

**LV= EMPLOYEE PENSION SCHEME**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2021**  
**SCHEME REGISTRATION NUMBER: 10200449**

# **LV= EMPLOYEE PENSION SCHEME**

## **CONTENTS**

**YEAR ENDED 31 MARCH 2021**

---

| <b>Contents</b>  | <b>Page</b> |
|--|-------------|
| Trustee and advisers   | <b>1</b>    |
| Trustee's report   | <b>2</b>    |
| Actuarial certificate of schedule of contributions                           | <b>19</b>   |
| Trustee's statement about contributions                                      | <b>20</b>   |
| Independent auditor's statement about contributions                          | <b>21</b>   |
| Independent auditor's report   | <b>22</b>   |
| Fund account   | <b>25</b>   |
| Statement of net assets (available for benefits)                             | <b>26</b>   |
| Notes to the financial statements  | <b>28</b>   |
| Appendix A   |             |
| Chair and Governance Statement   |             |
| • Appendix - Statement of Investment Principles extract covering the default |             |
| Appendix B   |             |
| Implementation Statement   |             |

---

## LV= EMPLOYEE PENSION SCHEME

### TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2021

---

|  |  |   |
|--|--|---|
| <b>Principal Employer</b>                          | Liverpool Victoria Financial Services Limited  |   |
| <b>Trustee</b>                                     | The LV= Pension Trustee Limited  |   |
| <b>Directors of the Trustee</b>                    | <u>Appointed by the Principal Employer</u><br>BESTrustees Limited (Independent Trustee Director represented by Huw Evans (Trustee Chair) and supported by Karen Theobald<br>John Laidlaw<br>Lynzi Harrison<br>Laura Johnston (appointed 25 May 2021)<br><br><u>Selected by active Members</u><br>Jason Mallen (resigned 31 December 2020)<br>David Green<br><br><u>Selected by pensioner Members</u><br>Anthony Antoniou |   |
| <b>Secretary to the Trustee</b>                    | Michael Jones  |   |
| <b>Scheme Actuary</b>                              | Brian Nimmo of Hymans Robertson LLP  |   |
| <b>Independent auditor</b>                         | Crowe U.K. LLP   |   |
| <b>Legal advisers</b>                              | Allen & Overy LLP  |   |
| <b>Investment custodians</b>                       | HSBC Bank Plc  |   |
| <b>AVC providers<br/>(Defined benefit section)</b> | Utmost Life and Pensions Limited<br>Standard Life Assurance Limited  |   |
| <b>Bankers</b>                                     | Barclays Bank plc  |   |
| <b>Administrators</b>                              | <b>Defined Benefit</b><br>Willis Towers Watson   | <b>Defined Contribution</b><br>Aviva Life & Pensions UK Limited |
| <b>Investment advisers</b>                         | Redington Limited<br>Haydon Hill Advisors Limited  | Lane Clark & Peacock  |
| <b>Investment managers</b>                         | Columbia Threadneedle Investment Services Limited<br>Equitix Investment Management Limited<br>BlackRock Investment Management Limited<br>Aberdeen Standard Investments (from 23 June 2020)   | Aviva Life & Pensions UK Limited                                |
| <b>Annuity insurance provider</b>                  | Phoenix Life Limited (from 29 May 2020)  |   |
| <b>Covenant adviser</b>                            | Ernst and Young LLP  |   |

---

# **LV= EMPLOYEE PENSION SCHEME**

## **TRUSTEE'S REPORT**

**YEAR ENDED 31 MARCH 2021**

---

### **Introduction**

The Trustee presents its annual report for the Scheme together with the investment report, actuarial certificate and financial statements for the year ended 31 March 2021.

The Scheme is an occupational pension scheme for certain fixed term contracts paid through payroll or permanent full and part-time staff and former staff of the Principal Employer and its subsidiary companies in the United Kingdom and contains both non-contributory and contributory Sections.

The Scheme is registered under Chapter 2 of part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax. To the Trustee's knowledge there is no reason why this registration should be prejudiced or withdrawn.

The Scheme 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 Defined Benefit (DB) Section which provides benefits based on a Member's salary and length of service; and
- a Defined Contribution (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.

### **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 page 1 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 Member Nominated Directors (MND), at least one pensioner MND, and up to four persons selected by the Principal Employer. 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 Principal Employer consents.

## **LV= EMPLOYEE PENSION SCHEME**

### **TRUSTEE'S REPORT** *(continued)*

#### **YEAR ENDED 31 MARCH 2021**

---

When a vacancy arises for a Director selected by the Principal Employer, the vacancy will be filled by the Principal Employer. Directors selected and appointed by the Principal Employer 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. There is currently one MND vacancy which the Trustee is looking to fill.

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 Principal Employer, 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 Principal Employer.

The full Board met on four occasions. All Directors attended all Board meetings for the Scheme year ending 31 March 2021 (or, if applicable, the date when they left office). All Directors can pass on their views on agenda items to the Trustee Chair if they are unable to attend any meeting.

The following sub committees also met during the year: the Funding and Investment Sub Committee, the Administration Sub Committee and the Defined Contribution Sub Committee.

#### **Changes to the Scheme Rules**

There were no changes to the Scheme Rules during the year.

#### **Scheme financial statements and summary of contributions**

The financial statements of the Scheme for the year ended 31 March 2021 are set out on pages 25 to 57 and the Trustee's summary of contributions and the independent Auditor's statement about contributions are set out on pages 20 and 21 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 £103.3m over the year giving a Scheme value of £1,887.2m at 31 March 2021.

#### **Other events**

##### *Scheme funding*

The Trustee, with help from their advisers, continued to monitor the funding of the Scheme throughout the year taking into consideration any factors that may impact the funding of the Scheme.

- On 15 December 2020, the Liverpool Victoria Financial Services Limited (LVFS) announced that it had reached an agreement whereby Bain Capital is expected to pay £530m, subject to contract, to acquire the LVFS's Group's Savings and Retirement and Protection businesses. The acquisition is subject to regulatory approval and approval from LVFS' members. Subject to progressing as currently planned, the transaction is expected to complete during 2022.

## **LV= EMPLOYEE PENSION SCHEME**

### **TRUSTEE'S REPORT** *(continued)*

#### **YEAR ENDED 31 MARCH 2021**

---

Naturally the Trustee continues to work closely with LVFS 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.

- On 29 March 2021 the Trustee entered into a Flexible Apportionment Agreement (FAA) which would remove LV Life Services Limited (LVLS) as a participating employer of the Scheme. This was as a result of a Company internal restructure and the FAA apportioned the liabilities of LVLS, to LVFS, the Principal Employer of the Scheme.

#### *Investments*

The key event that happened over the Scheme year is:

- On 29 May 2020 the Trustee converted the longevity swap (which was taken out in 2012 to cover the Scheme against the risk of members and their dependents living longer than anticipated) into a bulk annuity insurance policy with Phoenix Life. The Trustee holds this policy as an investment for the benefit of all Scheme members. It provides an income to the Scheme that matches certain members benefit obligations of the Scheme. As a result, the finances of the Scheme as a whole have been improved and are more secure.

#### *Governance and Communication*

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

- The Trustee agreed to extend the scope of Investment Sub-Committee in December 2020 to also cover funding and renamed the sub-committee the Funding and Investment Sub-Committee.
- The Trustee has been working with AHC, the Scheme's communications consultant, to refresh the Scheme's website 'Pensions Village' and to simplify the online annual benefits statements. Both went live in April 2021.

#### *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. On 20 November 2020, the High Court ruled that individual transfer payments made since 17 May 1990 would need to be equalised for the effects of GMP. This judgment followed on from the previous judgment on 26 October 2018, which has previously been allowed for in accounting disclosures, where the High Court ruled that schemes had a legal obligation to pay benefits allowing for GMP equalisation. The previous judgment had not considered historic transfer values. The issue, referred to as 'GMP equalisation' is likely to take some time to fully resolve but the Trustee continues to closely observe any developments and is 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.

## **LV= EMPLOYEE PENSION SCHEME**

### **TRUSTEE'S REPORT** *(continued)*

#### **YEAR ENDED 31 MARCH 2021**

---

- The COVID-19 pandemic has caused significant volatility in the markets during 2020. Despite this the funding level of the DB Section of the Scheme remains strong. The Scheme liabilities are well hedged which meant that the funding level was broadly protected during a volatile period for long-term interest rates and inflation over the accounting year. During 2020/21, many major markets have rallied from their previous lows and this has led to a recovery in the Scheme's funding level. The Trustee continues to monitor the Scheme's position regularly, with the support from its advisers.

The Scheme aims to become fully funded on a self-sufficiency basis by or around 2028 and an investment and funding plan designed to achieve that objective is in place. The strategy is supported by the covenant of LVFS. Like the Pension Scheme, the capital position of LVFS is well-hedged and so it was well protected against the adverse market movements in early 2020 and the Trustee understands that the capital position continues to remain strong. The Trustee keeps the covenant of LVFS under review throughout the year with the assistance of Ernst & Young LLP. In the DC Section of the Scheme, the self-select and default investment option absolute fund performances were initially affected in early 2020 by the impact of COVID-19, but have since recovered strongly in this Scheme year.

#### **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 2021****Membership**

The changes in membership during the year are as follows:

**DB Section**

|                            | <b>Active</b> | <b>Deferred</b> | <b>Pensioners</b> | <b>Beneficiaries</b> | <b>Total</b>  |
|----------------------------|---------------|-----------------|-------------------|----------------------|---------------|
| At 1 April 2020            | —             | 5,462           | 3,809             | 797                  | <b>10,068</b> |
| Adjustments to prior year* | —             | (11)            | 8                 | 8                    | <b>5</b>      |
| New spouses and dependants | —             | —               | —                 | 52                   | <b>52</b>     |
| Retirements                | —             | (119)           | 119               | —                    | <b>—</b>      |
| Deaths                     | —             | (6)             | (117)             | (69)                 | <b>(192)</b>  |
| Entitlements ceasing       | —             | —               | —                 | (3)                  | <b>(3)</b>    |
| Individual transfers out   | —             | (48)            | —                 | —                    | <b>(48)</b>   |
| Commutations               | —             | (12)            | (1)               | —                    | <b>(13)</b>   |
| <b>At 31 March 2021</b>    | <b>—</b>      | <b>5,266</b>    | <b>3,818</b>      | <b>785</b>           | <b>9,869</b>  |

**DC Section**

|  | <b>Active</b> | <b>Deferred</b> | <b>Pensioners</b> | <b>Beneficiaries</b> | <b>Total</b>  |
|--|---------------|-----------------|-------------------|----------------------|---------------|
| At 1 April 2020                          | 1,604         | 5,479           | —                 | —                    | <b>7,083</b>  |
| New members                              | 102           | —               | —                 | —                    | <b>102</b>    |
| Retirements                              | (5)           | (22)            | —                 | —                    | <b>(27)</b>   |
| Members leaving with deferred benefits   | (334)         | 334             | —                 | —                    | <b>—</b>      |
| Members leaving with refunds/no benefits | (10)          | —               | —                 | —                    | <b>(10)</b>   |
| Deaths                                   | (1)           | (1)             | —                 | —                    | <b>(2)</b>    |
| Individual transfers out                 | (21)          | (109)           | —                 | —                    | <b>(130)</b>  |
| <b>At 31 March 2021</b>                  | <b>1,335</b>  | <b>5,681</b>    | <b>—</b>          | <b>—</b>             | <b>7,016</b>  |
| <b>Total membership</b>                  | <b>1,335</b>  | <b>10,947</b>   | <b>3,818</b>      | <b>785</b>           | <b>16,885</b> |

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



## LV= EMPLOYEE PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2021

---

##### 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 2020. These are based on September 2019 RPI of 2.4%, except for the post 5 April 1988 GMP element which is subject to statutory increases based on CPI; which was 1.7%. The pre 6 April 1997 excess element is subject to a minimum increase of 3%. The post 30 November 2007 excess element is subject to a maximum increase of 2.5%.

The Frizzell increases were applied from 6 July 2020. These are based on the April 2020 RPI of 1.5% 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><br><u>01-04-2020</u> | <u>Frizzell</u><br><u>06-07-2020</u> |
| Pre 06/04/1988 GMP               | No increase                                    | 3.0%                                 |
| Post 05/04/1988 GMP              | 1.7%   | 3.0%                                 |
| Pre 6/04/1997 excess over GMP    | 3.0%   | 3.0%                                 |
| 06/04/1997 to 30/11/2007 pension | 2.4%   | 1.5%                                 |
| Post 30/11/2007 benefits         | 2.4%   | 1.5%                                 |
| Pre 06/04/1995 AVCs              | No increase                                    | No increase                          |
| 06/04/1995 to 05/04/2000 AVCs    | 2.4%   | 1.5%                                 |
| Post 05/04/2000 AVCs             | 2.4%   | 1.5%                                 |

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.

## LV= EMPLOYEE PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2021

---

##### 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 2020 and this was an estimated position based on the 2018 funding valuation.

| <b>Valuation date: 31 March</b>                        | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|--|-------------|-------------|-------------|
| Value of technical provisions                          | £1,615.7m   | £1,588.9m   | £1,584.8m   |
| Value of assets available to meet technical provisions | £1,580.3m   | £1,626.7m   | £1,674.1m   |
| As a percentage of technical provisions                | 98%         | 102%        | 106%        |

Although there are no current plans to discontinue the Scheme and buy-out liabilities with an insurance company, the Trustee also consider 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:

| <b>Valuation date: 31 March</b>                        | <b>2018</b> |
|--|-------------|
| 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 calculations 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 as full gilt yield curves plus 0.85% p.a. at the 2018 valuation date, plus 1.03% p.a. at the 2019 valuation date, and plus 1.38% p.a. at the 2020 valuation date) less 0.2% p.a.

## LV= EMPLOYEE PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2021

---

**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 Employer in December 2018. Under the recovery plan, it was agreed that the Employer will 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 Employer 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 this certificate is included on page 19 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.

## **Investment report section**

### **Investment managers**

The Scheme's investments are managed by the investment managers appointed by the Trustee, as listed on page 1.

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.

The Trustee considers that the Scheme's investments are readily marketable at the year end. The Aviva My property fund valued at £616,000 as at 31 March 2021 had as a result of COVID-19 been suspended from 20 March 2020 until 17 September 2020 but was readily marketable as at 31 March 2021.

## **LV= EMPLOYEE PENSION SCHEME**

### **TRUSTEE'S REPORT** *(continued)*

#### **YEAR ENDED 31 MARCH 2021**

---

##### **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 dated September 2020 is available on the Pensions Village website.

##### **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 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 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

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

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.

##### **Custodial arrangements**

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

##### **Implementation Statement**

The Implementation Statement for the Scheme year, which is part of this Trustee's Report, is included after the Notes to the Financial Statements. It sets out how the SIP has been followed over the year, along with details of any reviews of the SIP and changes that have been made as a result of the reviews.

## **LV= EMPLOYEE PENSION SCHEME**

### **TRUSTEE'S REPORT** *(continued)*

**YEAR ENDED 31 MARCH 2021**

---

#### **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;
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 four 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 2021 is calculated as being 0.24% of the total assets (excluding the buy-in).

##### **Asset Managers**

The Trustee relies on investment managers for the day-to-day management of the Scheme's assets but retains control over the Trust's investment strategy.

The investment managers manage the Scheme assets in accordance with guidelines agreed with the Trustee, as set out in the Investment Management Agreements ("IMAs") or pooled fund prospectuses. Upon investment, the Trustee and investment managers enter into this legally binding IMA/prospectus which stipulates the Trustee's expectations of their managers; alongside the investment guidelines they are required to operate under, the document lays out the kind of investment that may be held, the balance between different kinds of investments, different risks (including how they must be managed/monitored), the expected return on investment, the realisation of investments and how both financial and non-financial matters are taken into account. When the Trustee decides to invest in pooled investment vehicles, it recognises that due to the collective nature of these investments, there is less scope to directly influence how the asset manager invests. In such instances, the Trustee's investment advisers ensure the investment objectives and guidelines of the manager are consistent with that of the Trustee. The Trustee ensures that these agreements reflect relevant Trustee policies. This therefore incentivises the manager to act in line with Trustee policies.

The investment managers report to the Funding and Investment Sub-Committee ("FISC") regarding their performance on a quarterly basis. Further, the Investment Consultant, on behalf of the Trustee, has a continuous open dialogue with all the investment managers in which the Trust invests, which encourages accountability on the investment managers to invest in line with Trustee policies. Finally, the Trustee can invite the investment managers to quarterly meetings or ad-hoc meetings.

## **LV= EMPLOYEE PENSION SCHEME**

### **TRUSTEE'S REPORT** *(continued)*

#### **YEAR ENDED 31 MARCH 2021**

---

When relevant, the Trustee requires its investment managers to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. With the exception of ASI Life Diversified Growth Fund (DGF), the Scheme has been invested in each fund for at least 3 years. The Scheme's investment in ASI DGF was made in June 2020 as part of an investment strategy review accompanying the buy-in, and the Trustee made this decision with a long-term view. The Trustee currently does not have plans to disinvest from either of these mandates. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, subject to a minimum of three years. The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team.

Before deciding to invest in an investment fund, the Trustee considers the proposed fees, and the expected investment return net of those fees, against the Trustee policies. These fees are prescribed in the IMAs which are reviewed from an investment and legal perspective upon investment. If at that point, the fees were not aligned with the wider market, the Investment Consultant would identify this in their investment review and alert the Trustee. Action would then be taken. The Trustee subsequently reviews the fees annually to confirm they are in line with the wider market. If the fees are outside of expectations, action would be taken to address this. Knowledge of this process of evaluation incentivises the managers to retain fees that are competitive and in line with expectations.

The Investment Consultant, on behalf of the Trustee, monitors managers to confirm that they are meeting the Trustee's requirements with respect to portfolio costs and portfolio turnover as part of their wider manager research process. All portfolio costs are considered when evaluating a fund's expected net of fee return. When investment returns are reported, these are compared to the relevant expected returns and benchmarks. While no set target is in place, if portfolio turnover or portfolio costs were unreasonable and out of line with the wider market, the Investment Consultant would communicate this to the Trustee and action would

#### **Review of investment performance**

In June 2020, the Scheme transacted a buy in with Phoenix Life Limited. As at March 2021, the buy in accounted for 43% of assets. BlackRock Investment Management Limited is the principal investment manager of the Scheme's remaining DB section assets, holding approximately 29% of total assets, with Threadneedle Pensions Limited holding approximately 25% of assets and Equitix Investment Management Limited holding 2% of assets. Over the year to March 2021, the Scheme invested 1% of assets with a new investment manager, Aberdeen Standard Investments. 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.

## LV= EMPLOYEE PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2021

The allocation of the Scheme's investments, in terms of underlying investments at 31 March 2021 and 31 March 2020 were as follows:

|  | 2021<br>% | 2021<br>%  | 2020<br>% | 2020<br>%  |
|--|-----------|------------|-----------|------------|
| <b>Total assets</b>                                    |           | <b>100</b> |           | <b>100</b> |
| <b>Return seeking</b>                                  |           | <b>9</b>   |           | <b>7</b>   |
| Diversified Growth fund                                |           | 7          |           | 5          |
| Infrastructure equity fund                             |           | 2          |           | 2          |
| <b>Liability matching</b>                              |           | <b>91</b>  |           | <b>93</b>  |
| LDI portfolio  |           | 30         |           | 56         |
| UK gilts   | 35        |            | 65        |            |
| Index linked securities                                | 17        |            | 17        |            |
| Repurchase agreements                                  | (26)      |            | (24)      |            |
| Liquidity, cash and commitments                        | 3         |            | (3)       |            |
| Collateral posted for Volatility Controlled Equities** | 1         |            | 1         |            |
| Corporate bonds  |           | 18         |           | 31         |
| Cash   |           | -          |           | -          |
| Collateral posted for longevity swap                   |           | -          |           | 6          |
| Buy-in   |           | 43         |           | -          |

\* Both 2020 and 2021 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%.

#### 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 % |
|-------------------------|--------------|-------------|
| 2017                    | 23.3         | 10.7        |
| 2018                    | 5.7          | 1.7         |
| 2019                    | 5.7          | -0.4        |
| 2020                    | 6.6          | 8.2         |
| 2021*                   | 0.7          | -10.2       |

\*LV= Scheme performance now contains the change in the buy-in valuation over the period.

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

Investment performance over the year has been dominated by the sustained impact of COVID-19 on markets. Despite record-breaking falls in values across the asset spectrum in March 2020 as the economic implications of the COVID-19 virus became apparent, returns across equity, fixed income and private markets were, on the whole, positive in 2020. This trend persisted into Q1 2021, with equity markets continuing to recover largely due to expansionary fiscal policies and the rollout of the COVID-19 vaccines providing a more positive outlook for investors.



## LV= EMPLOYEE PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2021

---

##### 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.

##### 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 2021.

| Annual percentage returns        | 1 year<br>% | 3 years<br>% | 5 years<br>% |
|----------------------------------|-------------|--------------|--------------|
| Global Shares Fund               | 38.9        | 12.0         | 13.6         |
| <i>Benchmark</i>                 | <i>41.8</i> | <i>14.1</i>  | <i>15.1</i>  |
| UK Shares Fund                   | 28.1        | 3.1          | 6.1          |
| <i>Benchmark</i>                 | <i>28.8</i> | <i>3.3</i>   | <i>6.5</i>   |
| Retirement Fund                  | 2.8         | 4.3          | 5.0          |
| <i>Benchmark</i>                 | <i>3.1</i>  | <i>4.6</i>   | <i>5.3</i>   |
| Diversified Growth Fund          | 20.0        | 6.4          | 7.9          |
| <i>Benchmark</i>                 | <i>3.6</i>  | <i>4.1</i>   | <i>4.0</i>   |
| Property Fund                    | 1.4         | -0.6         | 2.2          |
| <i>Benchmark*</i>                | <i>2.5</i>  | <i>2.4</i>   | <i>4.1</i>   |
| Diversified Growth Fund (Active) | 19.9        | 2.7          | 4.5          |
| <i>Benchmark</i>                 | <i>3.6</i>  | <i>5.1</i>   | <i>6.0</i>   |
| Cash Fund                        | -0.1        | 0.3          | 0.3          |
| <i>Benchmark</i>                 | <i>-0.1</i> | <i>0.3</i>   | <i>0.3</i>   |
| Approaching Retirement Fund      | 11.3        | n/a          | n/a          |
| <i>Benchmark</i>                 | <i>2.3</i>  | <i>n/a</i>   | <i>n/a</i>   |
| Balanced Growth Fund             | 25.2        | n/a          | n/a          |
| <i>Benchmark</i>                 | <i>17.8</i> | <i>n/a</i>   | <i>n/a</i>   |
| Emerging Markets Equity Fund     | 41.7        | n/a          | n/a          |
| <i>Benchmark</i>                 | <i>42.3</i> | <i>n/a</i>   | <i>n/a</i>   |
| Ethical Global Equity Fund       | 36.1        | n/a          | n/a          |
| <i>Benchmark</i>                 | <i>38.1</i> | <i>n/a</i>   | <i>n/a</i>   |
| Islamic Global Equity Fund       | 36.5        | n/a          | n/a          |
| <i>Benchmark</i>                 | <i>38.2</i> | <i>n/a</i>   | <i>n/a</i>   |
| Lump Sum Targeting Fund          | 2.8         | n/a          | n/a          |
| <i>Benchmark</i>                 | <i>0.6</i>  | <i>n/a</i>   | <i>n/a</i>   |

The performance figures for the funds are net of fees.

---

## **LV= EMPLOYEE PENSION SCHEME**

### **TRUSTEE'S REPORT** *(continued)*

#### **YEAR ENDED 31 MARCH 2021**

---

There are no performance v benchmark figures for 3 and 5 years ended 31 March 2021 for the Approaching Retirement Fund, Balanced Growth Fund, Emerging Markets Equity Fund, Ethical Global Equity Fund, Islamic Global Equity Fund and Lump Sum Targeting Fund as these funds were purchased during the year ended 31 March 2020.

The reasons for the over-performance of the following funds during the year were:

Diversified Growth Fund: this is a passively managed fund, not a tracker, so it does not aim to perform in line with a benchmark. Its benchmark is LIBOR GBP 3 Months + 3.5%, which is a benchmark chosen by the Scheme Trustee; it isn't the benchmark for the underlying LGIM Diversified fund. The fund invests in a mixture of equities, government and corporate bonds and other investments such as real estate. It is therefore likely to perform very differently from a LIBOR (interest rate) benchmark and depending on market conditions, the fund may significantly out-perform or under-perform its benchmark.

Diversified Growth Fund (Active): despite its name this is also a passively managed fund. Its underlying fund is the Baillie Gifford Multi Asset Growth fund which invests in a mix of equities, bonds, property and other assets. The Diversified Growth Fund (Active) chosen benchmark is the Bank of England Bank Rate +3.5%. It is therefore likely to perform very differently from an interest rate index benchmark and depending on market conditions, the fund may significantly out-perform or under-perform its benchmark.

The Approaching Retirement Fund is a passively managed fund, not a tracker. The fund invests in four underlying funds: 25% Av Baillie Gifford Multi Asset Growth; 25% Av BlackRock Sterling Liquidity; 25% Av BNY Mellon Global Dynamic Bond; 25% Av LGIM Diversified. These funds invest in a wide range of equities, bonds, property, cash/money market instruments and other assets. It is therefore likely to perform very differently from an interest rate index benchmark and depending on market conditions, the fund may significantly out-perform or under-perform its benchmark.

#### **Monitoring the investment managers within the DC section**

The manner in which the Trustee monitors the investment managers in the DB section also apply to the DC Section. However, in relation to DC, assets are predominantly held in pooled funds and they recognise that managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy.

As such, the Trustee recognises its responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies.

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. The investment advisor will also advise the Trustee on selection and review of investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and ESG considerations).

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.

## LV= EMPLOYEE PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2021

---

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

#### **The Pension Tracing Service, the Money and Pensions Service, the Pensions Ombudsman and The Pensions Regulator**

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

- if they have general requests for information or guidance concerning pension arrangements they can contact The Money and Pensions Service:  
Address: 120 Holborn, London EC1N 2TD  
Telephone: 0115 965 9570  
Website: [www.moneyandpensionsservice.org.uk](http://www.moneyandpensionsservice.org.uk)  
Email: [contact@maps.org.uk](mailto:contact@maps.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](http://www.pensions-ombudsman.org.uk)  
Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

In addition to the above The Pensions Regulator may intervene in the running of pension schemes where trustees, managers, employees or professional advisers have failed in their duties:

Address: Napier House, Trafalgar Place, Brighton, BN1 4DW  
Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)

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.

Information regarding the Scheme has been given to the Pension Tracing Service. You can trace your pension by contacting the Pension Tracing Service:

Telephone: 0800 713 0193  
Website: [www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

The auditor and actuary have a statutory duty to make an immediate written report to The Pensions Regulator if they believe that legal duties concerned with the running of the Scheme are not being carried out.

## LV= EMPLOYEE PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2021

---

#### 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 Partner, LV= Employee Pension Scheme, County Gates, Bournemouth BH1 2NF or e-mailed to [mypension@lv.com](mailto:mypension@lv.com) with a subject that starts 'Complaint'. If the complainant is dissatisfied with the reply the complainant may refer the case to the Secretary of the Trustee at the same address.

In the event that the problem is still not rectified a Member can refer the complaint to the Pensions Ombudsman whose address is shown above.

#### Contact for further information

Further information about the Scheme is available on its website at [www.lvpensionsvillage.co.uk](http://www.lvpensionsvillage.co.uk)

Any queries or complaints about the DB 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](mailto: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](mailto:GM-LVPensionPlanEnquiries@aviva.com)  
Tel: 0345 072 7201

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

**Director**      Huw Evans

**Director**      Mark Laidlaw

**Date**            22 October 2021

**Date**            22 October 2021

## **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 2021

---

#### 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 Schedule of Contributions certified by the 20 December 2018 in respect of the Scheme year ended 31 March 2021. The Scheme auditor reports on contributions payable under the Schedule in their auditor's statement about contributions.

| Contributions payable under the Schedule in respect of the Scheme year   |                         | 2021<br>£000  |
|--|-------------------------|---------------|
| Employer   |                         |               |
|  | Normal DC contributions | 9,940         |
|  | Deficit                 | 5,000         |
|  | For expenses            | 2,319         |
| Contributions payable under the Schedule (as reported on by the Scheme auditor) and reported in the financial statements |                         | <u>17,259</u> |

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

Director    Huw Evans

Director    Mark Laidlaw

Date        22 October 2021

Date        22 October 2021

## **LV= EMPLOYEE PENSION SCHEME**

### **INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE**

**YEAR ENDED 31 MARCH 2021**

---

#### **Statement about contributions payable under the Schedule of Contributions**

We have examined the summary of contributions payable to the LV= Employee Pension Scheme, for the Scheme year ended 31 March 2021 which is set out on page 20.

In our opinion contributions for the Scheme year ended 31 March 2021 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 Schedule of Contributions certified by the Scheme Actuary on 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 Schedule 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 Schedule 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 Schedule 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** 27 October 2021

## **LV= EMPLOYEE PENSION SCHEME**

### **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE**

**YEAR ENDED 31 MARCH 2021**

---

#### **Opinion**

We have audited the financial statements of the LV= Employee Pension Scheme for the year ended 31 March 2021 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including 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 UK 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 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 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**

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.



## **LV= EMPLOYEE PENSION SCHEME**

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

**YEAR ENDED 31 MARCH 2021**

---

#### **Other information**

The Trustee is responsible for the other information contained within the annual report. 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.

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 this gives rise to a material misstatement in the financial statements themselves. 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 5, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.

## **LV= EMPLOYEE PENSION SCHEME**

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

#### **YEAR ENDED 31 MARCH 2021**

---

- Misappropriation of investment assets owned by the Scheme. This is addressed by obtaining direct confirmation from the investment managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount and approval of the payment of the transactions. In respect of the annuity policy this is addressed by ensuring that the income received on the policy is received in line with the agreement and reconciled to the benefits paid from the Scheme.
- Non-receipt of contributions due to the Scheme from the employer. This is addressed by testing contributions due are paid to the Scheme in accordance with the schedule of contributions agreed between the employer and Trustee.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **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** 27 October 2021

# LV= EMPLOYEE PENSION SCHEME

## FUND ACCOUNT

YEAR ENDED 31 MARCH 2021

|   | Note | DB Section<br>2021<br>£000 | DC Section<br>2021<br>£000 | Total<br>2021<br>£000 | Total<br>2020<br>£000 |
|---|------|----------------------------|----------------------------|-----------------------|-----------------------|
| <b>Contributions and benefits</b>                 |      |                            |                            |                       |                       |
| Employer contributions                            |      | 7,319                      | 9,940                      | 17,259                | 18,699                |
| Employee contributions                            |      | —                          | —                          | —                     | 223                   |
| Total contributions                               | 5    | 7,319                      | 9,940                      | 17,259                | 18,922                |
| Transfers in                                      | 6    | —                          | 457                        | 457                   | 316                   |
| Other income                                      | 7    | 7                          | —                          | 7                     | 972                   |
|   |      | 7,326                      | 10,397                     | 17,723                | 20,210                |
| Benefits  | 8    | (40,767)                   | (596)                      | (41,363)              | (41,542)              |
| Payments to and on account of leavers             | 9    | (12,482)                   | (9,431)                    | (21,913)              | (29,278)              |
| Administrative expenses                           | 10   | (2,971)                    | —                          | (2,971)               | (2,503)               |
| Other payments                                    | 11   | —                          | (450)                      | (450)                 | —                     |
|   |      | (56,220)                   | (10,477)                   | (66,697)              | (73,323)              |
| <b>Net withdrawals from dealings with members</b> |      | (48,894)                   | (80)                       | (48,974)              | (53,113)              |
| <b>Returns on investments</b>                     |      |                            |                            |                       |                       |
| Investment income                                 | 12   | 26,344                     | —                          | 26,344                | 44,737                |
| Change in market value of investments             | 13   | 62,063                     | 65,459                     | 127,522               | 39,577                |
| Investment management expenses                    | 14   | (852)                      | (722)                      | (1,574)               | (2,152)               |
| <b>Net returns on investments</b>                 |      | 87,555                     | 64,737                     | 152,292               | 82,162                |
| <b>Net increase in the fund during the year</b>   |      | 38,661                     | 64,657                     | 103,318               | 29,049                |
| Transfers between sections                        | 16   | 279                        | (279)                      | —                     | —                     |
| <b>Net assets of the Scheme</b>                   |      |                            |                            |                       |                       |
| At 1 April  |      | 1,619,885                  | 164,026                    | 1,783,911             | 1,754,862             |
| <b>At 31 March</b>                                |      | <u>1,658,825</u>           | <u>228,404</u>             | <u>1,887,229</u>      | <u>1,783,911</u>      |

The notes on pages 28 to 57 form part of these financial statements.

# LV= EMPLOYEE PENSION SCHEME

## STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 MARCH 2021

|   | Note      | 2021<br>£000            | 2020<br>£000            |
|---|-----------|-------------------------|-------------------------|
| <b>DB Section</b>                           |           |                         |                         |
| <b>Investment assets</b>                    | <b>13</b> |                         |                         |
| Bonds                                       |           | 1,183,794               | 1,922,979               |
| Pooled investment vehicles                  | 17        | 179,775                 | 137,245                 |
| Derivatives                                 | 18        | 44,638                  | 23,902                  |
| Insurance policies                          | 19        | 720,118                 | 2,535                   |
| AVC investments                             | 20        | 117                     | 82                      |
| Cash and cash equivalent                    | 21        | 12,631                  | 114,749                 |
| Other investment balances                   | 22        | 103,913                 | 13,554                  |
|   |           | <u>2,244,986</u>        | <u>2,215,046</u>        |
| <b>Investment liabilities</b>               | <b>13</b> |                         |                         |
| Derivatives                                 | 18        | (16,098)                | (202,498)               |
| Cash and cash equivalents                   | 21        | (17,021)                | –                       |
| Other investment balances                   | 22        | (554,619)               | (405,129)               |
|   |           | <u>(587,738)</u>        | <u>(607,627)</u>        |
| <b>Total net investments</b>                |           | <u>1,657,248</u>        | <u>1,607,419</u>        |
| <b>Current assets</b>                       | <b>28</b> | <b>5,912</b>            | <b>14,851</b>           |
| <b>Current liabilities</b>                  | <b>29</b> | <b>(4,335)</b>          | <b>(2,385)</b>          |
| <b>Net assets at 31 March</b>               |           | <u><u>1,658,825</u></u> | <u><u>1,619,885</u></u> |
| <b>DC Section</b>                           |           |                         |                         |
| <b>Investment assets</b>                    | <b>13</b> |                         |                         |
| Pooled investment vehicles                  | 17        | 228,404                 | 163,088                 |
| <b>Current assets</b>                       | <b>28</b> | <b>–</b>                | <b>938</b>              |
| <b>Net assets at 31 March</b>               |           | <u><u>228,404</u></u>   | <u><u>164,026</u></u>   |
| <b>Net assets of the Scheme at 31 March</b> |           | <u><u>1,887,229</u></u> | <u><u>1,783,911</u></u> |

The notes on pages 28 to 57 form part of these financial statements.

## **LV= EMPLOYEE PENSION SCHEME**

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

**AS AT 31 MARCH 2021**

---

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 8 to 9 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**     Huw Evans

**Director**     Mark Laidlaw

**Date**            22 October 2021

**Date**            22 October 2021

**The notes on pages 28 to 57 form part of these financial statements.**

---

## **LV= EMPLOYEE PENSION SCHEME**

### **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 MARCH 2021**

---

#### **1. General information**

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustee's report.

#### **2. 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 June 2018) ("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.

# LV= EMPLOYEE PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

### 3. Comparative fund account

|   | Note      | DB Section<br>2020<br>£000 | DC Section<br>2020<br>£000 | Total<br>2020<br>£000   |
|---|-----------|----------------------------|----------------------------|-------------------------|
| <b>Contributions and benefits</b>                             |           |                            |                            |                         |
| Employer contributions  |           | 7,236                      | 11,463                     | <b>18,699</b>           |
| Employee contributions  |           | –                          | 223                        | <b>223</b>              |
| Total contributions   | <b>5</b>  | 7,236                      | 11,686                     | <b>18,922</b>           |
| Transfers in  | <b>6</b>  | –                          | 316                        | <b>316</b>              |
| Other income  | <b>7</b>  | 972                        | –                          | <b>972</b>              |
|   |           | <u>8,208</u>               | <u>12,002</u>              | <u><b>20,210</b></u>    |
| Benefits  | <b>8</b>  | (40,777)                   | (765)                      | <b>(41,542)</b>         |
| Payments to and on account of leavers                         | <b>9</b>  | (20,331)                   | (8,947)                    | <b>(29,278)</b>         |
| Administrative expenses                                       | <b>10</b> | (2,503)                    | –                          | <b>(2,503)</b>          |
|   |           | <u>(63,611)</u>            | <u>(9,712)</u>             | <u><b>(73,323)</b></u>  |
| <b>Net (withdrawals)/additions from dealings with members</b> |           | (55,403)                   | 2,290                      | <b>(53,113)</b>         |
| <b>Returns on investments</b>                                 |           |                            |                            |                         |
| Investment income   | <b>12</b> | 44,737                     | –                          | <b>44,737</b>           |
| Change in market value of investments                         |           | 59,729                     | (20,152)                   | <b>39,577</b>           |
| Investment management expenses                                | <b>14</b> | (1,490)                    | (662)                      | <b>(2,152)</b>          |
| <b>Net returns on investments</b>                             |           | <u>102,976</u>             | <u>(20,814)</u>            | <u><b>82,162</b></u>    |
| <b>Net increase/(decrease) in the fund during the year</b>    |           | 47,573                     | (18,524)                   | <b>29,049</b>           |
| Transfers between sections                                    | <b>16</b> | 135                        | (135)                      | <b>–</b>                |
| <b>Net assets of the Scheme</b>                               |           |                            |                            |                         |
| At 1 April  |           | 1,572,177                  | 182,685                    | <b>1,754,862</b>        |
| <b>At 31 March</b>  |           | <u>1,619,885</u>           | <u>164,026</u>             | <u><b>1,783,911</b></u> |

### 4. 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.

## **LV= EMPLOYEE PENSION SCHEME**

### **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 MARCH 2021**

---

#### **4. Accounting policies *(continued)***

##### **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.

##### **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.

##### **Investment income**

Pooled investment vehicle income, other investment 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'.



**4. Accounting policies *(continued)***

**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 and reverse 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. The cash received is recognised as an asset of the Scheme and the obligation to pay it back is recognised as a payable amount and it is included under repurchase agreements in other investment liabilities.

The Scheme does not recognise as assets of the Scheme the securities received as collateral when it enters into reverse repurchase agreements. The Scheme does however recognise the cash delivered to the counterparty as receivable in these financial statements and it is included under reverse repurchase agreements in other investment assets.

## LV= EMPLOYEE PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS

#### YEAR ENDED 31 MARCH 2021

---

#### 4. 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.

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 44 members (2020: 55 members) were valued by the actuary at the year-end using the same actuarial assumptions adopted for on-going purposes in the triennial valuation of the Scheme. The annuity income is used to pay pensions of these members.

The valuation of the bulk annuity insurance policy with Phoenix Life Limited, which covers 3,865 members, is based on the actuarial assumptions adopted for the ongoing purposes in the 31 March 2018 triennial valuation of the Scheme with the exception of the discount rate and membership numbers. The discount rate used was the discount rate of the gilt yield curve as at 31 March 2021 to reflect the risk-free nature of the insurance policy. The membership data used in the valuation is as at 31 March 2021.

##### *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 2021

### 5. Contributions

|                                    | <b>2021</b>        |                    |                       |
|------------------------------------|--------------------|--------------------|-----------------------|
|                                    | DB Section<br>£000 | DC Section<br>£000 | <b>Total<br/>£000</b> |
| <b>Employer contributions</b>      |                    |                    |                       |
| Normal                             | –                  | 9,940              | <b>9,940</b>          |
| Deficit funding                    | 5,000              | –                  | <b>5,000</b>          |
| For expenses                       | 2,319              | –                  | <b>2,319</b>          |
|                                    | <u>7,319</u>       | <u>9,940</u>       | <b><u>17,259</u></b>  |
| <b>Employee contributions</b>      |                    |                    |                       |
| Additional Voluntary Contributions | –                  | –                  | <b>–</b>              |
|                                    | <u>7,319</u>       | <u>9,940</u>       | <b><u>17,259</u></b>  |
|                                    |                    |                    |                       |
|                                    | <b>2020</b>        |                    |                       |
|                                    | DB Section<br>£000 | DC Section<br>£000 | <b>Total<br/>£000</b> |
| <b>Employer contributions</b>      |                    |                    |                       |
| Normal                             | –                  | 11,463             | <b>11,463</b>         |
| Deficit funding                    | 5,000              | –                  | <b>5,000</b>          |
| For expenses                       | 2,236              | –                  | <b>2,236</b>          |
|                                    | <u>7,236</u>       | <u>11,463</u>      | <b><u>18,699</u></b>  |
| <b>Employee contributions</b>      |                    |                    |                       |
| Additional Voluntary Contributions | –                  | 223                | <b>223</b>            |
|                                    | <u>7,236</u>       | <u>11,686</u>      | <b><u>18,922</u></b>  |

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

The Employer has paid the above contributions to the DB Section towards the deficit and costs of administration.

The deficit contributions of £416,667 per month 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.

### 6. Transfers in

|  | <b>2021</b>        |                    |                       |
|--|--------------------|--------------------|-----------------------|
|  | DB Section<br>£000 | DC Section<br>£000 | <b>Total<br/>£000</b> |
| Individual transfers in from other schemes | –                  | 457                | <b>457</b>            |

# LV= EMPLOYEE PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

### 6. Transfers in (continued)

|  |            | 2020       |            |
|--|------------|------------|------------|
|  | DB Section | DC Section | Total      |
|  | £000       | £000       | £000       |
| Individual transfers in from other schemes | –          | 316        | 316        |
|  | <u>–</u>   | <u>316</u> | <u>316</u> |

### 7. Other income

|                              |            | 2021       |          |
|------------------------------|------------|------------|----------|
|                              | DB Section | DC Section | Total    |
|                              | £000       | £000       | £000     |
| Claims on insurance policies | –          | –          | –        |
| Other income                 | 7          | –          | 7        |
|                              | <u>7</u>   | <u>–</u>   | <u>7</u> |

|                              |            | 2020       |            |
|------------------------------|------------|------------|------------|
|                              | DB Section | DC Section | Total      |
|                              | £000       | £000       | £000       |
| Claims on insurance policies | 971        | –          | 971        |
| Other income                 | 1          | –          | 1          |
|                              | <u>972</u> | <u>–</u>   | <u>972</u> |

### 8. Benefits

|  |               | 2021       |               |
|--|---------------|------------|---------------|
|  | DB Section    | DC Section | Total         |
|  | £000          | £000       | £000          |
| Pensions   | 36,538        | –          | 36,538        |
| Commutations and retirement lump sums                | 4,094         | 518        | 4,612         |
| Purchase of annuities                                | 7             | 42         | 49            |
| Lump sum death benefits                              | 128           | 36         | 164           |
| Taxation where lifetime or annual allowance exceeded | –             | –          | –             |
|  | <u>40,767</u> | <u>596</u> | <u>41,363</u> |

|  |               | 2020       |               |
|--|---------------|------------|---------------|
|  | DB Section    | DC Section | Total         |
|  | £000          | £000       | £000          |
| Pensions   | 36,122        | –          | 36,122        |
| Commutations and retirement lump sums                | 3,510         | 335        | 3,845         |
| Purchase of annuities                                | –             | 42         | 42            |
| Lump sum death benefits                              | 1,048         | 388        | 1,436         |
| Taxation where lifetime or annual allowance exceeded | 97            | –          | 97            |
|  | <u>40,777</u> | <u>765</u> | <u>41,542</u> |

# LV= EMPLOYEE PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

### 9. Payments to and on account of leavers

|                          | <b>2021</b>   |              | <b>Total</b>         |
|--------------------------|---------------|--------------|----------------------|
|                          | DB Section    | DC Section   |                      |
|                          | £000          | £000         | £000                 |
| Refunds of contributions | –             | –            | –                    |
| State scheme premium     | –             | –            | –                    |
| Individual transfers out | 12,482        | 9,431        | <b>21,913</b>        |
|                          | <u>12,482</u> | <u>9,431</u> | <u><b>21,913</b></u> |
|                          | <b>2020</b>   |              |                      |
|                          | DB Section    | DC Section   | <i>Total</i>         |
|                          | £000          | £000         | £000                 |
| Refunds of contributions | 1             | –            | 1                    |
| State scheme premium     | 37            | –            | 37                   |
| Individual transfers out | 20,293        | 8,947        | 29,240               |
|                          | <u>20,331</u> | <u>8,947</u> | <u>29,278</u>        |

### 10. Administrative expenses

|                                | <b>2021</b>  |            | <b>Total</b>        |
|--------------------------------|--------------|------------|---------------------|
|                                | DB Section   | DC Section |                     |
|                                | £000         | £000       | £000                |
| Administration fees            | 423          | –          | <b>423</b>          |
| Legal and other fees           | 1,156        | –          | <b>1,156</b>        |
| Actuarial and consultancy fees | 1,320        | –          | <b>1,320</b>        |
| Audit fee                      | 72           | –          | <b>72</b>           |
|                                | <u>2,971</u> | <u>–</u>   | <u><b>2,971</b></u> |
|                                | <b>2020</b>  |            |                     |
|                                | DB Section   | DC Section | <i>Total</i>        |
|                                | £000         | £000       | £000                |
| Administration fees            | 369          | –          | 369                 |
| Legal and other fees           | 864          | –          | 864                 |
| Actuarial and consultancy fees | 1,211        | –          | 1,211               |
| Audit fee                      | 59           | –          | 59                  |
|                                | <u>2,503</u> | <u>–</u>   | <u>2,503</u>        |

### 11. Other payments

|                | <b>2021</b> |            | <b>Total</b>      |
|----------------|-------------|------------|-------------------|
|                | DB Section  | DC Section |                   |
|                | £000        | £000       | £000              |
| Other payments | –           | 450        | <b>450</b>        |
|                | <u>–</u>    | <u>450</u> | <u><b>450</b></u> |

# LV= EMPLOYEE PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 MARCH 2021

#### 11. Other payments *(continued)*

|                | 2020       |            |          |
|----------------|------------|------------|----------|
|                | DB Section | DC Section | Total    |
|                | £000       | £000       | £000     |
| Other payments | —          | —          | —        |
|                | <u>—</u>   | <u>—</u>   | <u>—</u> |

The other payment of £450,000 was from the Scheme's unallocated investments held by Aviva Life & Pensions UK Limited to the Principal Employer.

#### 12. Investment income

|  | 2021          |            |               |
|--|---------------|------------|---------------|
|  | DB Section    | DC Section | Total         |
|  | £000          | £000       | £000          |
| Income from bonds                        | 28,013        | —          | 28,013        |
| Income from pooled investment vehicles   | 190           | —          | 190           |
| Interest paid on repurchase transactions | (1,882)       | —          | (1,882)       |
| Annuity income                           | —             | —          | —             |
| Interest on cash deposits                | 23            | —          | 23            |
|  | <u>26,344</u> | <u>—</u>   | <u>26,344</u> |

|  | 2020          |            |               |
|--|---------------|------------|---------------|
|  | DB Section    | DC Section | Total         |
|  | £000          | £000       | £000          |
| Income from bonds                        | 47,184        | —          | 47,184        |
| Income from pooled investment vehicles   | 366           | —          | 366           |
| Interest paid on repurchase transactions | (3,600)       | —          | (3,600)       |
| Annuity income                           | (7)           | —          | (7)           |
| Interest on cash deposits                | 794           | —          | 794           |
|  | <u>44,737</u> | <u>—</u>   | <u>44,737</u> |

Annuity income was -£7,000 during the year ended 31 March 2020 due to £419,000 being paid to the annuity provider after the year end in respect of overpaid annuities in prior years for members who had died.

Annuity income is now reflected through investments.

Swap income is included in change in market value in Note 13.

# LV= EMPLOYEE PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

### 13. Investments

#### DB Section

|                               | Value at 1<br>April 2020<br>£000 | Purchases<br>at cost and<br>derivative<br>payments<br>£000 | Sales<br>proceeds<br>and<br>derivative<br>receipts<br>£000 | Change in<br>market<br>value<br>£000 | Value at 31<br>March 2021<br>£000 |
|-------------------------------|----------------------------------|--|--|--------------------------------------|-----------------------------------|
| Bonds                         | 1,922,979                        | 425,767  | (1,137,953)  | (26,999)                             | 1,183,794                         |
| Pooled investment<br>vehicles | 137,245                          | 234,558  | (204,257)  | 12,229                               | 179,775                           |
| Derivatives                   | (178,596)                        | 1,690,785  | (1,617,051)  | 133,402                              | 28,540                            |
| Insurance policies            | 2,535                            | 802,330  | (28,012)   | (56,735)                             | 720,118                           |
| AVC investments               | 82                               | –  | (37)   | 72                                   | 117                               |
|                               | <u>1,884,245</u>                 | <u>3,153,440</u>   | <u>(2,987,310)</u>   | <u>61,969</u>                        | <u>2,112,344</u>                  |
| Cash and cash<br>equivalents  | 114,749                          |  |  | 94                                   | (4,390)                           |
| Other investment<br>balances  | (391,575)                        |  |  | –                                    | (450,706)                         |
|                               | <u>1,607,419</u>                 |  |  | <u>62,063</u>                        | <u>1,657,248</u>                  |

#### DC Section

|                               | Value at 1<br>April 2020<br>£000 | Purchases<br>at cost<br>£000 | Sales<br>proceeds<br>£000 | Change in<br>market<br>value<br>£000 | Value at 31<br>March 2021<br>£000 |
|-------------------------------|----------------------------------|------------------------------|---------------------------|--------------------------------------|-----------------------------------|
| Pooled investment<br>vehicles | <u>163,088</u>                   | <u>11,301</u>                | <u>(11,444)</u>           | <u>65,459</u>                        | <u>228,404</u>                    |

On 29 May 2020, the longevity insurance agreement (see Note 18) was converted to a bulk annuity insurance policy with Phoenix Life Limited providing benefit payments to the Scheme for the same members who were covered by the longevity insurance agreement. The value of the longevity insurance agreement was -£57,541,000 at 29 May 2020 and so £57,541,000 has been recognised in the change in market value of derivatives.

The bond sales include £664,433,000 of bonds which were transferred to Phoenix Life Limited as part of the £802,330,000 premium for the bulk annuity insurance policy (this premium also included £36,390,000 of cash, £102,720,000 of cash collateral and swaps valued at - £1,213,000).

#### 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.

**LV= EMPLOYEE PENSION SCHEME****NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2021**

---

**14. Investment management expenses**

|   | <b>2021</b>        |                    | <b>Total<br/>£000</b> |
|---|--------------------|--------------------|-----------------------|
|   | DB Section<br>£000 | DC Section<br>£000 |                       |
| Administration, management and custody fees | <u>852</u>         | <u>722</u>         | <u>1,574</u>          |

|   | <b>2020</b>        |                    | <b>Total<br/>£000</b> |
|---|--------------------|--------------------|-----------------------|
|   | DB Section<br>£000 | DC Section<br>£000 |                       |
| Administration, management and custody fees | <u>1,490</u>       | <u>662</u>         | <u>2,152</u>          |

The DB Section fees for the year ended 31 March 2021 include investment manager and custodian fees of £1,485,000 (2020: £2,100,000) less OEIC fee rebates of £633,000 (2020: £610,000).

**15. 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.

**16. Transfers between sections**

|                            | <b>2021</b>        |                    | <b>Total<br/>£000</b> |
|----------------------------|--------------------|--------------------|-----------------------|
|                            | DB Section<br>£000 | DC Section<br>£000 |                       |
| Transfers between sections | <u>279</u>         | <u>(279)</u>       | <u>–</u>              |

  

|                            | <b>2020</b>        |                    | <b>Total<br/>£000</b> |
|----------------------------|--------------------|--------------------|-----------------------|
|                            | DB Section<br>£000 | DC Section<br>£000 |                       |
| Transfers between sections | <u>135</u>         | <u>(135)</u>       | <u>–</u>              |

The transfers between sections for the year ended 31 March 2021 include £279,000 (2020: £135,000) 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.



**LV= EMPLOYEE PENSION SCHEME****NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2021****17. Pooled investment vehicles**

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

|                        | <b>2021</b>                |                            | <b>Total<br/>£000</b> |
|------------------------|----------------------------|----------------------------|-----------------------|
|                        | <b>DB Section<br/>£000</b> | <b>DC Section<br/>£000</b> |                       |
| Equities               | –                          | 191,648                    | <b>191,648</b>        |
| Bonds                  | –                          | 70                         | <b>70</b>             |
| Diversified growth     | 10,973                     | 2,711                      | <b>13,684</b>         |
| Property               | 2,078                      | 616                        | <b>2,694</b>          |
| Cash                   | 25,403                     | 1,506                      | <b>26,909</b>         |
| Venture capital trusts | 3,162                      | –                          | <b>3,162</b>          |
| Infrastructure fund    | 32,175                     | –                          | <b>32,175</b>         |
| Multi asset            | 105,984                    | 31,853                     | <b>137,837</b>        |
|                        | <u>179,775</u>             | <u>228,404</u>             | <u><b>408,179</b></u> |

  

|                        | <b>2020</b>                |                            | <b>Total<br/>£000</b> |
|------------------------|----------------------------|----------------------------|-----------------------|
|                        | <b>DB Section<br/>£000</b> | <b>DC Section<br/>£000</b> |                       |
| Equities               | –                          | 134,468                    | <b>134,468</b>        |
| Bonds                  | –                          | 74                         | <b>74</b>             |
| Diversified growth     | –                          | 3,018                      | <b>3,018</b>          |
| Property               | 3,329                      | 649                        | <b>3,978</b>          |
| Cash                   | 4,121                      | 1,474                      | <b>5,595</b>          |
| Venture capital trusts | 4,702                      | –                          | <b>4,702</b>          |
| Infrastructure fund    | 37,172                     | –                          | <b>37,172</b>         |
| Multi asset            | 87,921                     | 23,405                     | <b>111,326</b>        |
|                        | <u>137,245</u>             | <u>163,088</u>             | <u><b>300,333</b></u> |

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

The DB Section diversified growth fund invests in equities, infrastructure funds, asset-backed securities, emerging market bonds, special opportunities funds, property funds, private equity and cash.

The DC Section Multi asset funds are the Aviva My Approaching Retirement Fund, the Aviva My Balanced Growth Fund and the Aviva My Lump Sum Targeting Fund. The Aviva My Approaching Retirement Fund invests in fixed interest, derivatives, high yield bonds, reinsured funds and emerging markets. The Aviva My Balanced Growth Fund invests in fixed interest, derivatives, high yield bonds, reinsured funds and emerging markets. The Aviva My Lump Sum Targeting Fund invests in fixed interest, derivatives and cash/money market funds.

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

# LV= EMPLOYEE PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

### 18. Derivatives

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

|                               | <b>2021</b>        |                    |                         |
|-------------------------------|--------------------|--------------------|-------------------------|
|                               | DB Section<br>£000 | DC Section<br>£000 | <b>Total<br/>£000</b>   |
| <b>Derivative assets</b>      |                    |                    |                         |
| Futures                       | 855                | —                  | <b>855</b>              |
| Options                       | 1,053              | —                  | <b>1,053</b>            |
| Swaps                         | 42,628             | —                  | <b>42,628</b>           |
| Forward FX contracts          | 102                | —                  | <b>102</b>              |
|                               | <u>44,638</u>      | <u>—</u>           | <u><b>44,638</b></u>    |
| <b>Derivative liabilities</b> |                    |                    |                         |
| Futures                       | (1,096)            | —                  | <b>(1,096)</b>          |
| Options                       | —                  | —                  | <b>—</b>                |
| Swaps                         | (13,599)           | —                  | <b>(13,599)</b>         |
| Forward FX contracts          | (1,403)            | —                  | <b>(1,403)</b>          |
|                               | <u>(16,098)</u>    | <u>—</u>           | <u><b>(16,098)</b></u>  |
|                               | <u>28,540</u>      | <u>—</u>           | <u><b>28,540</b></u>    |
|                               |                    |                    |                         |
|                               | <b>2020</b>        |                    |                         |
|                               | DB Section<br>£000 | DC Section<br>£000 | <b>Total<br/>£000</b>   |
| <b>Derivative assets</b>      |                    |                    |                         |
| Futures                       | 3,330              | —                  | <b>3,330</b>            |
| Options                       | 2,528              | —                  | <b>2,528</b>            |
| Swaps                         | 16,063             | —                  | <b>16,063</b>           |
| Forward FX contracts          | 1,981              | —                  | <b>1,981</b>            |
|                               | <u>23,902</u>      | <u>—</u>           | <u><b>23,902</b></u>    |
| <b>Derivative liabilities</b> |                    |                    |                         |
| Futures                       | (3,328)            | —                  | <b>(3,328)</b>          |
| Options                       | —                  | —                  | <b>—</b>                |
| Swaps                         | (183,719)          | —                  | <b>(183,719)</b>        |
| Forward FX contracts          | (15,451)           | —                  | <b>(15,451)</b>         |
|                               | <u>(202,498)</u>   | <u>—</u>           | <u><b>(202,498)</b></u> |
|                               | <u>(178,596)</u>   | <u>—</u>           | <u><b>(178,596)</b></u> |

# LV= EMPLOYEE PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 MARCH 2021

#### 18. Derivatives (continued)

##### *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**

| <b>Nature</b>            | <b>No. of contracts</b> | <b>Economic exposure<br/>£000</b> | <b>Expires</b> | <b>Asset value<br/>£000</b> | <b>Liability value<br/>£000</b> |
|--------------------------|-------------------------|-----------------------------------|----------------|-----------------------------|---------------------------------|
| ICF ICE Long Gilt Future | 1                       | 17                                | June 2021      | –                           | (19)                            |
| EUX EURO-BUND Future     | 1                       | 12                                | June 2021      | 3                           | –                               |
| CBT US 10Yr Note Future  | 1                       | 61                                | June 2021      | 118                         | –                               |
| CBT US 10Yr Ultra Future | 1                       | 106                               | June 2021      | 337                         | –                               |
| CBT US Long Bond Future  | 1                       | 249                               | June 2021      | –                           | (1,077)                         |
| CBT US Ultra Bond Future | 1                       | 68                                | June 2021      | 397                         | –                               |
| <b>Total 2021</b>        |                         | <u>513</u>                        |                | <u>855</u>                  | <u>(1,096)</u>                  |
| Total 2020               |                         | <u>619</u>                        |                | <u>3,330</u>                | <u>(3,328)</u>                  |

##### **Options**

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

##### **DB Section**

| <b>Nature</b>             | <b>No. of contracts</b> | <b>Notional principal<br/>£000</b> | <b>Expires</b> | <b>Asset value<br/>£000</b> | <b>Liability value<br/>£000</b> |
|---------------------------|-------------------------|------------------------------------|----------------|-----------------------------|---------------------------------|
| European volatility index | 1                       | 674                                | Jul 2021       | 9                           | –                               |
| European volatility index | 1                       | 674                                | Mar 2022       | 846                         | –                               |
| European volatility index | 1                       | 674                                | Nov 2021       | 198                         | –                               |
| <b>Total 2021</b>         |                         | <u>2,022</u>                       |                | <u>1,053</u>                | <u>–</u>                        |
| Total 2020                |                         | <u>2,022</u>                       |                | <u>2,528</u>                | <u>–</u>                        |

## LV= EMPLOYEE PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS

#### YEAR ENDED 31 MARCH 2021

#### 18. Derivatives (continued)

##### 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<br>£000 | Expires     | Asset value<br>£000 | Liability value<br>£000 |
|----------------------|------------------|--------------------------|-------------|---------------------|-------------------------|
| Interest rate swaps  | 73               | 479,474                  | 2022-2070   | 20,208              | (12,796)                |
| Inflation rate swaps | 5                | 65,093                   | 2024-2035   | 1,360               | (398)                   |
| Total return swaps   | 3                | 2,022                    | To Mar 2022 | 21,060              | (405)                   |
| <b>Total 2021</b>    |                  | <u>546,589</u>           |             | <u>42,628</u>       | <u>(13,599)</u>         |
| Total 2020           |                  | <u>907,772</u>           |             | <u>16,063</u>       | <u>(183,719)</u>        |

The Scheme held collateral of £44,104,000 and pledged collateral of £54,662,000 in the form of UK gilts, UK index-linked gilts and cash at the 31 March 2021 (2020: held £32,558,000 and pledged £140,268,000).

The Scheme entered into a longevity insurance agreement in December 2012. The insurance contract provided 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).

On 29 May 2020, the longevity insurance agreement was converted to a bulk annuity insurance policy with Phoenix Life Limited providing benefit payments to the Scheme for the same members covered by the longevity insurance agreement (see Note 19).

##### 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<br>'000 | Currency sold<br>'000 | Asset value<br>£000 | Liability value<br>£000 |
|-------------------|------------------|-------------------------|-----------------------|---------------------|-------------------------|
| Apr 2021          | 2                | GBP 1,693               | EUR 1,976             | 9                   | —                       |
| Apr 2021          | 3                | GBP 4,537               | USD 6,282             | 10                  | (26)                    |
| May 2021          | 10               | GBP 167,645             | USD 233,232           | —                   | (1,377)                 |
| May 2021          | 2                | USD 8,061               | GBP 5,759             | 83                  | —                       |
| <b>Total 2021</b> |                  |                         |                       | <u>102</u>          | <u>(1,403)</u>          |
| Total 2020        |                  |                         |                       | <u>1,981</u>        | <u>(15,451)</u>         |

**LV= EMPLOYEE PENSION SCHEME****NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2021****19. Insurance policies**

|           | <b>2021</b>        |                    | <b>Total<br/>£000</b> |
|-----------|--------------------|--------------------|-----------------------|
|           | DB Section<br>£000 | DC Section<br>£000 |                       |
| Annuities | <u>720,118</u>     | <u>–</u>           | <u>720,118</u>        |

  

|           | <b>2020</b>        |                    | <b>Total<br/>£000</b> |
|-----------|--------------------|--------------------|-----------------------|
|           | DB Section<br>£000 | DC Section<br>£000 |                       |
| Annuities | <u>2,535</u>       | <u>–</u>           | <u>2,535</u>          |

On 29 May 2020, the longevity insurance agreement (see Note 18) was converted to a bulk annuity insurance policy with Phoenix Life Limited providing benefit payments to the Scheme for the same members who were covered by the longevity insurance agreement. The insurance contract provided 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 bulk annuity insurance policy with Phoenix Life Limited was valued by Hymans Robertson LLP on a gilts basis at £717,900,000 at 31 March 2021 (2020: £nil) as disclosed in the accounting policies (see Note 4).

**20. AVC investments**

|                                  | <b>2021</b>        |                    | <b>Total<br/>£000</b> |
|----------------------------------|--------------------|--------------------|-----------------------|
|                                  | DB Section<br>£000 | DC Section<br>£000 |                       |
| Utmost Life and Pensions Limited | 109                | –                  | 109                   |
| Standard Life Assurance Limited  | 8                  | –                  | 8                     |
|                                  | <u>117</u>         | <u>–</u>           | <u>117</u>            |

  

|                                  | <b>2020</b>        |                    | <b>Total<br/>£000</b> |
|----------------------------------|--------------------|--------------------|-----------------------|
|                                  | DB Section<br>£000 | DC Section<br>£000 |                       |
| Utmost Life and Pensions Limited | 61                 | –                  | 61                    |
| Standard Life Assurance Limited  | 21                 | –                  | 21                    |
|                                  | <u>82</u>          | <u>–</u>           | <u>82</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 £2,974,000 (2020: £2,956,000) held within the core DB Section investments, and 32 DB Section Members (2020: 36 Members) have AVC investments in the DC Section investments managed by Aviva.

**LV= EMPLOYEE PENSION SCHEME**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 MARCH 2021**

**21. Cash and cash equivalents**

|                         | <b>2021</b>        |                    |                        |
|-------------------------|--------------------|--------------------|------------------------|
|                         | DB Section<br>£000 | DC Section<br>£000 | <b>Total<br/>£000</b>  |
| <b>Cash assets</b>      |                    |                    |                        |
| Sterling                | 4,197              | —                  | <b>4,197</b>           |
| Foreign currency        | 8,434              | —                  | <b>8,434</b>           |
|                         | <u>12,631</u>      | <u>—</u>           | <u><b>12,631</b></u>   |
| <b>Cash liabilities</b> |                    |                    |                        |
| Sterling                | (6,679)            | —                  | <b>(6,679)</b>         |
| Foreign currency        | (10,342)           | —                  | <b>(10,342)</b>        |
|                         | <u>(17,021)</u>    | <u>—</u>           | <u><b>(17,021)</b></u> |
|                         | <u>(4,390)</u>     | <u>—</u>           | <u><b>(4,390)</b></u>  |
|                         |                    |                    |                        |
|                         | <b>2020</b>        |                    |                        |
|                         | DB Section<br>£000 | DC Section<br>£000 | <b>Total<br/>£000</b>  |
| <b>Cash assets</b>      |                    |                    |                        |
| Sterling                | 105,724            | —                  | <b>105,724</b>         |
| Foreign currency        | 9,025              | —                  | <b>9,025</b>           |
|                         | <u>114,749</u>     | <u>—</u>           | <u><b>114,749</b></u>  |
| <b>Cash liabilities</b> |                    |                    |                        |
| Sterling                | —                  | —                  | <b>—</b>               |
| Foreign currency        | —                  | —                  | <b>—</b>               |
|                         | <u>—</u>           | <u>—</u>           | <u><b>—</b></u>        |
|                         | <u>114,749</u>     | <u>—</u>           | <u><b>114,749</b></u>  |

**LV= EMPLOYEE PENSION SCHEME**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 MARCH 2021**

**22. Other investment balances**

|  | <b>2021</b>        |                    |                         |
|--|--------------------|--------------------|-------------------------|
|  | DB Section<br>£000 | DC Section<br>£000 | <b>Total<br/>£000</b>   |
| <b>Other investment balances assets</b>        |                    |                    |                         |
| Tax recoverable                                | 181                | —                  | <b>181</b>              |
| Accrued income                                 | 4,846              | —                  | <b>4,846</b>            |
| Securities under reverse repurchase agreements | 98,235             | —                  | <b>98,235</b>           |
| Outstanding trade sales                        | 651                | —                  | <b>651</b>              |
|  | <u>103,913</u>     | <u>—</u>           | <b><u>103,913</u></b>   |
| <b>Other investment balances liabilities</b>   |                    |                    |                         |
| Securities under repurchase agreements         | (536,082)          | —                  | <b>(536,082)</b>        |
| Outstanding trade purchases                    | (18,537)           | —                  | <b>(18,537)</b>         |
|  | <u>(554,619)</u>   | <u>—</u>           | <b><u>(554,619)</u></b> |
|  | <u>(450,706)</u>   | <u>—</u>           | <b><u>(450,706)</u></b> |
|  |                    |                    |                         |
|  | <b>2020</b>        |                    |                         |
|  | DB Section<br>£000 | DC Section<br>£000 | <b>Total<br/>£000</b>   |
| <b>Other investment balances assets</b>        |                    |                    |                         |
| Tax recoverable                                | 225                | —                  | <b>225</b>              |
| Accrued income                                 | 10,104             | —                  | <b>10,104</b>           |
| Securities under reverse repurchase agreements | —                  | —                  | <b>—</b>                |
| Outstanding trade sales                        | 3,225              | —                  | <b>3,225</b>            |
|  | <u>13,554</u>      | <u>—</u>           | <b><u>13,554</u></b>    |
| <b>Other investment balances liabilities</b>   |                    |                    |                         |
| Securities under repurchase agreements         | (399,293)          | —                  | <b>(399,293)</b>        |
| Outstanding trade purchases                    | (5,836)            | —                  | <b>(5,836)</b>          |
|  | <u>(405,129)</u>   | <u>—</u>           | <b><u>(405,129)</u></b> |
|  | <u>(391,575)</u>   | <u>—</u>           | <b><u>(391,575)</u></b> |

## LV= EMPLOYEE PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

---

#### 22. 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. Cash received from counterparties in respect of the securities that have been sold has been used by the Scheme to increase its bond portfolio.

The securities are included in the financial statements as assets of the Scheme at their market value. At 31 March 2021 the market value of securities sold under repurchase agreements was £399.6m (31 March 2020: £428.5m).

Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Fund's financial statements under investment liabilities. At 31 March 2021 this amounted to £536.1m (31 March 2020: £399.3m).

The Scheme has also entered into reverse repurchase agreements. Amounts receivable from counterparties under reverse repurchase agreements are disclosed as assets in the Fund's financial statements under investment assets. At 31 March 2021 this amounted to £98.2m (31 March 2020: £Nil).

#### 23. 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:

|                               | <b>2021</b>           | 2020                  |
|-------------------------------|-----------------------|-----------------------|
|                               | <b>£000</b>           | £000                  |
| Allocated to Members          | <b>228,135</b>        | 162,369               |
| Trustee's unallocated account | <b>269</b>            | 719                   |
|                               | <b><u>228,404</u></b> | <b><u>163,088</u></b> |

#### 24. 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.



## LV= EMPLOYEE PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS

#### YEAR ENDED 31 MARCH 2021

#### 24. 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 2021 |                 |                 | Total                   |
|----------------------------|------------------|-----------------|-----------------|-------------------------|
|                            | Level 1<br>£000  | Level 2<br>£000 | Level 3<br>£000 | £000                    |
| <b>DB Section</b>          |                  |                 |                 |                         |
| Bonds                      | 896,232          | 287,562         | –               | <b>1,183,794</b>        |
| Pooled investment vehicles | –                | 145,522         | 34,253          | <b>179,775</b>          |
| Derivatives                | (241)            | 28,781          | –               | <b>28,540</b>           |
| Insurance policies         | –                | –               | 720,118         | <b>720,118</b>          |
| AVC investments            | –                | 109             | 8               | <b>117</b>              |
| Cash and cash equivalents  | (4,390)          | –               | –               | <b>(4,390)</b>          |
| Other investment balances  | (12,859)         | (437,847)       | –               | <b>(450,706)</b>        |
|                            | <u>878,742</u>   | <u>24,127</u>   | <u>754,379</u>  | <u><b>1,657,248</b></u> |
| <b>DC Section</b>          |                  |                 |                 |                         |
| Pooled investment vehicles | –                | 228,404         | –               | <b>228,404</b>          |
|                            | <u>878,742</u>   | <u>252,531</u>  | <u>754,379</u>  | <u><b>1,885,652</b></u> |
|                            | At 31 March 2020 |                 |                 | Total                   |
|                            | Level 1<br>£000  | Level 2<br>£000 | Level 3<br>£000 | £000                    |
| <b>DB Section</b>          |                  |                 |                 |                         |
| Bonds                      | 1,424,216        | 498,763         | –               | <b>1,922,979</b>        |
| Pooled investment vehicles | –                | 96,744          | 40,501          | <b>137,245</b>          |
| Derivatives                | 2                | (120,598)       | (58,000)        | <b>(178,596)</b>        |
| Insurance policies         | –                | –               | 2,535           | <b>2,535</b>            |
| AVC investments            | –                | –               | 82              | <b>82</b>               |
| Cash and cash equivalents  | 114,749          | –               | –               | <b>114,749</b>          |
| Other investment balances  | 7,718            | (399,293)       | –               | <b>(391,575)</b>        |
|                            | <u>1,546,685</u> | <u>75,616</u>   | <u>(14,882)</u> | <u><b>1,607,419</b></u> |
| <b>DC Section</b>          |                  |                 |                 |                         |
| Pooled investment vehicles | –                | 162,429         | 659             | <b>163,088</b>          |
|                            | <u>1,546,685</u> | <u>238,045</u>  | <u>(14,223)</u> | <u><b>1,770,507</b></u> |

The DC Section Aviva My property fund was included at 31 March 2020 as fair value Level 3 because the fund had from 20 March 2020 deferred payments for up to 6 months. However, as the restriction was lifted from 17 September 2020 it has been included as Level 2 at 31 March 2021.

**25. 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 the Standard Life annuity or the AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

## LV= EMPLOYEE PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

#### 25. 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             |                  |                       |                     | 2021<br>£'000    | 2020<br>£'000    |
|--|-------------------------|------------------|-----------------------|---------------------|------------------|------------------|
|  | Indirect<br>credit risk | Currency<br>risk | Interest<br>rate risk | Other price<br>risk |                  |                  |
| Bonds                                      | ○                       | ●                | ●                     | ○                   | 1,183,794        | 1,922,979        |
| Pooled investment vehicles                 |                         |                  |                       |                     |                  |                  |
| Diversified growth funds                   | ●                       | ●                | ●                     | ●                   | 10,973           | –                |
| Property funds                             | ○                       | ○                | ○                     | ●                   | 2,078            | 3,329            |
| Cash funds                                 | ●                       | ○                | ●                     | ○                   | 25,403           | 4,121            |
| Venture capital trusts                     | ●                       | ●                | ○                     | ●                   | 3,162            | 4,702            |
| Infrastructure funds                       | ○                       | ○                | ●                     | ●                   | 32,175           | 37,172           |
| Multi asset funds                          | ●                       | ●                | ●                     | ●                   | 105,984          | 87,921           |
| Derivatives                                |                         |                  |                       |                     |                  |                  |
| Futures                                    | ○                       | ●                | ●                     | ●                   | (241)            | 2                |
| OTC Options                                | ○                       | ●                | ○                     | ●                   | 1,053            | 2,528            |
| OTC Swaps                                  | ○                       | ●                | ●                     | ●                   | 29,029           | (167,656)        |
| OTC Forward FX contracts                   | ○                       | ●                | ○                     | ○                   | (1,301)          | (13,470)         |
| Phoenix Life bulk annuity insurance policy | ○                       | ○                | ●                     | ●                   | 717,900          | –                |
| Cash deposits                              | ○                       | ○                | ○                     | ○                   | (4,390)          | 114,749          |
| Other investment balances                  | ○                       | ○                | ●                     | ○                   | (450,706)        | (391,575)        |
| Total                                      |                         |                  |                       |                     | <u>1,654,913</u> | <u>1,604,802</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. Please note that the Phoenix Life bulk annuity insurance policy risk sits with the insurer.

## LV= EMPLOYEE PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

---

#### 25. Investment risk disclosures *(continued)*

##### (i) Credit risk

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

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 18.

Credit risk on other investment balances (repurchase agreements) is mitigated through the use of a range of collateral arrangements as disclosed in Note 22.

Prior to the purchase of the annuity policy with Phoenix Life a due diligence exercise was undertaken to mitigate credit risk.

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:

|                                      | <b>2021</b>    | <b>2020</b>    |
|--------------------------------------|----------------|----------------|
|                                      | <b>£000</b>    | <b>£000</b>    |
| Open-Ended Investment Company (OEIC) | 105,984        | 87,921         |
| UCITS Mutual Fund                    | 25,403         | 4,121          |
| Limited Partnerships                 | 37,415         | 45,203         |
| Unit Trust                           | 10,973         | –              |
| Total                                | <u>179,775</u> | <u>137,245</u> |

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.

**25. Investment risk disclosures *(continued)***

**(ii) Currency risk**

The Scheme is subject to direct currency risk on the Bonds, Futures and OTC options. 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.

**(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 and diversified growth 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.

The Phoenix Life bulk annuity insurance policy is also sensitive to interest rates due to the value of the annuity policy depending on the present value of the insured cash flows.

**(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, 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 18 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.

The Phoenix Life bulk annuity insurance policy is also exposed to other price risk due to the value of the annuity policy being sensitive to inflation risk.

**(v) Longevity risk**

The Scheme transacted a buy-in with Phoenix Life Limited in June 2020 in order to manage a proportion of the Scheme's longevity risk.

## **LV= EMPLOYEE PENSION SCHEME**

### **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 MARCH 2021**

---

#### **25. 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 regular 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.

# LV= EMPLOYEE PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

### 25. Investment risk disclosures (continued)

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

| Type                                     | Credit risk | Currency risk | Market risk        |                  | 2021<br>£'000 | 2020<br>£'000 |
|--|-------------|---------------|--------------------|------------------|---------------|---------------|
|  |             |               | Interest rate risk | Other price risk |               |               |
| Pooled investment vehicles               |             |               |                    |                  |               |               |
| My Global Shares Fund                    | ○           | ●             | ○                  | ●                | 190,421       | 133,743       |
| My UK Shares Fund                        | ○           | ○             | ○                  | ●                | 847           | 629           |
| My Diversified Growth Fund               | ●           | ●             | ●                  | ●                | 1,915         | 2,399         |
| My Diversified Growth (Active) Fund      | ●           | ●             | ●                  | ●                | 796           | 620           |
| My Property Fund                         | ○           | ○             | ○                  | ●                | 616           | 649           |
| My Pre-retirement (Annuity focused) Fund | ●           | ○             | ●                  | ●                | 70            | 74            |
| My Cash fund                             | ●           | ○             | ○                  | ○                | 1,506         | 1,473         |
| My Approaching Retirement Fund           | ●           | ●             | ●                  | ●                | 2,212         | 1,633         |
| My Balanced Growth Fund                  | ●           | ●             | ●                  | ●                | 27,604        | 20,203        |
| My Emerging Market Equity Fund           | ○           | ●             | ○                  | ●                | 165           | 31            |
| My Ethical Global Equity Fund            | ○           | ●             | ○                  | ●                | 141           | 52            |
| My Islamic Global Equity Fund            | ○           | ●             | ○                  | ●                | 74            | 13            |
| My Lump Sum Targeting Fund               | ●           | ●             | ●                  | ●                | 2,037         | 1,568         |
| Aviva Pension Cash FP*                   | ●           | ○             | ○                  | ○                | —             | 1             |
| Total                                    |             |               |                    |                  | 228,404       | 163,088       |

\* The assets in this fund were as the result of an administration error which occurred on 31 March 2020 and was rectified on 11 April 2020 with the one member impacted compensated for this

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

### NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

---

#### 25. 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.

#### 26. Concentration of investments

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

|  | 2021    |      | 2020    |      |
|--|---------|------|---------|------|
|  | £000    | %    | £000    | %    |
| Phoenix Life Limited bulk annuity insurance policy | 717,900 | 38.0 | –       | –    |
| Aviva My LV= Pension Plan                          |         |      |         |      |
| Global Shares Fund XE                              | 190,421 | 10.1 | 133,743 | 7.5  |
| UK Conventional Gilt 2.50 22/07/2065               | 113,469 | 6.0  | 154,940 | 8.7  |
| UK I/L Gilt 0.125 22/3/2068                        | 110,671 | 5.9  | n/a     | n/a  |
| Threadneedle Oppor Invest Dynamic Real Fund Acc    | 105,984 | 5.6  | n/a     | n/a  |
| UK Conventional Gilt 3.50 22/07/2068               | 95,806  | 5.1  | 271,591 | 15.2 |
| UK Conventional Gilt 3.75 22/07/2052               | 94,083  | 5.0  | 127,842 | 7.2  |
| UK Conventional Gilt 4.25 07/12/2040               | n/a     | n/a  | 89,741  | 5.0  |

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

#### 27. 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

### YEAR ENDED 31 MARCH 2021

#### 28. Current assets

|                                  | <b>2021</b>   |            |               |
|----------------------------------|---------------|------------|---------------|
|                                  | DB Section    | DC Section | Total         |
|                                  | £000          | £000       | £000          |
| Contributions due in respect of: |               |            |               |
| Employers                        | 610           | —          | 610           |
| Other debtors and prepayments    | 345           | —          | 345           |
| Cash balances                    | 4,957         | —          | 4,957         |
|                                  | <u>5,912</u>  | <u>—</u>   | <u>5,912</u>  |
|                                  |               |            |               |
|                                  | <b>2020</b>   |            |               |
|                                  | DB Section    | DC Section | Total         |
|                                  | £000          | £000       | £000          |
| Contributions due in respect of: |               |            |               |
| Employers                        | 603           | 905        | 1,508         |
| Other debtors and prepayments    | 546           | 33         | 579           |
| Cash balances                    | 13,702        | —          | 13,702        |
|                                  | <u>14,851</u> | <u>938</u> | <u>15,789</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 2020 were allocated to members.

#### 29. Current liabilities

|                              | <b>2021</b>  |            |              |
|------------------------------|--------------|------------|--------------|
|                              | DB Section   | DC Section | Total        |
|                              | £000         | £000       | £000         |
| Unpaid benefits              | 179          | —          | 179          |
| Other creditors and accruals | 4,156        | —          | 4,156        |
|                              | <u>4,335</u> | <u>—</u>   | <u>4,335</u> |
|                              |              |            |              |
|                              | <b>2020</b>  |            |              |
|                              | DB Section   | DC Section | Total        |
|                              | £000         | £000       | £000         |
| Unpaid benefits              | 444          | —          | 444          |
| Other creditors and accruals | 1,941        | —          | 1,941        |
|                              | <u>2,385</u> | <u>—</u>   | <u>2,385</u> |

## LV= EMPLOYEE PENSION SCHEME

### NOTES TO THE FINANCIAL STATEMENTS

#### YEAR ENDED 31 MARCH 2021

---

#### 30. Related party transactions

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

Administrative expenses for the year ended 31 March 2021 of £159,000 (2020: £195,000) were charged by the Principal Employer.

As at 31 March 2021 the Scheme owed £8,300 (2020: £8,300) to the Principal Employer in respect of its administrative expenses.

£450,000 was paid from the Scheme's unallocated investments held by Aviva Life & Pensions UK Limited to the Principal Employer during the year ended 31 March 2021 (2020: £0).

The Principal Employer paid the PPF levies of £66,468 (2020: £65,511) and the group life assurance premium of £272,313 (2020: £320,505) for the year ended 31 March 2021.

BESTrustees Limited, the independent Director represented by H Evans and K Theobald was paid £54,973 for its services during the year (2020: £73,855). As at 31 March 2021 the Scheme owed £13,985 (2020: £20,465) 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.

#### 31. Contingent liabilities and contractual commitments

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

|  | <b>2021</b>         | <i>2020</i>         |
|--|---------------------|---------------------|
|  | <b>£000</b>         | <i>£000</i>         |
| Venture capital trusts commitments     | <b>902</b>          | <i>1,794</i>        |
| Equitix infrastructure fund commitment | <b>216</b>          | <i>336</i>          |
|  | <b><u>1,118</u></b> | <i><u>2,130</u></i> |

In the opinion of the Trustee the Scheme had no contingent liabilities or contractual commitments as at 31 March 2021 (31 March 2020 - Nil).

**32. GMP equalisation**

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 (GMP) 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.

A ruling on 20 November 2020 confirmed that all previous transfers out dating back to 1990 will need to be revisited to assess whether a GMP equalisation uplift is required. The Trustee is now reviewing, with their advisers, the implication of this ruling on the Scheme in the context of the rules of the Scheme and the value of any liability.

The estimated IAS 19 cost of equalising for the impact of the GMP element of historic individual transfer values paid from the Scheme was estimated to be £400,000.

# LV= Employee Pension Scheme

## DC Governance statement, covering the period from 1 April 2020 to 31 March 2021

### 1. Introduction

The Trustee of the LV= Employee Pension Scheme (DC Section) (the “Scheme”) welcomes this opportunity to explain what it does to ensure that the Scheme operates as effectively as possible. The key points that the Trustee would like members reading this Statement to take away are as follows:

- The Trustee regularly monitors the investment arrangements and is satisfied that the default and other investment options remain suitable for the membership;
- The administrator has processed core financial transactions promptly and accurately to an acceptable level during the period 1 April 2020 to 31 March 2021 (the “Scheme year”). The Trustee is satisfied with the administrator’s performance over the year;
- Fees can have a material impact on the value of your pension savings and that impact increases over time because money used to pay fees is not then available to earn future investment returns; and
- Fees for the Scheme’s investment options are set out in this Statement. The Trustee remains comfortable that these fees are reasonable given the circumstances of the Scheme and represent good value for the benefits members obtain.

If you have any questions or comments about anything in the Statement, please contact [mypension@lv.com](mailto:mypension@lv.com) in the first instance.

### 2. Default arrangements

The Scheme is used as a Qualifying Scheme for automatic enrolment purposes.

The Trustee has made available a range of investment options for members. Members who join the Scheme and who do not choose an investment option are placed into the default investment arrangement. For the period covered by this Statement, that default is the Universal Lifetime Strategy (the “Default Lifetime”). 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 views of the needs and circumstances of the majority of the membership.

The Trustee recognises that most members do not make active investment decisions and instead invest in the Default Lifetime. After taking advice, the Trustee decided to make the Default Lifetime a lifestyle strategy, which means that members’ assets are automatically moved between different investment funds as they approach their target retirement date.

One complication that has arisen this year is that the My Cash Fund also satisfies the legal criteria that define a default option. This is a result of the Trustee deciding to redirect contributions intended for the My Property Fund into the My Cash Fund while the My Property Fund was suspended. That suspension ran from March 2020 until September 2020 and arose because it was not possible to get reliable property valuations as a result of the Covid 19 pandemic. Because the members’ contributions were redirected without their input, the My Cash Fund will be treated as a default for the Scheme year for the purpose of fulfilling legislative requirements.

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangements.

Details of the objectives and the Trustee’s policies regarding the default arrangements can be found in a document called the ‘Statement of Investment Principles’ (“SIP”). The elements of that SIP that cover those defaults are attached as an appendix to this document.

The aims and objectives of the Default Lifetime are defined in the SIP as follows:

- it is designed to be appropriate for members who take an annuity, cash or drawdown at retirement; and
- generate long term growth in excess of inflation whilst members are some distance from retirement, but then switch automatically and gradually to lower risk investments as members near retirement.

The aims and objectives of the other default arrangement, the My Cash Fund, as defined in the SIP, is to provide returns in line with short-term interest rates on the financial markets.

Three times a year the Trustee's DC Sub-committee checks that the risk and return of the defaults and the underlying funds are as expected using performance monitoring reports produced by its advisers. There is a formal review of the performance and the strategy at least every three years and following any significant change in investment policy or the Scheme's member profile.

With the help of the Scheme's investment adviser, the Trustee reviewed the Default Lifetime strategy on 4 March 2021. This included a review of the demographics of the current Scheme membership to understand how members are likely to access their benefits based on their projected pot sizes and a review of the performance. The Trustee concluded that the performance had been broadly as expected and was in line with the stated aims and objectives and that the design of the Default Lifetime remains appropriate given the Scheme's risk profiles and membership.

The Trustee decided to make a change to one of the underlying funds used within the My Global Shares Fund and the My Balanced Fund, which are both used in the Default Lifetime and alternative lifetime strategies. The next formal review is scheduled for before 4 March 2024 or, as stated above, immediately following any significant change in investment policy or the Scheme's member profile.

The My Cash Fund became a default and the fund was confirmed as suitable for contributions to be diverted into the fund in April 2020. The Trustee was comfortable that the design of the My Cash Fund was appropriate given the Scheme's risk profiles and membership. The next review is scheduled to take place before April 2023.

The Trustee reviewed the self-select fund range and decided to change one of the funds used as part of the self-select fund range.

The Trustee is currently considering when to implement the agreed changes.

### **3. Requirements for processing core financial transactions**

Aviva administer the Scheme's DC pension arrangements for the Trustee and are responsible for processing core financial transactions like the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

Aviva have provided the Trustee with its AAF 01/06 report and this has satisfied the Trustee that Aviva has adequate internal controls to ensure that core financial transactions for the Scheme are processed promptly and accurately.

The Scheme has a service level agreement ("SLA") in place with the Aviva that covers the accuracy and timeliness of all core financial 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, its investment advisers and Aviva to ensure that the standards set out in the SLA are met.

The key processes undertaken by Aviva 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 SLA gives Aviva a target of completing 95% of all items within the agreed service level in any given period. For most transactions the target turnaround time is 5 working days; for death claims, it is 3 working days.

In addition, Aviva monitor the time taken to complete all elements of a request starting from when the member first makes contact. (By contrast, the SLA reporting measures the time taken for each stage and does not include periods during which the request may be 'open' while, for example, Aviva are waiting for information.) This "end-to-end" measure is part of a more holistic service monitoring approach that gives the Trustee an even stronger understanding of the service experienced by members.

Aviva employs the following measures to meet the SLA:

- They use a customer management tool to support the allocation and control/ measurement of work;
- They monitor speed of service to members;
- They monitor quality of service splitting the 'value' and 'non-value' demands that 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 so that it and the Trustee can understand how Aviva can improve the service to members.

The Trustee has monitored Aviva's performance by:

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

Any issues identified as part of these review processes would be raised with Aviva immediately, and steps would be taken to resolve the issues.

Aviva has reported service levels of 94% for the year to 31 March 2021, slightly below the agreed target of 95%. The Trustee has satisfied itself that this dip in service was not unreasonable against a backdrop of the Covid-19 pandemic but is working with Aviva to improve the service in future.

In its role as the Scheme's administrator and platform provider, Aviva implemented changes to the default and self-select range on 9 July 2019 and made some errors in the process that affected a small number of Scheme members. Aviva undertook a rectification exercise to assess the impact on the Scheme's members. Any members found to have been adversely affected by the errors will be fully compensated. Members who have gained from these errors will keep that gain. The Trustee

continue to liaise with Aviva to get these issues resolved and Aviva has confirmed that it has reviewed and updated its processes to prevent the same errors occurring in future.

### **Additional Voluntary Contributions (“AVCs”)**

The Trustee also has AVC policies with Standard Life and Utmost.

Standard Life have confirmed that all core financial transactions were dealt with promptly and accurately over the period. There is a standard SLA covering the accuracy and timeliness of all core transactions that targets 10 working days for core financial transactions and has an internal controls statement that outlines information about processing of these core financial transactions. Governance and oversight arrangements are in place to monitor SLA performance against defined service levels and risk standards. Authorising and processing transactions and achieving the stated SLA is managed through controlled systems including, but not limited to, the following actions:

- Automated systems are designed to ensure consistent, timely and accurate receipt and allocation to the correct funds for regular and single payments;
- Regular monitoring of process and people performance, including control self-assessment reviews;
- Reconciliations are carried out between Finance and Customer Operations to ensure contributions are accurately recorded;
- Documented business procedures are in place for contributions processed;
- Compliance with processes is supported by an automated workflow system that ensures work is enabled, tracked and managed;
- A dedicated control team actively manages manual payments (including automation failures) and the reporting of missed contributions to the Pensions Regulator;
- An automated quotes system, which ensures the consistent application of calculations;
- Scheme rules and policy provisions are coded within automated systems that have been built and tested to establish project management practices; and
- A quality assurance framework is in place to ensure that payments are processed in line with the defined processes and service levels.

Utmost was only able to provide information relating to core financial transactions for the period from 1 January 2020 to 31 December 2020 (so part of this Scheme year). Utmost have confirmed that 93% of payments, 85% of illustrations and 91% of general servicing were completed within their stated SLA over the year to 31 December 2020. The Trustee will continue to follow-up with Utmost to obtain this information for the full Scheme year. The Trustee does not have an individual SLA in place with the Utmost; Utmost does not provide specific service level agreements. However, Utmost has confirmed that it has its own, internal service level standards which cover the accuracy and timeliness of all core transactions. Utmost has confirmed that due to pent up demand following the Equitable Scheme of Arrangement (which occurred on 1 January 2020) and as a result of the Covid pandemic, SLAs were measured as follows for the first eleven months of 2020 (January-November):

- 95% of payments within 10 days;
- 95% of benefit illustrations within 20 days; and
- 90% of all general servicing within 20 days.

Utmost has confirmed that from December 2020 they reverted to the following SLAs, which were in place prior to January 2020:

- 95% of payments within 5 days;
- 95% of benefit illustrations within 10 days; and
- 90% of all general servicing within 10 days.

The results mentioned detailing how Utmost performed against their SLAs over 2020 encompasses both the SLAs in place for the first eleven months of 2020 and for December 2020.

In addition, Utmost has produced a detailed statement that confirms that it has a system of internal controls for ensuring its effectiveness. Although the system is designed to manage rather than eliminate the risk of failure, it provides reasonable assurance to the Trustee against material loss or misstatement.

The key processes adopted by Utmost to help it meet its internal SLAs are as follows:

- Utmost has internal standards that ensure that staff are properly trained, qualified, supervised and monitored;
- Staff are encouraged to enhance their skills and knowledge by also attending external training courses where appropriate;
- Administration procedure manuals are regularly reviewed and updated;
- Both automated and manual processes and work are subject to checking and/or regular quality sampling;
- Utmost conducts a data review exercise on an annual basis. It also updates its data when it receives new information from the Trustee.

The Trustee receives the members' annual benefit statements and reporting on the Scheme information, including details of the members, any transactions and fund values. The reports from Utmost includes annual updates of upcoming retirements during the Scheme year. All transaction correspondence such as retirement quotations, transfer quotations are sent by Utmost to the Trustee to send to the member. This allows the Trustee to monitor that transactions are accurately performed within the agreed target turnaround performance standards for different activities specified under Utmost's internal service level standards.

## **Overall**

The Trustee is satisfied that over the period covered by this Statement:

- Aviva and the AVC providers were operating appropriate procedures, checks and controls, and operating within the agreed SLAs;
- there have been no material administration issues in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year by Aviva and, to the extent notified, the AVC providers.

## **4. Member-borne charges and transaction costs**

The charges incurred by members over the period covered by this Statement are set out in the tables overleaf. The total expense ratio (TER) column shows the annual fund management charges and additional fund expenses such as custody costs but excludes transaction costs. The TER represents charges paid by the members and is reflected in the unit price of the funds.

The TER includes any costs such as administration and investment borne by the members other than the transaction costs.

The transaction costs shown arise when the Scheme's fund managers buy and sell assets within investment funds. They don't include costs incurred when members invest in and switch between funds. They are borne by members.

The charges and transaction costs have been supplied by Aviva, the Scheme's platform provider. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. The method for calculating transaction costs sometimes produces a negative cost, which is



not a sensible guide to what the members will experience in future. In such cases the table shows a zero rather than a negative number.

### Default arrangements

The Default for the Scheme is the Universal Lifetime Strategy. As explained above, there is also an additional default arrangement, the My Cash Fund.

The Default Lifetime has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which funds they are invested.

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

#### Universal Lifetime Strategy - charges and transaction costs

| Years to target retirement date | TER<br>(% pa) | Transaction costs<br>(% pa) |
|---------------------------------|---------------|-----------------------------|
| 15 years to retirement          | 0.34          | 0.10                        |
| 10 years to retirement          | 0.46          | 0.15                        |
| 5 years to retirement           | 0.57          | 0.20                        |
| At retirement                   | 0.58          | 0.20                        |

The My Cash Fund is also a default for the Scheme year and the charges and transaction costs for this fund are outlined in the table on the next page.

### Alternative Lifetime Strategies

In addition to the default, members also have the option to invest in three other lifetime strategies, targeting drawdown, annuity purchase and cash withdrawal. The annual charges for these strategies during the period covered by this Statement are set out in the tables below.

#### Annuity Focused Lifetime Strategy - charges and transaction costs

| Years to target retirement date | TER<br>(% pa) | Transaction costs<br>(% pa) |
|---------------------------------|---------------|-----------------------------|
| 15 years to retirement          | 0.34          | 0.10                        |
| 10 years to retirement          | 0.46          | 0.15                        |
| 5 years to retirement           | 0.57          | 0.20                        |
| At retirement                   | 0.29          | 0.02                        |

#### Drawdown Focused Lifetime Strategy - charges and transaction costs

| Years to target retirement date | TER<br>(% pa) | Transaction costs<br>(% pa) |
|---------------------------------|---------------|-----------------------------|
| 15 years to retirement          | 0.34          | 0.10                        |
| 10 years to retirement          | 0.46          | 0.15                        |
| 5 years to retirement           | 0.57          | 0.20                        |
| At retirement                   | 0.49          | 0.16                        |

### Cash Focused Lifetime Strategy - charges and transaction costs

| Years to target retirement date | TER<br>(% pa) | Transaction costs<br>(% pa) |
|---------------------------------|---------------|-----------------------------|
| 15 years to retirement          | 0.34          | 0.10                        |
| 10 years to retirement          | 0.46          | 0.15                        |
| 5 years to retirement           | 0.57          | 0.20                        |
| At retirement                   | 0.44          | 0.07                        |

### **Self-select funds**

Members may also choose between a number of self-select investment options. The charges for these funds and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the Defaults are shown in **bold** as is the My Cash Fund (which was also a default fund during the Scheme year).

As noted in section 3 of the Statement, owing to some errors, a small cohort of members are invested in the blended funds used in the Lifetime strategies. As such, the funds marked with a \* are not currently offered on a self-select basis other than in exceptional cases that have been specifically agreed.

### Self-select fund charges and transaction costs

| Fund name                                | TER<br>(% pa) | Transaction costs (% pa) |
|--|---------------|--------------------------|
| <b>My Global Shares Fund</b>             | <b>0.34</b>   | 0.10                     |
| <b>My Balanced Growth Fund*</b>          | <b>0.57</b>   | 0.20                     |
| <b>My Approaching Retirement Fund*</b>   | <b>0.58</b>   | 0.20                     |
| My Lump Sum Targeting Fund*              | 0.44          | 0.07                     |
| My Pre-Retirement (Annuity Focused) Fund | 0.30          | 0.03                     |
| <b>My Cash Fund</b>                      | <b>0.26</b>   | 0.01                     |
| My Diversified Growth Fund               | 0.47          | 0.00                     |
| My Diversified Growth (Active) Fund      | 0.56          | 0.56                     |
| My Property Fund                         | 0.88          | 0.11                     |
| My UK Shares Fund                        | 0.26          | 0.20                     |
| My Ethical Global Equity Fund            | 0.51          | 0.01                     |
| My Emerging Markets Equity Fund          | 0.60          | 0.02                     |
| My Islamic Global Equity Fund            | 0.66          | 0.02                     |

## AVC assets

The Trustee has a policy with Standard Life and over the period covered by this Statement, the following funds had member assets invested in them

| Fund name  | TER<br>(% pa) | Transaction<br>costs (% pa) |
|--|---------------|-----------------------------|
| Standard Life Pension Millennium With Profits Fund | 1.15          | 0.00                        |
| Standard Life Pension With Profits Fund            | 1.75          | 0.00                        |

The charges for each Utmost AVC fund in which members are invested over the period covered by this Statement are set out in the following table. Transaction costs for the Scheme year end were not available at the time of writing. We are continuing to follow-up with Utmost to obtain this information.

## Utmost Life & Pensions

| Fund name              | TER<br>(% pa) | Transaction costs<br>(% pa) |
|------------------------|---------------|-----------------------------|
| Managed Pension Fund   | 0.75          | 0.13                        |
| UK Equity Fund         | 0.75          | 0.54                        |
| UK FTSE All Share Fund | 0.50          | 0.11                        |
| European Equity Fund   | 0.75          | 0.47                        |
| US Equity Fund         | 0.75          | 0.18                        |
| Global Equity Fund     | 0.75          | 0.28                        |

## Illustration of charges and transaction 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. In preparing this illustration, we had regard to the relevant statutory guidance. In order to provide this example, the Trustee has to make a number of assumptions; these assumptions are explained below:

- The “before costs” figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The “after costs” figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past three years (where available), subject to a floor of zero (so the projection does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past three years for the My Cash Fund, My Pre-Retirement (Annuity Focused) Fund and the My Diversified Growth (Active) Fund as this is the longest period over which figures were available and should be more indicative of longer-term costs compared to only using figures over the latest Scheme year. For the My Universal Lifetime Strategy and the My Emerging Markets Equity Fund, we have used two-year transaction costs figures as this is the longest period over which figures were available due to the when the funds were added to the Scheme.
- The illustration is shown for:
  - the Default Lifetime since this is the arrangement in which most members are invested, as well as four funds from the Scheme's self-select fund range. The four self-select funds shown in the illustration are:

- the My Emerging Markets Equity Fund because it is the self-select fund with the highest before costs expected return
- the My Cash Fund because it is the self-select fund with the lowest before-costs expected return. (It is also a default, as explained above.)
- the My Diversified Growth (Active) Fund, because it is the self-select fund with highest annual member-borne costs.
- the My Pre-Retirement (Annuity Focused) Fund which has the second lowest member-borne charges because the fund with the lowest annual member-borne costs, namely the My Cash Fund is already shown.

### Projected pension pot in today's money

| Years invested | Universal Lifetime Strategy |             | My Emerging Markets Equity Fund |             | My Cash Fund |             | My Diversified Growth (Active) Fund |             | My Pre-Retirement (Annuity Focused) Fund |             |
|----------------|-----------------------------|-------------|---------------------------------|-------------|--------------|-------------|-------------------------------------|-------------|--|-------------|
|                | Before costs                | After costs | Before costs                    | After costs | Before costs | After costs | Before costs                        | After costs | Before costs                             | After costs |
| 1              | £16,700                     | £16,600     | £16,800                         | £16,700     | £15,900      | £15,900     | £16,400                             | £16,300     | £16,000                                  | £16,000     |
| 3              | £22,200                     | £22,000     | £22,800                         | £22,400     | £19,700      | £19,600     | £21,400                             | £20,800     | £20,000                                  | £19,800     |
| 5              | £28,100                     | £27,600     | £29,200                         | £28,500     | £23,400      | £23,100     | £26,500                             | £25,400     | £23,800                                  | £23,500     |
| 10             | £44,200                     | £42,900     | £47,400                         | £45,400     | £31,800      | £31,200     | £39,800                             | £36,900     | £32,900                                  | £32,200     |
| 15             | £62,700                     | £60,000     | £69,400                         | £65,100     | £39,500      | £38,500     | £54,000                             | £48,600     | £41,400                                  | £40,200     |
| 20             | £83,800                     | £79,200     | £95,700                         | £88,100     | £46,400      | £44,900     | £69,000                             | £60,300     | £49,200                                  | £47,500     |
| 25             | £108,100                    | £100,700    | £127,400                        | £114,800    | £52,600      | £50,700     | £85,100                             | £72,100     | £56,400                                  | £54,100     |
| 30             | £133,900                    | £122,500    | £165,500                        | £146,100    | £58,300      | £55,800     | £102,100                            | £84,100     | £63,200                                  | £60,200     |
| 35             | £159,300                    | £142,000    | £211,300                        | £182,500    | £63,400      | £60,400     | £120,300                            | £96,100     | £69,400                                  | £65,700     |
| 40             | £176,300                    | £152,700    | £266,400                        | £225,000    | £68,000      | £64,400     | £139,600                            | £108,200    | £75,200                                  | £70,700     |

### 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.
- The starting pot size used is £14,000. This is the approximate average (median) pot size for active members aged below or equal to the active median age of 38 years (rather than using a whole membership average, we have taken this approach to give a more realistic 40-year projection).
- The starting salary is assumed to be £25,000. This is the approximate median salary for active members aged below or equal to the active median age of 38 years.
- Total contributions (employee plus employer) are assumed to be 9.0% of salary per year.
- 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 projection is for 40 years, being the approximate duration that the youngest Scheme member has until they reach the Scheme's Normal Pension Age.
- The projected annual returns<sup>1</sup> used are as follows:
  - Default option: 2.75% above inflation for the initial years, gradually reducing to a return of 0.00% at the ending point of the lifetime.
  - My Emerging Markets Equity Fund: 3.75% above inflation.
  - My Cash Fund: 2.00% below inflation (also a default for regulatory purposes).
  - My Diversified Growth (Active) Fund: 1.25% above inflation.
  - My UK Pre-Retirement (Annuity Focused) Fund: 1.50% below inflation.

<sup>1</sup> No allowance for active management outperformance has been made.

## 5. Value for members assessment

The Trustee has worked with their advisers, Lane Clark & Peacock LLP, to carry out a detailed assessment of the extent to which all key elements of the Scheme represent value for money over the Scheme Year ending 31 March 2021.

The Trustee reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The date of the last review was: 7 July 2021. There is no legal definition of 'good value' which means that determining this is subjective. The Trustee notes that value for money does not necessarily mean the lowest fee: and also considers the overall quality of the service received. The Trustee has rated the Scheme against eight criteria. The assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

The Trustee continues to use ratings from 'poor' to 'very good' to facilitate comparisons with previous years. Where relevant, the rating also incorporates a comparison with other UK Pension Schemes.

1. **Charges** – Very good – the costs borne by members are good value given the size of the Scheme. Relative to other similar sized schemes, the fees are very competitive. The Trustee actively monitors fees on a regular basis.
2. **Administration** – Fair – Overall, Aviva marginally missed its SLA target over the year because of the Covid-19 pandemic. There were errors in the implementation of the July 2019 investment strategy changes, which the Trustee has been working with Aviva to resolve. Aviva has updated its processes to prevent errors like this happening again and will compensate all members who were adversely affected by the errors. The Trustee has commissioned an independent audit of Aviva's Scheme setup over the next Scheme year to provide additional assurance to the Trustee that the member rectification exercise has been completed to an acceptable standard.
3. **Governance** – Very good – the Trustee is very committed to the Scheme and how it is run.
4. **Communications** – Very good – communications are clear, tailored and informative. Improvements were made to the Scheme website and member Annual Benefit Statements shortly after the Scheme year end.
5. **Default investment arrangement** – Very good – the "Universal" default investment strategy, implemented in July 2019, was reviewed during the Scheme Year. Overall, the Trustee is confident that this strategy is appropriate for most members. The Trustee agreed one fund change to the underlying equity allocation within the My Global Shares and My Balanced Growth Funds. The implementation of this change will be considered over the upcoming Scheme Year. The additional default, the My Cash Fund, performed in line with expectation and was appropriate as a temporary fund for member contributions during the suspension of the My Property Fund.
6. **Self-select investment range** – Very good – the Scheme offers three alternative lifetime strategies which target the three main retirement choices. The self-select fund range is concise, offers good value and covers all major asset classes. The Trustee reviewed the alternative lifetime strategies and the self-select range during the year and agreed to replace the underlying fund used in the My Ethical Global Equity Fund and to make the fund change agreed for the Default Lifetime to the alternative lifetime strategies. The implementation of these changes will be considered over the upcoming Scheme year.
7. **At - retirement services** – Good – members have access to the full range of investment options, paid-for advice in respect of annuity options and support when making decisions. The Trustee has agreed to review the post-retirement investment offering should it see sufficient member demand.
8. **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 good value for money for the charges and costs that they incur. The Trustee believes this 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% pa).
- The Scheme offers a wide range of services to ensure members receive a quality service.
- The Trustee carries 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 Trustee includes '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 has measures in place to comply with the legal requirements for knowledge and understanding of matters relevant to running a pension scheme, including investment, pension and trust law. Details of how the Trustee has met these requirements during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. There are at least two dedicated training sessions each year. The Trustee's advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee and DC Sub-committee ("DCSC") meetings if they are material.

Additionally, the Trustee receives quarterly updates on topical pension issues from its investment advisers and legal advisors.

All Trustee Directors are familiar with and have access to copies of the Scheme's governing documentation and documentation setting out the Trustee's policies, including the Trust Deed & Rules and Statement of Investment Principles (which sets out the Trustee's policies on investment matters). The Trustee Directors believe that they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

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

- Overview of the Scheme;
- Introduction to Trustee role;
- Overview of a DC Scheme;
- Pension scheme funding training;
- Pension scheme investment training;
- GDPR; and
- Trustee toolkit (an online learning programme, designed to help trustees of occupational pension schemes meet the minimum level of knowledge and understanding required by law).

All Trustee Directors are required to commit to completing the training, either at the relevant meetings or by personal study. The Trustee's DC adviser provided a training session on 28 June 2020 to cover much of the Scheme specific DC training.

Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Scheme year.

There is a Training and Development Framework in place. This was last reviewed and updated in March 2019. It documents how gaps in the Trustee Directors' knowledge will be identified using self-assessment questionnaires. The questionnaires are completed each year and are reviewed at least every two years or more frequently if there is a significant change to the Pensions Regulator's expectations of trustees. Any gaps are discussed 1:1 with the Chair of the Trustee Board to agree individual training and development activities. The Trustee also commissioned an external trustee effectiveness analysis, which concluded in 2019, to ensure that Trustee skills and core competencies are identified. The Trustee has planned to undertake a further Trustee effectiveness analysis in 2022.

A training log is maintained and updated on a quarterly basis in line with best practice. Progress against the agreed plan will be discussed at the following year's 1:1 review sessions.

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

- a rolling programme of bespoke Trustee training delivered as separate training sessions or during Trustee and DCSC meetings as appropriate;
- 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 Director "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; and
- carrying out an effectiveness self-assessment from time to time.

Over the Scheme year, the Trustee Directors received training on the following:

- DC Developments (Pension Schemes Bill, State Pension rates, SIP registry, Charge cap, Pension scams, General levy consultation, DWP working group – solutions to small pots issue and Pensions dashboard);
- Environmental, Social and Governance ("ESG") developments;
- Climate change related duties and risks;
- Managing conflicts of interest;
- Covid-19 impact;
- TPR Single Code of Practice;
- Implementation statement;
- Consultation on Annual Benefits Statements;
- New TPR compliance guidance;
- 2021 Budget; and
- Consultation on increase to normal minimum pension age

The knowledge and experience of the Trustee Board 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 and the Chair of the DCSC are professional trustees who have many years' experience of acting as pension scheme trustees for a number of different schemes.
- The Trustee Board's specialist legal, actuarial and DC advisers attend DCSC and 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.

Considering the knowledge and experience of the Trustee Directors and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors, the Trustee believes it is well-placed to exercise its functions properly and effectively.

Huw Evans

---

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

22 October 2021

---

Date



## Appendix to the Chair's Statement:

### Statement of Investment Principles – Extracts covering DC default fund

#### B. Defined Contribution Section – “DC Section”

##### Investment Objectives

The Trustee's primary objective for the DC section of the Scheme is to provide members with access to;

- an appropriate range of investment options, reflecting the membership profile and which will enable members to accumulate a fund to provide suitable benefits at retirement.
- a default investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The objective of the default option is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement.

##### Investment Policy

The Trustee's policy to achieve this objective is to provide a range of funds and lifestyle funds which offer a suitable mixture of real and other assets and a default investment strategy appropriately targeted for the membership. 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

When deciding how to invest the Scheme's assets, the Trustee has considered several investment risks in the DC Section, including, but not limited to, those set out below:

- *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.
- *Valuation risk* is the risk that it is not possible to value accurately some, or all of the underlying assets held within a fund due to market specific circumstances. This may mean that a sufficiently reliable fund unit price cannot be established. The Trustee seeks to appoint investment managers who will manage this risk appropriately should such circumstances occur by, for example, suspending dealing in any affected fund where this is in investors' best interests. The Trustee reviews this risk from time to time and in particular during periods of adverse or unusual market conditions.
- *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.
- *Environmental, social and governance (ESG) risks* – Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and regularly reviews how these risks are being managed in practice.

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 fund range and default strategy remain suitable, 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 in normal circumstances intended to be realisable to provide pension benefits on retirement, or earlier on death or transfer to another pension arrangement.

### **Investment arrangements**

The Trustee has entered into a contract with a platform provider, Aviva, who makes available the range of investment options to members. There is no direct relationship between the Scheme and the underlying investment managers of the DC investment funds.

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 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 choices members make at retirement to check whether assumptions made about how members will access their benefits are borne out in practice.

One of the self-select options the Trustee offers members is the 'My Property Fund'. Following a decision to temporarily close the 'My Property Fund' from March to September 2020 (due to the suspension of trading by the underlying manager Threadneedle) contributions were redirected into the 'My Cash Fund' until such time as the Property Fund could reopen. As members' contributions were directed into the 'My Cash Fund' without them making an active selection, this fund will be treated as a default for the purpose of fulfilling legislative requirements and will be captured as a default in the Scheme's Chair's Statement. Due to the nature of property fund investments, the My Property Fund could suspend again in difficult market conditions. As such, the Trustee may again use the My Cash Fund to redirect member contributions should this occur.

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

## **Monitoring**

When the Trustee decides to invest in pooled investment vehicles, it recognises that due to the collective nature of these investments, there is less scope to directly influence how the asset manager invests. In such instances, the Trustee's investment advisers ensure the investment objectives and guidelines of the manager are consistent with that of the Trustee.

When relevant, the Trustee requires its investment managers to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, subject to a minimum of three years. The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team.

Managers are paid an ad valorem fee for a defined set of services. The Trustee reviews the fees annually to confirm they are in line with market practices, notably when the Trustee expects the manager to take an active ownership approach and consider long-term ESG factors.

The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers annually, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

The Trustee's policy towards monitoring non-financial performance is set out in the Responsible Investment section of the SIP.

The DC assets are predominantly held in pooled funds and the Trustee recognises that managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy.

As such, the Trustee recognises its responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies.

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. The investment advisor will also advise the Trustee on selection and review of investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and ESG considerations).

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.

The platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing the Trustee with regular information concerning the management and performance of the assets.
- Administering member assets.

The Trustee reviews the performance of the platform provider on a regular basis.

## **C. Responsible Investment**

### **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 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 recognises that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights are important as they help preserve and enhance asset owner value over the long term.

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

The Trustee expects their investment managers to practice good stewardship. This includes monitoring, engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social or governance considerations, and using voting rights to effect the best possible long-term outcomes.

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, and reports to the Trustee on a regular basis.

When selecting, monitoring and de-selecting asset managers, stewardship 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 asset managers of the Scheme. The Trustee monitors and discloses the voting records of its managers on an annual basis.

---

## Appendix A - Defined Contribution Section

The primary default option is a lifetime strategy, the Universal Lifetime Focused strategy. In addition, the My Cash Fund is also classified as a default for the purpose of fulfilling legislative requirements due to the My Property Fund being temporarily suspended from March to September 2020.

Details of the funds underlying the Universal Lifetime Focused strategy and the My Cash Fund, a standalone default fund, 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 shown below are building blocks of the default lifetime strategies as well as the My Cash Fund.

| White label fund name          | Underlying fund name  | Benchmark   | Objective   |
|--------------------------------|---|---|---|
| My Global Shares fund          | 50% BlackRock Aquila World Index Fund<br>50% LGIM Diversified Equity Factor Fund  | 50% FTSE All World Developed Index<br>25% MSCI World<br>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 Balanced Growth Fund        | 10% Newton Global Dynamic Bond Fund<br>20% BlackRock World Equity Index Fund<br>20% LGIM Diversified Equity Factor Fund<br>25% Baillie Gifford Multi Asset Growth Fund<br>25% LGIM Diversified Fund | 10% 1 month £ LIBOR + 2% pa<br>20% FTSE All World Developed Index<br>10% MSCI World<br>10% MSCI World (100% GBP Hedged)<br>25% BoE Base Rate + 3.5% pa<br>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<br>25% Baillie Gifford Multi Asset Growth Fund<br>25% LGIM Diversified Fund<br>25% BlackRock Cash Fund  | 25% 1 month £ LIBOR + 2% pa<br>25% BoE Base Rate + 3.5% pa<br>25% 3-month LIBOR + 3.5% pa<br>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 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.  |

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 following page.

| 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%                      |



## LV= Employee Pension Scheme Statement of Investment Principles (“SIP”) Implementation Statement

### 1. Introduction

This SIP Implementation Statement (“the Statement”) has been prepared by The LV= Pension Trustee Limited (“the Trustee”) in relation to the LV= Employee Pension Scheme (“the Scheme”).

This is the first Statement produced by the Trustee as required by changes in legislation and is expected to evolve overtime. This Statement:

- describes any review of the SIP undertaken during the year;
- explains any changes made to the SIP during the year and the reasons for the changes;
- sets out how, and the extent to which, in the opinion of the Trustee, the SIP has been followed during the year; and
- describes the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) during the year and states any use of the services of a proxy voter during that year.

| Section     |
|-------------|
| 2           |
| 2           |
| 3, 4, 5 & 6 |
| 7, 8 & 9    |

This Implementation Statement covers the period 1 April 2020 to 31 March 2021, the Scheme’s reporting year, in line with the regulations that came into force in October 2019.

### 2. SIP Updates

The SIP (covering both the DB and DC sections) that is most relevant for this reporting period is the document last updated on 22 September 2020. However this does not fully cover the reporting period, which means the previous SIP dated 26 September 2019 should also be considered. This Statement uses the same headings as the Scheme’s SIP that was adopted on 22 September 2020.

The Trustee has, in its opinion, followed the measures set out in the Scheme’s SIP during the Scheme Year. The following Sections provide detail and commentary about how and the extent to which it did this.

The SIP was reviewed and updated in September 2020 to comply with amendments to investment regulations applying to occupational pension schemes, which came into force on 1 October 2020. These new regulatory requirements incorporated the Shareholder Rights II Directive (“SRD II”) into UK law and required pension scheme SIPs to be updated to include further details on:

- the Trustee’s arrangements with investment managers, including how they are incentivised to behave and invest in line with the Trustee’s policies and how the Trustee will monitor each manager’s performance, fees and portfolio costs; and
- the Trustee’s stewardship and engagement policy, including the exercise of the rights (including voting rights) attached to the investments.

### **3. Overview of Trustee's Actions – Defined Benefit ("DB Section")**

#### ***Investment Objectives and Strategy***

During the reporting period there was no change to the DB Section's primary funding objective 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. The Trustee keeps these objectives in mind when deciding whether to change the investment strategy.

There was one significant change to the strategic asset allocation ("SAA") over the reporting period. On the 2<sup>nd</sup> of June 2020, the Trustee entered into a buy-in contract which aims to closely match the pension payments for the majority of the DB Section's pensioners and a small number of the deferred members. The responsibility of meeting the pension payments remains with the Trustee, but the contract is a Scheme asset which reduces the level of risk in the overall portfolio.

The buy-in contract made up almost half (c.43%) of the DB Section's assets as at 31 March 2021. A portion of the holdings in BlackRock's Segregated LDI, Threadneedle UK Corporate Bond Fund and the Threadneedle US Corporate Bond Fund were transferred over to Phoenix Life Limited in June 2020 as payment for the buy-in contract. To diversify the sources of return and reduce reliance on the CTI Dynamic Real Return Fund (existing Diversified Growth Fund mandate) around £10m was transferred from BlackRock LDI to the Aberdeen Life Diversified Growth Fund in June 2020.

Overall, the DB Section's agreed SAA reflects the Trustee's view of the most appropriate investments and balance different funds' risk/reward characteristics to support the funding objective. Further changes to the investment strategy were agreed following the completion of the buy-in contract. These were implemented after 31<sup>st</sup> March 2021 and so will be reported in the next implementation statement.

#### ***Trustee's policies for investment managers***

The Trustee relies on Investment Managers for the day-to-day management of the Scheme's assets but retains control over the Scheme's investment strategy.

The Investment Managers are responsible for the day-to-day management of the Scheme's assets in accordance with guidelines agreed with the Trustee, as set out in the Investment Management Agreements ("IMAs") or pooled fund prospectuses. The Investment Managers have discretion to buy, sell or retain individual securities in accordance with these guidelines. Each of the Investment Managers' fees are related to the amount of assets managed within their portfolios. Minimum fees may also apply in some cases.

#### ***Trustee's policies on Responsible Investment***

The Trustee believes that it should act as a responsible steward of the assets in which the Scheme invests as this can improve the longer-term returns of its investments. The Trustee notes that sustainable financial outcomes are better leveraged when supported by good governing practices, such as board accountability. For a review of the Responsible Investment policies, please see section 6.

## **4. Review of DB SIP Policies**

### **4.1. DB Section Objectives**

The Trustee considers and monitors multiple metrics to ensure progress towards objectives (outlined below), including its primary responsibility which is to manage the DB Section so that members receive their benefits as and when they fall due. This objective was met during the reporting period. The Trustee engaged with the employer regarding its financial strength and the likelihood of further contributions. The Trustee also obtained guidance and written advice from its Investment Consultant, Redington, as appropriate. The majority of the advice was provided at Funding and Investment Sub-Committee ("FISC") meetings, where papers were submitted in advance and then discussed at the meeting.

### **4.2. Investment Strategy**

The Trustee uses the Pensions Risk Management Framework ("PRMF") to monitor progress towards its objective. The PRMF sets out the return target, risk tolerance, hedging levels and collateral requirements for the investment strategy. It was reviewed monthly in between meetings, and quarterly by the Trustee at FISC meetings, with clear written advice provided by the Investment Consultant when any of the metrics used to measure the objectives fell outside the pre-agreed constraints.

### **4.3. Strategic Asset Allocation**

The Trustee reviewed the SAA to ensure that the portfolio maintained its suitability for the Scheme's objectives. If issues arise outside of the Trustee's annual review, these would be flagged at the quarterly FISC meetings and discussed. The Investment Consultant communicates this to the FISC, with any advice that may be required. No such issues arose during the reporting period.

The most recent review of the SAA was undertaken in September 2020 following the Scheme entering into a buy-in contract on the 2<sup>nd</sup> of June 2020. However, as mentioned above, the resulting changes were made after 31 March 2021 and so will be reported in the next Implementation Statement.

### **4.4. Balance between different kinds of investments**

The DB Section holds a wide variety of different investments, including a buy-in contract. The assets that do not relate to the buy-in are diversified across major markets to ensure that the overall portfolio is well diversified. The buy-in provides the vast majority of the Scheme's cashflow needs, and other expenses are typically met from the most liquid asset class (cash within the LDI portfolio).

### **4.5. Kinds of investments to be held**

The Trustee maintains a list of investments currently permitted and seeks guidance and written advice from its Investment Consultant as appropriate. Over the year the Scheme was only invested in permitted assets.

### **4.6. Choosing investments**

The Trustee delegates all day-to-day DB Section investment duties to the DB Section's Investment Managers. The Scheme holds investments in both segregated and pooled arrangements. For the segregated arrangements, the long-term relationships between the Trustee and its managers are set out in separate IMAs that document the investment guidelines within which they must operate

For pooled arrangements, the Scheme's investments are managed according to standardised fund terms. These terms are reviewed by the Scheme's legal advisors and Investment Consultant at the point of investment

to ensure that they are aligned with the Scheme's long-term investment strategy and market best practice.

#### **4.7. Risks**

The SIP lists a number of risk factors that the Trustee believes may result in a failure to meet the agreed objectives. The Trustee monitored and managed these risks through measures specific to each risk on a quarterly basis. It sought guidance and written advice from its Investment Consultant as appropriate. One example of a change that was made following a review of the PRMF was to increase the level of interest rate and inflation hedging to be in line with the improving funding level and to reflect the buy-in.

#### **4.8. Custody**

HSBC is the Scheme's appointed custodian. Their primary role is the administration of the Scheme's funds held in the segregated arrangements. The Scheme's pooled fund assets have their own dedicated custodian.

#### **4.9. Monitoring**

Investment Manager performance was reviewed quarterly through the use of the Manager Monitoring Report over both a short and long-term investment horizon.

Long-term investment manager suitability is typically reviewed every three years. The Trustee seeks guidance and written advice from its Investment Consultant as appropriate.

The Trustee, with help from Redington, reviews the fees, transaction costs and turnover requirements annually to confirm they remain reasonable. These reviews are done annually and the latest review (completed in May) showed that all manager fees were inline or better than that available in the market. If any of these had become unreasonable, this would be communicated to the Trustee and action would be taken.

#### **4.10. Rights attaching to investments**

Evidence of voting rights during the reporting period are outlined on in Section 7 of this statement.

#### **4.11. Additional Assets**

As additional voluntary contributions (AVCs) are invested with the main DB Section's assets the comments in sections 4.1-4.11 apply. The Trustee has not made any changes to the manager arrangements during the period covered by this document. It seeks guidance and written advice from its Investment Consultant as appropriate.

### **5. Review of DC SIP Policies**

#### **5.1. Investment Objectives, Investment Policy and Default investment strategy**

The Trustee, with the help of its advisers and in consultation with the sponsoring employer, conducted a formal review of the strategy and performance of the default arrangements, alternative lifetime strategies and self-select range in March 2021. The Trustee considered the DC Section's membership demographics and the variety of ways that members may draw their benefits in retirement from the DC Section as part of this review.

Based on the outcome of this analysis, the Trustee concluded that the main default arrangement, the Universal Lifetime Strategy, has been designed to be in the best interests of the majority of the DC Section members and reflects the demographics of those members. As part of the formal strategy review, the Trustee agreed to

introduce an allocation to a climate-tilted equity fund in the lifetime strategies. The Trustee is currently considering the implementation of these changes.

There was a small cohort of members who, at the time of the previous strategy review that concluded in March 2018:

- had both DC and DB pension entitlements within the Scheme;
- were invested in the Cash Focused Lifetime Strategy; and,
- were less than 10 years from their target retirement dates.

At the time of the implementation of investment changes (July 2019), these members – together with the rest of the DC Section membership – were given the option to change their investment options. If they did not make an investment choice, they remained invested in Cash Focused Lifetime Strategy. The Trustee reviewed the demographics of this cohort of members as part of the March 2021 formal strategy review and concluded that the Cash Focused Lifetime Strategy continued to be appropriate for these members.

In addition to the main default arrangement, the suspension of the My Property Fund in March 2020 due to the Covid-19 pandemic resulted in the My Cash Fund being classified as a default arrangement for governance purposes. The Trustee reviewed the My Cash Fund, along with the rest of the investment arrangements as part of the strategy review and concluded that it remained appropriate.

The Trustee also provides members with access to a range of investment options which it believes are suitable for members to self-select and enable appropriate diversification based on members' attitude to investment risk. The Trustee has made available alternative lifetime strategies which are focussed towards different retirement outcomes and a self-select fund range to members covering all major assets classes as set out in Appendix A of the SIP.

The Trustee regularly monitors the take up of the alternative lifetime strategies and self-select fund range and recognises that it is limited.

## **5.2. Risks**

Risks are monitored on an ongoing basis with the help of the investment adviser. In the SIP, the Trustee has stated its policy in relation to specific risks together with how these risks are managed by the Trustee.

The Trustee addresses the risk of inadequate returns by making use of equity and equity-based funds that are expected to provide positive returns above inflation over the long term. These are used in the growth phase of the default strategy and are also made available within the self-select options. These funds are expected to produce adequate real returns over the longer term.

The Trustee addresses valuation risk by appointing investment managers that are expected to manage this risk appropriately. In March 2020, just prior to the Scheme Year covered by this Statement, the underlying fund of the My Property Fund was suspended due to uncertainty in the valuations of the underlying assets due to the Covid-19 pandemic. This suspension was lifted in September 2020 once this valuation risk was no longer a concern.

Section 5.1 covers risks in relation to lack of diversification. Manager risk is covered in Section 5.7. The risk of excessive charges is covered under Section 5.5. Illiquidity risk is covered under Section 5.4. ESG risks are covered in Section 6.1.

As part of the formal strategy review on 4 March 2021, the Trustee considered the investment risks set out in the SIP. It also considered a wide range of asset classes for investment, taking into account the expected

returns and risks associated with those asset classes as well as how these risks can be mitigated. The Trustee concluded that the performance has been broadly as expected and was in line with the stated aims and objectives and that the design of the Default Lifetime remains appropriate given the Scheme's risk profiles and membership.

The Trustee maintains a risk register which is discussed at quarterly meetings, over the Scheme year. The Trustee is happy that Scheme risks have been monitored and managed appropriately and changes to these risks have been appropriately captured.

### **5.3. Suitability**

The Trustee's policy in the SIP covering Suitability and how this was addressed during the Scheme year is covered in Section 5.1.

### **5.4. Liquidity**

It is the Trustee's policy to invest in funds that offer regular dealing to enable members to readily realise and change their investments. All of the DC Section funds which the Trustee offers are open-ended and daily priced.

### **5.5. Charges, transaction costs and value for money**

The Trustee undertook a value for members' assessment on 7 July 2021. This covered the same period as this Statement and assessed a range of factors, including the fees payable to managers in respect of the DC Section. These were found to be competitive when compared against schemes of similar sizes. As part of the value for members assessment the Trustee evaluated the long-term transaction costs incurred by members to ensure that they are appropriate and enable it to query any transaction costs considered to be higher than expected with the relevant investment managers.

Value for money is also included on the Scheme's risk register, which was discussed at quarterly meetings and also explicitly presented to the Trustee at the July meeting. Overall, the Trustee concluded that the investment managers provide good value for members.

### **5.6. Default investment strategy and other investment options**

Details relating to the review of the default arrangements, alternative lifetime strategies and self-select range are covered in Section 5.1.

### **5.7. Monitoring**

The Trustee has entered into a contract with a platform provider, Aviva, who makes available the range of investment options to members. As all the funds are accessed via an agreement with the Scheme's platform provider, there is no direct legal relationship between the Scheme and the underlying investment managers of the DC Section investment funds. Nevertheless, the Trustee is responsible for appointing and providing governance oversight of the managers which the Scheme accesses via the Aviva arrangement. The Trustee delegates the monitoring of Aviva's performance to the Defined Contribution Sub-Committee ("DCSC"). The DCSC reviews Aviva's performance on an annual basis and the service Aviva provides members on an annual basis as part of the Value for Money assessment.

The DC section's investment adviser, LCP, monitors the managers on an ongoing basis, through regular research meetings. LCP also monitors any developments at managers and informs the Trustee promptly about

any significant updates or events they become aware of with regard to the DC Section's managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the DC Section invests in, or any material change in the level of diversification in the fund. As part of the formal strategy review noted in Section 5.1 LCP included updates to any research views of the DC Section's manager arrangements.

As part of its advice on the selection and ongoing review of the investment managers LCP incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

The Trustee was comfortable with all of its investment manager arrangements based on LCPs monitoring of the arrangements in the quarterly performance reports and the findings of the 4 March 2021 strategy review. Therefore, no changes were made to the manager arrangements over the Scheme Year.

The Trustee monitors the performance of the DC Section's investment managers at triannual Trustee meetings, using the quarterly performance monitoring reports. The reports show the performance of each manager over the quarter, one year as well as three and five years where performance data is available. Performance is considered in the context of the manager's benchmark and objectives.

The most recent quarterly performance monitoring report shows that all managers have performed broadly in line with expectations over the long-term with the exception of the My Diversified Growth (Active) Fund. The underlying allocation of this Fund was changed on 9 July 2019 and historic (under)performance over three and five years relates to the Fund's former underlying manager. However, the My Diversified Growth (Active) Fund has achieved its target over shorter time periods under the current manager.

The Trustee's monitoring of manager fees is covered under Section 5.5.

## **6. Review of Responsible Investment Policies (applies to both DB and DC Sections)**

### **6.1. Environmental, Social and Governance Factors and Stewardship**

Environmental, Social and Governance ("ESG") factors would have been considered in any selection and monitoring processes, but no new managers were selected over the reporting period. Over the 12 months, all Investment Managers were signatories of the UN PRI.

For the DB Section, the Trustee has delegated Investment Managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations. The investment advisor considers ESG risks when making recommendations to the Trustee and the Trustee considers ESG risks when making investment decisions. Managers' approaches to ESG are one of several key factors that are assessed by the Trustee's investment advisor when making manager recommendations to the Trustee, and these are monitored by the investment advisors on an ongoing basis after appointment. In addition, the UN PRI ESG ratings are included in the quarterly manager monitoring reports received by the Trustee and discussed at FISC meetings.

For the DC Section, as part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement. In March 2021, the Trustee reviewed LCP's responsible investment (RI) scores for the existing managers and funds, along with LCP's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on

LCP's Responsible Investment Survey 2020. The highest score available is 4 (strong) and the lowest is 1 (weak). This Scheme Year none of the DC Section's managers scored a 2 or lower. Therefore, the Trustee was satisfied with the results of the review and no further action was taken.

As part of the formal strategy review of the DC Section conducted in March 2021, the Trustee agreed to introduce an allocation to a climate-tilted equity fund in the lifetime strategies and a replacement fund underlying the My Ethical Fund. As noted under Section 5.6, the Trustee is currently considering the implementation of these changes.

The Trustee requires its managers to practise good stewardship on its behalf in order to promote the long-term success of the Trustee's investments. The Trustee discloses manager voting records to members annually in this Statement. The manager voting records are included in Section 8.

## **7. Voting behaviour**

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its Investment Managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year. A description of the Scheme's managers' use of proxy voting services has been included in sections 8 and 9.

In this Implementation Statement we have included voting data on the Scheme's funds that hold equities as follows:

### **DB Section**

- Threadneedle Dynamic Real Return Fund
- Aberdeen Standard Investments Life Diversified Growth Fund

### **DC Section**

- BlackRock Aquila World Equity Index Fund (*underlying fund of the My Global Shares Fund and My Balanced Growth Fund*)
- LGIM Diversified Equity Factor Fund (*underlying fund of the My Global Shares Fund and My Balanced Growth Fund*)
- LGIM Diversified Fund (*underlying fund of the My Balanced Growth Fund and the My Approaching Retirement Fund*)
- Baillie Gifford Multi Asset Growth Fund (*underlying fund of the My Balanced Growth Fund and the My Approaching Retirement Fund*)
- LGIM Ethical Global Equity Index Fund (*underlying fund of the My Ethical Global Equity Fund*)
- HSBC Islamic Global Equity Index Fund (*underlying fund of the My Islamic Global Equity Fund*)

For the DC Section, the Trustee has included funds which have equity holdings – four of which are used in the default and alternative lifetime strategies, plus two self-select funds.

## **8. Voting behaviour in DB Section**

### **8.1. Columbia Threadneedle Investments ("CTI")**

#### **Voting**

Below is the voting activity over the period for the Scheme's asset managers which held listed equities over the period from 1 April 2020 to 31 March 2021. The Trustee confirms that these are within expectations and no further follow up is required.



|  | Threadneedle Dynamic Real Return Fund   |
|--|---|
| How many meetings were you eligible to vote at over the year to 31/03/2021? (1)  | 358   |
| How many resolutions were you eligible to vote on over the year to 31/03/2021? (1)   | 4659  |
| What % of resolutions did you vote on for which you were eligible?   | 98.8%   |
| Of the resolutions on which you voted, what % did you vote with management?  | 91.3%   |
| Of the resolutions on which you voted, what % did you vote against management?   | 6.3%  |
| Of the resolutions on which you voted, what % did you abstain from?  | 2.4%  |
| In what % of meetings, for which you did vote, did you vote at least once against management?  | 49%   |
| Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf? | <p>Columbia Threadneedle Investments utilises the proxy voting platform of Institutional Shareholder Services, Inc. (ISS) to cast votes for client securities and to provide recordkeeping and vote disclosure services. We have retained both Glass, Lewis &amp; Co. and ISS to provide proxy research services to ensure quality and objectivity in connection with voting client securities.</p> <p>Proxy voting decisions are made in accordance with the principles established in the Columbia Threadneedle Investments Corporate Governance and Proxy Voting Principles (Principles) document, and our proxy voting practices are implemented through our Proxy Voting Policy.</p> |
| What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)   | N/A   |

### **Most significant votes**

CTI consider a significant vote to be any dissenting vote i.e. where a vote is cast against (or where we abstain/withhold from voting) a management-tabled proposal, or where they support a shareholder-tabled proposal not endorsed by management. There were no significant votes cast for the CTI Funds the Scheme is invested in. CTI report annually on their reasons for applying dissenting votes via their website. The report on dissenting votes cast across 2020 is available at:

[https://www.columbiathreadneedle.co.uk/uploads/2021/03/a3211533327fca86c825bdf2feb17125/en\\_voting\\_rationales\\_2020.pdf](https://www.columbiathreadneedle.co.uk/uploads/2021/03/a3211533327fca86c825bdf2feb17125/en_voting_rationales_2020.pdf)

**8.2. Aberdeen Standard Investments ("ASI")**

|  | Aberdeen Life Diversified Growth Fund  |
|--|--|
| How many meetings were you eligible to vote at over the year to 31/03/2021? (1)  | 403  |
| How many resolutions were you eligible to vote on over the year to 31/03/2021? (1)   | 4959   |
| What % of resolutions did you vote on for which you were eligible?   | 98.2%  |
| Of the resolutions on which you voted, what % did you vote with management?  | 87.1%  |
| Of the resolutions on which you voted, what % did you vote against management?   | 12.9%  |
| Of the resolutions on which you voted, what % did you abstain from?  | 1.7%   |
| In what % of meetings, for which you did vote, did you vote at least once against management?  | 51.4%  |
| Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf? | <p>Aberdeen Standard Investment utilise the services of ISS for all our voting requirements.</p> <p>Proxy voting decisions are made in accordance with the principles established in the Aberdeen Standard Investment Proxy Voting Principles (Principles) document provided on the website <a href="https://vds.issgovernance.com/repo/2024/policies/Listed_Company_Stewardship_Guidelines.pdf">https://vds.issgovernance.com/repo/2024/policies/Listed_Company_Stewardship_Guidelines.pdf</a>.</p> |
| What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)   | 2.9%   |

## ***Most significant vote***

ASI cast 15 significant votes over the year to 31 March 2021. Below are the details of the most significant vote:

- **AbbVie Inc., May 2020. Vote:** For (*vote against management*).

**Summary of resolution:** Report on Lobbying Payments and Policy

**Rationale:** The company discloses the significant spend on direct federal lobbying, but not the spend at the state-level. Importantly, it does not disclose a complete list of its memberships in trade associations or other advocacy groups and how much of its dues paid go toward lobbying.

## **9. Voting behaviour in DC Section**

### **9.1. Description of the voting processes**

#### **BlackRock**

Voting decisions are made by members of the BlackRock Investment Stewardship team with input from the wider investment team.

BlackRock takes a case-by-case approach to the items put to a shareholder vote. Analysis is informed by internally developed proxy voting guidelines, its pre-vote engagement with the company, its research, and any situational factors for a particular company.

BlackRock aims to vote at all shareholder meetings of companies in which its clients are invested. BlackRock will vote in favour of proposals where it supports the approach taken by a company's management or where it has engaged on matters of concern and anticipates management will address them. BlackRock will vote against management proposals where it believes the board or management may not have adequately acted to advance the interests of long-term investors.

Whilst BlackRock does subscribe to research from the proxy advisory firms, Institutional Shareholder Services ("ISS") and Glass Lewis, this is just one among many inputs into its voting analysis process. BlackRock primarily uses proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that BlackRock's investment stewardship analysts can readily identify and prioritise those companies where its own additional research and engagement would be beneficial. Other sources of information BlackRock uses includes the company's own reporting (its engagement and voting history with the company, the views of its active investors, public information and ESG research.

BlackRock has for over a decade also used an independent fiduciary, Sustainalytics, to vote proxies where they are required by regulation not to vote themselves or where there are actual or perceived conflicts of interest. The independent fiduciary makes voting decisions based solely on BlackRock's publicly available proxy voting guidelines.

#### **LGIM**

LGIM's voting and engagement activities are driven by ESG professionals and its assessment of the requirements in these areas seeks to achieve the best outcome for all its clients. LGIM's voting policies are reviewed annually via stakeholder round table events and take into account feedback from its clients received at regular meetings and/or ad-hoc comments or enquiries.

All voting decisions are made by LGIM's Investment Stewardship team and in accordance with its relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents, which are reviewed annually.

LGIM's Investment Stewardship team uses ISS' 'ProxyExchange' electronic voting platform to electronically vote. All voting decisions are made by LGIM and it does not outsource any part of the strategic decisions.

To ensure LGIM's proxy provider votes are in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers are minimum best practice standards that all companies globally should observe, irrespective of local regulation or practice. LGIM retains the ability in all markets to override any vote decisions, which are based on its custom voting policy.

### **Baillie Gifford**

All voting decisions are made by Baillie Gifford's Governance & Sustainability team in conjunction with investment managers. It does not regularly engage with clients prior to submitting votes.

Baillie Gifford's Governance and Sustainability team oversees voting analysis and execution in conjunction with its investment managers. Baillie Gifford does not outsource any part of the responsibility for voting to third-party suppliers, but it does utilise research from proxy advisers for information only. Baillie Gifford analyses all meetings in-house in line with its Governance & Sustainability Principles and Guidelines and endeavours to vote every one of its clients' holdings in all markets.

Whilst Baillie Gifford is cognisant of its proxy advisers' voting recommendations (ISS and Glass Lewis), it does not delegate or outsource any of its stewardship activities or follow or rely upon their recommendations when deciding how to vote on its clients' shares. All client voting decisions are made in-house. As such Baillie Gifford votes in line with its in-house policy and not with the proxy voting providers' policies.

### **HSBC**

HSBC exercises its voting rights as an expression of stewardship for client assets. It has global voting guidelines which protect investor interests and foster good practice, highlighting independent directors, remuneration linked to performance, limits on dilution of existing shareholders and opposition to poison pills.

HSBC uses ISS to assist with the global application of its voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene its guidelines. HSBC reviews voting policy recommendations according to the scale of its overall holdings. The bulk of holdings are voted in line with the recommendation based on our guidelines.

## 9.2. Summary of voting behaviour over the Scheme year

A summary of voting behaviour over the period is provided in the table below:

| Manager Name   | BlackRock                      | LGIM                           | LGIM             | Baillie Gifford         | LGIM                             | HSBC                             |
|--|--------------------------------|--------------------------------|------------------|-------------------------|----------------------------------|----------------------------------|
| Fund Name  | Aquila World Equity Index Fund | Diversified Equity Factor Fund | Diversified Fund | Multi Asset Growth Fund | Ethical Global Equity Index Fund | Islamic Global Equity Index Fund |
| How many meetings were you eligible to vote at over the year to 31/03/2021? (1)  | 3,298                          | 1,846                          | 11,362           | 69                      | 1,274                            | 109                              |
| How many resolutions were you eligible to vote on over the year to 31/03/2021? (1)   | 41,138                         | 22,827                         | 115,604          | 749                     | 18,215                           | 1,597                            |
| What % of resolutions did you vote on for which you were eligible?   | 95.0%                          | 99.9%                          | 99.0%            | 97.7%                   | 99.9%                            | 91.6%                            |
| Of the resolutions on which you voted, what % did you vote with management?  | 93.8%                          | 83.1%                          | 81.7%            | 92.6%                   | 83.8%                            | 87.8%                            |
| Of the resolutions on which you voted, what % did you vote against management?   | 6.2% <sup>1</sup>              | 16.5%                          | 17.7%            | 7.0%                    | 16.0%                            | 12.2%                            |
| Of the resolutions on which you voted, what % did you abstain from?  | 1.0% <sup>1</sup>              | 0.4%                           | 0.6%             | 1.5%                    | 0.3%                             | 0.0%                             |
| In what % of meetings, for which you did vote, did you vote at least once against management?                                    | N/A <sup>1</sup>               | 5.6%                           | 6.4%             | 20.3%                   | 5.1%                             | 54.9%                            |
| What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable) | N/A <sup>2</sup>               | 0.4%                           | 0.2%             | N/A <sup>3</sup>        | 0.6%                             | 8.4%                             |

Some of the percentages in the table may not sum due to rounding. <sup>1</sup> In some of the regions in which the fund invests, a vote abstention can be classed as a vote against management. Where this applies, votes against management will be included in the % of vote abstentions. <sup>2</sup> BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team. BlackRock does not blindly follow proxy advisory firms voting recommendations.

<sup>3</sup> Whilst Baillie Gifford is cognisant of its proxy advisers' voting recommendations (ISS and Glass Lewis), it does not delegate or outsource any of its stewardship activities or follow or rely upon their recommendations when deciding how to vote on its clients' shares.

The Trustee has interpreted “most significant votes” to mean those that:

- might have a material impact on future company performance;
- the investment manager believes to represent a significant escalation in engagement;
- impact a material fund holding, although this would not be considered the only determinant of significance, rather it is an additional factor;
- have a high media profile or are seen as being controversial; and
- the Scheme or the sponsoring company has a particular interest in.

Due to the number of votes provided by the DC Section’s managers the Trustee has chosen a subset of “most significant votes” to report on in this Statement. The votes selected are those which relate to ESG factors. If members wish to obtain more manager voting information, this is available upon request.

### ***Most significant votes***

#### **BlackRock Aquila World Equity Index Fund**

- **Exxon Mobil Corporation, May 2020. Vote:** Against.

**Summary of resolution:** Elect directors Angela F. Braly and Kenneth C. Frazier and require an independent Board Chair

**Rationale:** BlackRock voted against electing the two directors due to insufficient progress of TCFD aligned reporting and related action; for failure to provide investors with confidence that the board is composed of the appropriate mix of skillsets; and can exercise independence from the management team to effectively guide the company in assessing material risk to the business. BlackRock voted for the Independent Chair proposal on account of BlackRock’s belief that the Board would benefit from a more robust independent leadership structure.

**Criteria for which vote has been assessed as “most significant”:** This was considered significant as BlackRock voted against management and BlackRock considers climate change to be a key financial risk for the company.

#### **LGIM Diversified Equity Factor Fund**

- **Pearson, September 2020. Vote:** Against.

**Summary of resolution:** Amend remuneration policy was proposed at the company’s special shareholder meeting, held on 18 September 2020.

**Rationale:** Pearson issued a series of profit warnings under its previous CEO. Yet shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company’s remuneration policy. This resolution at the extraordinary general meeting (EGM) was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role. This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items and felt forced to accept a less-than-ideal remuneration structure for the new CEO. LGIM spoke with the chair of the board earlier this year, on the board’s succession plans and progress for the new CEO. LGIM also discussed the shortcomings of the company’s current remuneration policy and spoke with the chair directly before the EGM to relay their concerns that the performance conditions were weak and should be re-visited, to strengthen the financial underpinning of the new CEO’s award. LGIM also asked that the post-exit

shareholding requirements were reviewed to be brought into line with their expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.

**Criteria for which vote has been assessed as “most significant”:** Pearson has had strategy difficulties in recent years and is a large and well-known UK company. Given the unusual approach taken by the company and LGIM’s outstanding concerns, this vote is deemed to be significant.

- **Toshiba Corp., March 2021 Vote:** For

**Summary of resolution:** Resolution 1: Appoint Three Individuals to Investigate Status of Operations and Property of the Company. Resolution 2: Amend Articles to Mandate Shareholder Approval for Strategic Investment Policies including Capital Strategies

**Rationale:** Toshiba Corp’s EGM was precipitated by a significant decline in trust between its shareholders and management team following recent controversies, including allegations of abnormal practices and behaviour by the company surrounding its July 2020 AGM. As a result, the company faced two independent shareholder resolutions at the EGM calling for it to introduce remedies that would restore confidence and trust in the company’s governance, management and strategy. LGIM supported the resolution calling for the appointment of investigators to address doubts over the company’s 2020 AGM conduct and vote tallying. LGIM believe the enquiry, which is unlikely to be a burden on the company, will be an important step in rebuilding trust between shareholders and the company’s executive team and board. LGIM also supported the shareholder resolution mandating the company to present its strategic investment policy to a shareholder vote in order to send a clear message to the Toshiba Board and executive team: shareholders expect increased transparency and accountability.

**Criteria for which vote has been assessed as “most significant”:** The vote was high profile and controversial.

**Signed:** Huw Evans

**Chair of the Chair of the Trustee Board of the LV= Employee Pension Scheme**

**Dated:** 30 September 2021