

TRUSTEES' REPORT TO MEMBERS

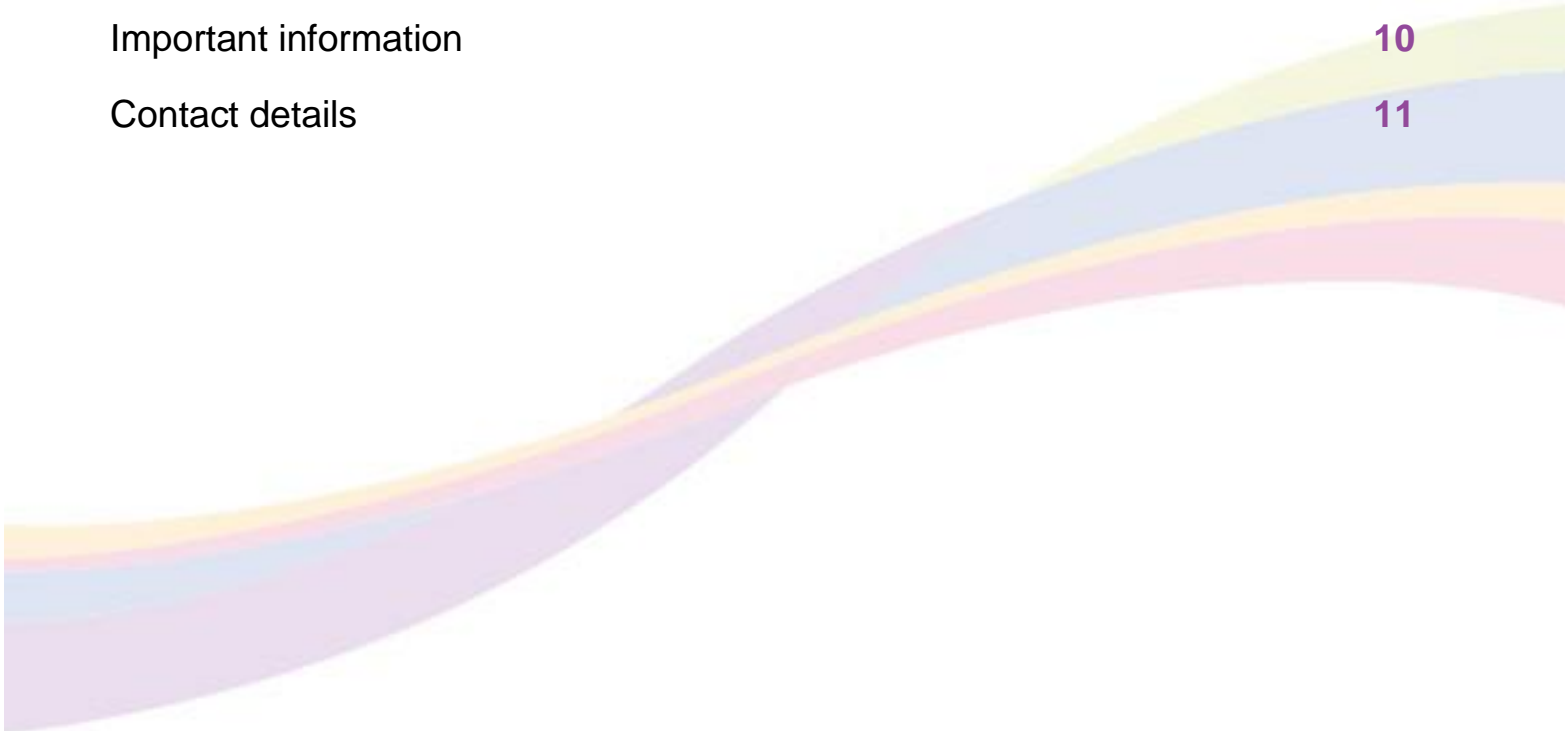
Trustees' Report for members of the Legal Services
Commission Staff Pension & Assurance Scheme
(No. 4)

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Chair's comments

Welcome to this latest Trustees' Report to Members. I hope you find the content interesting but also reassuring that so much is being done to fund and administer your Scheme effectively.

The Trustees have had a very busy year overseeing the pension scheme and in this introduction to the Report I want to highlight some of our activities to you.

When I reported to you last year, I described the importance of continuing the work of the Trustees to deliver a strongly funded Scheme in the context of an unpredictable external landscape. I said that the focus of the Trustees would remain on making a difference through:

- Targeted Investment Management
- Effective Administration Services for Members
- Secure Financial Control
- Efficient Contract Management

I'm pleased to confirm that our focus on these four areas of delivery has remained resolute and stood us in good stead in what has been, and continues to be, a particularly unpredictable external landscape. Our focus aims to protect the Scheme as far as possible from the uncertainties of Brexit, trade wars, fluctuating currencies and changing political situations around the world – all of which can have an impact on investments and funding levels.

Funding

A key measure of the financial security of the Scheme is the strength of our funding level. The funding level means the difference between the amount of money in our Scheme's funds and the amount we expect to need in order to pay promised retirement incomes to our members.

The most recent formal actuarial valuation of the Scheme was carried out as at 31 March 2016 at which time the Scheme had a funding level of 96%. Since that actuarial valuation, the Scheme's assets have grown and the Scheme had a funding level of 99% as at 31 March 2018. Once again this is good news and as a result we do not expect to require any additional funding from the Ministry of Justice (MOJ) in the near future.

Investment Management

Our aim continues to be to have enough money, now and in the future, to pay all member pensions. Understandably the Trustees see this as a crucial responsibility and spend a good deal of time discussing our current investment strategy, and future possibilities which could impact our strategy, in order to secure good investment outcomes. Of course, when it comes to investments nothing is certain, but the Trustees have taken further steps this year to ensure the funds are well managed and to reduce risk for the Scheme.

Our holdings of government bonds (also known as gilts) are designed to help protect us against inflation and interest rate changes. As at 31 March 2018 around 70% of our investments (approximately £290 million) were held in these gilts through our investment manager Legal and General.

The Scheme has approximately a further £70 million invested in equities (also known as shares) as at 31 March 2018 by investing in the Legal and General World Equity Index Fund. We believe it is important to invest worldwide to avoid dependence on or exposure to any single market, but also to make the most of growth opportunities around the globe.

When I wrote to you last year some 14% of our funds were invested with a firm of active managers Newton Investments. The Scheme had been invested with Newton since December 2013 with the aim of protecting the Scheme from turbulence in financial markets whilst still aiming to generate returns. Actively managed funds are costlier for the Scheme and so the Trustees have kept the performance of this fund under scrutiny to make sure it delivers the returns expected for the higher costs involved.

Since 31 March 2018, the Trustees decided that the risk and reward provided by this portion of our investments was not what we had hoped for and took the decision to take our funds out of Newton. The funds were gradually disinvested and divided between the World Equity Index Fund and the Index-Linked Gilt Index Funds managed by Legal and General. The re-allocation of funds was chosen with the objective of maintaining the same overall level of expected returns for the Scheme's assets, in line with the Trustees' investment strategy.

The Trustees have received training this year on sustainable investing. By this, I mean considering how companies take into account their environmental, social and governance responsibilities (ESG), the impact this could have on their financial success and the returns this helps to generate for their shareholders (such as pension schemes).

The Trustees are persuaded that companies whose boards believe and act sustainably may have better long-term opportunities for financial strength and success. The Trustees are pleased that Legal and General, as a major investor in world equities (and the manager of our funds), is a key voice in demanding and rewarding companies which are strong on ESG. The Trustees will consider further opportunities for ESG investments during 2019 as part of our overall aim to secure positive financial outcomes for the Scheme.

Finally, the Trustees have spent a lot of time this year exploring how we might lock in some of the gains made so far on our investments in order to minimise the risk of there being insufficient funds to pay member pensions in the future. This work continues as we go into 2019.

Trustees

The Board of Trustees has not changed this year which is pleasing since stability and continuity lead to stronger board knowledge and skills. The Trustees are:

Jill Youds (Independent Chair)
Adam Pirani (Employer nominated)
Audrey Fullerton (Employer nominated)
Peter Church (Employer nominated)
Giorgio Bugnatelli (Member nominated)
Rosina Farrell (Member nominated)
Roger Hamilton (Member nominated)

Pensions can be complicated and so we ensure that the Trustees receive training throughout the year in order for them to be able to carry out their duties effectively.

I have reviewed our board effectiveness with the Trustees and was pleased to note that where we felt we didn't have enough knowledge we received the necessary training and that all board members felt there was good debate and challenge around the board table on the most important topics. As Chair of the board I want to ensure that everyone is listened to and all views are represented. We asked ourselves whether we truly represent your interests and, with three member-nominated board members, we believe that we do. However, we are of course always happy to hear from you if you want to get in touch with your comments.

I want to extend my warmest thanks to the Trustees for their endless dedication and integrity in carrying out their Trustee responsibilities on your behalf.

Administration

Hymans Robertson continue to be our professional pensions consultancy responsible for providing all Scheme administration. We discuss standards of administration at each of our Trustee meetings in order to monitor the service levels our members are receiving. We continue to be satisfied with the performance of Hymans Robertson and find them to be diligent and determined to deliver the best service that they can.

The General Data Protection Regulations (GDPR)

This year the Trustees worked intensively with our advisors to prepare for the new GDPR legislation, which came in to effect in May 2018. This was a significant amount of work for the Trustees, including:

- Putting new GDPR-compliant agreements in place with all of the Trustees' third party providers e.g. the Scheme's administrators and investment managers;
- Updating the Scheme's privacy policy and communicating this to all members;
- Putting a data sharing agreement in place between the Trustees and the MoJ;
- Reviewing the Trustees' data breach management protocol policy; and
- Producing the Trustees' GDPR policy, which sets out the Trustees' approach to GDPR compliance.

I am grateful to those Trustees who joined a working group to ensure that the many and varied tasks that needed to be done to ensure the Scheme complies with this important legislation, and to ensure your privacy is protected, were completed. As a Trustee Board we believe that we have satisfied the requirements of the new legislation and are pleased that this was dealt with pro-actively ahead of the GDPR's introduction in May 2018. We have also put arrangements in place to monitor our compliance with the GDPR by reviewing on an annual basis and allowing for any changes to circumstances for the Scheme.

Governance and value for members

In a world of fast changing pensions regulation and oversight, the Regulator's campaign to support '21st Century Trusteeship' is already on our horizon. We especially welcome the focus on improved scheme governance and transparency of trustees securing value for money. It is a challenge to try and be aware of all the wider regulation, but we want to apply any key elements that we consider are of a benefit to our scheme members. One such element being securing value for money which, as you know, we address through challenging investment fees and securing optimum contract terms with all of our professional advisers, and keeping these under ongoing review.

Ministry of Justice ("MOJ")

David Collins remains the MOJ official with oversight of the Scheme and we were pleased this year that David appointed a Deputy in Catherine Mcloughlin to provide further support to the Scheme. David and Catherine attend every Trustee meeting and provide valuable input. They also manage the Scheme contract with Hymans Robertson. I thank them both for their contribution this year.

Keeping in touch

We want to ensure that you understand your benefits and that you are kept up to date with the latest news that might affect your pension. If you haven't already, please do register on the pensions website at www.lscpensions.co.uk so that you can access your personalised pension pages. If you don't want to register yet then the next best thing is to ensure we have your email address so that we can contact you when we need to. If we don't have your email address, please contact the Scheme administrators (see page 11 for contact details) to tell us what it is.

Thank you for reading this introduction to the Trustees' report. I hope you agree that the Scheme has had another positive year and I look forward to getting in touch again next year.

Jill Youds



Chair of the Trustees

How does the 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.

The assets of the Scheme are invested with the aim of producing a return each year. Your benefits are paid from the Scheme. For some of you these benefits are now being paid, for others these benefits will be received in years to come when you retire.

Scheme membership

The membership of the Scheme as at 31 March 2018 was as follows:

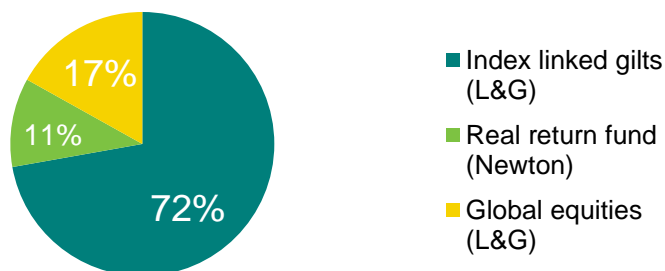
Category of membership	Number of members
Employee members	0
Preserved members	1,401
Pensioner members	932
Total membership	2,333

Investment performance

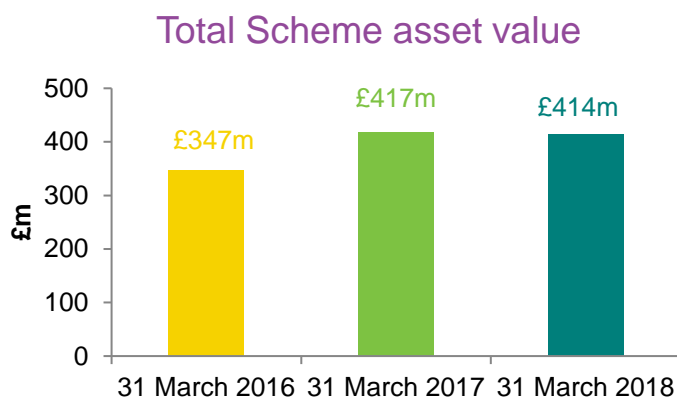
The Scheme's assets are invested by the Scheme's investment managers with the aim of increasing their value and providing income that can be used to pay benefits when they fall due.

The Scheme's funds are invested in a mix of assets, and the distribution as at 31 March 2018 is shown below.

Invested assets at 31 March 2018



With the assistance of our advisors we carefully monitor the investment managers' performance. The Scheme's total asset values at 31 March 2016, 31 March 2017 and 31 March 2018 are shown below.



Over the last two years the Trustees have changed the Scheme's investment strategy to reduce the risk of significant shortfalls in funding in future:

- During 2016 the Trustees reduced the Scheme's target allocation to growth assets from 35% to 32% due to improvements in the Scheme's funding level. Further improvements in the funding level meant that in November 2017 the Trustees further reduced the Scheme's target allocation to growth assets from 32% to 29%. These reductions have helped reduce potential downside investment risk and reduce the risk of significant falls in Scheme asset values relative to the cost of providing Scheme benefits.
- During 2017 the Scheme's government bonds were re-adjusted in order to invest the assets more closely in line with the liabilities.
- During 2017 the Trustees moved 50% of the Scheme's assets that were invested in World Equities into a Sterling Hedged World Equities asset class to reduce exposure to overseas currency risk.

Whilst the asset value dropped slightly over the year to 31 March 2018, the liabilities dropped by slightly more, keeping the funding level steady at the year-end.

The Trustees have taken the following further steps since 31 March 2018.

- During May 2018, due to further improvements in the Scheme's funding level, the Trustees again reduced the Scheme's target allocation to growth assets from 29% to 26%, yet again helping to reduce potential downside investment risk and the risk of significant falls in Scheme asset values relative to the cost of providing Scheme benefits.
- During 2018, the Trustees agreed to disinvest the holding in the Scheme's Real Return fund and reinvest the proceeds across the Scheme's global equity and matching assets as part of a review of the investment strategy. The transition took place over three months between October and December 2018. As part of this review, the Scheme's target allocation to growth assets reduced from 26% to 24%.

Summary funding statement

How do we know how much money is needed?

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 latest valuation as at 31 March 2016 showed that:

- There was £347 million in the Scheme available for paying out benefits.
- The estimated cost of providing benefits for Scheme members was £362 million.
- This means that there was a deficit of £15 million. This is described as a funding level of 96%.

How has the position changed since the actuarial valuation?

Since 31 March 2016 the Scheme's funding position has held up well despite market concerns following the Brexit vote and subsequent developments. The Scheme's funding level was 99% as at 31 March 2017 and 99% as at 31 March 2018, compared with 96% as at 31 March 2016. The improvement in funding level was primarily due to strong returns on the Scheme's assets over the year to 31 March 2017, with these returns being retained in the year to 31 March 2018 as the Scheme de-risked.

How secure are my benefits?

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.

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 period since the 31 March 2016 valuation.

How pension changes may affect you

April 2015: Freedom & Choice

Changes to pensions were introduced in April 2015. This included giving members more flexibility in how they use their pension savings at retirement. While many of these changes are not relevant to you, some of the changes may impact you, and you can find out more below. You can find further general information at <https://www.gov.uk/government/news/pension-reforms-eight-things-you-should-know>.

What if you've already reached your normal retirement date?

If you've already reached your normal retirement date or are currently drawing a pension from the Scheme then most of these changes will not apply to you – you will continue to receive your pension as usual. But, if your pension is small then the 'Taking small benefits as cash' section below may be relevant to you.

Taking small benefits as cash

Some members who have earned only a small annual pension during their membership of this Scheme may prefer to take a cash lump sum instead of receiving an annual pension.

If the total value of your pension benefits amounts to £10,000 or less, regardless of any other pension savings you may have, you may be able to take it all as cash from age 55.

You may also be able to take your pension benefits as cash from age 55 if the total value of your entire pension benefits (e.g. including benefits in other schemes) is £30,000 or less.

Transferring your benefits to a defined contribution pension scheme

You have the option of transferring out your benefits from the Scheme to a defined contribution pension plan to take advantage of these flexibilities. More information can be found on the Scheme website (www.lscpensions.co.uk) within the article "When can I get a transfer value?".

That said, you should think carefully before giving up a defined benefit pension. For example, the Pensions Regulator is of the view that it is likely to be in the best financial interests of the majority of members to leave their defined benefit pension where it is.

Do you need to seek advice before a transfer?

Transferring pension benefits between plans is complex and members can benefit from seeking independent financial advice before taking any action. It is a Government requirement that anyone transferring from a defined benefit pension plan to a defined contribution pension plan takes independent advice from a qualified financial adviser if the total value of the transfer is more than £30,000. You will not be able to transfer your defined benefit entitlement out of the Scheme unless the Scheme has received a signed written confirmation from your FCA-authorized financial adviser confirming their status and that you have been given advice on the defined benefit to defined contribution transfer. If the total value is £30,000 or less you may still wish to seek independent financial advice, but it is not a legal requirement for you to do so.

Need advice?

The Government has promised that everyone will receive 'free, independent guidance' at retirement, to help you understand your options. This is being provided by the Citizens Advice Bureau and The Pensions Advisory Service. There will be telephone, face to face and online guidance via www.pensionwise.gov.uk. This guidance will be tailored to you, but it won't make any recommendations about specific products.

You can also find an independent financial adviser in your area at www.unbiased.co.uk, but you will be responsible for paying for any resulting advice. Please note that the Trustees are not authorised to give members financial advice.

GMP equalisation

You may have seen news stories that on 26 October 2018 the High Court issued the judgement that pension scheme benefits need to be equalised for men and women, for the effect of Guaranteed Minimum Pensions ('GMPs'). GMP equalisation potentially affects pension benefits built up between 17 May 1990 and 5 April 1997. This will affect all members differently, depending on their benefits in the Scheme and service periods. Working out the impact on each individual member's pension is a complex process and will take some time to implement. We will be communicating with all members in 2019 with more detail on what this means for you.

Scheme website

You can find this report together with full information about Scheme benefits and copies of other recent reports at www.lscpensions.co.uk; under the Scheme Information section. Simply click on "Trustees Report to Members" and the document will be there for you to read.

You can also see details of your own benefits in the secure section of the website.

As at December 2018, 670 members (29% of the Scheme's membership) are now using the Scheme website. This gives members access to regular pension payment statements, their expression of wishes, annual pension increase values and much more.

We are continuing to develop the website and we encourage you to join it if you have not done so already. As well as pension news, we are also regularly adding articles of interest to the website including articles titled "A different choice – if you have a small pension" and "Do it – track down your old pensions". These topical articles are being written with the aim of helping you with your pension planning.

The Scheme website also contains relevant forms and documents to support you at each step and to explain pension terminology.

If you have not already done so, please do leave us your email address. As previously advised, early in 2019 we will move to only communicating with you via the Scheme website or via email and move to paperless communication.

We welcome all feedback you have in relation to the Scheme website and also wider Scheme related matters. You can provide feedback through sending an email to lscpensions@hymans.co.uk or by completing the Member survey which can be found by clicking on "Contact us" at the top of the Scheme website. The survey takes only 5 minutes to complete and we endeavour to take all feedback into consideration.

Important information

Have you moved or are you planning to move?

Please ensure that you advise Hymans Robertson if you have moved or are planning to move. We need your latest contact details to ensure you receive our communications and that pension payments are not delayed.

Pension increase review at 1 April 2018

On 1 April each year the Scheme awards pensioners and preserved members an increase to their annual pension, which is linked to the change in the Consumer Price Index over the year to the previous September, as required by the Scheme Rules. The change in the Consumer Price Index over the year to September 2017 was 3.0%, therefore a pension increase of 3.0% was awarded to members' pensions on 1 April 2018.

Lifetime allowance

The Lifetime Allowance ('LTA'), which restricts the total pension savings an individual can build up tax-free, was reduced from £1.25m to £1.0m in April 2016. Thereafter it is increased in April each year in line with the increase in the Consumer Price Inflation index. The LTA was increased to £1.03m in April 2018 and will be set at £1.055m from April 2019 for the 2019/20 tax year. Protection may be available for individuals already over this limit. Members affected may benefit from seeking independent financial advice.

Contact details

Should you have any queries regarding a change of address or bank details or your pension payments please contact:

Address: LSC Pension Scheme
Hymans Robertson LLP
One London Wall
London, EC2Y 5EA

Tel: 020 7082 6457

Email: lscpensions@hymans.co.uk

Hymans Robertson's normal office hours are 9am to 5pm Monday to Friday; outside those hours a voicemail system will operate with all messages dealt with the following working day.

To protect the confidentiality of your pension details, Hymans Robertson will need to verify your identity prior to releasing any personal information. Therefore we suggest that if contacting them you have to hand details of your National Insurance Number, which will be required along with your date of birth and home address.

Documents containing further information about the Scheme are available on the Scheme website (www.lscpensions.co.uk). For example, the Scheme's actuarial valuation report and annual report and accounts are available here. If you would like to receive a copy of these documents, or would wish to discuss any other pension matters, please contact Hymans Robertson using the details above.

