

LV= EMPLOYEE PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019
SCHEME REGISTRATION NUMBER: 10200449

LV= EMPLOYEE PENSION SCHEME

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TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2019

Principal Employer	Liverpool Victoria Friendly Society Limited
Trustee	The LV= Pension Trustee Limited
Directors of the Trustee	<u>Appointed by the Principal Employer</u> BESTrustees Limited (Independent Trustee Director represented by Huw Evans (Trustee Chair) and supported by Karen Theobald John Laidlaw (appointed 27 September 2018) Lisa Mundy (resigned 26 November 2018) Peter Sinden Judith Coole (resigned 22 June 2018) <u>Selected by active Members</u> Elaine Carr (appointed 30 April 2018 and resigned 27 September 2018) Jason Mallen (appointed 30 April 2018) David Green (appointed 26 November 2018) <u>Selected by pensioner Members</u> Michael Mercer (appointed 6 June 2018 and resigned 19 November 2018) Paul Bougon (appointed 18 June 2019)
Secretary to the Trustee	Andrew Johnson (resigned 13 April 2018) Rachel Small (resigned 3 September 2018) Michael Jones (appointed 27 September 2018)
Scheme Actuary	Brian Nimmo of Hymans Robertson LLP
Independent auditor	Crowe U.K. LLP
Legal advisers	Allen & Overy LLP
Investment custodians	HSBC Bank Plc
AVC providers (Defined benefit section)	The Equitable Life Assurance Society Standard Life Assurance Limited The Prudential Assurance Company Limited (to 12 November 2018)
Bankers	Barclays Bank plc

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TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 MARCH 2019

Administrators	Defined Benefit Towers Watson Limited	Defined Contribution Aviva Life & Pensions UK Limited
Investment advisers	Redington Limited	Lane Clark & Peacock
Investment managers	Columbia Threadneedle Investment Services Limited Equitix Investment Management Limited BlackRock Investment Management Limited	Aviva Life & Pensions UK Limited
Covenant adviser	Ernst and Young LLP	

The following defined terms are used throughout the report:

AVC	Additional voluntary contribution
Board	The Directors collectively
CPI	Consumer Prices Index
DB	Defined Benefit
DC	Defined Contribution
Director	A Director of the Trustee
Employer	The principal employer of the Scheme
GMP	Guaranteed Minimum Pension
LDI	Liability Driven Investment
LVGIG	Liverpool Victoria General Insurance Group Limited
Member	A member of the Scheme
MND	Member Nominated Director
OTC	Over the counter (in relation to derivative contracts)
PPF	Pension Protection Fund
RPI	Retail Prices Index
Rules	The rules of the Scheme
Scheme	The LV= Employee Pension Scheme
Section	A section of the Scheme
Society	Liverpool Victoria Friendly Society Limited
TPAS	The Pensions Advisory Service
Trust Deed	The trust deed between the Society and the Trustee under which the Scheme operates
Trustee Chair	Chair of the Trustee Board
Trustee	The LV= Pension Trustee Limited

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TRUSTEE'S REPORT

YEAR ENDED 31 MARCH 2019

Introduction

The Board presents its annual report for the Scheme together with the investment report, actuarial certificate and financial statements for the year ended 31 March 2019.

The Scheme is an occupational pension scheme for fixed term contracts paid through payroll or permanent full and part-time staff and former staff of the Society and its subsidiary companies (excluding LVGIg) in the United Kingdom and contains both non-contributory and contributory Sections. There is a separate pension arrangement for current LVGIg staff.

The Scheme is registered under Chapter 2 of part 4 of the Finance Act 2004. It is established under and governed by the Trust Deed and Rules, which have been approved by the Pensions Schemes Office of HM Revenue and Customs.

The Scheme comprises two sections:

- a DB Section which provides benefits based on a Member's salary and length of service; and
- a DC Section which provides benefits based on a Member's accumulated fund value at retirement.

Before the DB Section closed to future accrual on 30 June 2013, its active Members were contracted-out of the State Second Pension. The DC Section is, and has always been, contracted-in.

Members of the DC Section are able to make AVCs to secure additional benefits; this option was also available to Members of the DB Section until it closed to future accrual.

The Scheme has a corporate trustee, The LV= Pension Trustee Limited, rather than individual trustees.

The assets of the Scheme are held separately from the assets of the Society and are owned by the Trustee. DB Section assets are managed by:

- 1) Columbia Threadneedle Investments (CTI), which was appointed on 1 November 2011 to manage corporate bonds, property and "alternative" investments. CTI was given a further mandate in July 2015 to manage a diversified growth fund;
- 2) Equitix Investment Management Limited, which was appointed on 29 May 2012 to manage infrastructure investments; and
- 3) BlackRock Investment Management (UK) Limited, which was appointed on 13 March 2015 to manage the liability hedging portfolio. BlackRock was given a further mandate in May 2015 to manage a protected equity portfolio.

DC Section assets are held in the form of an insurance policy in the name of the Trustee issued by Aviva Life & Pensions UK Limited (Aviva).

The investment managers are appropriately authorised under the Financial Services and Markets Act 2000.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

Scheme financial statements and summary of contributions

The financial statements of the Scheme for the year ended 31 March 2019 are set out on pages 26 to 53 and the Trustee's summary of contributions and the independent Auditor's statement about contributions are set out on pages 21 and 22 respectively.

The financial statements have been prepared and audited in compliance with the regulations made under section 41(1) and 41(6) of the Pensions Act 1995.

The net assets of the Scheme increased by £38.8m over the year giving a Scheme value of £1,754.9m at 31 March 2019.

Management of the Scheme

The Scheme is governed by the Trustee which is required to act in accordance with the Trust Deed and Rules, within the framework of pension and trust law.

The Trustee is responsible for the administration and investment policy of the Scheme. The Trustee has delegated the day-to-day management and operation of the Scheme's affairs to professional organisations as set out on pages 1 and 2 of this report.

Trustee

The names of the current Directors, and others who served as Directors during the year, are included on page 1 of this report.

The Rules and the Articles of Association of the Trustee contain provisions for the appointment and removal of the Directors. The Board must consist of at least two active MNDs, at least one pensioner MND, and up to four persons selected by the Society. If the number of active or pensioner MNDs drops below these minima, any vacancy must be filled in accordance with the procedures outlined in the Rules. Additionally, the Board may co-opt an additional Director, provided that the Society consents.

When a vacancy arises for a Director selected by the Society, the vacancy will be filled by the Society. There is currently one such vacancy which the Society is looking to fill. Directors selected and appointed by the Society have no fixed term of office.

When a vacancy arises for either an active or pensioner MND, the Board will arrange for vacancies to be filled through an election process.

The Pensions Act 2004 and subsequent regulations have put in place requirements for Member-nominated directors. The Trustee has in place a process to appoint at least one third of the Board as MNDs. MNDs serve for a fixed term of 5 years, but are not precluded from serving further terms of office if re-elected.

The Trustee may be removed at the discretion of the Society, in its capacity as principal employer, provided that the board of any new trustee company comprises three directors representing the Members, including one director who must be a pensioner and up to a further four directors selected by the Society.

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TRUSTEE'S REPORT *(continued)*

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The full Board met on four occasions. All Directors attended all Board meetings for the Scheme year ending 31 March 2019 (or, if applicable, the date when they left office), except Elaine Carr and Lisa Mundy who both did not attend one meeting. All Directors can pass on their views on agenda items to the Trustee Chair if they are unable to attend any meeting. There has been a high turnover of Directors due to significant changes to the LV= organisation and not concerns over how the Scheme is operated.

Committees of the Trustee Board

Investment Sub Committee ("ISC")

The ISC met four times during the year. Its role is to consider and advise the Board on investment strategy and risks associated with the DB Section of the Scheme. The ISC also monitors investment performance, along with the full Board, and is responsible for reviewing investment items on the Scheme risk register and reporting its findings to the Board.

The members of the ISC are Huw Evans, John Laidlaw, Jason Mallen and Peter Sinden and all other Directors are invited to attend.

Administration Sub Committee ("ASC")

The ASC met two times during the year. Its main purpose is to monitor the performance of the DB Section administrators and to provide a summary of this to the Trustee Board. The ASC is also responsible for reviewing the administration items on the Scheme risk register and reporting its findings to the Board.

The members of the ASC are Karen Theobald, Jason Mallen and David Green and all other Directors are invited to attend.

Defined Contribution Sub Committee ("DCSC")

The DCSC met three times during the year. Its main purpose is to ensure that effective governance and administration processes are in place for the DC Section. The DCSC will ensure that the DC Section is being operated in line with the Scheme's rules and guidance set out in the Pension Regulators DC code of practice 13 entitled "Governance and administration of occupational defined contribution trust-based pension schemes". The DCSC will report compliance to the full Board as appropriate.

The members of the DCSC are Karen Theobald, Jason Mallen and David Green and all other Directors are invited to attend.

Directors' training

The Board believes that all Directors should receive appropriate training to enable them to undertake their duties. The Board held regular training sessions during the year. Training sessions took place on 29 May 2018 and 30 October 2018. Training is also provided as and when required during Trustee meetings. Training also takes place within the regular meetings, as required, and the Directors are encouraged to attend industry seminars and undertake personal reading on pension matters. Logs are kept of the training undertaken by each Director. The training needs of the Board are assessed once a year, with training plans being put in place for the year ahead.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

Other events

Scheme funding

The Scheme's triennial actuarial valuation due on 31 March 2018 was completed in December 2018, six months ahead of the statutory deadline. As a result, £35.3m was paid into the Scheme in January 2019 and deficit contributions have continued at £416k per month. The results were issued to members in June 2019. The next triennial valuation is due on 31 March 2021.

As part of the triennial actuarial valuation the Trustee needed to take all factors into consideration including the following:

- In 2017, LV= announced a strategic partnership with Allianz, one of the world's largest Property & Casualty insurers. Specifically, a joint venture has been established between their General Insurance businesses (LV=GI) creating the third largest personal lines insurer in the UK. Following completion of the first stage of the transaction on 28 December 2017, LV= owned 51% of the joint venture and Allianz 49%. Allianz will acquire a further 20.9% stake, at a cost of £213m, in the joint venture at the end of 2019.

On 31 May 2019 LV= announced that it had agreed to sell its remaining 30.1% stake in LV=GI to Allianz for up to £365m. This means that following completion on 31 December 2019, Allianz will have paid up to £1.078b for 100% of LV=GI which exceeds the valuation in the original deal by £58m. This represents a very strong return on the LV= investment in growing the GI business.

Naturally the Trustee continues to work closely with LV= to ensure that it fully understands the impact of this transaction and that the Scheme is treated fairly now and in the future. The Trustee will take any action necessary to support the on-going objectives of the Scheme.

As a result of the joint venture, as mentioned in last year's report, 3,457 active members of the DC Section ceased active membership of the Scheme and became deferred members. These 3,457 members were given the choice of transferring their pension accounts to their new DC scheme. 1,304 members opted to transfer and the transfer of their pension accounts to their new scheme was completed in May 2018.

Governance

The Governance of the Pension Scheme is extremely important. Events that have happened over the Scheme year are:

- A Trustee Board effectiveness review was carried out by an external party, Muse. The outcome of the review highlighted a range of strengths and areas that are working increasingly well for the Board. The review identified a few areas to strengthen and develop, which the Trustee is addressing.
- The Scheme has undergone an audit undertaken by LV='s internal audit team. The Trustee has taken on board the feedback from the audit and updated some of its processes to further strengthen the strong governance that was already in place.
- The EU General Data Protection Regulation (GDPR) came into effect on 25 May 2018. It was the first major update to European data protection law for over 20 years, replacing the Data Protection Directive. The regulation gives individuals (known as data subjects) much greater control over how organisations process their personal data. The GDPR requirements apply to pension schemes like the LV= Employee Pension Scheme. The Trustee has ensured that the Scheme was compliant with the regulation ahead of 28 May 2018 compliance deadline and the Trustee will continue to ensure that the Scheme remains compliant in the future.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

- The threat of cyber-crime is a growing and significant risk affecting many aspects of people's lives. During this year the Trustee has been working with its advisers to ensure that they have appropriate policies and protections in place to help combat this threat and keep member data safe. This is an area that the Trustee will continue to focus on.

External

The areas that the Trustee has been working on over the year which have been influenced due to external factors are:

- In October 2018 there was an important High Court ruling to ensure gender equality in the treatment of a part of people's pensions called the Guaranteed Minimum Pension (GMP). This may affect members who were an active member of the Scheme at some point between 17 May 1990 and 5 April 1997. The issue, referred to as 'GMP equalisation' is likely to take some time to fully resolve but the Trustee is closely observing the developments and working with its advisers to understand what it means for the Scheme. In the meantime work has continued to ensure that the GMP amounts held by the Scheme are reconciled with the information that is held by HRMC.
- Brexit remains a complex and ever changing area. Although it is difficult to make any pre-emptive decisions the Trustee continues to work with its advisers on this and is staying close to the implications as they unfold.

Compliance with institutional investment recommendations

The Trustee's investment approach is set out in their Statement of Investment Principles in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended). In that document the Trustee incorporates, where applicable, the Myners Principles, which is the accepted code of best practice throughout the industry in investment decision-making and governance, along with the advice it has received from the investment adviser. A copy of the Statement of Investment Principles can be found under Appendix B of this report or is available on the Pensions Village, www.lvpensionsvillage.co.uk/documents.

Changes to the Scheme Rules

A deed of amendment was signed in November 2018 confirming the rate of revaluation for members in the Frizzell section of the Scheme. This has led to no change to the current administration practice.

A copy of the Trust Deed and Rules is available on the Pensions Village, www.lvpensionsvillage.co.uk/documents.

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TRUSTEE'S REPORT *(continued)*

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Statement of Trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view 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 Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's Responsibilities accompanying the Trustee's summary of contributions.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it 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.

LV= EMPLOYEE PENSION SCHEME**TRUSTEE'S REPORT** *(continued)***YEAR ENDED 31 MARCH 2019****Membership**

The changes in membership during the year are as follows:

DB Section

	Active	Deferred	Pensioners	Beneficiaries	Total
At 1 April 2018	–	5,885	3,727	818	10,430
Adjustments to prior year*	–	(13)	12	13	12
New spouses and dependants	–	–	–	39	39
Retirements	–	(115)	115	–	–
Deaths	–	(7)	(79)	(32)	(118)
Entitlements ceasing	–	–	–	(2)	(2)
Individual transfers out	–	(83)	–	–	(83)
Commutations	–	(6)	(1)	–	(7)
At 31 March 2019	–	5,661	3,774	836	10,271

DC Section

	Active	Deferred	Pensioners	Beneficiaries	Total
At 1 April 2018	1,789	6,429	–	–	8,218
New members	405	–	–	–	405
Retirements	(5)	(25)	–	–	(30)
Members leaving with deferred benefits	(340)	340	–	–	–
Members leaving with refunds/no benefits	(32)	(1)	–	–	(33)
Deaths	(3)	(4)	–	–	(7)
Individual transfers out	(39)	(133)	–	–	(172)
Group transfers out	–	(1,313)	–	–	(1,313)
At 31 March 2019	1,775	5,293	–	–	7,068
Total membership	1,775	10,954	3,774	836	17,339

The group transfer out was in respect of 1,304 LV GI employees whose DC investments were transferred out in cash from Aviva Life & Pensions Limited on 30 May 2018. The table above shows 1,313 group transfers out as 9 employees had two records each with Aviva Life & Pensions Limited.

*Adjustments to prior year opening figures are due to late notification of Member movements.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

Pension increases

The pension increases that were applied to the Liverpool Victoria and the ex-Frizzell pensioners are as shown below. The Liverpool Victoria increases were applied from 1 April 2018. These are based on September 2017 RPI of 3.9%, except for the post 5 April 1988 GMP element. This is subject to statutory increases based on CPI; which was 3%. The pre 6 April 1997 excess element is subject to a minimum increase of 3%.

The Frizzell increases were applied from 6 July 2018. These are based on the April 2018 RPI of 3.4% except for the pre 6 April 1998 and post 5 April 1988 GMP elements. These are subject to fixed increases of 3%. The pre 6 April 1997 excess element is subject to a minimum increase of 3%. The post 30 November 2007 element is subject to a maximum increase of 2.5%.

<u>Pension element</u>	<u>Increase applied</u>	
	<u>Liverpool Victoria</u> <u>01-04-2018</u>	<u>Frizzell</u> <u>06-07-2018</u>
Pre 06/04/1988 GMP	No increase	3.0%
Post 05/04/1988 GMP	3.0%	3.0%
Pre 6/04/1997 excess over GMP	3.9%	3.4%
06/04/1997 to 30/11/2007 pension	3.9%	3.4%
Post 30/11/2007 benefits	2.5%	2.5%
Pre 06/04/1995 AVCs	No increase	No increase
06/04/1995 to 05/04/2000 AVCs	3.9%	3.4%
Post 05/04/2000 AVCs	3.9%	3.4%

These were implemented correctly and on time.

Deferred pensions are increased as required by legislation and in line with the Rules.

No discretionary payments were made.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

Report on Actuarial Liabilities

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every 3 years using assumptions agreed between the Trustee and the employer and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request.

The most recent scheme funding valuation under section 224 of the Pensions Act 2004 of the Scheme was carried out as at 31 March 2018. An annual funding update was performed on 31 March 2017 and this was an estimated position based on the 2015 funding valuation.

Valuation date: 31 March	2017	2018
Value of technical provisions	£1,522.1m	£1,615.7m
Value of assets available to meet technical provisions	£1,553.9m	£1,580.3m
As a percentage of technical provisions	102%	98%

Although there are no current plans to discontinue the Scheme and buy-out liabilities with an insurance company, the Trustee also considers the level of funding relative to the estimated costs of such a buy-out (known as "solvency liabilities") and equivalent information on this basis is provided below:

Valuation date: 31 March	2018
Value of solvency liabilities	£1,890.8m
Value of assets available to meet solvency liabilities	£1,513.2m
As a percentage of solvency liabilities	80%

The value of technical provisions is based on pensionable service to the valuation date and assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns and pension increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculation of the 31 March 2018 valuation results are as follows:

Method

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

Significant actuarial assumptions

Discount interest rate: best estimate of the Scheme's expected return on investments (defined at the valuation date by full gilt yield curves plus 0.85% p.a.) less 0.2% p.a.

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TRUSTEE'S REPORT *(continued)*

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Future Retail Price Inflation: term dependent rates derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date.

Future Consumer Price Inflation: term dependent rates derived from the assumption for future Retail Price Inflation less an adjustment equal to 1.0% per annum.

Pension increases: where pension increases are linked to inflation these are derived from the term dependent rates for future Retail Price Inflation or Consumer Price Inflation as appropriate, allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules.

Mortality: for the period in retirement, Club Vita base tables based on pooled experience in Club Vita during the period 2014 to 2016 (individual member base tables used). Future improvements are assumed to be in line with the CMI 2017 model, calibrated to Club Vita experience, with an increased level of smoothing ($Sk=8.0$) applied to recent experience, a long term annual rate of improvement of 1.75% p.a., tapering to 0% p.a. over ages 90 to 120 with all other parameters in line with the core parameterisation of the model.

Recovery plan

A recovery plan was agreed between the Trustee and the Society in December 2018. Under the recovery plan, it was agreed that the Society would pay a lump sum of £35,400,000 by 31 January 2019 and deficit reduction contributions of £416,667 per month with effect from 1 April 2018 to 31 March 2025.

Additionally, the Society shall pay contributions of £416,667 per month to support the aspiration of being fully funded on a longer-term target basis, from 1 April 2025 to 31 March 2028 or until the target is reached if earlier.

These arrangements were formalised in a schedule of contributions which the Scheme Actuary certified on 20 December 2018. A copy of his certificate is included on page 20 of this annual report.

In addition to the Statutory Funding Objective, the Trustee has a longer term objective in which it aspires to achieve full funding on a "self-sufficiency" basis (defined as gilts + 0.25% p.a.) by or around 2028. The Trustee plans to achieve this through a combination of the Scheme's funding and investment strategies, and it is on this self-sufficiency target that the Trustee has focused its objectives in relation to both the funding and investment strategy of the Scheme. The Trustee has set its Statutory Funding Objective to be consistent with its long term aspiration.

Next actuarial valuation

The next triennial valuation is as at 31 March 2021. The Trustee will receive preliminary results of the valuation in the months following this date and expect to finalise the valuation and agree a revised recovery plan (if required) within the statutory timescale by 30 June 2022.

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TRUSTEE'S REPORT *(continued)*

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Investment report section

Investment managers

The Scheme's investments are managed by the investment managers appointed by the Trustee, as listed on page 2.

The Trustee delegates the day-to-day management to professional external investment managers. The Trustee sets the investment strategy for the Scheme after taking advice from the Scheme's investment adviser. The Trustee has put in place investment mandates with its investment managers in order to implement this strategy.

Investment managers are remunerated by fees based on a percentage of funds under management. There are no performance related fee arrangements.

The investment adviser and investment managers are all appropriately authorised under the Financial Services and Markets Act 2000.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

Investment principles

In accordance with section 35 of the Pensions Act 1995, a Statement of Investment Principles (SIP) has been prepared by the Trustee which incorporates the investment strategy. A copy of the SIP is available under Appendix B of this report or on the Pensions Village at, [www.lvpensionsvillage.co.uk /documents](http://www.lvpensionsvillage.co.uk/documents).

Employer related investments

There were no employer related investments held during the year or at the year end.

Social, environmental and ethical considerations

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers. The Trustee expects the investment managers to take into account social, environmental and ethical considerations except when these considerations have a bearing on financial return. The Trustees are looking into updating their responsible investment principles over 2019.

Rights attaching to investments

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Trustee expects the investment managers to seek to protect and/or enhance the value of the Scheme's investments when it is exercising the voting rights or in deciding whether to exercise the voting rights.

Custodial arrangements

Custodian services are provided by HSBC Bank Plc. In accordance with normal practice, the Scheme's investments (other than property) are registered in the name of each of the custodian's own nominee companies with designation for the Scheme.

Derivatives

The Scheme holds derivatives in order to better match the interest rate, inflation and longevity risks of the Scheme's long term liabilities for efficient portfolio management.

DB Section

Investment objectives and strategy

In determining and reviewing the Scheme's investment strategy the Trustee adopts a Pensions Risk Management Framework (PRMF). This framework translates the principal goal of paying member benefits into measurable funding objectives and risk constraints, agreed by the Trustee. The PRMF objectives are reviewed and monitored by the Trustee on a quarterly basis.

The Trustee's statutory funding objective is to be fully funded on the Technical Provision basis. The Trustee also has a longer-term objective in which it aspires to achieve full funding on a "Self-Sufficiency" basis (defined as Gilts + 0.25% p.a.) by or around 2028.

The principal objectives are stated below:

1. Target an expected return on assets close to that required to meet the funding objectives within the PRMF;
 2. Manage the investment risk including that arising due to mismatch between assets and liabilities and limit the total risk on the Scheme below the risk budget set in the PRMF;
-

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

3. Maintain suitable liquidity of assets such that the Scheme is not forced to buy and sell investments at particular times to pay member benefits or meet potential collateral calls.

In respect of the three external investment managers, investment management costs are based upon the size of the portfolio under management with the basis being detailed in the formal agreement between the Trustee and the principal investment manager. The estimated aggregate management fee as at 31 March 2019 is calculated as being 0.14% of the total assets.

Review of investment performance

BlackRock Investment Management Limited is the principal investment manager of the Scheme's defined benefit section assets, holding approximately 59% of total assets, with Threadneedle Pensions Limited holding approximately 38% of assets and Equitix Investment Management Limited holding 2% of assets. The assets are invested by the managers for the benefit of the Members to enable pensions to be paid as they fall due. It is the aim of the investment managers to generate the maximum returns whilst staying within the risk and return objectives set by the Trustee.

The allocation of the Scheme's investments, in terms of underlying investments at 31 March 2019 and 31 March 2018 were as follows:

	2019 %	2019 %	2018 %	2018 %
Total assets		100		100
Return seeking		8		9
Diversified Growth fund		6		6
Private Equity fund		-		1
Infrastructure equity fund		2		2
Liability matching		92		91
LDI portfolio		56		57
UK gilts	54		54	
Index linked securities	22		21	
Repurchase agreements	(21)		(20)	
Liquidity, cash and commitments	-		-	
Collateral posted for Volatility Controlled equities	1		2	
Corporate bonds		30		29
Cash		-		1
Collateral posted for longevity swap		5		4

* Both 2018 and 2019 Asset Values include AVC assets

** The Volatility Controlled Equity ("VCE") allocation has 2.5-8x leveraged exposure (target 4x). In other words, the Scheme's exposure to equity markets through VCE is 4x greater than the cash position. The synthetic equity exposure gives a weighting >100%.

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TRUSTEE'S REPORT *(continued)*

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Review of investment performance

Relative performance

The performance of the Scheme is measured on a monthly basis against its funding and risk objectives set as part of a PRMF.

The following table shows the performance of the Scheme against its historical benchmark. Performance data is sourced from the corresponding asset manager.

Years ending 31st March	LV= Scheme %	Benchmark %
2003	15.0	14.2
2004	10.9	11.1
2005	20.7	19.0
2006	9.7	9.5
2007	4.4	5.2
2008	1.0	0.4
2009	-4.9	-5.6
2010	24.1	20.8
2011	6.9	6.1
2012*	10.7	13.1
2013	11.0	10.0
2014	2.3	2.2
2015	26.7	19.9
2016**	1.5	3.0
2017	23.3	10.7
2018	5.7	1.7
2019	5.7	-0.4

* The year ended 2012 includes estimated performance for October 2011 due to lack of data availability.

** Benchmark changed from a composite based on the benchmark indices of the underlying asset managers to a Scheme liability benchmark. This is consistent with the strategic objectives set for the Scheme's assets.

Overall the Scheme has outperformed the benchmark. The Trustee continues to monitor performance on a regular basis.

Calculation of transfer values

All transfer values paid during the year were calculated and verified in accordance with regulations made under the Pension Schemes Act 1993. In accordance with the direction of the Trustee no allowance for discretionary benefits has been made in the calculation of transfer values. No transfers were made at less than their cash equivalent.

The Trustee, after taking actuarial advice, has decided not to accept individual transfers in to the DB Section from other pension arrangements.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

DC Section

The table below shows the performance against benchmark of each of the DC Section funds for one three and five years ended 31 March 2019.

Annual percentage returns	1 year %	3 years %	5 years %
Global Shares Fund	11.8	14.6	11.6
<i>Benchmark</i>	<i>11.8</i>	<i>15.0</i>	<i>11.7</i>
UK Shares Fund	5.7	9.0	5.6
<i>Benchmark</i>	<i>5.8</i>	<i>9.5</i>	<i>6.1</i>
Pre-retirement Fund	4.1	5.9	8.1
<i>Benchmark</i>	<i>4.6</i>	<i>6.2</i>	<i>8.2</i>
Diversified Growth Fund	6.1	8.7	7.7
<i>Benchmark</i>	<i>4.3</i>	<i>4.1</i>	<i>4.1</i>
Property Fund	4.3	5.8	9.4
<i>Benchmark</i>	<i>4.8</i>	<i>6.2</i>	<i>9.1</i>
Diversified Growth Fund (Active)	(0.3)	4.5	3.5
<i>Benchmark</i>	<i>1.9</i>	<i>2.2</i>	<i>1.4</i>
Cash Fund	0.5	0.3	0.3
<i>Benchmark</i>	<i>0.5</i>	<i>0.3</i>	<i>0.3</i>

The performance figures for the funds are net of fees.

The Trustee continues to monitor the performance of the funds on a regular basis.

Tax and contracting-out status of the Scheme

The Scheme is a "registered pension scheme" for tax purposes. To the Trustee's knowledge there is no reason why this registration should be prejudiced or withdrawn.

Scheme advisers

There are written agreements in place between the Trustee and each of the Scheme advisers listed on pages 1 and 2 of this report and also with the Employer. The changes to the Scheme advisers are shown on pages 1 and 2 of this report.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

The Pension Tracing Service, TPAS, the Pensions Ombudsman and The Pensions Regulator

In accordance with the Occupational Pension Schemes (Disclosure of Information) Regulations 2013, Members are advised that:

- information regarding the Scheme has been registered with the Pension Tracing Service;
- if they have general requests for information or guidance concerning pension arrangements contact The Pensions Advisory Service (TPAS):
 - Address: 11 Belgrave Road, London, SW1V 1RB
 - Telephone: 0800 011 3797
 - Website: www.pensionsadvisoryservice.org.uk
 - Email: enquiries@pensionsadvisoryservice.org.uk
- if they have a complaint or dispute concerning a workplace or personal pension arrangement they have the right to contact The Pensions Ombudsman free of charge:
 - Address: 10 South Colonnade, Canary Wharf, E14 4PU
 - Telephone: 0800 917 4487
 - Website: www.pensions-ombudsman.org.uk
 - Email: enquiries@pensions-ombudsman.org.uk

In addition to the above The Pensions Regulator regulates company pension schemes and enforces the law as it relates to them. It has wide ranging powers which include the power to:

- suspend, disqualify and remove a trustee, or director of a trustee company, for consistently not carrying out their duties;
- wind up schemes where necessary;
- apply for injunctions to prevent the misuse and misappropriation of scheme assets and apply for restitution where necessary.

Internal disputes resolution procedure

The Scheme operates an internal dispute procedure to enable any disputes to be settled fairly and quickly. A dispute may be raised by Members, spouses, or dependants of deceased Members or prospective Members.

In the first instance complaints should be in writing and addressed to the Pensions and Benefits Partner, County Gates, Bournemouth BH1 2NF. If the complainant is dissatisfied with the reply the complainant may refer the case to the Trustee Chair.

In the event that the problem is still not rectified a Member can refer the complaint to The Pensions Advisory Service and/or the Pensions Ombudsman whose address is shown above.

The Ombudsman will normally expect TPAS to have been contacted first. TPAS will not act unless the point of difficulty has already been taken up with the Trustee.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

Contact for further information

Further information about the Scheme is available on its website at www.lvpensionsvillage.co.uk

Any queries or complaints about the Defined Benefit Section of the Scheme, including requests from individuals for information about their benefits or for a copy of Scheme documentation, should be sent to:

DB Section

LV= Employee Pension Scheme
Willis Towers Watson
PO Box 545
Redhill
RH1 1YX

Email address: lv@willistowerswatson.com
Tel: 01737 788102

DC Section

LV= Employee Pension Scheme
Aviva Client Services
PO Box 1550
Salisbury
SP1 2TW

Email address: GM-LVPensionPlanEnquiries@aviva.com
Tel: 0345 072 7201

Signed for and on behalf of the Trustee of the LV= Employee Pension Scheme by:

Director Peter Sinden

Director Huw Evans

Date 23/10/19

Date 25/10/19

LV= EMPLOYEE PENSION SCHEME

ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

LV= Employee Pension Scheme

Schedule of Contributions - Actuarial Certificate

Adequacy of contributions

In my opinion, the contributions shown in this schedule are such that the statutory funding objective on 31 March 2018 can be expected to be met by the end of the period specified in the recovery plan dated December 2018.

The contributions shown in this schedule are not lower than I would have set had I had responsibility for setting the schedule, the statement of funding principles and any recovery plan.

Consistency with statement of funding principles

In my opinion, this schedule of contributions is consistent with the statement of funding principles dated December 2018.

Please note that the adequacy of contributions statement in this certificate relates to the Scheme's statutory funding objective. For the avoidance of doubt this certificate does not mean that the contributions shown in this schedule would be enough to secure the Scheme's full liabilities with annuities if the Scheme were to wind up.

Signature	Brian Nimmo
Date	20 December 2018
Name	Brian Nimmo
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	One London Wall, London, EC2Y 5EA

This certificate is provided to meet the requirements of regulation 10(6) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S STATEMENT ABOUT CONTRIBUTIONS

YEAR ENDED 31 MARCH 2019

Statement of Trustee's responsibilities in respect of contributions (forming part of the Trustee's Report)

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of 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 Trustee is also responsible for keeping records in respect of contributions received in respect of any active Member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the Members.

Trustee's summary of contributions

This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the Employer and Member contributions payable to the Scheme under the Schedules of Contributions certified by the Actuary on 6 September 2016 and 20 December 2018 in respect of the Scheme year ended 31 March 2019. The Scheme auditor reports on contributions payable under the Schedules in their auditor's statement about contributions.

Contributions payable under the Schedules in respect of the Scheme year		2019
		£000
Employer		
	Normal	11,764
	Deficit	40,400
	For expenses	2,148
Contributions payable under the Schedules (as reported on by the Scheme auditor)		<u>54,312</u>

Reconciliation of contributions

Reconciliation of contributions payable under the Schedules to the total contributions payable to the Scheme in respect of the Scheme year:

Contributions payable under the Schedules (as above in the Trustee's summary)	54,312
Contributions payable in addition to those payable under the Schedule (and not reported on by the Scheme auditor)	
Members' AVCs	292
Total contributions reported in the financial statements	<u>54,604</u>

Signed for and on behalf of the Trustee of the LV= Employee Pension Scheme by:

Director Peter Sinden

Director Huw Evans

Date 23/10/19

Date 25/10/19

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE

YEAR ENDED 31 MARCH 2019

Statement about contributions payable under the Schedules of Contributions

We have examined the summary of contributions payable to the LV= Employee Pension Scheme, for the Scheme year ended 31 March 2019 which is set out on page 21.

In our opinion contributions for the Scheme year ended 31 March 2019 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 6 September 2016 and 20 December 2018.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the 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.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is 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 Trustee is 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.

Auditor's responsibilities for the statement about contributions

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

Use of our report

This statement is made solely to the Scheme's Trustee, 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 Trustee those matters we are required to state to it 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's Trustee as a body, for our work, for this statement, or for the opinion we have formed.

Crowe U.K. LLP
Statutory Auditor
Reading

Date 28 October 2019

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE

YEAR ENDED 31 MARCH 2019

Opinion

We have audited the financial statements of the LV= Employee Pension Scheme for the year ended 31 March 2019 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the U K and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 2019, 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 Regulations 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2019

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities set out on page 8, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, The Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

LV= EMPLOYEE PENSION SCHEME**INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE** *(continued)***YEAR ENDED 31 MARCH 2019**

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 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 Trustee those matters we are required to state to it 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's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP
Statutory Auditor
Reading

Date 28 October 2019

LV= EMPLOYEE PENSION SCHEME

FUND ACCOUNT

YEAR ENDED 31 MARCH 2019

	Note	DB Section 2019 £000	DC Section 2019 £000	Total 2019 £000	Total 2018 £000
Contributions and benefits					
Employer contributions		42,548	11,764	54,312	31,524
Employee contributions		—	292	292	213
Total contributions	3	42,548	12,056	54,604	31,737
Transfers in	4	—	764	764	490
Other income	5	1	—	1	1,904
		42,549	12,820	55,369	34,131
Benefits	6	(38,817)	(936)	(39,753)	(42,304)
Transfers out	7	(20,833)	(45,872)	(66,705)	(29,665)
Administrative expenses	8	(3,093)	—	(3,093)	(2,464)
		(62,743)	(46,808)	(109,551)	(74,433)
Net withdrawals from dealings with members		(20,194)	(33,988)	(54,182)	(40,302)
Returns on investments					
Investment income	9	39,517	—	39,517	39,245
Change in market value of investments	10	32,985	22,064	55,049	44,786
Investment management expenses	11	(1,102)	(518)	(1,620)	(2,211)
Net returns on investments		71,400	21,546	92,946	81,820
Net increase in the fund during the year		51,206	(12,442)	38,764	41,518
Transfers between sections	13	383	(383)	—	—
Net assets of the Scheme					
At 1 April		1,520,588	195,510	1,716,098	1,674,580
At 31 March		1,572,177	182,685	1,754,862	1,716,098

The notes on pages 29 to 53 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 MARCH 2019

	Note	2019 £000	2018 £000
DB Section			
Investment assets	10		
Bonds		1,739,729	1,668,153
Pooled investment vehicles	14	144,848	136,186
Derivatives	15	15,115	24,810
Insurance policies	16	3,587	3,832
AVC investments	17	88	113
Cash and cash equivalent	18	93,323	96,088
Other investment balances	19	12,420	10,948
		<u>2,009,110</u>	<u>1,940,130</u>
Investment liabilities	10		
Derivatives	15	(100,102)	(99,180)
Other investment balances	19	(339,963)	(324,956)
		<u>(440,065)</u>	<u>(424,136)</u>
Total net investments		<u>1,569,045</u>	<u>1,515,994</u>
Current assets	25	5,047	7,174
Current liabilities	26	(1,915)	(2,580)
Net assets at 31 March		<u><u>1,572,177</u></u>	<u><u>1,520,588</u></u>
DC Section			
Investment assets	10		
Pooled investment vehicles	14	181,733	194,520
Current assets	25	952	990
Net assets at 31 March		<u><u>182,685</u></u>	<u><u>195,510</u></u>
Net assets of the Scheme at 31 March		<u><u>1,754,862</u></u>	<u><u>1,716,098</u></u>

The notes on pages 29 to 53 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) *(continued)*

AS AT 31 MARCH 2019

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. 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 takes account of such obligations, is dealt with in the Report on Actuarial Liabilities in the Trustee's report on pages 11 to 12 and these financial statements should be read in conjunction with this report.

Signed for and on behalf of the Trustee of the LV= Employee Pension Scheme by:

Director Peter Sinden

Director Huw Evans

Date 23/10/19

Date 25/10/19

The notes on pages 29 to 53 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

1. Basis of preparation

The individual financial statements of the LV= Employee Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK 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 Financial Statements have been prepared on a going concern basis and 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.

2. Accounting policies

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Contributions

Member contributions including AVCs are accounted for as they are deducted from pay. Employer's normal, deficit and expenses contributions are accounted for as they fall due in accordance with the Schedule of Contributions.

Transfers to and from other schemes

Individual transfers in or out are accounted for when paid or received which is normally when Member liability is accepted/discharged.

Group transfers out are accounted for when member liabilities are discharged.

Benefits

Pensions payable in respect of the Scheme year are accounted for by reference to the year to which they relate. Other benefits are accounted for in the year in which the Member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no Member choice, on the date of retirement or leaving.

Expenses

Expenses are accounted for by reference to the year to which they relate.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

2. Accounting policies *(continued)*

Investment income

Pooled investment vehicle income, other investment income, rental income and interest on cash deposits and bonds is accounted for by reference to the year to which it relates. Investment income is shown net of any tax withheld whilst any tax recoverable is included with the appropriate income.

Investment income arising from the underlying investments of the pooled investment vehicles which is reinvested within the pooled investment vehicles and reflected in the unit price is reported within 'Change in Market Value'.

Investments

Securities

Bonds are stated at their clean prices and accrued income is accounted for within investment income. Pooled investment vehicles are valued at the bid price or single price where there are no bid/offer spreads as provided by the investment manager. The fees and costs of acquiring and disposing of investments are included in their purchase and sale price. Infrastructure and private equity funds are valued by the fund managers or their third party agents, where the underlying investments held within those funds are valued at their fair value. Where valuations from third parties are not available at the year end, the Trustee has established fair value by reference to recent arm's length transactions or other investments that are substantially the same.

Change in market value of investments includes realised gains, unrealised gains and changes in the sterling value of assets (including cash) caused by exchange rates.

Repurchase agreements

Securities sold subject to repurchase agreements are included in the financial statements as assets of the Scheme at their year end market value. Amounts payable under repurchase agreements are included under other investment liabilities.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

2. Accounting policies (*continued*)

Derivatives

Derivatives are stated at fair value.

Exchange traded derivatives are stated at fair value determined using market quoted prices. For exchange traded derivative contracts which are assets, fair value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, fair value is based on quoted offer prices.

OTC derivatives are stated at fair value using pricing models and relevant market data as at the year end date.

The longevity swap (see page 40) has been valued by the actuary based on the expected net present value of future cash flows.

All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

Investments are included at fair value, however because of the inherent uncertainty associated with the valuation of some of these investments due to the absence of a liquid market, these fair values may differ from their realisable value.

Annuity insurance policies

Annuity insurance policies with Standard Life Assurance Limited for 76 members (2018: 76 members) are valued by the actuary at the year end using the same actuarial assumptions adopted for ongoing purposes in the triennial valuation of the Scheme. The annuity income is used to pay pensions of these members.

AVCs

AVC investments are included at the values provided by the AVC providers.

Foreign currency conversion

Balances denominated in foreign currencies are translated at the rate ruling at the net assets statement date. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

LV= EMPLOYEE PENSION SCHEME**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2019****3. Contributions**

	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Employer contributions			
Normal	–	11,764	11,764
Deficit funding	40,400	–	40,400
For expenses	2,148	–	2,148
	<u>42,548</u>	<u>11,764</u>	<u>54,312</u>
Employee contributions			
Additional Voluntary Contributions	–	292	292
	<u>42,548</u>	<u>12,056</u>	<u>54,604</u>
	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Employer contributions			
Normal	–	24,492	24,492
Deficit funding	5,000	–	5,000
For expenses	2,032	–	2,032
	<u>7,032</u>	<u>24,492</u>	<u>31,524</u>
Employee contributions			
Additional Voluntary Contributions	–	213	213
	<u>7,032</u>	<u>24,705</u>	<u>31,737</u>

With effect from 1 February 2008 employee contributions are included with Employers contributions via a salary sacrifice scheme.

In the year to 31 March 2019, the Employer has paid the above contributions to the DB Section towards the deficit and costs of administration.

The deficit contributions for the year ended 31 March 2019 include a lump sum contribution of £35,400,000 received on 20 December 2018 as well as deficit contribution of £416,667 per month which are receivable from 1 April 2018 to 31 March 2028 in accordance with the Schedule of Contributions certified by the actuary on 20 December 2018.

4. Transfers in

	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Individual transfers in from other schemes	–	764	764

LV= EMPLOYEE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

4. Transfers in (continued)

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Individual transfers in from other schemes	—	490	490

5. Other income

	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Claims on insurance policies	—	—	—
Other income	1	—	1
	<u>1</u>	<u>—</u>	<u>1</u>

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Claims on insurance policies	1,904	—	1,904
Other income	—	—	—
	<u>1,904</u>	<u>—</u>	<u>1,904</u>

6. Benefits

	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Pensions	35,401	—	35,401
Commutations and retirement lump sums	3,289	619	3,908
Purchase of annuities	15	95	110
Lump sum death benefits	81	222	303
Taxation where lifetime or annual allowance exceeded	31	—	31
	<u>38,817</u>	<u>936</u>	<u>39,753</u>

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Pensions	34,895	—	34,895
Commutations and retirement lump sums	3,976	893	4,869
Purchase of annuities	19	105	124
Lump sum death benefits	2,190	175	2,365
Taxation where lifetime or annual allowance exceeded	51	—	51
	<u>41,131</u>	<u>1,173</u>	<u>42,304</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

7. Transfers out

	2019		Total £000
	DB Section £000	DC Section £000	
Individual transfers out	20,833	8,798	29,631
Group transfers out	—	37,074	37,074
	<u>20,833</u>	<u>45,872</u>	<u>66,705</u>

	2018		Total £000
	DB Section £000	DC Section £000	
Individual transfers out	22,657	7,008	29,665
Group transfers out	—	—	—
	<u>22,657</u>	<u>7,008</u>	<u>29,665</u>

The group transfer out was in respect of 1,304 LV GI employees whose DC investments were transferred out in cash from Aviva Life & Pensions Limited on 30 May 2018.

8. Administrative expenses

	2019		Total £000
	DB Section £000	DC Section £000	
Administration fees	662	—	662
Legal and other fees	888	—	888
Actuarial and consultancy fees	1,442	—	1,442
Audit fee	60	—	60
TPR administration fees	41	—	41
	<u>3,093</u>	<u>—</u>	<u>3,093</u>

	2018		Total £000
	DB Section £000	DC Section £000	
Administration fees	396	—	396
Legal and other fees	575	—	575
Actuarial and consultancy fees	1,398	—	1,398
Audit fee	54	—	54
TPR administration fees	41	—	41
	<u>2,464</u>	<u>—</u>	<u>2,464</u>

LV= EMPLOYEE PENSION SCHEME**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2019****9. Investment income**

	2019		Total
	DB Section	DC Section	
	£000	£000	£000
Net rents from properties	46	–	46
Income from bonds	40,928	–	40,928
Income from pooled investment vehicles	260	–	260
Interest paid on repurchase transactions	(2,864)	–	(2,864)
Annuity income	620	–	620
Loans	6	–	6
Interest on cash deposits	521	–	521
	<u>39,517</u>	<u>–</u>	<u>39,517</u>
	2018		Total
	DB Section	DC Section	
	£000	£000	£000
Net rents from properties	70	–	70
Income from bonds	39,629	–	39,629
Income from pooled investment vehicles	401	–	401
Interest paid on repurchase transactions	(1,622)	–	(1,622)
Annuity income	600	–	600
Loans	3	–	3
Interest on cash deposits	164	–	164
	<u>39,245</u>	<u>–</u>	<u>39,245</u>

Swap income is included in change in market value in note 10.

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10. Investments

DB Section

	Value at 1 April 2018 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Value at 31 March 2019 £000
Bonds	1,668,153	250,900	(232,059)	52,735	1,739,729
Pooled investment vehicles	136,186	115,180	(110,699)	4,181	144,848
Derivatives	(74,370)	1,673,069	(1,659,352)	(24,334)	(84,987)
Insurance policies	3,832	—	—	(245)	3,587
AVC investments	113	—	(26)	1	88
	<u>1,733,914</u>	<u>2,039,149</u>	<u>(2,002,136)</u>	<u>32,338</u>	<u>1,803,265</u>
Cash and cash equivalents	96,088			654	93,323
Other investment balances	(314,008)			(7)	(327,543)
	<u>1,515,994</u>			<u>32,985</u>	<u>1,569,045</u>

DC Section

	Value at 1 April 2018 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2019 £000
Pooled investment vehicles	<u>194,520</u>	<u>12,841</u>	<u>(47,692)</u>	<u>22,064</u>	<u>181,733</u>

The DC Section sales proceeds include £37,074,000 in respect of the group transfer out of the 1,304 LV GI employees (see Note 7).

Transaction costs

Costs are borne by the Scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

The change in 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.

11. Investment management expenses

	2019	Total
	DB Section £000	DC Section £000
Administration, management and custody fees	<u>1,102</u>	<u>518</u>
		<u>1,620</u>

LV= EMPLOYEE PENSION SCHEME**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2019****11. Investment management expenses (continued)**

		2018	
	DB Section	DC Section	Total
	£000	£000	£000
Administration, management and custody fees	1,642	569	2,211

The DB Section fees for the year ended 31 March 2019 include investment manager and custodian fees of £1,700,000 (2018: £1,771,000) less OEIC fee rebates of £598,000 (2018: £276,000).

12. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

13. Transfers between sections

		2019	
	DB Section	DC Section	Total
	£000	£000	£000
Transfers between sections	383	(383)	–

		2018	
	DB Section	DC Section	Total
	£000	£000	£000
Transfers between sections	180	(180)	–

The transfers between sections for the year ended 31 March 2019 include £383,000 (2018: £180,000) which relate to DB Section members who have investments in the DC Section which are being used to pay lump sums on retirement or transfers out from the DB Section.

14. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year-end comprised:

		2019	
	DB Section	DC Section	Total
	£000	£000	£000
Equity	–	144,438	144,438
Bond	–	2,238	2,238
Diversified growth	–	30,556	30,556
Property	4,127	1,036	5,163
Cash	7,826	3,465	11,291
Venture capital trusts	5,240	–	5,240
Infrastructure fund	34,966	–	34,966
Multi asset	92,689	–	92,689
	144,848	181,733	326,581

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

14. Pooled investment vehicles *(continued)*

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Equity	–	153,998	153,998
Bond	–	2,386	2,386
Diversified growth	–	33,979	33,979
Property	4,448	915	5,363
Cash	1,875	3,242	5,117
Venture capital trusts	6,541	–	6,541
Infrastructure fund	32,642	–	32,642
Multi asset	90,680	–	90,680
	<u>136,186</u>	<u>194,520</u>	<u>330,706</u>

The multi asset fund invests in bonds, equities, property, commodity funds, derivatives and cash.

The Aviva My LV= Diversified Growth XE Fund invests in bonds, equities, property, commodities and the shares of infrastructure companies. The Aviva My LV= Diversified Growth (Active) XE Fund invests in bonds, equities, transferable securities, derivatives, cash, deposits, collective investment schemes, warrants and money market instruments.

15. Derivatives

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Scheme as explained in the Trustee's report. At the year-end the Scheme had the following derivatives:

	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Derivative assets			
Futures	972	–	972
Options	785	–	785
Swaps	9,967	–	9,967
Forward FX contracts	3,391	–	3,391
	<u>15,115</u>	<u>–</u>	<u>15,115</u>
Derivative liabilities			
Futures	(1,061)	–	(1,061)
Options	–	–	–
Swaps	(98,850)	–	(98,850)
Forward FX contracts	(191)	–	(191)
	<u>(100,102)</u>	<u>–</u>	<u>(100,102)</u>
	<u>(84,987)</u>	<u>–</u>	<u>(84,987)</u>

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15. Derivatives (continued)

	DB Section £000	2018 DC Section £000	Total £000
Derivative assets			
Futures	225	–	225
Options	597	–	597
Swaps	17,362	–	17,362
Forward FX contracts	6,626	–	6,626
	<u>24,810</u>	<u>–</u>	<u>24,810</u>
Derivative liabilities			
Futures	(208)	–	(208)
Options	–	–	–
Swaps	(98,444)	–	(98,444)
Forward FX contracts	(528)	–	(528)
	<u>(99,180)</u>	<u>–</u>	<u>(99,180)</u>
	<u>(74,370)</u>	<u>–</u>	<u>(74,370)</u>

Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of its investment strategy for the Scheme. The main objectives for the use of derivatives are to facilitate efficient portfolio management and/or for risk management purposes. Futures, options, swaps and forward contracts are all permitted for these purposes. The investment guidelines for each manager has appropriate restrictions regarding the use of derivatives.

Futures

The Scheme had outstanding exchange traded futures at the year end as follows:

DB Section

Nature	No. of contracts	Economic exposure £000	Expires	Asset value £000	Liability value £000
ICF ICE Long Gilt Future	1	92	June 2019	213	–
CBT US 10Yr Note Future	1	99	June 2019	–	(140)
CBT US 10Yr Ultra Future	1	64	June 2019	–	(137)
CBT US Long Bond Future	1	252	June 2019	736	–
CBT US Ultra Long Term Bond Future	1	154	June 2019	–	(767)
EUX Euro Bond Future	1	7	June 2019	–	(17)
CBT US 5Yr Note Future	1	28	June 2019	23	–
Total 2019		<u>696</u>		<u>972</u>	<u>(1,061)</u>
Total 2018		<u>217</u>		<u>225</u>	<u>(208)</u>

LV= EMPLOYEE PENSION SCHEME**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2019****15. Derivatives (continued)****Options**

The Scheme had outstanding options at the year end as follows:

DB Section

Nature	No. of contracts	Notional principal £000	Expires	Asset value £000	Liability value £000
European volatility index	1	674	Jul 2019	196	—
European volatility index	1	674	Mar 2020	437	—
European volatility index	1	674	Nov 2019	152	—
Total 2019		<u>2,022</u>		<u>785</u>	<u>—</u>
Total 2018		<u>2,022</u>		<u>597</u>	<u>—</u>

Swaps

The Scheme had derivative swap contracts outstanding at the year end relating to its fixed interest investment portfolio. These contracts are traded over the counter (OTC). The details are:

DB Section

Nature	No. of contracts	Notional amounts £000	Expires	Asset value £000	Liability value £000
Interest rate swaps	49	585,333	2019-2067	4,218	(5,476)
Inflation rate swaps	134	518,402	2019-2060	2,888	(31,265)
Total return swaps	3	2,022	To Mar 2020	2,861	(2,709)
Longevity swap	1	—		—	(59,400)
Total 2019		<u>1,105,757</u>		<u>9,967</u>	<u>(98,850)</u>
Total 2018		<u>1,055,688</u>		<u>17,362</u>	<u>(98,444)</u>

The Scheme entered into a longevity insurance agreement in December 2012. The insurance contract will provide benefit payments to the Scheme in respect of all deferred pensioners age 55 and over at 31 December 2011 together with benefit payments in respect of all covered pensioners at the same date together with contingent benefits (but excluding children). The contract will terminate once claims reach a de minimis level at which point a lump sum is payable representing future remaining payments. The longevity swap has been valued by the actuary based on the expected net present value of future cash flows at -£59,400,000 (2018: -£66,300,000). The Scheme pledged £81,410,000 of collateral in cash to ReAssure at the 31 March 2019 (2018: £67,090,000) in respect of the longevity insurance agreement.

The Scheme held collateral of £27,470,000 and pledged collateral of £43,873,000 in the form of UK gilts, UK index-linked gilts and cash at the 31 March 2019 (2018: held £33,073,000 and pledged £32,062,000). This collateral is not reported within the Scheme's net assets.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

15. Derivatives (continued)

Forward foreign exchange

The Scheme had open forward foreign exchange contracts at the year end as follows:

DB Section

Contract	No. of contracts	Currency bought	Currency sold	Asset value £000	Liability value £000
		'000	'000		
Apr 2019	1	EUR 700	GBP 616	–	(13)
Apr 2019	7	GBP 4,842	EUR 5,454	140	–
Apr 2019	6	GBP 10,524	USD 13,587	105	(2)
Apr 2019	2	USD 183	GBP 140	–	–
May 2019	1	USD 4,817	GBP 3,710	–	(20)
May 2019	7	GBP 199,083	USD 255,792	3,144	(19)
May 2019	5	USD 12,469	GBP 9,663	2	(113)
May 2019	1	GBP 6,368	USD 8,345	–	(24)
Total 2019				3,391	(191)
Total 2018				<u>6,626</u>	<u>(528)</u>

16. Insurance policies

	2019		Total
	DB Section £000	DC Section £000	£000
Annuities	<u>3,587</u>	–	<u>3,587</u>
	2018		Total
	DB Section £000	DC Section £000	£000
Annuities	<u>3,832</u>	–	<u>3,832</u>

17. AVC investments

	2019		Total
	DB Section £000	DC Section £000	£000
The Equitable Life Assurance Society	68	–	68
Standard Life Assurance Limited	20	–	20
The Prudential Assurance Company Limited	–	–	–
	<u>88</u>	<u>–</u>	<u>88</u>

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NOTES TO THE FINANCIAL STATEMENTS

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17. AVC investments (continued)

	DB Section	2018 DC Section	Total
	£000	£000	£000
The Equitable Life Assurance Society	64	–	64
Standard Life Assurance Limited	46	–	46
The Prudential Assurance Company Limited	3	–	3
	<u>113</u>	<u>–</u>	<u>113</u>

The Trustee holds assets invested separately from the main fund in the form of insurance policies, which secure additional benefits on a money purchase basis for those Members electing to pay AVCs. Members participating in this arrangement each receive an annual statement confirming the amounts held on their behalf and the movements in the year. The aggregate amounts of AVC investments are shown above.

In addition there are AVCs of £2,717,596 (2018: £2,612,684) held within the core DB Section investments, and 39 DB Section Members (2018: 49 Members) have AVC investments in the DC Section investments managed by Aviva.

18. Cash and cash equivalents

	DB Section	2019 DC Section	Total
	£000	£000	£000
Cash assets			
Sterling	85,107	–	85,107
Foreign currency	8,216	–	8,216
	<u>93,323</u>	<u>–</u>	<u>93,323</u>

	DB Section	2018 DC Section	Total
	£000	£000	£000
Cash assets			
Sterling	75,604	–	75,604
Foreign currency	20,484	–	20,484
	<u>96,088</u>	<u>–</u>	<u>96,088</u>

YEAR ENDED 31 MARCH 2019

	DB Section	2019	DC Section	Total
	£000		£000	£000
Other investment balances assets				
Tax recoverable	97		–	97
Accrued income	10,415		–	10,415
Loans	–		–	–
Outstanding trade sales	1,908		–	1,908
	12,420		–	12,420
Other investment balances liabilities				
Securities under repurchase agreements	(337,117)		–	(337,117)
Outstanding trade purchases	(2,846)		–	(2,846)
	(339,963)		–	(339,963)
	(327,543)		–	(327,543)
		<i>2018</i>		
	DB Section		DC Section	Total
	£000		£000	£000
Other investment balances assets				
Tax recoverable	146		–	146
Accrued income	10,795		–	10,795
Loans	7		–	7
Outstanding trade sales	–		–	–
	10,948		–	10,948
Other investment balances liabilities				
Securities under repurchase agreements	(321,495)		–	(321,495)
Outstanding trade purchases	(3,461)		–	(3,461)
	(324,956)		–	(324,956)
	(314,008)		–	(314,008)

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NOTES TO THE FINANCIAL STATEMENTS

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19. Other investment balances *(continued)*

Securities under repurchase agreements

Since March 2015 as part of its change in investment portfolio and the introduction of an LDI portfolio the Scheme has entered into repurchase agreements using its UK government conventional and index linked gilts as the underlying security. The Scheme retains the entitlement to receive income accruing on these securities and has a contractual agreement to repurchase the securities at a specified future date.

The securities are included in the financial statements as assets of the Scheme at their market value. At 31 March 2019 the market value of securities sold under repurchase agreements was £356.6m (31 March 2018: £328.3m).

Cash received from counterparties in respect of the securities that have been sold has been used by the Scheme to increase its bond portfolio. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Fund's financial statements under investment liabilities. At 31 March 2019 this amounted to £337.1m (31 March 2018: £321.5m).

20. Defined contribution assets

Defined contribution section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf the contributions are paid.

Defined contribution investment assets are allocated as follows:

	2019 £000	2018 £000
Allocated to Members	181,029	193,809
Trustee's unallocated account	704	711
	<u>181,733</u>	<u>194,520</u>

21. Fair value determination

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

- Level 1 – the unadjusted quoted price in an active market for an identical asset or liability 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.

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21. Fair value determination *(continued)*

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

	At 31 March 2019			Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
DB Section				
Bonds	1,270,880	468,849	–	1,739,729
Pooled investment vehicles	–	105,754	39,094	144,848
Derivatives	(89)	(25,498)	(59,400)	(84,987)
Insurance policies	–	–	3,587	3,587
AVC investments	–	–	88	88
Cash and cash equivalents	93,323	–	–	93,323
Other investment balances	9,574	(337,117)	–	(327,543)
	<u>1,373,688</u>	<u>211,988</u>	<u>(16,631)</u>	<u>1,569,045</u>
DC Section				
Pooled investment vehicles	–	181,733	–	181,733
	<u>1,373,688</u>	<u>393,721</u>	<u>(16,631)</u>	<u>1,750,778</u>
	At 31 March 2018			Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
DB Section				
Bonds	1,243,663	424,490	–	1,668,153
Pooled investment vehicles	–	99,096	37,090	136,186
Derivatives	17	(8,087)	(66,300)	(74,370)
Insurance policies	–	–	3,832	3,832
AVC investments	–	–	113	113
Cash and cash equivalents	96,088	–	–	96,088
Other investment balances	7,480	(321,488)	–	(314,008)
	<u>1,347,248</u>	<u>194,011</u>	<u>(25,265)</u>	<u>1,515,994</u>
DC Section				
Pooled investment vehicles	–	194,520	–	194,520
	<u>1,347,248</u>	<u>388,531</u>	<u>(25,265)</u>	<u>1,710,514</u>

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YEAR ENDED 31 MARCH 2019

22. Investment risk disclosures

Investment risks

FRS 102 requires disclosure of information on certain investment risks to which the Scheme is exposed. These are:

Credit risk: 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 Trustee determines 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 Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include annuity and with profits insurance policies or AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

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NOTES TO THE FINANCIAL STATEMENTS

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22. Investment risk disclosures (continued)

DB Section

Investment strategy

The investment objective of the Defined Benefit Section ("DB Section") is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the DB section payable under the trust deed and rules as they fall due. This is combined with an objective of achieving returns in excess of the growth of liabilities.

The Trustee sets the investment strategy for the DB Section taking into account considerations such as the strength of the employer covenant, the long term liabilities of the DB Section and the funding agreed with the Employer. The investment strategy is set out in its Statement of Investment Principles (SIP).

Further information on the DB Section investment strategy can be found in the Trustee's Report under 'Investment Objectives and Strategy'.

The following table summarises the extent to which the various classes of investments are affected by financial risks:

Type	Market risk				2019 £'000	2018 £'000
	Indirect credit risk	Currency risk	Interest rate risk	Other price risk		
Bonds	●	●	●	○	1,739,729	1,668,153
Pooled investment vehicles						
Property	○	○	○	●	4,127	4,448
Cash funds	●	○	●	○	7,826	1,875
Venture capital trusts	●	●	○	●	5,240	6,541
Infrastructure funds	○	○	●	●	34,966	32,642
Multi asset funds	●	●	●	●	92,689	90,680
Derivatives						
Futures	●	●	●	●	(89)	17
OTC Options	●	●	○	●	785	597
OTC Swaps	●	●	●	●	(88,883)	(81,082)
OTC Forward FX contracts	●	●	○	○	3,200	6,098
Cash deposits	○	○	○	○	93,323	96,088
Other investment balances	●	○	●	○	(327,543)	(314,008)
Total					<u>1,565,370</u>	<u>1,512,049</u>

In the above table, the risk noted affects the asset class (●) significantly, (●) partially or (○) hardly/ not at all and relate to both the current and preceding year end.

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22. Investment risk disclosures *(continued)*

(i) Credit risk

The DB Section is subject to credit risk as there is direct investments in bonds, derivatives (over the counter options, swaps and forward FX contracts) and cash deposits and other investment balances as detailed in the table above.

Over the counter derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. This is mitigated by daily collateralisation, by diversifying exposure across a number of counterparties and by the manager's ongoing assessment of the creditworthiness of each counterparty. Further details are provided in Note 15.

Credit risk on other investment balances (repurchase agreements) is mitigated through the use of a range of collateral arrangements as disclosed in Note 19.

Cash is held within financial institutions which are at least investment grade credit rated.

Pooled funds are generally unrated due to the nature of the investment. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager and the regulatory environments in which the pooled managers operate. The Trustee or their advisers carry out due diligence checks prior to the appointment of new pooled investment managers and monitor any changes to the operating environment of the pooled manager. A summary of pooled investment vehicles by type of arrangement is as follows:

	2019 £000	2018 £000
Open-Ended Investment Company (OEIC)	92,689	90,680
UCITS Mutual Fund	7,826	1,875
Limited Partnerships	44,333	43,631

The Scheme is also subject to indirect credit risk in relation to underlying investments held in the OEIC (Multi Asset Fund), UCITS Mutual Fund (Cash Fund) and Limited Partnerships (which includes the Venture Capital Trust, Property Fund and the Infrastructure Fund) as shown in the table above, although the proportion subject to credit risk will depend on the investment held at the time. The investment managers will consider the risk and expected reward when determining which investments to invest in. This was the case at the current and preceding year end.

(ii) Currency risk

The Scheme is subject to direct currency risk on the Bonds, Futures and OTC options as shown in the table on page 47. The Scheme is also subject to currency risk indirectly because a proportion of the multi asset funds underlying investments are held in overseas markets although the proportion is dependent on the investments held at the time. The currency risk arising from the Scheme's USD Corporate Bonds with Columbia Threadneedle are fully hedged by the currency hedging mandate with BlackRock (the currency hedging mandate is held with a different manager to improve collateral efficiency as BlackRock holds the majority of the Scheme's other derivatives). Columbia Threadneedle are responsible for managing currency risk in the multi asset fund through the Scheme's pooled fund arrangement.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

22. Investment risk disclosures *(continued)*

(iii) Interest rate risk

The Scheme is subject to interest rate risk because some of its investments are held in bonds, OTC swaps and other investment balances which consists of repurchase agreements. These investments are used to hedge interest rate risk arising from the Scheme's liabilities. Under this strategy, if interest rates fall, the value of liability driven investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the liability driven investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

The Scheme's cash and bonds and a proportion of the multi asset funds as detailed in the table above are also subject to interest rate risk although this will vary depending on the investments held at the time. The interest rate exposure is taken by the investment manager as part of their investment strategies to add value and manage risk.

Longevity risk

The Scheme currently holds longevity swaps to manage a proportion of the Scheme's longevity risk.

(iv) Other price risk

Other price risk arises from the Scheme's property, equity and infrastructure funds, as well as a proportion of the diversified growth fund as detailed in the table on page 48, although this will vary depending on the investments held at the time. The managers manage this exposure to overall price movements by constructing a diverse portfolio of investments across various markets and this was the case at the current and preceding year end.

The Scheme obtains equity exposure via a volatility controlled approach. The strategy has a 10% volatility target and the amount of equity exposure is adjusted to achieve this target. In less volatile markets, the equity holding is increased and in more volatile markets, the equity exposure is reduced. This strategy is implemented with OTC options and a total return swap as detailed in Note 15 which provide downside protection against a sudden fall in equity markets. During the year, the Scheme reduced their exposure to this strategy by half by deciding not to roll one of the contracts and terminate two other contracts.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

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22. Investment risk disclosures *(continued)*

DC Section

Investment strategy

The Trustee's objective is to make available to members of the Defined Contribution Section ("DC Section") an appropriate range of investment options designed to generate income and capital growth in order to provide a retirement amount with which the member can buy a pension when they retire (annuity), take their pension as a cash lump sum, leave it invested and take it out over time (drawdown) or do a combination of all three. Further details are provided in the Trustee's Report under 'Investment Objectives and Strategy'.

The day to day management of the underlying investments of the funds is the responsibility of the investment managers, including the direct management of credit and market risks.

The Trustee monitors the underlying risks by quarterly investment reviews of performance.

The risks disclosed relate to the DC Section's investments as a whole. Members are able to choose their own investments from the range of funds offered by the Trustee, and therefore, may face a different profile of risks from their individual choices compared with the DC Section as a whole.

The following table summarises the extent to which various classes of investments are affected by financial risks:

Type	Market risk				2019 £'000	2018 £'000
	Credit risk	Currency risk	Interest rate risk	Other price risk		
Pooled investment vehicles						
Global Shares Fund	○	●	○	●	143,708	153,020
UK Shares Fund	○	○	○	●	730	978
Diversified Growth Fund	●	●	●	●	29,987	33,336
Diversified Growth (Active) Fund	●	●	●	●	569	643
Property Fund	○	○	○	●	1,036	915
Bond fund	●	○	●	○	2,238	2,386
Cash fund	●	○	○	○	3,465	3,242
Total					181,733	194,520

In the above table, the risk noted affects the asset class (●) significantly, (●) partially or (○) hardly/ not at all and relate to both the current and preceding year end.

LV= EMPLOYEE PENSION SCHEME

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YEAR ENDED 31 MARCH 2019

22. Investment risk disclosures *(continued)*

Direct credit risk

All DC Section investments held in Aviva's insured funds are subject to a direct credit risk in relation to Aviva. This is because Aviva provide the funds via a life insurance policy and so members hold units in an Aviva Life Fund, which itself holds units in the underlying fund. As such, there is direct credit risk with Aviva. However, members would have Financial Services Compensation Scheme protection for up to 100% of assets lost in the event Aviva became insolvent.

Aviva is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustee monitors the creditworthiness of Aviva on a regular basis. Aviva invests all the Scheme's funds in its own investment unit linked funds and it does not use other investment funds or reinsurance arrangements. In the event of default by Aviva the members may be entitled to limited compensation from the Financial Services Compensation Scheme.

Indirect credit and market risk

The DC Section is also subject to indirect credit and market risk arising from the underlying investments held in the unit linked funds as detailed in the table above. Member level risk exposures will be dependent on the funds invested by members. The Scheme manages these exposures by regularly monitoring the performance of the funds and allowing individual a diverse choice of investments across various markets.

23. Concentration of investments

The following investments amounted to more than 5% of the total net assets of the Scheme:

	2019		2018	
	£000	%	£000	%
UK Conventional Gilt 3.50 22/07/2068	171,391	9.8	169,482	9.9
Friends Life My LV= Pension Plan				
Global Shares Fund XE	143,708	8.2	153,020	8.9
UK Conventional Gilt 2.50 22/07/2065	123,468	7.0	121,838	7.1
UK Conventional Gilt 3.75 22/07/2052	109,741	6.3	107,341	6.3
Threadneedle Oppor Invest Dynamic Real Fund Acc	92,689	5.3	90,680	5.3

Items marked with n/a had holdings of less than 5%.

24. Employer related investments

There were no employer related investments held during the year or at the year end.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

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25. Current assets

	2019		Total £000
	DB Section £000	DC Section £000	
Contributions due in respect of:			
Employers	596	952	1,548
Other debtors and prepayments	401	–	401
Cash balances	4,050	–	4,050
	<u>5,047</u>	<u>952</u>	<u>5,999</u>

	2018		Total £000
	DB Section £000	DC Section £000	
Contributions due in respect of:			
Employers	586	973	1,559
Other debtors and prepayments	2,219	17	2,236
Cash balances	4,369	–	4,369
	<u>7,174</u>	<u>990</u>	<u>8,164</u>

The contributions due at the year end have been paid to the Scheme subsequent to the year end in accordance with the Schedule of Contributions.

The DC Section current assets at 31 March 2018 and 31 March 2019 were allocated to members.

26. Current liabilities

	2019		Total £000
	DB Section £000	DC Section £000	
Unpaid benefits	335	–	335
Other creditors and accruals	1,580	–	1,580
	<u>1,915</u>	<u>–</u>	<u>1,915</u>

	2018		Total £000
	DB Section £000	DC Section £000	
Unpaid benefits	912	–	912
Other creditors and accruals	1,668	–	1,668
	<u>2,580</u>	<u>–</u>	<u>2,580</u>

LV= EMPLOYEE PENSION SCHEME

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27. Related party transactions

The Scheme has paid benefits in respect of certain Directors who are Members of the Scheme.

Administrative expenses for the year ended 31 March 2019 of £164,000 (2018: £195,000) were charged by the Society, the Principal Employer.

As at 31 March 2019 the Scheme owed £8,300 (2018: £63,000) to the Society in respect of its administrative expenses.

The Society paid the PPF levy of £25,515 (2018: £24,315) and the group life assurance premium of £308,892 (2018: £837,917) for the year ended 31 March 2019.

BESTrustees Limited, the independent Director represented by H Evans was paid £43,890 for its services during the year (2018: £41,300). As at 31 March 2019 the Scheme owed £14,573 (2018: £7,896) in respect of these fees. The other Directors nominated by the employer, Members and pensioners do not receive any remuneration for performing their duties.

All of the above transactions were made in accordance with the Scheme Rules.

28. Contingent liabilities and contractual commitments

Approved future capital expenditure and commitments for which no provision has been made in the accounts are as follows:

	2019 £000	2018 £000
Venture capital trusts commitments	1,734	1,847
Equitix infrastructure fund commitment	336	1,326
	<u>2,070</u>	<u>3,173</u>

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that benefits should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits which were earned by men and women between May 1990 and April 1997. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. The Trustee has obtained an initial assessment of the likely backdated amounts based on the 31 March 2018 actuarial data which amounted to around £600,000. The Trustee does not consider this to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements.

In the opinion of the Trustee the Scheme had no other contingent liabilities or contractual commitments as at 31 March 2019 (31 March 2018 - Nil).

Appendix A

DC Governance statement, covering the period from 1 April 2018 to 31 March 2019

1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements like the LV= Employee Pension Scheme DC Section (the "Scheme"), to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement (which is physically signed by the Chair of the Trustee Board) to describe how the governance requirements have been met in relation to:

- the investment options in which members can invest (this means the "default arrangement" and other funds members can select)
- the requirements for processing financial transactions
- the charges and transaction costs borne by members
- an illustration of the cumulative effect of these costs and charges
- a 'value for members' assessment; and
- Trustee knowledge and understanding

This Statement covers the period from 1 April 2018 to 31 March 2019 (the "Scheme year").

The Trustee welcomes this opportunity to explain what the Trustee does to ensure that the Scheme operates as effectively as possible. If you have any questions or comments about anything in the Statement, please contact mypension@lv.com.

2. Default investment arrangement

The Scheme is used as the qualifying Scheme for auto-enrolment.

For the period covered by this Statement, the default investment arrangement ("the default arrangement") is the Annuity Focused Lifetime Strategy. The default investment arrangement is designed for members who join the Scheme and do not choose an investment option. The Trustee is responsible for investment governance, and this includes setting and monitoring the investment strategy for the default arrangement.

When deciding on the investment strategy, the Trustee recognises that the majority of members do not take active investment decisions and instead invest in the default arrangement. After taking advice, the Trustee decided to make the default arrangement a lifetime strategy, whereby members' assets are automatically moved between different investment funds as they approach their retirement date.

The default arrangement was selected as the default strategy as it was considered by the Trustee to have the objectives, expected return, risks and other characteristics most likely to suit the Trustee's view of the needs and circumstances of the majority of the membership. The default arrangement is a passive strategy that initially invests in equities and progressively switches into a multi-asset fund and then into bonds and cash as retirement approaches.

The Trustees began a review of the default arrangement on 20 March 2018, which continued throughout much of 2018, with the assistance of Lane Clark and Peacock, the Scheme investment advisors. This review was undertaken over several months and was undertaken to ensure that investment returns (after deductions of any charges) have been consistent with the aims and objectives of the default arrangement and to check that the default arrangement continues to be suitable and appropriate given the Scheme's risk profiles and membership.

As a result of the review, the Trustee has worked with its investment advisers to design an investment strategy taking into account the changing member demographics, and retirement choices and to account for UK wide changes in the way members are taking their pension benefits at retirement (a reduction in members purchasing an annuity at retirement). The agreed changes were implemented on 9 July 2019 whereby, the Trustee has agreed to introduce a new default strategy, a 'Universal' Lifetime Strategy, which is agnostic of retirement choices and therefore more appropriate for members who are less certain on their retirement outcome, as the new default arrangement of the Scheme. The Trustee also made changes to the three alternative lifetime strategies to incorporate the developments in DC fund offerings and to expand the self-select range by offering three new self-select funds. Next year's Statement will reflect and report on this change in default strategy.

Details of the objectives and the Trustee's policies regarding the default arrangement are set out in Appendix B of this report called the Statement of Investment Principles ("SIP"). The SIP was updated ahead of the release of this Statement to reflect the changes that were implemented post the Scheme year-end. It was prepared in accordance with statutory requirements and sets out the aims and objectives of the new Universal Lifetime Strategy. The objective of this new default arrangement, as stated in the SIP, is as follows:

- generate long term investment growth in excess of inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement

The Trustee regularly monitors the performance of the default arrangement and will continue to formally review the strategy at least every three years or without delay following any significant change in investment policy or the demographic profile of the relevant members.

3. Requirements for processing core financial transactions

The Trustee is required by law to ensure that core financial transactions are processed promptly and accurately. Processing of core financial transactions (e.g. investment of contributions, transfers of assets into/out of the Scheme, transfers of assets between different investments within the Scheme and payments to members/beneficiaries) is carried out by the administrators of the Scheme, Aviva.

The Scheme has a service level agreement ("SLA") in place with Aviva which covers the accuracy and timeliness of all core transactions. The SLA sets out the Trustee's expectations for the promptness and accuracy of processing core financial transactions and commits Aviva to regularly report on their performance against the SLA, including quality of service and speed of service measures. Any mistakes or delays are investigated and corrected as quickly as possible. The Trustee continues to work with its Pensions Team DC advisers and Aviva to ensure that the SLA is upheld as is the overall quality of servicing.

The Trustee is satisfied that these standards of promptness and accuracy have been met over the period covered by this Chair's Statement, including where functions have been delegated to Aviva. The information which allowed the Trustee to come to this conclusion is noted below.

The key processes undertaken by the administrator are as follows:

- Contributions and Payments
- Transfer In
- Fund Switch
- Customer Arrangements
- New Entrant/Joiner
- Transfer Out Process
- Leaver Process
- Retirement Quotes
- Retirement Payments
- Death Claim Process
- General Administration

The Trustee has agreed a target of 95% with Aviva for all items to be completed within the agreed service level in any given period. Aviva's SLA timeframe is 5 working days, except for death claims which is 3 working days. The nature of service monitoring has changed throughout the Scheme year, with more emphasis being placed on end to end service monitoring, including quality and speed of service measures. The SLA percentage measure is now part of a more holistic service monitoring approach, giving the Trustee an even stronger understanding of the service being provided to members.

In order to adhere to these SLAs, Aviva employs the following measures:

- a customer management tool to support the allocation and control/measurement of work demands
- monitoring of the speed of service members receive
- quality of service is monitored by establishing a split between value and non-value demands which members make
 - a value demand is something that the Trustee would expect members to want to contact Aviva about
 - a non-value demand reflects a situation where a member should not have to make contact with Aviva, e.g. a member not receiving what they expected; a member not understanding what they have received; or, a member making contact to understand the position with their previously submitted request, due to a lack of an update being provided. Aviva aims to identify non-value demands, allowing it and the Trustee to understand where Aviva can improve the service it is delivering and how to do it, in order to enhance the member journey and overall service experience

Aviva has confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. This has been demonstrated in the Aviva AAF 01/06 report and a sample is tested by the Scheme's auditors each year, with no discrepancies found this year.

The Trustee has monitored Aviva's performance by:

- reviewing Aviva's quarterly governance reports; and
- instructing the Pensions Team to monitor performance and to report any concerns back to the Trustee. This has been achieved by running monthly calls with Aviva and making changes as required

Aviva has reported service levels of 94.9% for the year to 31 March 2019. This is marginally below the agreed target of 95% but still represents a significant improvement from the previous year. The Trustee is satisfied that these standards of promptness and accuracy have improved in comparison to previous years.

Using the information provided by the administrators, the Trustee is satisfied that over the period covered by this Chair's Statement:

- Any problems in dealing with member requests were dealt with appropriately and according to the correct protocols
- There have been no material administration errors in relation to processing core financial transactions

4. Member borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members in this Statement. For the purpose of this section "charges" are defined as the on-going charges figures, which are the annual fund management charges plus additional fund expenses (e.g. for custody but excluding transaction costs); this is also known as the Total Expense Ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges also include administration costs since members incur these costs.

The Trustee is also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by Aviva who are the Scheme's platform provider. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated, it is possible for figures to be negative; however since transaction costs are unlikely to be negative over the long term the Trustee has shown any such negative figure as zero.

4.1. Default arrangement

For the period covered by this Statement, the default arrangement is the Annuity Focussed Lifetime Strategy. The default arrangement has been set up as a lifestyle approach, whereby members' assets are automatically moved between different investment funds as they approach their target retirement date. Therefore, the level of charges and transaction costs vary depending on how close members are to their target retirement age and in which fund(s) they are invested.

For the period covered by this Statement, annualised charges and transaction costs are set out in the table below.

The Default arrangement— charges and transaction costs

Years to target retirement date	TER (%)	Transaction costs (%)
20 or more years to retirement	0.26	0.00
15 years to retirement	0.26	0.00
10 years to retirement	0.47	0.00
5 years to retirement	0.43	0.00
At retirement	0.32	0.00

Source: Aviva.

4.2. Self-select options

In addition to the default arrangement, members also have the option to invest in the drawdown and cash lifetimes as well as a number of self-select funds. The annual charges for these lifestyles during the 12-month period covered by this Statement are set out in the tables below.

Drawdown targeting lifetime – charges and transaction costs

Years to target retirement date	TER (%)	Transaction costs (%)
20 or more years to retirement	0.26	0.00
15 years to retirement	0.26	0.00
10 years to retirement	0.31	0.00
5 years to retirement	0.36	0.00
At retirement	0.37	0.00

Source: Aviva.

Cash lifetime – charges and transaction costs

Years to target retirement date	TER (%)	Transaction costs (%)
20 or more years to retirement	0.26	0.00
15 years to retirement	0.26	0.00
10 years to retirement	0.47	0.00
5 years to retirement	0.41	0.00
At retirement	0.32	0.10

Source: Aviva.

The level of charges for each self-select fund (including those used in the default arrangement) over the period covered by this Statement are set out in the following table. The underlying funds used within the default arrangement are shown in bold.

Self-select fund charges

Years to target retirement date	TER (%)	Transaction costs (%)
My LV= Pension Plan UK Shares	0.28	0.05
My LV= Global Shares Fund	0.26	0.00
My LV= Diversified Growth (Active)	0.75	0.37 ¹
My LV= Pre-Retirement (Annuity focused)	0.30	0.00
My LV= Diversified Growth	0.47	0.00
My LV= Pension Plan Property	0.86	- ²
My LV= Pension Plan Cash	0.26	0.16

Source: Aviva.

¹The calculation of the transaction cost for this fund is combination of 98% slippage cost methodology and 2% using fund spreads.

² The transaction cost information for this fund was unavailable at the time of reporting. The manager is working with the Association of Real Estate Funds to provide additional guidance on costs specific to property funds.

4.3. Illustration of charges and disclosure costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

- The “before costs” figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The “after costs” figures represent the savings projection using the same assumed investment return but after deducting member borne fees (i.e. the TER) and an allowance for transaction costs
- The transaction cost figures used in the illustration are those provided by the Aviva, subject to a floor of zero (i.e. the illustration does not assume a negative cost over the long term)
- The illustration is shown for the default arrangement since this is the arrangement with the most members invested in it as well as four funds from the Scheme's self-select fund range. The four self-select funds shown in the illustration are:
 - the fund with the highest before costs expected return – this is the My LV= Pension Plan UK Shares Fund
 - the fund with the lowest before costs expected return – this is the My LV= Pension Plan Cash Fund
 - the fund with highest annual member borne costs – this is the LV= Pension Plan Property Fund
 - the fund with lowest annual member borne costs – this is the My LV= Pension Plan Global Shares Fund

Projected pension pot in today's money

Years invested	Annuity Focused Lifetime Strategy		My LV= Pension Plan UK Shares		My LV= Pension Plan Cash Fund		My LV= Pension Plan Global Shares Fund		My LV= Pension Plan Property	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£13,200	£13,200	£13,200	£13,200	£12,700	£12,600	£13,200	£13,200	£13,100	£13,000
3	£18,400	£18,300	£18,400	£18,200	£16,300	£16,200	£18,400	£18,300	£17,700	£17,400
5	£23,800	£23,600	£23,800	£23,600	£19,800	£19,500	£23,800	£23,600	£22,500	£21,800
10	£39,200	£38,500	£39,200	£38,300	£27,900	£27,400	£39,200	£38,500	£35,400	£33,400
15	£57,100	£55,700	£57,100	£55,300	£35,400	£34,600	£57,100	£55,700	£49,300	£45,400
20	£78,200	£75,600	£78,200	£75,000	£42,300	£41,000	£78,200	£75,600	£64,600	£58,000
25	£102,900	£98,700	£102,900	£97,600	£48,600	£46,800	£102,900	£98,700	£81,200	£71,200
30	£125,600	£118,700	£132,000	£123,900	£54,400	£52,000	£132,000	£125,500	£99,300	£84,900
35	£144,700	£134,400	£166,000	£154,100	£59,600	£56,800	£166,000	£156,500	£119,100	£99,300
40	£154,200	£141,400	£206,000	£189,100	£64,500	£61,100	£206,000	£192,400	£140,600	£114,300

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values
- The starting pot size used is £10,800 as this is the median pot size of active members aged below the active median age of 38
- The starting salary is assumed to be £22,900 as this is the median salary of active members aged below the active median age of 38
- Total contributions (employee plus employer) are assumed to be 9% of salary per year
- Transaction costs have been included, but a floor of 0% has been used where negative transaction costs have been provided
- The projected annual returns used are as follows:
 - Default option: 3.25% above inflation for the initial years, gradually reducing to a return of 0.81% below inflation at the ending point of the lifetime
 - My LV= Pension Plan UK Shares Fund: 3.25% above inflation
 - My LV= Pension Plan Cash Fund: 1.75% below inflation
 - My LV= Pension Plan Global Shares Fund: 3.25% above inflation
 - My LV= Pension Plan Property Fund: 1.75% above inflation
- No allowance for active management has been made

5. Value for members assessment

In accordance with the regulations, the Trustee is required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members, compared to other options available in the market. There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. The general policy of the Trustee in relation to value for member considerations is set out below.

The Trustee has worked with its advisers, Lane Clark & Peacock LLP, to carry out a detailed assessment of the extent to which all key elements of the DC Section of the Scheme represent value for money over the Scheme Year ending 31 March 2019.

The Trustee notes that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been taken into account in the value for members' assessment. The Trustee assessment included a rating of the DC Section of the Scheme for eight criteria.

The summary below sets out the Trustee's rating for each of the criteria and the high-level rationale behind it. The Trustee has chosen a rating ranging from poor, fair, good to very good, the same ratings as during the last Scheme year to ensure continuity. Where relevant, the rating also incorporates a comparison of how the Scheme is benchmarked against other UK Pension Schemes.

- **Charges** – Very good – Members meet the costs of administering the Scheme and Company meet the costs of running the Scheme. The costs borne by members are very competitive

- **Administration** – Good – the Trustee is confident that the administration service provided by Aviva is of a good standard
- **Governance** – Very good – the Trustee is very committed to the Scheme and how it is run. Focus is given to ensuring Trustee knowledge and understanding is appropriate, risks are suitably mitigated, and expert advisers are regularly reviewed
- **Communications** – Very good – communications are clear, tailored and informative
- **Default investment arrangement** – Good – during the Scheme year the default investment strategy targeted annuity at retirement. Upon reviewing this target, the Trustee made the decision to change this strategy to a “universal” target which was implemented in July 2019. The Trustee opted to retain lifetimes targeting cash, drawdown and annuities as self-select investment options
- **Self-select investment range** – Good – the self-select fund range is concise, covers most major asset classes, but without some specialist asset classes. The self-select investment offering was reviewed as part of the wider investment strategy review and three new self-select funds will be made available to members from July 2019; Ethical, Sharia and Emerging Market Equity
- **At-retirement services** – Good – members are able to take their money as cash from the Scheme. The option to take an annuity is available to members via the open market or to drawdown their pension via transferring to a different arrangement that facilitates this. The Trustee has agreed to review the post retirement investment offering should members submit a request
- **Scheme design** – Very good – the Company’s and Trustee’s commitment to the Scheme is strong and demonstrated in the design and contributions

Overall, the Trustee believes that members of the Scheme are receiving very good value for money for the following reasons:

- The costs and charges deducted from members provide good value in relation to the benefits and services they receive, when compared to other options available in the market
- The charges for the default investment fund are below the charge cap (0.75%)
- The Scheme offers a wide range of services to ensure members receive a quality service
- The Trustees carry out regular strategic reviews (for example benchmarking the fees members pay and the fund range available against other UK Pension Schemes) to monitor whether the Scheme provides good value for members on an on-going basis
- The Trustees include assessing value for members on the Scheme’s risk register
- A good fund range is offered to members, with funds across the risk/return spectrum to cater for a range of member needs

6. Trustee knowledge and understanding

The Trustee Directors are required to maintain appropriate levels of knowledge and understanding which, together with the professional advice available to them, enables them to properly exercise their functions and duties. The Trustee Board has measures in place to secure compliance with the legal and regulatory

requirements regarding its knowledge and understanding including investment matters, pension regulation and trust law. Some of the measures the Trustee has in place are detailed below.

Each Trustee Director has a copy of, or access to, the Scheme's governing documentation, any relevant Scheme policies and the Scheme's SIP. The Trustee Board is required to be familiar with these documents in order to ensure that they have a sufficient working knowledge of their application to the Scheme.

All new Trustee Directors must complete an induction plan within the first six months of appointment. The Induction covers the following areas:

- Overview of the Scheme
- Introduction to Trustee role
- Overview of a DC Scheme
- Pension scheme funding training
- Pension scheme investment training; and
- Trustee toolkit

There is a Training and Development Framework in place which was last updated in March 2019. This document sets out the structure of identifying any gaps in the Trustee Directors' knowledge via self-assessment questionnaires which are reviewed at least every two years, or more regularly if there is a significant change in Trustee expectations from the Pensions Regulator. The results from these are discussed 1:1 with the Chair at a development discussion to agree individual training and development activities for the year ahead.

Trustee training logs are updated on a quarterly basis and were last updated in July 2019. Progress against the agreed plan will be discussed at the following year's 1:1 review session.

The Trustee's approach to meeting the TKU requirements includes:

- Maintaining a rolling programme of bespoke Trustee training which is delivered during two designated training days and within Trustee meetings where appropriate; For example, training has been received on multi factor equities, absolute return bonds, the Chair's Statement, ESG investing, Cyber security and GDPR. For example, for the period of this statement, training has been received on multi-factor equities, absolute return bonds, the Chair' Statement, ESG investing, Cyber security and GDPR
- recording all training and attendance at appropriate seminars in the Trustee training log in order to support the Chair's statement
- circulating to each Trustee "hot topics" and general updates from its advisers about DC and legal matters
- reviewing the training programme annually following an assessment of Trustee knowledge, understanding and skills
- carrying out an effectiveness self-assessment from time to time; and
- update on DC Developments (Cold-calling regulations, Auto-enrolment, Brexit, Environmental, Social and Governance, Trustee Role and DC Scheme Overview)

The knowledge and experience the Trustee Board possesses includes:

- The Trustee Board is conversant with the Scheme's Trust Deed and Rules, SIP and other key administrative documents, and has appropriate knowledge of pensions and trust law and matters relating to scheme funding and investment

- The Chair of the Trustee Board is a professional trustee who has many years' experience of acting as a pension scheme trustee for a number of different schemes
- The Trustee Board's specialist legal, actuarial and investment advisers attend trustee meetings as appropriate to advise on specific matters on the agenda
- The combined experience of the Trustee Board includes expertise on a broad range of business disciplines and commercial expertise

Taking into account the knowledge and experience of the Trustee Board as described above, together with the specialist advice received from the appointed professional advisers (e.g. investment consultants, legal advisers) and the various measures in place to assist the Trustee's knowledge and understanding, the Trustee believes it is well-placed to properly exercise its functions as Trustee of the Scheme.

Huw Evans 25 October 2019

Signed by the Chair of the Trustee Board of the LV= Pension Scheme Trustee

This statement refers to the LV= Employee Pension Scheme and does not reflect the approach taken by Liverpool Victoria Friendly Society Limited

Statement of Investment Principles

This is the Statement of Investment Principles made by The LV= Pension Trust Ltd, the Trustee of the LV= Employee Pension Scheme (the "Scheme"), in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015. It is subject to periodic review by the Trustee at least every three years and without delay after any significant change in investment policy or in the demographic profile of the relevant members in respect of the DC Section. The Trustee has consulted with the Principal Employer (Liverpool Victoria Friendly Society Limited) regarding the investment policy set out in this document, but with the stipulation that the Principal Employer may not limit the Trustee's powers of investment.

In establishing the Scheme's investment arrangements, the Trustee has had regard to the requirements of the Pensions Act, in particular those concerning diversification and suitability of investments and the frequency by which these matters are reviewed. This includes AVC and Defined Contribution arrangements, which are assets of the Scheme. The Trustee has had regard to the Principles set out in the Myners Review of Institutional Investment (the "Myners Review"). In preparing this Statement, the Trustee has complied with the requirements of the Pensions Act 1995 regarding the content of Statements of Investment Principles. The Trustee incorporated where applicable the recommendations in the Myners Review regarding the content of Statements of Investment Principles and has received written advice from the investment consultant.

The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme provides both a Defined Benefit and a Defined Contribution pension arrangement. These two arrangements are considered separately in this Statement.

A. Defined Benefit Section – "DB Section"

DB Section Objectives

The Trustee's primary responsibility is to manage this section of the Scheme so that members receive their benefits as and when they fall due. The benefits payable are defined by the Scheme's Trust Deed and Rules.

The Trustee recognises the need to take some risk in order to generate a sufficient investment return over the long term to make the DB Section affordable, as measured by the contributions payable. In assessing this, the Trustee takes into account factors such as the employer's attitude to funding the DB Section and the employer's financial strength relative to the DB Section, thus its understanding of the contributions likely to be received from the employer and the DB Section members. The Trustee also considers its own willingness to accept underperformance due to market conditions.

Investment Strategy

In determining and reviewing the DB Section's investment strategy the Trustee adopts a Pensions Risk Management Framework (PRMF). This framework translates the principal goal of paying member benefits

into measurable funding objectives and risk constraints, agreed by the Trustee. The PRMF is reviewed and monitored by the Trustee on at least a quarterly basis.

The Trustee's primary funding objective is to reach full funding on the Technical Provisions basis, with a long term target of achieving full funding on a Gilts +0.25% liability valuation basis by 2028.

In setting the investment strategy, the Trustee aims to:

- Target an expected return on assets close to that required to meet the funding objectives within the PRMF.
- Manage the investment risk including that arising due to mismatch between assets and liabilities by hedging to the DB Section's funding level on a Gilts +0.25% liability valuation basis, as well as limit the total risk on the DB Section below the risk budget set in the PRMF.
- Maintain suitable liquidity of assets such that the DB Section is not forced to buy and sell investments at particular times to pay member benefits or meet potential collateral calls.

Strategic Asset Allocation

The overall benchmark allocation of the DB Section's investable assets between the major asset classes is detailed in the table below:

Asset Class	Target Benchmark (%)	Target Range (%)
LDI	60%	55%-65%
Liquid Market Assets	25%	20%-30%
<i>Volatility Controlled Equities¹</i>	<i>12%</i>	<i>7%-17%</i>
Diversified Growth Funds	5%	0%-10%
Liquid Credit Assets	30%	25%-35%
Corporate Bonds	30%	25%-35%
Illiquid Market Assets	5%	0%-10%
Private Equity	2%	0%-5%
Property	0%	0%-5%
Infrastructure Equity	3%	0%-5%
Total¹	120%	110%-130%

¹Please note that the Volatility Controlled Equities is achieved synthetically using leverage, therefore the total allocation is above 100%.

To achieve the DB Section's objectives the Trustee has agreed the following:

Balance between different kinds of investments

The DB Section will hold a mix of investments within major markets to ensure that the overall portfolio is well diversified. This includes avoiding excessive reliance on any particular asset, issuer or group of undertakings and avoiding accumulations of risk in the portfolio as a whole.

Kinds of investment to be held

The DB Section may invest in quoted and unquoted securities of UK and overseas markets including (but not limited to) equities and fixed interest and index-linked bonds, property, insurance contracts, cash and pooled funds. The DB Section may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management or to hedge specific risks. The DB Section may not invest in securities directly issued by the Principal Employer, which would imply "self-investment". The DB Section's assets must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

Choosing Investments

All day-to-day investment duties have been delegated to the DB Section's Investment managers.

Risks

The Trustee recognises a number of risks involved in the investment of the DB Section's assets and keeps them under regular review:

- *Sponsor risk* is measured by the level of ability and willingness of the sponsor to support the continuation of the DB Section and to make good any current or future deficit. It is managed by assessing the interaction between the DB Section and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor.
- *Solvency risk and mismatching risk* are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment strategies. They are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment strategies.
- *Credit risk* is the risk that one party to a financial instrument will cause a loss to the DB Section by failing to repay an obligation, amongst other things. This risk is managed at the discretion of the relevant investment manager acting within defined limits set by the Trustee regarding credit quality and size of exposure.
- *Market risk/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.

This risk is managed at a strategic and manager level through diversification. Outright loss protection is also used where appropriate.

- *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. This risk is mitigated through currency hedging, where appropriate.
- *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. Exposure to interest rate risk is gained intentionally to hedge and offset liability interest rate risk. This is managed by the investment manager within defined limits set by the Trustee.
- *Liquidity risk* is measured by the level of cashflow required by the DB Section over a specified period. It is managed by the DB Section's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- *Manager risk* is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy. It is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.
- *Counterparty risk* is measured through the level of concentration with any one counterparty, leading to the risk of an influence on investment values, arising from a default on obligations. It is managed through the investment manager guidelines, counterparty diversification and collateralisation, where appropriate.
- *Political risk* is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention. It is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Custody

The Trustee may arrange for the appointment of a custodian in relation to all or any part of the portfolio.

Monitoring

The appointment of the investment managers will be reviewed by the Trustee from time to time. The review will be based on a consideration of both the investment performance and the investment management processes.

To assist in assessing performance the Trustee has delegated the detailed monitoring of the DB Section's investment managers to its Investment Consultant. The Investment Consultant will provide relevant reporting to the Trustee on a quarterly basis.

Rights attaching to investments

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Trustee expects the investment managers to seek to protect and/or enhance the value of the DB Section's investments when it is exercising the voting rights or in deciding whether to exercise the voting rights.

Additional Assets

Member's additional voluntary contributions (AVCs) are invested with the main DB Section's assets, and the value changes in line with the quarterly return on the DB Section's assets. The return to be applied to the AVCs is reviewed and provided to the administrators on a quarterly basis.

B. Defined Contribution Section – "DC Section"

Investment Objectives

The Trustee's objective is to make available to members of the DC Section of the Scheme an appropriate range of investment options which will enable members to accumulate a fund to provide suitable benefits at retirement.

Investment Policy

The Trustee's policy to achieve this objective is to provide a range of funds which offer a suitable mixture of real and other assets. It recognises that the returns on return-seeking assets, while expected to be greater over the long-term than those on other assets, are likely to be more volatile. The range of funds utilised to meet the DC Section's objectives are set out in Appendix A.

Risks

The Trustee has considered the investment risk in the DC Section, including:

- *Risk of inadequate returns* - in the DC Section, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the default option a "lifetime" strategy.

Risk from lack of diversification - This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect members' assets. The Trustee believes that the Scheme's DC default strategy is adequately diversified between different asset classes and within each asset class and the DC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

- *Credit risk* - This 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. The Scheme's DC Section is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers.
- *Currency risk* - Whilst the majority of the currency exposure of the Scheme's DC Section assets is to Sterling, the DC Section is subject to currency risk because some of the DC Section investments are held in overseas markets. For the DC Section's lifetime strategies, the Trustee believes that the

currency exposure is managed in an appropriate manner given the objective of each of those strategies. Within the DC Section's self-select fund range some funds will be subject to currency risk where the underlying investments are held in overseas markets which the Trustee considers reasonable.

- *Manager risk* – the risk that the chosen investment manager underperforms its benchmark. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual. The Trustee monitors the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.
- *Illiquidity risk* - this is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by only using pooled funds with daily dealing within the default strategy and diversifying the strategy across different types of investment.
- *Risk from excessive charges* - If the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the charges applicable to the DC Section are in line with market practice and assess regularly whether these represent good value for members.

The funds and lifetime options offered through the DC Section have been chosen to help members mitigate these risks through appropriate fund selection and, in addition, to allow members to achieve an adequate level of diversification. These considerations feature in the selection criteria for new managers and monitoring process for ongoing managers.

Suitability

The Trustee has taken advice from its investment consultant to ensure the funds offered accommodate a broad range of asset classes covering the needs of members' in terms of their attitude to investment risk.

Liquidity

The funds are offered through a life insurance policy and as such are readily realisable to provide pension benefits on retirement, or earlier on death or transfer to another pension arrangement.

Investment arrangements

Access to these funds is provided by the DC Section's platform provider, Aviva. Responsibility for the day-to-day management is effectively delegated to individual investment managers. The current managers are shown in Appendix A.

Charges, transaction costs and value for money

The Trustee is committed to ensuring that DC Section members get value for money (i.e. that the costs and charges deducted from DC Section members' pension accounts or contributions provide good value in relation to the benefits and services provided) and keeps value for money in mind on an on-going basis, including it as an item on the Scheme's risk register. The Trustee undertakes an annual value for money

assessment with support from its advisers. The Trustee is mindful of providing value for money to members.

The charges for all four lifetime strategies are below the charge cap (0.75%).

Default investment strategy

The Trustee offers the lifetime strategy “Universal” as the default strategy as it is believed to be reasonable for those members who do not wish, or have not elected to select a preferred investment choice for their pension investments themselves. It is designed to be appropriate for members who take an annuity, cash or drawdown at retirement. It is considered by the Trustee to have the objectives, expected returns, risks and other characteristics most likely to be suitable to meet the Trustee’s view of the needs and circumstances of the majority of the membership.

The objective of the default strategy is to generate long term investment growth in excess of inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement. With that in mind, the Universal Lifetime Strategy is a passive strategy that initially invests in equities in the accumulation phase and then starts to move into a multi-asset fund 15 years before the member’s selected retirement age. Further switching, which is designed to strike an appropriate balance between risk and return for members approaching retirement, then results in an asset allocation of 50% diversified growths, 25% absolute return bonds and 25% cash by selected retirement age. While the Trustee recognises the need for a default investment strategy, it believes that members should be encouraged to regularly review their personal circumstances and to make positive selections rather than to rely on the default strategy. This will help the member better understand their individual position and ensure corrective action is taken if required.

The Trustee will monitor the relevant members’ behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

Details of the Universal Lifetime Strategy are set out in Appendix A.

Other investment options

The Trustee also wishes to give those members (who feel comfortable doing so) a reasonable degree of freedom to make their own investment choices. As a result, an appropriate range of individual funds is made available for those members who elect to choose their own customised fund mix in preference to one of the four prescribed lifetime strategies. These funds are managed with either a passive or active investment management style. The use of ‘white labelled’ funds which are not specifically branded by reference to the manager makes it easier for the Trustee to change the underlying managers when appropriate without first having to communicate the change to the members. Appendix A provides further details of the white labelled funds.

In addition to the Universal Lifetime Strategy, three other lifetime strategy options are available to members:

- *The “Annuity Focused” lifetime strategy* – a passive strategy that initially invests in equities in the accumulation phase and then starts to move into a multi-asset fund 15 years before the member’s selected retirement age. Further switching into a pre-retirement fund, which invests in corporate

bonds and gilts and aims to achieve a return similar to that of a traditional annuity product, and cash, with members' pension accounts being invested 75% in a pre-retirement fund and 25% in cash by selected retirement age.

- *The "Cash Focused" lifetime strategy* – a passive strategy that initially invests in equities in the accumulation phase and then starts to move into a multi-asset fund 15 years before the member's selected retirement age. Further switching into bonds and cash follows, with members' pension accounts being invested 30% in an absolute return bond fund and 70% in cash by selected retirement age.
- *The "Drawdown Focused" lifetime strategy* – a passive strategy that initially invests in equities in the accumulation phase and then starts to move into a multi-asset fund 15 years before the member's selected retirement age. Further switching into cash occurs as retirement approaches, with members pension accounts being invested 75% in a multi-asset fund consisting of equities, bonds and diversified growth funds, and 25% in cash by selected retirement age.

Monitoring

The Trustee is not involved in the investment manager's day-to-day operation and therefore cannot directly influence the performance target. However, it will assess the performance and review the continued use of each fund and will obtain and consider advice on retained investments where appropriate. The Trustee's investment adviser provides regular advice on the suitability of the fund range and default strategy as well as monitoring how material changes to the legislation or the membership may impact this. A set of objectives have been provided by the underlying fund manager and are consistent with their benchmark and investment approach (these are, of course, simply objectives and the rate of return can obviously not be guaranteed).

The benchmark for each fund is set by the underlying fund manager, however it should be noted that as Aviva provides 'wrapped' versions of the underlying funds in which it invests the wrapped version will not exactly match the performance of the underlying fund.

The Trustee accepts that the discrepancy between the performance achieved by a wrapped fund and that of the underlying fund in which it invests is unavoidable. However, Aviva should take steps to reduce this to an absolute minimum and the Trustee will monitor accordingly.

C. Responsible Investment

These considerations apply to both the DB and DC Sections of the Scheme.

Environmental, Social and Governance Factors

The Trustee incorporates all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible.

The Trustee believes that environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme but will have varying levels of importance for different types of assets invested by the Scheme.

The Trustee does not normally factor non-financial decisions (such as ethical or moral beliefs) into their investment decision making nor do they appoint investment managers that consider these factors.

Stewardship

The Trustee expects the investment managers to exercise ownership rights and/or undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

When appointing a new investment manager the Trustee's investment advisers assess the ability of each investment manager in engaging with underlying companies in order to promote the long-term success of the investments. When selecting, monitoring and de-selecting investment managers, engagement is factored into the decision making process to the appropriate level for the specific asset class in question.

Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Scheme's equity investments which are exercised by the investment managers of the Scheme.

Signed For and on Behalf of the Trustee of the LV= Employee Pension Scheme.

Huw Evans

Mark Laidlaw

Trustee

Trustee

Date agreed by Trustee 26/09/19

Appendix A - Defined Contribution Section

The Trustee makes available a range of passively and actively managed self-select funds and lifetime strategies. The default option is a lifetime strategy. Details of the options are set out below. Members are provided with clear information on the investment options and their characteristics that will allow them to make an informed choice.

The fund options are provided to members via an investment only platform arrangement with Aviva. The funds are all white-labelled, open ended and are priced daily. The funds marked with a (*) are building blocks of the lifetime strategies and are not offered on a self-select basis.

White label fund name	Underlying fund name	Benchmark	Objective
My Balanced Growth Fund*	10% Newton Global Dynamic Bond Fund 20% BlackRock World Equity Index Fund 20% LGIM Diversified Equity Factor Fund 25% Baillie Gifford Multi Asset Growth Fund 25% LGIM Diversified Fund	10% 1 month £ LIBOR + 2% pa 20% FTSE All World Developed Index 10% MSCI World 10% MSCI World (100% GBP Hedged) 25% BoE Base Rate + 3.5% pa 25% 3-month LIBOR + 3.5% pa	This fund invests in a mix of asset classes including equities, property and bonds, aiming to provide long-term investment growth in excess of inflation. Currently this fund cannot be accessed on a self-select basis.
My Approaching Retirement Fund*	25% Newton Global Dynamic Bond Fund 25% Baillie Gifford Multi Asset Growth Fund 25% LGIM Diversified Fund 25% BlackRock Cash Fund	25% 1 month £ LIBOR + 2% pa 25% BoE Base Rate + 3.5% pa 25% 3-month LIBOR + 3.5% pa 25% 7-day LIBID	This fund invests in a mix of asset classes including equities, property and bonds and is designed to contain an appropriate balance between risk and return for members approaching retirement. Currently this fund cannot be accessed on a self-select basis.
My Lump Sum Targeting Fund*	70% BlackRock Cash Fund 30% Newton Global Dynamic Bond Fund	70% 7-day LIBID 30% 1 month £ LIBOR + 2%	This fund invests in bonds, gilts and cash and aims to provide long-term returns in excess of cash. Currently this fund cannot be accessed on a self-select basis.
My Cash Fund	BlackRock Cash Fund	7-Day Sterling LIBID	This fund mostly invests in cash. It aims for returns in line with short-term interest rates on the financial markets.
My Property Fund	Threadneedle Pensions Property Fund	IPD All Balanced Weighted Index	This fund aims to provide exposure to property, either directly or via the shares of property companies. It can also invest across other asset classes such as bonds, gilts and investment funds. It aims for similar returns to a broad property index.
My Pre-Retirement (Annuity Focused) Fund	LGIM Pre-Retirement Fund	ABI Sterling Long Bonds	This fund invests in corporate bonds and gilts aims to achieve a return similar to that of a traditional annuity product.
My Diversified Growth Fund	LGIM Diversified Fund	3-month LIBOR + 3.5% pa	This fund invests in a mix of global shares (UK and overseas), as well as a wide range of other asset classes, aiming to provide long-term investment growth.
My Diversified Growth Fund (Active)	Baillie Gifford Multi Asset Growth Fund	UK Base Rate +3.5% pa, net of fees over rolling 5-year periods	This fund invests in global shares as well as a wide range of other asset classes. It aims for a higher rate of return than inflation. The fund is actively managed so the allocation to asset classes can be expected to change over time. Derivatives may be used for investment purposes.

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My UK Shares Fund	BlackRock UK Equity Index Fund	FTSE All-Share Index	This fund invests in the shares of UK Companies and aims for returns in line with a broad UK equity benchmark.
My Global Shares fund	50% BlackRock Aquila World Index Fund 50% LGIM Diversified Equity Factor Fund	50% FTSE All World Developed Index 25% MSCI World 25% MSCI World (100% GBP Hedged)	This fund invests in a mix of UK, overseas, and emerging market equities. It aims for returns in line with a broad equity benchmark.
My Ethical Global Equity Fund	LGIM Ethical Global Equity Index Fund	FTSE 4Good Developed Index	This fund invests in global shares that have been screened to have higher than average Environmental, Social and Governance characteristics as well as those that meet certain ethical criteria. The fund aims to track the performance of its benchmark.
My Emerging Markets Equity Fund	BlackRock World Emerging Markets Equity Index Fund	MSCI Emerging Markets Index	This fund invests in emerging market equities and aims to return in line with a broad emerging market equity benchmark.
My Islamic Global Equity Fund	HSBC Islamic Global Equity Index Fund	Dow Jones Islamic Titans 100 Net	This fund invests in global shares in a manner consistent with Sharia law. The fund aims to return in line with a benchmark also compiled to comply with Sharia law.

As described previously, while no single option will be sufficient to manage the various risks associated with defined contribution investment, the range is expected to be wide enough to enable individual members to manage the risks identified as they become relevant.

The Trustee also makes available four lifetime strategies where members' investments are initially allocated to equities and are progressively switched into a multi-asset fund, bonds and cash as retirement approaches. For these strategies, which include the default "Universal Lifetime Focused" strategy, the way in which the investments change over time until members reach their selected retirement age is set out on the pages that follow.

Universal Lifetime Strategy			
Years to selected retirement age	My Global Shares	My Balanced Growth	My Approaching Retirement
15+	100%	0%	0%
14	90%	10%	0%
13	80%	20%	0%
12	70%	30%	0%
11	60%	40%	0%
10	50%	50%	0%
9	40%	60%	0%
8	30%	70%	0%
7	20%	80%	0%
6	10%	90%	0%
5	0%	100%	0%
4	0%	80%	20%
3	0%	60%	40%
2	0%	40%	60%
1	0%	20%	80%
0	0%	0%	100%

Cash Focused Lifetime Strategy			
Years to selected retirement age	My Global Shares	My Balanced Growth	My Lump Sum Targeting
15+	100%	0%	0%
14	90%	10%	0%
13	80%	20%	0%
12	70%	30%	0%
11	60%	40%	0%
10	50%	50%	0%
9	40%	60%	0%
8	30%	70%	0%
7	20%	80%	0%
6	10%	90%	0%
5	0%	100%	0%
4	0%	80%	20%
3	0%	60%	40%
2	0%	40%	60%
1	0%	20%	80%
0	0%	0%	100%

Drawdown Focused Lifetime Strategy			
Years to selected retirement age	My Global Shares	My Balanced Growth	My Cash
15+	100%	0%	0%
14	90%	10%	0%
13	80%	20%	0%
12	70%	30%	0%
11	60%	40%	0%
10	50%	50%	0%
9	40%	60%	0%
8	30%	70%	0%
7	20%	80%	0%
6	10%	90%	0%
5	0%	100%	0%
4	0%	95%	5%
3	0%	90%	10%
2	0%	85%	15%
1	0%	80%	20%
0	0%	75%	25%

Annuity Focused Lifetime Strategy				
Years to selected retirement age	My Global Shares	My Balanced Growth	My Pre-Retirement (Annuity focused)	My Cash
15+	100%	0%	0%	0%
14	90%	10%	0%	0%
13	80%	20%	0%	0%
12	70%	30%	0%	0%
11	60%	40%	0%	0%
10	50%	50%	0%	0%
9	40%	60%	0%	0%
8	30%	70%	0%	0%
7	20%	80%	0%	0%
6	10%	90%	0%	0%
5	0%	100%	0%	0%
4	0%	80%	15%	5%
3	0%	60%	30%	10%
2	0%	40%	45%	15%
1	0%	20%	60%	20%
0	0%	0%	75%	25%