Policy under "Investment Objective and Strategy". The Trustees have selected appropriate pooled investment vehicles that meet the investment strategy.

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

**(i) Credit risk**

The Scheme invests in pooled investment vehicles of £407,764,222 (2016: £336,535,993) and annuity policies of £8,953,000 (2016: £10,567,000) and is therefore directly exposed to credit risk in relation to the holdings in these investments. Pooled investment vehicles and annuity policies are unrated due to their nature.

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

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

Pooled investment arrangements used by the Scheme comprise unit linked insurance contracts of £352,089,400 (2016: £281,997,772) and units in open-ended investment funds of £55,674,822 (2016: £54,538,221).

## Notes to the financial statements for the year ended 31 March 2017 (continued)

**9 INVESTMENTS (CONTINUED)****9.7 INVESTMENT RISKS (CONTINUED)****(i) Credit risk (Continued)**

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

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

**(ii) Currency risk**

The Scheme is subject to currency risk because a proportion of the underlying investments in the world equity fund valued at £74,780,686 (2016: £59,343,304) and the real return fund valued at £55,674,822 (2016: £54,538,221) are held in overseas markets although the extent of the risk is dependent on the portfolio held at the time. In the world equity fund, overseas currency is not hedged back to sterling, and in the real return fund it is up to the fund manager to decide whether hedging is put in place. Therefore, the value of the Scheme's assets may be affected favourably or unfavourably by fluctuations in currency rates. The real return manager accepts currency risk when they believe it is attractive from a risk/reward perspective.

**(iii) Interest rate risk**

The Scheme is subject to interest risk in the matching asset portfolio of £277,308,714 (2016: £222,654,468). The Trustees have set a target benchmark of 68% (2016: 68%) of total invested assets for the matching assets excluding the annuity policies and the Scheme was invested in line with the target at the year end (2016: allocation was 66.2%). The split between the funds within the matching portfolio is allowed to drift in line with market movements. Therefore, there is no automatic rebalancing back to a central benchmark. The Trustees will continue to monitor the allocation on a regular basis to ensure that this is consistent with overall strategy of the Scheme.

The annuity policies valued at £8,953,000 (2016: £10,567,000) are also subject to interest risk as any changes to interest rates would affect the value of the annuity policies.

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

The real return fund of £55,674,822 (2016: £54,538,221) is also exposed to some interest rate risk although the extent of the risk is dependent upon their portfolio at the time. The investment manager will consider the risk and expected reward when determining which investments to invest in.

**(iv) Other price risk**

Other price risk arises principally in relation to a proportion of the Scheme's growth portfolio covering the world equity fund and real return fund totalling £130,455,508 (2016: £113,881,525) although the extent of the risk is dependent on the portfolio of the funds held at the time. The Scheme has set a target asset allocation of 32% (2016: 32%) of total investments excluding the annuity policies being held in the growth portfolio. At the year end, 32.0% (2016: 33.8%) of the portfolio was held in growth assets, based on the fair value of investments. The split between the growth funds is allowed to drift in line with market movements, so therefore there is no automatic rebalancing back to a central benchmark. The Trustees will continue to monitor the allocation on a regular basis to ensure that this is consistent with overall strategy of the Scheme. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

## Notes to the financial statements for the year ended 31 March 2017 (continued)

**10 CURRENT ASSETS**

	2017	2016
	£	£
Cash balances	854,563	790,814
Sundry debtor	5,820	-
	<u>860,383</u>	<u>790,814</u>

**11 CURRENT LIABILITIES**

	2017	2016
	£	£
Unpaid benefits	-	33,408
PAYE due to HMRC	81,528	83,327
Deferred annuity income	74,224	76,614
Due to Auditors	13,000	-
Due to Actuaries	134,884	-
Investment management fees due	45,814	-
	<u>349,450</u>	<u>193,349</u>

**12 TAXATION**

The Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income (see Note 7) to which they relate.

**13 RELATED PARTY TRANSACTIONS**

Five Trustees were deferred members and two Trustees were pensioners during the year. During the year the Scheme paid £5,438 (2016: £Nil) in relation to Trustee fees and expenses. This is included in other expenses in Note 6.

**14 EMPLOYER RELATED INVESTMENTS**

There were no employer related investments at 31 March 2017 (2016: £Nil) or at any time during the year.

## Section 6 – Independent Auditor's Statement about Contributions

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

We have examined the summary of contributions to Legal Services Commission No. 4 Pension Scheme (the "Scheme") for the year ended 31 March 2017 which is set out in the Trustees' Report on page 4.

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

### Respective responsibilities of Trustees and Auditors

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

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

### Scope of work on the statement about contributions

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

### Statement about contributions to the Scheme

In our opinion contributions for the year ended 31 March 2017 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 16 January 2014 for the period 1 April 2016 to 31 October 2016 and the Schedule of Contributions certified by the Scheme Actuary on 2 November 2016 for the period 1 November 2016 to 31 March 2017.



Crowe Clark Whitehill LLP

Statutory Auditor

London

Date 24 October 2017