



# 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 competing 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 (% pa)	Transaction costs (% 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 (% pa)	Transaction costs (% 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 (% pa)	Transaction costs (% 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 (% pa)	Transaction costs (% 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 (% 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 (% pa)	Transaction 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 (% pa)	Transaction costs (% 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:**

### **LV= Employee Pension Scheme 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 50% LGIM Diversified Equity Factor Fund	50% FTSE All World Developed Index 25% MSCI World 25% MSCI World (100% GBP Hedged)	This fund invests in a mix of UK, overseas, and emerging market equities. It aims for returns in line with a broad equity benchmark.
My Balanced Growth Fund	10% Newton Global Dynamic Bond Fund 20% BlackRock World Equity Index Fund 20% LGIM Diversified Equity Factor Fund 25% Baillie Gifford Multi Asset Growth Fund 25% LGIM Diversified Fund	10% 1 month £ LIBOR + 2% pa 20% FTSE All World Developed Index 10% MSCI World 10% MSCI World (100% GBP Hedged) 25% BoE Base Rate + 3.5% pa 25% 3-month LIBOR + 3.5% pa	This fund invests in a mix of asset classes including equities, property and bonds, aiming to provide long-term investment growth in excess of inflation. Currently this fund cannot be accessed on a self-select basis.
My Approaching Retirement Fund	25% Newton Global Dynamic Bond Fund 25% Baillie Gifford Multi Asset Growth Fund 25% LGIM Diversified Fund 25% BlackRock Cash Fund	25% 1 month £ LIBOR + 2% pa 25% BoE Base Rate + 3.5% pa 25% 3-month LIBOR + 3.5% pa 25% 7-day LIBID	This fund invests in a mix of asset classes including equities, property and bonds and is designed to contain an appropriate balance between risk and return for members approaching retirement. Currently this fund cannot be accessed on a self-select basis.
My 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%