

LV= EMPLOYEE PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020
SCHEME REGISTRATION NUMBER: 10200449

LV= EMPLOYEE PENSION SCHEME

CONTENTS

YEAR ENDED 31 MARCH 2020

Contents	Page
Trustee and advisers	1
Trustee's report	3
Actuarial certificate of schedule of contributions	23
Trustee's statement about contributions	24
Independent auditor's statement about contributions	25
Independent auditor's report	26
Fund account	29
Statement of net assets (available for benefits)	30
Notes to the financial statements	32
Appendix A	
Chair and Governance Statement	
Appendix B	
Statement of Investment Principles	

LV= EMPLOYEE PENSION SCHEME

TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2020

Principal Employer	Liverpool Victoria Financial Services Limited	
Trustee	The LV= Pension Trustee Limited	
Directors of the Trustee	<u>Appointed by the Principal Employer</u> BESTrustees Limited (Independent Trustee Director represented by Huw Evans (Trustee Chair) and supported by Karen Theobald John Laidlaw Peter Sinden (resigned 31 December 2019) Vanessa Swanton (appointed 3 December 2019, resigned 31 March 2020) Lynzi Harrison (appointed 26 March 2020) <u>Selected by active Members</u> Jason Mallen David Green <u>Selected by pensioner Members</u> Paul Bougon (appointed 18 June 2019, resigned 24 September 2019) Anthony Antoniou (appointed 26 March 2020)	
Secretary to the Trustee	Michael Jones	
Scheme Actuary	Brian Nimmo of Hymans Robertson LLP	
Independent auditor	Crowe U.K. LLP	
Legal advisers	Allen & Overy LLP	
Investment custodians	HSBC Bank Plc	
AVC providers (Defined benefit section)	Utmost Life and Pensions Limited (from 1 January 2020) (previously The Equitable Life Assurance Society) Standard Life Assurance Limited	
Bankers	Barclays Bank plc	
Name and address for enquiries		
Administrators	Defined Benefit Willis Towers Watson	Defined Contribution Aviva Life & Pensions UK Limited
Investment advisers	Redington Limited Haydon Hill Advisors Limited	Lane Clark & Peacock
Investment managers	Columbia Threadneedle Investment Services Limited Equitix Investment Management Limited BlackRock Investment Management Limited	Aviva Life & Pensions UK Limited

LV= EMPLOYEE PENSION SCHEME

TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 MARCH 2020

Covenant adviser Ernst and Young LLP

The following defined terms are used throughout the report:

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

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT

YEAR ENDED 31 MARCH 2020

Introduction

The Board presents its annual report for the Scheme together with the investment report, actuarial certificate and financial statements for the year ended 31 March 2020.

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

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

The Scheme comprises two sections:

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

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

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

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

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

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

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

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

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Scheme financial statements and summary of contributions

The financial statements of the Scheme for the year ended 31 March 2020 are set out on pages 29 to 59 and the Trustee's summary of contributions and the independent Auditor's statement about contributions are set out on pages 24 and 25 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 £29.0m over the year giving a Scheme value of £1,783.9m at 31 March 2020.

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 MNDs, at least one pensioner MND, and up to four persons selected by the Company. 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 Company consents.

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

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

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

The Trustee may be removed at the discretion of the Company, 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 Company.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

The full Board met on four occasions. All Directors attended all Board meetings for the Scheme year ending 31 March 2020 (or, if applicable, the date when they left office), except David Green who was unable to attend one meeting. All Directors can pass on their views on agenda items to the Trustee Chair if they are unable to attend any meeting. There has been a high turnover of Directors due to continued changes to the LV= organisation and not due to concerns over how the Scheme is operated.

Committees of the Trustee Board

Investment Sub Committee ("ISC")

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

The members of the ISC are Huw Evans, John Laidlaw, Jason Mallen, Peter Sinden (until 31 December 2019) and Lynzi Harrison (from 26 March 2020). All other Directors are invited to attend.

Administration Sub Committee ("ASC")

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

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

Defined Contribution Sub Committee ("DCSC")

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

The members of the DCSC are Karen Theobald, Jason Mallen, David Green, Lynzi Harrison (from 26 March 2020) and Antony Antoniou (from 26 March 2020). All other Directors are invited to attend.

Directors' training

The Board believes that all Directors should receive appropriate training to enable them to undertake their duties. The Board held regular training sessions during the year. Training sessions took place on 10 June 2019 and 31 October 2019. Training is also provided as and when required during Trustee meetings. Training also takes place within the regular meetings, as required, and the Directors are encouraged to attend industry seminars and undertake personal reading on pension matters. Logs are kept of the training undertaken by each Director. The training needs of the Board are assessed once a year, with training plans being put in place for the year ahead.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

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, including the following:

- In 2017, LV= announced a strategic partnership with Allianz, one of the world's largest Property & Casualty insurers. Specifically, a joint venture has been established between their General Insurance businesses (LVGIG) creating the third largest personal lines insurer in the UK. Following completion of the first stage of the transaction on 28 December 2017, LV= owned 51% of the joint venture and Allianz 49%. It was agreed that Allianz would acquire a further 20.9% stake, at a cost of £213m, in the joint venture at the end of 2019. However, on 31 May 2019 LV= announced that it had agreed to also sell its remaining 30.1% stake in LVGIG to Allianz for up to £365m. The acquisition of the remaining 51% was completed on 31 December 2019. The total consideration by Allianz for 100% of LVGIG was £1.078b. This exceeds the valuation in the original deal by £58m. This represents a very strong return on the LV= investment in growing the LVGIG business.

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

Governance

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

- An exercise began in March 2019 to fill the Member Nominated Director positions on the Board created by the resignation of Mick Mercer. The successful candidate, Paul Bougon was formally appointed with effect from 18 June 2019, however, resigned on 24 September 2019. As this was within 12 months of the appointment, the runner up, Anthony Antoniou was appointed.
- Following an investment review, in July 2019, changes were made to the funds offered within the DC Section of the Scheme. A new 'Universal' lifetime strategy was introduced and became the default fund. Changes were made to the three other existing lifetime strategies (Annuity focused, Drawdown focused and Cash focused), changes were made to the underlying funds of the My Global Shares fund and My Diversified Growth (Active) Fund and three new self-select funds were introduced:
 - My Ethical Global Equity Fund
 - My Islamic Global Equity Fund
 - My Emerging Markets Equity Fund.
- The Trustee has been working with AHC, the Scheme's communications consultant, to review the Scheme's current communications. Two workshops were held which helped to formulate a strategic approach, the aim of which is to help improve outcomes for members by delivering messages tailored to member engagement levels and reflecting attitudes to money. This work will continue in the next Scheme year.

External

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

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

- In October 2018 there was an important High Court ruling to ensure gender equality in the treatment of a part of people's pensions called the Guaranteed Minimum Pension (GMP). This may affect members who were an active member of the Scheme at some point between 17 May 1990 and 5 April 1997. The issue, referred to as 'GMP equalisation' is likely to take some time to fully resolve but the Trustee 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.
- Brexit remains a complex and ever changing area. Although it is difficult to make any pre-emptive decisions the Trustee continues to work with its advisers on this and is staying close to the implications as they unfold.
- 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 although asset value fell during March 2020 the impact on the funding level was small. Since the end of March 2020, many major indices have rallied from their previous lows and this has led to a significant recovery in the Scheme's funding level. The Trustee continues to monitor the Scheme's position regularly, with the support from its advisers. As at 22 June 2020 the Technical Provision funding position remained over 100%.

The Scheme aims to become fully funded on a self-sufficiency basis by or around 2028 and an investment flight plan designed to achieve that objective is in place. The strategy is supported by the covenant of Liverpool Victoria Financial Services Limited ("LVFS"). Like the Pension Scheme, the capital position of LVFS is well-hedged and so it was well protected against the adverse market movements and the Trustee understands that the capital position continues to remain strong. There has been some disruption to trading conditions but the business continuity arrangements worked well and LV continued to serve its customers during the lockdown. The business has experienced challenges in the Savings & Retirement area with customers pausing investment decisions in the lockdown and difficulty carrying out valuations for equity release products, but positive recovery has been seen since this point. The Protection business has also been impacted by the slowdown in housing market and industry in general, although positively LV market share has increased during this volatile period. 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 fund performances were affected by the impact of COVID-19. In the default investment option, the My Global Shares Fund was most affected, returning -18.6% for the first three months of 2020, although the diversification between regional equity markets introduced as part of the strategy changes in July 2019 had shielded members from region specific risks. The My Balanced Growth Fund protected members from the worst of the negative performance experienced in March 2020. BNY Mellon Global Dynamic Bond Fund performed strongly in these challenging conditions. Since 31 March 2020 markets have substantially recovered from their initial reaction to the impact COVID-19. Equities in particular recovered much of the losses they experienced earlier in the year, benefitting those members furthest from retirement. The Trustee continues to regularly monitor the performance of these funds against the fund benchmarks and wider investment universes.

As a consequence of the impact of COVID-19 on economies around the world, property funds are facing difficulties in valuing the properties they own and so the My Property Fund was suspended temporarily from March 2020 to 17 September 2020. This meant DC members could not purchase, switch out of, or sell any Scheme savings that were invested in this Fund during the suspension.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

In March 2020, the United Kingdom went into lockdown. The Trustee worked closely with the Scheme's administrators and advisers to ensure Business Continuity Plans were activated to deliver the best possible service during this challenging time. The Trustee continues to monitor the operational impact of the developments and has no significant concerns regarding the Scheme's on-going ability to fulfil its operational, cash flow.

Other events after the reporting period

- 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 exactly matches some of the benefit obligations of the Scheme. As a result, the finances of the Scheme as a whole have been improved and are more secure than ever.

Compliance with institutional investment recommendations

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

Changes to the Scheme Rules

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

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

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 2020****Membership**

The changes in membership during the year are as follows:

DB Section

	Active	Deferred	Pensioners	Beneficiaries	Total
At 1 April 2019	—	5,661	3,774	836	10,271
Adjustments to prior year*	—	(9)	6	1	(2)
New spouses and dependants	—	—	—	23	23
Retirements	—	(107)	107	—	—
Members leaving with refunds/no benefits	—	(1)	—	—	(1)
Deaths	—	(6)	(78)	(59)	(143)
Entitlements ceasing	—	—	—	(4)	(4)
Individual transfers out	—	(71)	—	—	(71)
Commutations	—	(5)	—	—	(5)
At 31 March 2020	—	5,462	3,809	797	10,068

DC Section

	Active	Deferred	Pensioners	Beneficiaries	Total
At 1 April 2019	1,775	5,293	—	—	7,068
New members	213	—	—	—	213
Retirements	(5)	(19)	—	—	(24)
Members leaving with deferred benefits	(338)	338	—	—	—
Members leaving with refunds/no benefits	(13)	(1)	—	—	(14)
Deaths	(3)	(4)	—	—	(7)
Individual transfers out	(25)	(128)	—	—	(153)
At 31 March 2020	1,604	5,479	—	—	7,083
Total membership	1,604	10,941	3,809	797	17,151

*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 2020

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 2019. These are based on September 2018 RPI of 3.3%, except for the post 5 April 1988 GMP element which is subject to statutory increases based on CPI; which was 2.4%. 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 2019. These are based on the April 2019 RPI of 3% except for the pre 6 April 1998 and post 5 April 1988 GMP elements. These are subject to fixed increases of 3%. The pre 6 April 1997 excess element is subject to a minimum increase of 3%. The post 30 November 2007 element is subject to a maximum increase of 2.5%.

<u>Pension element</u>	<u>Increase applied</u>	
	<u>Liverpool Victoria</u> <u>01-04-2019</u>	<u>Frizzell</u> <u>06-07-2019</u>
Pre 06/04/1988 GMP	No increase	3.0%
Post 05/04/1988 GMP	2.4%	3.0%
Pre 6/04/1997 excess over GMP	3.3%	3.0%
06/04/1997 to 30/11/2007 pension	3.3%	3.0%
Post 30/11/2007 benefits	2.5%	2.5%
Pre 06/04/1995 AVCs	No increase	No increase
06/04/1995 to 05/04/2000 AVCs	3.3%	3.0%
Post 05/04/2000 AVCs	3.3%	3.0%

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 2020

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 2019 and this was an estimated position based on the 2018 funding valuation.

Valuation date: 31 March	2018	2019
Value of technical provisions	£1,615.7m	£1,588.9m
Value of assets available to meet technical provisions	£1,580.3m	£1,626.7m
As a percentage of technical provisions	98%	102%

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

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

The value of technical provisions is based on pensionable service to the valuation date and assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns and pension increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the 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, and plus 1.03% p.a. at the 2019 valuation date) less 0.2% p.a.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

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 his certificate is included on page 23 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, except for the Aviva My property fund valued at £648,562 as at 31 March 2020 which has as a result of COVID-19 from 20 March 2020 deferred payments until 17 September 2020.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Investment principles

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

Employer related investments

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

Social, environmental and ethical considerations

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers. The Trustee expects the investment managers to take into account social, environmental and ethical considerations except when these considerations have a bearing on financial return. The 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.

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.

Rights attaching to investments

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

Custodial arrangements

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

Derivatives

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

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

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 three external investment managers, investment management costs are based upon the size of the portfolio under management with the basis being detailed in the formal agreement between the Trustee and the principal investment manager. The estimated aggregate management fee as at 31 March 2020 is calculated as being 0.12% of the total assets.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Review of investment performance

BlackRock Investment Management Limited is the principal investment manager of the Scheme's defined benefit section assets, holding approximately 55% of total assets, with Threadneedle Pensions Limited holding approximately 37% of assets and Equitix Investment Management Limited holding 2% of assets. The assets are invested by the managers for the benefit of the Members to enable pensions to be paid as they fall due. It is the aim of the investment managers to generate the maximum returns whilst staying within the risk and return objectives set by the Trustee.

The allocation of the Scheme's investments, in terms of underlying investments at 31 March 2020 and 31 March 2019 were as follows:

	2020 %	2020 %	2019 %	2019 %
Total assets		100		100
Return seeking		7		8
Diversified Growth fund		5		6
Private Equity fund		-		-
Infrastructure equity fund		2		2
Liability matching		93		92
LDI portfolio		56		56
UK gilts	65		54	
Index linked securities	17		22	
Repurchase agreements	(24)		(21)	
Liquidity, cash and commitments	(3)		-	
Collateral posted for Volatility Controlled equities	1		1	
Corporate bonds		31		30
Cash		-		-
Collateral posted for longevity swap		6		5

* Both 2019 and 2020 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%.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Review of investment performance

Relative performance

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

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

Years ending 31st March	LV= Scheme %	Benchmark %
2003	15.0	14.2
2004	10.9	11.1
2005	20.7	19.0
2006	9.7	9.5
2007	4.4	5.2
2008	1.0	0.4
2009	-4.9	-5.6
2010	24.1	20.8
2011	6.9	6.1
2012*	10.7	13.1
2013	11.0	10.0
2014	2.3	2.2
2015	26.7	19.9
2016**	1.5	3.0
2017	23.3	10.7
2018	5.7	1.7
2019	5.7	-0.4
2020	6.6	8.2

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

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

The spread of the Covid-19 pandemic has led to a rapid downturn across both the general economy and financial markets, with the falls in both equity and credit markets being if anything more rapid than those seen in 2008. Both central banks and governments have responded with economic stimulus packages of unprecedented size and scope, but these are pushing against falls in GDP and rises in unemployment that far exceed anything seen in recent history. This led to the Scheme underperforming the benchmark in the year to the 31 March 2020. However since the end of March 2020, many major indices have rallied from their previous lows and this has led to a material recovery in the Scheme's funding level. The Trustee continues to monitor the Scheme's position on a quarterly basis, alongside their investment adviser monitoring manager performance on an on-going basis.

Calculation of transfer values

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

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

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

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 2020.

Annual percentage returns	1 year %	3 years %	5 years %
Global Shares Fund	-9.5	0.9	7.0
<i>Benchmark</i>	-6.5	2.2	7.7
UK Shares Fund	-19.1	-4.6	0.0
<i>Benchmark</i>	-19.1	-4.5	0.4
Pre-retirement Fund	5.4	3.8	4.2
<i>Benchmark</i>	5.9	3.9	4.9
Diversified Growth Fund	-5.3	0.6	4.0
<i>Benchmark</i>	4.3	4.2	4.1
Property Fund	-7.0	2.2	4.3
<i>Benchmark*</i>	0.0	4.8	5.8
Diversified Growth Fund (Active)	-9.6	-2.0	-0.3
<i>Benchmark</i>	5.4	6.7	6.6
Cash Fund	0.6	0.4	0.3
<i>Benchmark</i>	0.5	0.4	0.4

*The 1 year benchmark for property is 0.0209%.

The performance figures for the funds are net of fees.

There are no performance v benchmark figures for 1, 3 and 5 years ended 31 March 2020 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.

The reasons for the underperformance of the following three funds during the year were:

Property Fund: there was a price swing on the underlying Threadneedle Pensions Property Fund in November 2019. This was reversed in February 2020 and affected the performance vs benchmark.

Diversified Growth Fund: this is a passively managed fund, not a tracker, so it doesn't 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.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

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

Tax and contracting-out status of the Scheme

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

Scheme advisers

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

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

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

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

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

The Money and Pensions Service is set up by the government to bring together three respected bodies of financial guidance: the Money Advice Service, The Pensions Advisory Service and Pension Wise into one single organisation.

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

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

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.

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 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.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Contact for further information

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

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

DB Section

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

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

DC Section

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

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

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

Director Mark Laidlaw

Director Huw Evans

Date 29 September 2020

Date 29 September 2020

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 2020

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 2020. 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		2020 £000
Employer		
	Normal	11,463
	Deficit	5,000
	For expenses	2,236
Contributions payable under the Schedule (as reported on by the Scheme auditor)		<u>18,699</u>

Reconciliation of contributions

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

Contributions payable under the Schedule (as above in the Trustee's summary)	18,699
Contributions payable in addition to those payable under the Schedule (and not reported on by the Scheme auditor)	
Members' AVCs	223
Total contributions reported in the financial statements	<u><u>18,922</u></u>

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

Director Mark Laidlaw

Director Huw Evans

Date 29 September 2020

Date 29 September 2020

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE

YEAR ENDED 31 MARCH 2020

Statement about contributions payable under the Schedules of Contributions

We have examined the summary of contributions payable to the LV= Employee Pension Scheme, for the Scheme year ended 31 March 2020 which is set out on page 24.

In our opinion contributions for the Scheme year ended 31 March 2020 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 29 September 2020

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE

YEAR ENDED 31 MARCH 2020

Opinion

We have audited the financial statements of the LV= Employee Pension Scheme for the year ended 31 March 2020 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the U K and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Conclusions relating to going concern

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

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

LV= EMPLOYEE PENSION SCHEME

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

YEAR ENDED 31 MARCH 2020

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities set out on page 9, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

LV= EMPLOYEE PENSION SCHEME

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

YEAR ENDED 31 MARCH 2020

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 29 September 2020

LV= EMPLOYEE PENSION SCHEME

FUND ACCOUNT

YEAR ENDED 31 MARCH 2020

	Note	DB Section 2020 £000	DC Section 2020 £000	Total 2020 £000	Total 2019 £000
Contributions and benefits					
Employer contributions		7,236	11,463	18,699	54,312
Employee contributions		–	223	223	292
Total contributions	5	7,236	11,686	18,922	54,604
Transfers in	6	–	316	316	764
Other income	7	972	–	972	1
		<u>8,208</u>	<u>12,002</u>	<u>20,210</u>	<u>55,369</u>
Benefits	8	(40,777)	(765)	(41,542)	(39,753)
Payments to and on account of leavers	9	(20,331)	(8,947)	(29,278)	(66,705)
Administrative expenses	10	(2,503)	–	(2,503)	(3,093)
		<u>(63,611)</u>	<u>(9,712)</u>	<u>(73,323)</u>	<u>(109,551)</u>
Net (withdrawals)/additions from dealings with members		(55,403)	2,290	(53,113)	(54,182)
Returns on investments					
Investment income	11	44,737	–	44,737	39,517
Change in market value of investments	12	59,729	(20,152)	39,577	55,049
Investment management expenses	13	(1,490)	(662)	(2,152)	(1,620)
Net returns on investments		<u>102,976</u>	<u>(20,814)</u>	<u>82,162</u>	<u>92,946</u>
Net increase/(decrease) in the fund during the year		47,573	(18,524)	29,049	38,764
Transfers between sections	15	135	(135)	–	–
Net assets of the Scheme					
At 1 April		<u>1,572,177</u>	<u>182,685</u>	<u>1,754,862</u>	<u>1,716,098</u>
At 31 March		<u><u>1,619,885</u></u>	<u><u>164,026</u></u>	<u><u>1,783,911</u></u>	<u><u>1,754,862</u></u>

The notes on pages 32 to 59 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 MARCH 2020

	Note	2020 £000	2019 £000
DB Section			
Investment assets	12		
Bonds		1,922,979	1,739,729
Pooled investment vehicles	16	137,245	144,848
Derivatives	17	23,902	15,115
Insurance policies	18	2,535	3,587
AVC investments	19	82	88
Cash and cash equivalent	20	114,749	93,323
Other investment balances	21	13,554	12,420
		<u>2,215,046</u>	<u>2,009,110</u>
Investment liabilities	12		
Derivatives	17	(202,498)	(100,102)
Other investment balances	21	(405,129)	(339,963)
		<u>(607,627)</u>	<u>(440,065)</u>
Total net investments		<u>1,607,419</u>	<u>1,569,045</u>
Current assets	27	14,851	5,047
Current liabilities	28	(2,385)	(1,915)
Net assets at 31 March		<u><u>1,619,885</u></u>	<u><u>1,572,177</u></u>
DC Section			
Investment assets	12		
Pooled investment vehicles	16	163,088	181,733
Current assets	27	938	952
Net assets at 31 March		<u><u>164,026</u></u>	<u><u>182,685</u></u>
Net assets of the Scheme at 31 March		<u><u>1,783,911</u></u>	<u><u>1,754,862</u></u>

The notes on pages 32 to 59 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

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

AS AT 31 MARCH 2020

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 12 to 13 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 Mark Laidlaw

Director Huw Evans

Date 29 September 2020

Date 29 September 2020

The notes on pages 32 to 59 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

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.

This is the first year of adoption for the 2018 SORP. There have been no restatements of prior year figures as a result of this adoption.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

3. Comparative fund account

	Note	DB Section 2019 £000	DC Section 2019 £000	Total 2019 £000
Contributions and benefits				
Employer contributions		42,548	11,764	54,312
Employee contributions		–	292	292
Total contributions	5	42,548	12,056	54,604
Transfers in	6	–	764	764
Other income	7	1	–	1
		<u>42,549</u>	<u>12,820</u>	<u>55,369</u>
Benefits	8	(38,817)	(936)	(39,753)
Payments to and on account of leavers	9	(20,833)	(45,872)	(66,705)
Administrative expenses	10	(3,093)	–	(3,093)
		<u>(62,743)</u>	<u>(46,808)</u>	<u>(109,551)</u>
Net withdrawals from dealings with members		(20,194)	(33,988)	(54,182)
Returns on investments				
Investment income	11	39,517	–	39,517
Change in market value of investments		32,985	22,064	55,049
Investment management expenses	13	(1,102)	(518)	(1,620)
Net returns on investments		<u>71,400</u>	<u>21,546</u>	<u>92,946</u>
Net increase/(decrease) in the fund during the year		51,206	(12,442)	38,764
Transfers between sections	15	383	(383)	–
Net assets of the Scheme				
At 1 April		1,520,588	195,510	1,716,098
At 31 March		<u><u>1,572,177</u></u>	<u><u>182,685</u></u>	<u><u>1,754,862</u></u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

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.

Transfers to and from other schemes

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

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

Benefits

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

Expenses

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

Investment income

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

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

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

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 agreements

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

Derivatives

Derivatives are stated at fair value.

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

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

The longevity swap (see page 45) has been valued by the actuary based on the expected net present value of future cash flows.

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

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

Annuity insurance policies

Annuity insurance policies with Standard Life Assurance Limited for 55 members (2019: 76 members) are 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.

AVCs

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

LV= EMPLOYEE PENSION SCHEME**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2020****4. Accounting policies (continued)****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.

5. Contributions

	2020		
	DB Section £000	DC Section £000	Total £000
Employer contributions			
Normal	–	11,463	11,463
Deficit funding	5,000	–	5,000
For expenses	2,236	–	2,236
	<u>7,236</u>	<u>11,463</u>	<u>18,699</u>
Employee contributions			
Additional Voluntary Contributions	–	223	223
	<u>7,236</u>	<u>11,686</u>	<u>18,922</u>
	2019		
	DB Section £000	DC Section £000	Total £000
Employer contributions			
Normal	–	11,764	11,764
Deficit funding	40,400	–	40,400
For expenses	2,148	–	2,148
	<u>42,548</u>	<u>11,764</u>	<u>54,312</u>
Employee contributions			
Additional Voluntary Contributions	–	292	292
	<u>42,548</u>	<u>12,056</u>	<u>54,604</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

5. Contributions *(continued)*

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

6. Transfers in

	2020		Total £000
	DB Section £000	DC Section £000	
Individual transfers in from other schemes	<u>–</u>	<u>316</u>	<u>316</u>
	2019		Total £000
	DB Section £000	DC Section £000	
Individual transfers in from other schemes	<u>–</u>	<u>764</u>	<u>764</u>

7. Other income

	2020		Total £000
	DB Section £000	DC Section £000	
Claims on insurance policies	971	–	971
Other income	<u>1</u>	<u>–</u>	<u>1</u>
	<u>972</u>	<u>–</u>	<u>972</u>
	2019		Total £000
	DB Section £000	DC Section £000	
Claims on insurance policies	–	–	–
Other income	<u>1</u>	<u>–</u>	<u>1</u>
	<u>1</u>	<u>–</u>	<u>1</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

8. Benefits

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

9. Payments to and on account of leavers

	2020		
	DB Section	DC Section	Total
	£000	£000	£000
Refunds of contributions	1	–	1
State scheme premium	37	–	37
Group transfers out	–	–	–
Individual transfers out	20,293	8,947	29,240
	<u>20,331</u>	<u>8,947</u>	<u>29,278</u>
	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Refunds of contributions	–	–	–
State scheme premium	–	–	–
Group transfers out	–	37,074	37,074
Individual transfers out	20,833	8,798	29,631
	<u>20,833</u>	<u>45,872</u>	<u>66,705</u>

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

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

10. Administrative expenses

	2020		
	DB Section	DC Section	Total
	£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
TPR administration fees	—	—	—
	<u>2,503</u>	<u>—</u>	<u>2,503</u>
	2019		
	DB Section	DC Section	<i>Total</i>
	£000	£000	<i>£000</i>
Administration fees	662	—	<i>662</i>
Legal and other fees	888	—	<i>888</i>
Actuarial and consultancy fees	1,442	—	<i>1,442</i>
Audit fee	60	—	<i>60</i>
TPR administration fees	41	—	<i>41</i>
	<u>3,093</u>	<u>—</u>	<u><i>3,093</i></u>

11. Investment income

	2020		
	DB Section	DC Section	Total
	£000	£000	£000
Net rents from properties	—	—	—
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)
Loans	—	—	—
Interest on cash deposits	794	—	794
	<u>44,737</u>	<u>—</u>	<u>44,737</u>
	2019		
	DB Section	DC Section	<i>Total</i>
	£000	£000	<i>£000</i>
Net rents from properties	46	—	<i>46</i>
Income from bonds	40,928	—	<i>40,928</i>
Income from pooled investment vehicles	260	—	<i>260</i>
Interest paid on repurchase transactions	(2,864)	—	<i>(2,864)</i>
Annuity income	620	—	<i>620</i>
Loans	6	—	<i>6</i>
Interest on cash deposits	521	—	<i>521</i>
	<u>39,517</u>	<u>—</u>	<u><i>39,517</i></u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

11. Investment income (continued)

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.

Swap income is included in change in market value in note 12.

12. Investments

DB Section

	Value at 1 April 2019 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Value at 31 March 2020 £000
Bonds	1,739,729	384,726	(373,266)	171,790	1,922,979
Pooled investment vehicles	144,848	103,068	(108,419)	(2,252)	137,245
Derivatives	(84,987)	1,919,863	(1,904,474)	(108,998)	(178,596)
Insurance policies	3,587	—	—	(1,052)	2,535
AVC investments	88	—	(7)	1	82
	<u>1,803,265</u>	<u>2,407,657</u>	<u>(2,386,166)</u>	<u>59,489</u>	<u>1,884,245</u>
Cash and cash equivalents	93,323			240	114,749
Other investment balances	(327,543)			—	(391,575)
	<u>1,569,045</u>			<u>59,729</u>	<u>1,607,419</u>

DC Section

	Value at 1 April 2019 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2020 £000
Pooled investment vehicles	<u>181,733</u>	<u>195,367</u>	<u>(193,860)</u>	<u>(20,152)</u>	<u>163,088</u>

The DC Section purchases and sales include switches of £183,318,000 in respect of a change in DC investment strategy which resulted in changes to the Lifestyling funds during the year.

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 2020

13. Investment management expenses

	2020		Total £000
	DB Section £000	DC Section £000	
Administration, management and custody fees	<u>1,490</u>	<u>662</u>	<u>2,152</u>
	2019		Total £000
	DB Section £000	DC Section £000	
Administration, management and custody fees	<u>1,102</u>	<u>518</u>	<u>1,620</u>

The DB Section fees for the year ended 31 March 2020 include investment manager and custodian fees of £2,100,000 (2019: £1,700,000) less OEIC fee rebates of £610,000 (2019: £598,000).

14. 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.

15. Transfers between sections

	2020		Total £000
	DB Section £000	DC Section £000	
Transfers between sections	<u>135</u>	<u>(135)</u>	<u>–</u>
	2019		Total £000
	DB Section £000	DC Section £000	
Transfers between sections	<u>383</u>	<u>(383)</u>	<u>–</u>

The transfers between sections for the year ended 31 March 2020 include £135,000 (2019: £383,000) 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 2020****16. Pooled investment vehicles**

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

	2020		
	DB Section	DC Section	Total
	£000	£000	£000
Equity	–	134,468	134,468
Bond	–	74	74
Diversified growth	–	3,018	3,018
Property	3,329	649	3,978
Cash	4,121	1,474	5,595
Venture capital trusts	4,702	–	4,702
Infrastructure fund	37,172	–	37,172
Multi asset	87,921	23,405	111,326
	<u>137,245</u>	<u>163,088</u>	<u>300,333</u>
	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Equity	–	144,438	144,438
Bond	–	2,238	2,238
Diversified growth	–	30,556	30,556
Property	4,127	1,036	5,163
Cash	7,826	3,465	11,291
Venture capital trusts	5,240	–	5,240
Infrastructure fund	34,966	–	34,966
Multi asset	92,689	–	92,689
	<u>144,848</u>	<u>181,733</u>	<u>326,581</u>

The DB Section multi asset fund invests in bonds, equities, property, commodity funds, derivatives 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 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 2020

17. Derivatives

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

	2020		
	DB Section	DC Section	Total
	£000	£000	£000
Derivative assets			
Futures	3,330	—	3,330
Options	2,528	—	2,528
Swaps	16,063	—	16,063
Forward FX contracts	1,981	—	1,981
	<u>23,902</u>	<u>—</u>	<u>23,902</u>
Derivative liabilities			
Futures	(3,328)	—	(3,328)
Options	—	—	—
Swaps	(183,719)	—	(183,719)
Forward FX contracts	(15,451)	—	(15,451)
	<u>(202,498)</u>	<u>—</u>	<u>(202,498)</u>
	<u>(178,596)</u>	<u>—</u>	<u>(178,596)</u>
	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Derivative assets			
Futures	972	—	972
Options	785	—	785
Swaps	9,967	—	9,967
Forward FX contracts	3,391	—	3,391
	<u>15,115</u>	<u>—</u>	<u>15,115</u>
Derivative liabilities			
Futures	(1,061)	—	(1,061)
Options	—	—	—
Swaps	(98,850)	—	(98,850)
Forward FX contracts	(191)	—	(191)
	<u>(100,102)</u>	<u>—</u>	<u>(100,102)</u>
	<u>(84,987)</u>	<u>—</u>	<u>(84,987)</u>

LV= EMPLOYEE PENSION SCHEME**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2020****17. 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

Nature	No. of contracts	Economic exposure £000	Expires	Asset value £000	Liability value £000
ICF ICE Long Gilt Future	1	91	June 2020	249	–
CBT US 10Yr Note Future	1	61	June 2020	–	(216)
CBT US 10Yr Ultra Future	1	59	June 2020	–	(256)
CBT US Long Bond Future	1	245	June 2020	3,081	–
CBT US Ultra Bond Future	1	163	June 2020	–	(2,856)
Total 2020		<u>619</u>		<u>3,330</u>	<u>(3,328)</u>
Total 2019		<u>696</u>		<u>972</u>	<u>(1,061)</u>

Options

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

DB Section

Nature	No. of contracts	Notional principal £000	Expires	Asset value £000	Liability value £000
European volatility index	1	674	Jul 2020	319	–
European volatility index	1	674	Mar 2021	585	–
European volatility index	1	674	Nov 2020	1,624	–
Total 2020		<u>2,022</u>		<u>2,528</u>	<u>–</u>
Total 2019		<u>2,022</u>		<u>785</u>	<u>–</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

17. 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 £000	Expires	Asset value £000	Liability value £000
Interest rate swaps	54	434,455	2022-2070	14,320	(51,804)
Inflation rate swaps	131	471,295	2020-2060	1,339	(57,532)
Total return swaps	3	2,022	To Mar 2021	404	(16,383)
Longevity swap	1	—		—	(58,000)
Total 2020		<u>907,772</u>		<u>16,063</u>	<u>(183,719)</u>
Total 2019		<u>1,105,757</u>		<u>9,967</u>	<u>(98,850)</u>

The Scheme entered into a longevity insurance agreement in December 2012. The insurance contract will provide benefit payments to the Scheme in respect of all deferred pensioners age 55 and over at 31 December 2011 together with benefit payments in respect of all covered pensioners at the same date together with contingent benefits (but excluding children). The contract will terminate once claims reach a de minimis level at which point a lump sum is payable representing future remaining payments. The longevity swap has been valued by the actuary based on the expected net present value of future cash flows at -£58,000,000 (2019: -£59,400,000). The Scheme pledged £95,540,000 of collateral in cash to ReAssure at the 31 March 2020 (2019: £81,410,000) in respect of the longevity insurance agreement. As disclosed in note 32, on 29 May 2020 the Trustee closed out the longevity swap and purchased a bulk annuity policy with Phoenix Life.

The Scheme also held collateral of £32,558,000 and pledged collateral of £140,268,000 in the form of UK gilts, UK index-linked gilts and cash, in respect of the other swaps, at the 31 March 2020 (2019: held £27,470,000 and pledged £43,873,000). This collateral is not reported within the Scheme's net assets.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

17. Derivatives (continued)

Forward foreign exchange

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

DB Section

Contract	No. of contracts	Currency bought '000	Currency sold '000	Asset value £000	Liability value £000
Apr 2020	6	USD 2,518	GBP 2,090	10	(70)
Apr 2020	4	GBP 12,217	USD 15,715	34	(486)
May 2020	6	GBP 213,250	USD 278,355	65	(11,094)
May 2020	5	USD 70,395	GBP 58,202	735	(2,218)
May 2020	5	USD 42,665	GBP 33,825	1,137	(585)
May 2020	5	GBP 18,755	USD 24,516	—	(998)
Total 2020				<u>1,981</u>	<u>(15,451)</u>
Total 2019				<u>3,391</u>	<u>(191)</u>

18. Insurance policies

	2020		Total
	DB Section £000	DC Section £000	£000
Annuities	<u>2,535</u>	<u>—</u>	<u>2,535</u>
	2019		Total
	DB Section £000	DC Section £000	£000
Annuities	<u>3,587</u>	<u>—</u>	<u>3,587</u>

19. AVC investments

	2020		Total
	DB Section £000	DC Section £000	£000
Utmost Life and Pensions Limited	61	—	61
Standard Life Assurance Limited	21	—	21
	<u>82</u>	<u>—</u>	<u>82</u>
	2019		Total
	DB Section £000	DC Section £000	£000
The Equitable Life Assurance Society	68	—	68
Standard Life Assurance Limited	20	—	20
	<u>88</u>	<u>—</u>	<u>88</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

19. AVC investments (continued)

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 £2,955,769 (2019: £2,717,596) held within the core DB Section investments, and 36 DB Section Members (2019: 39 Members) have AVC investments in the DC Section investments managed by Aviva.

20. Cash and cash equivalents

	2020		
	DB Section £000	DC Section £000	Total £000
Cash assets			
Sterling	105,724	—	105,724
Foreign currency	9,025	—	9,025
	<u>114,749</u>	<u>—</u>	<u>114,749</u>
	2019		
	DB Section £000	DC Section £000	Total £000
Cash assets			
Sterling	85,107	—	85,107
Foreign currency	8,216	—	8,216
	<u>93,323</u>	<u>—</u>	<u>93,323</u>

21. Other investment balances

	2020		
	DB Section £000	DC Section £000	Total £000
Other investment balances assets			
Tax recoverable	225	—	225
Accrued income	10,104	—	10,104
Outstanding trade sales	3,225	—	3,225
	<u>13,554</u>	<u>—</u>	<u>13,554</u>
Other investment balances liabilities			
Securities under repurchase agreements	(399,293)	—	(399,293)
Outstanding trade purchases	(5,836)	—	(5,836)
	<u>(405,129)</u>	<u>—</u>	<u>(405,129)</u>
	<u>(391,575)</u>	<u>—</u>	<u>(391,575)</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

21. Other investment balances *(continued)*

	DB Section £000	2019 DC Section £000	Total £000
Other investment balances assets			
Tax recoverable	97	—	97
Accrued income	10,415	—	10,415
Outstanding trade sales	1,908	—	1,908
	<u>12,420</u>	<u>—</u>	<u>12,420</u>
Other investment balances liabilities			
Securities under repurchase agreements	(337,117)	—	(337,117)
Outstanding trade purchases	(2,846)	—	(2,846)
	<u>(339,963)</u>	<u>—</u>	<u>(339,963)</u>
	<u>(327,543)</u>	<u>—</u>	<u>(327,543)</u>

Securities under repurchase agreements

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

The securities are included in the financial statements as assets of the Scheme at their market value. At 31 March 2020 the market value of securities sold under repurchase agreements was £428.5m (31 March 2019: £356.6m).

Cash received from counterparties in respect of the securities that have been sold has been used by the Scheme to increase its bond portfolio. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Fund's financial statements under investment liabilities. At 31 March 2020 this amounted to £399.3m (31 March 2019: £337.1m).

22. 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:

	2020 £000	2019 £000
Allocated to Members	162,369	181,029
Trustee's unallocated account	719	704
	<u>163,088</u>	<u>181,733</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

23. 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.

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

	At 31 March 2020			Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
DB Section				
Bonds	1,424,216	498,763	–	1,922,979
Pooled investment vehicles	–	96,744	40,501	137,245
Derivatives	2	(120,598)	(58,000)	(178,596)
Insurance policies	–	–	2,535	2,535
AVC investments	–	–	82	82
Cash and cash equivalents	114,749	–	–	114,749
Other investment balances	7,718	(399,293)	–	(391,575)
	<u>1,546,685</u>	<u>75,616</u>	<u>(14,882)</u>	<u>1,607,419</u>
DC Section				
Pooled investment vehicles	–	162,429	659	163,088
	<u>1,546,685</u>	<u>238,045</u>	<u>(14,223)</u>	<u>1,770,507</u>
	At 31 March 2019			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
DB Section				
Bonds	1,270,880	468,849	–	1,739,729
Pooled investment vehicles	–	105,754	39,094	144,848
Derivatives	(89)	(25,498)	(59,400)	(84,987)
Insurance policies	–	–	3,587	3,587
AVC investments	–	–	88	88
Cash and cash equivalents	93,323	–	–	93,323
Other investment balances	9,574	(337,117)	–	(327,543)
	<u>1,373,688</u>	<u>211,988</u>	<u>(16,631)</u>	<u>1,569,045</u>
DC Section				
Pooled investment vehicles	–	181,733	–	181,733
	<u>1,373,688</u>	<u>393,721</u>	<u>(16,631)</u>	<u>1,750,778</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

23. Fair value determination *(continued)*

The DC Section Aviva My property fund valued at £648,562 as at 31 March 2020 has been included at 31 March 2020 as fair value Level 3 (2019: fair value Level 2). This is because the fund has from 20 March 2020 deferred payments for up to 6 months or possibly longer if there are exceptional market conditions.

24. Investment risk disclosures

Investment risks

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

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

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

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

The Trustee determines their investment strategy after taking advice from the investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

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

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

24. 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				2020 £'000	2019 £'000
	Indirect credit risk	Currency risk	Interest rate risk	Other price risk		
Bonds	●	●	●	○	1,922,979	1,739,729
Pooled investment vehicles						
Property	○	○	○	●	3,329	4,127
Cash funds	●	○	●	○	4,121	7,826
Venture capital trusts	●	●	○	●	4,702	5,240
Infrastructure funds	○	○	●	●	37,172	34,966
Multi asset funds	●	●	●	●	87,921	92,689
Derivatives						
Futures	●	●	●	●	2	(89)
OTC Options	●	●	○	●	2,528	785
OTC Swaps	●	●	●	●	(167,656)	(88,883)
OTC Forward FX contracts	●	●	○	○	(13,470)	3,200
Cash deposits	○	○	○	○	114,749	93,323
Other investment balances	●	○	●	○	(391,575)	(327,543)
Total					<u>1,604,802</u>	<u>1,565,370</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.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

24. Investment risk disclosures *(continued)*

(i) Credit risk

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

Over the counter derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. This is mitigated by daily collateralisation, by diversifying exposure across a number of counterparties and by the manager's on-going assessment of the creditworthiness of each counterparty. Further details are provided in Note 17.

Credit risk on other investment balances (repurchase agreements) is mitigated through the use of a range of collateral arrangements as disclosed in Note 21.

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:

	2020	2019
	£000	£000
Open-Ended Investment Company (OEIC)	87,921	92,689
UCITS Mutual Fund	4,121	7,826
Limited Partnerships	45,203	44,333

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

(ii) Currency risk

The Scheme is subject to direct currency risk on the Bonds, Futures and OTC options as shown in the table on page 51. 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.

24. Investment risk disclosures *(continued)*

(iii) Interest rate risk

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

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

Longevity risk

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

(iv) Other price risk

Other price risk arises from the Scheme's property, equity and infrastructure funds, as well as a proportion of the diversified growth fund as detailed in the table on page 51, 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 17 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.

24. 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 2020

24. 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		2020 £'000	2019 £'000
			Interest rate risk	Other price risk		
Pooled investment vehicles						
My Global Shares Fund* <i>(My LV= Global Shares)</i>	○	●	○	●	133,743	143,708
My UK Shares Fund* <i>(My LV= UK Shares)</i>	○	○	○	●	629	730
My Diversified Growth Fund* <i>(My LV= Diversified Growth Fund)</i>	●	●	●	●	2,399	29,987
My Diversified Growth (Active) Fund* <i>(My LV= Diversified Growth Fund (Active))</i>	●	●	●	●	620	569
My Property Fund* <i>(My LV= Pension Plan Property Fund)</i>	○	○	○	●	649	1,036
My Pre-retirement (Annuity focused) Fund* <i>(My LV= Pre-retirement (Annuity focused))</i>	●	○	●	●	74	2,238
My Cash fund* <i>(My LV= Pension Plan Cash Fund)</i>	●	○	○	○	1,473	3,465
My Approaching Retirement Fund**	●	●	●	●	1,633	—
My Balanced Growth Fund**	●	●	●	●	20,203	—
My Emerging Market Equity Fund**	○	●	○	●	31	—
My Ethical Global Equity Fund**	○	●	○	●	52	—
My Islamic Global Equity Fund**	○	●	○	●	13	—
My Lump Sum Targeting Fund**	●	●	●	●	1,568	—
Aviva Pension Cash FP***	●	○	○	○	1	—
Total					163,088	181,733

* Fund names differ from those used in the previous year's accounts as these were renamed and white-labelled on 9 July 2019. The previous fund names have been included in italics

** New Funds added on 9 July 2019

*** 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 2020

24. 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.

25. Concentration of investments

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

	2020		2019	
	£000	%	£000	%
UK Conventional Gilt 3.50 22/07/2068	271,591	15.2	171,391	9.8
UK Conventional Gilt 2.50 22/07/2065	154,940	8.7	123,468	7.0
Aviva My LV= Pension Plan				
Global Shares Fund XE	133,743	7.5	143,708	8.2
UK Conventional Gilt 3.75 22/07/2052	127,842	7.2	109,741	6.3
UK Conventional Gilt 4.25 07/12/2040	89,741	5.0	n/a	n/a
Threadneedle Oppor Invest Dynamic Real Fund Acc	n/a	n/a	92,689	5.3

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

26. 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 2020

27. Current assets

	2020		
	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>
	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Contributions due in respect of:			
Employers	596	952	1,548
Other debtors and prepayments	401	—	401
Cash balances	4,050	—	4,050
	<u>5,047</u>	<u>952</u>	<u>5,999</u>

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 2019 and 31 March 2020 were allocated to members.

28. Current liabilities

	2020		
	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>
	2019		
	DB Section	DC Section	Total
	£000	£000	£000
Unpaid benefits	335	—	335
Other creditors and accruals	1,580	—	1,580
	<u>1,915</u>	<u>—</u>	<u>1,915</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2020

29. Related party transactions

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

Administrative expenses for the year ended 31 March 2020 of £195,000 (2019: £164,000) were charged by the Company, the Principal Employer.

As at 31 March 2020 the Scheme owed £8,300 (2019: £8,300) to the Company in respect of its administrative expenses.

The Company paid the PPF levies of £65,511 (2019: the PPF levy of £25,515 was paid by the Company and The Pensions Regulator levy of £41,199 was paid by the Scheme) and the group life assurance premium of £320,505 (2019: £308,892) for the year ended 31 March 2020.

BESTrustees Limited, the independent Director represented by H Evans and K Theobald was paid £73,855 for its services during the year (2019: £43,890). As at 31 March 2020 the Scheme owed £20,465 (2019: £14,573) 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.

30. Contingent liabilities and contractual commitments

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

	2020	2019
	£000	£000
Venture capital trusts commitments	1,794	1,734
Equitix infrastructure fund commitment	336	336
	<u>2,130</u>	<u>2,070</u>

In the opinion of the Trustee the Scheme had no contingent liabilities or contractual commitments as at 31 March 2020 (31 March 2019 - Nil).

31. 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 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.

32. Subsequent events

On 29 May 2020 the Trustee closed out 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) and purchased a bulk annuity policy with Phoenix Life for £802m. The premium was comprised of a mixture of Gilts, UK and USD credit and cash. The cash value of £139m included £102m of collateral that was posted at 31 March 2020 on the longevity swap. The Trustee holds this bulk annuity policy as an investment for the benefit of all Scheme members. It provides an income to the Scheme that exactly matches some of the benefit obligations of the Scheme. As a result, the finances of the Scheme as a whole have been improved and are more secure than ever.

LV= Employee Pension Scheme

DC Governance statement, covering the period from 1 April 2019 to 31 March 2020

1. Introduction

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

- the investment options in which members can invest (this means the default arrangement and other funds members can select or have assets invest in, such as “legacy” funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a ‘value for members’ assessment; and
- Trustee knowledge and understanding.

This Statement covers the period from 1 April 2019 to 31 March 2020 (the “Scheme year”).

The Trustee welcomes this opportunity to explain what they do to ensure that the Scheme operates as effectively as possible. If you have any questions or comments about anything in the Statement, please contact mypension@lv.com 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. For the period covered by this Statement, the default investment arrangement was the Annuity Focused Lifetime Strategy and changed to the Universal Lifetime Strategy (the “Default”) from 9 July 2019. The Default is designed for members who join the Scheme and do not choose an investment option. 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 Trustee recognises that most members do not make active investment decisions and instead invest in the Default. After taking advice, the Trustee decided to make the Default a lifestyle strategy, which means that members’ assets are automatically moved between different investment funds as they approach their target retirement date.

In addition to the Universal Lifetime Strategy, the My Cash Fund became a default option over the Scheme year as contributions that would have been invested in the My Property Fund were redirected into the My Cash Fund following suspension of the underlying fund during March 2020. As members’ contributions are to be directed into the ‘My Cash Fund’ without them making an active selection, this fund will be treated as a default for the Scheme year for the purpose of fulfilling legislative requirements.

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 Scheme’s SIPs covering the default arrangements are attached to this document.

The aims and objectives of the Default, the Universal Lifetime Strategy, as stated in the SIP, are as follows:

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

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

The default arrangements were not reviewed during the Scheme year, however changes to the Universal Lifetime Strategy were implemented on 9 July 2019 following the last review. The last formal review was carried out on 20 March 2018, although additional elements to the review continued throughout much of 2018.

In the 2018 review, the performance and strategy of the defaults were reviewed to ensure that investment returns (after deduction of any charges) have been consistent with the aims and objectives of the defaults as stated in the SIP, and to check that it continues to be suitable and appropriate given the Scheme's risk profiles and membership.

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

The Trustee is satisfied that the defaults remain appropriate following the recommended changes being made.

The Trustee regularly monitors the performance of the defaults and will formally review both this and the strategy at least every three years (the next review is intended to begin in March 2021) or immediately following any significant change in investment policy or the Scheme's member profile.

In addition to the strategy review, the Trustee also reviews the performance of the default against its aims, objectives and policies on a tri-annual basis at DC Sub-Committee ("DCSC") meetings. This review includes an analysis of underlying fund and lifestyle strategy performance to check that the risk and return levels meet expectations. The Trustee's reviews that took place during the Scheme year concluded that the default arrangements were performing as expected and are consistent with their aims and objectives as set out above.

3. Requirements for processing core financial transactions

The Trustee is required by law to ensure that core financial transactions are processed promptly and accurately. The processing of core financial transactions is carried out by the administrator of the Scheme, Aviva. Core financial transactions include (but are not limited to): 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 and beneficiaries.

The Scheme has a service level agreement ("SLA") in place with Aviva which 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, their DC advisers and Aviva to ensure that the SLA is upheld as is the overall quality of servicing.

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 Trustee has agreed a target of 95% with Aviva for all items to be completed within the agreed service level in any given period. Aviva's SLA timeframe is 5 working days, except for death claims for which it is 3 working days. In addition, end-to-end service monitoring began halfway through the Scheme year: this measures the time taken to complete all elements of a request starting from when the member first makes contact, whereas SLA reporting measures the time taken for each stage and does not include periods during which the request may be open. The end to end service process is now part of a more holistic service monitoring approach, giving the Trustee an even stronger understanding of the service being experienced by members.

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

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

The Trustee has received assurance from Aviva that there are adequate internal controls to ensure that core financial transactions for the Scheme are processed promptly and accurately. This has been demonstrated in the Aviva AAF 01/06 report¹, with no discrepancies found this year.

To help the Trustee monitor whether service levels are being met, the Trustee receives quarterly reports about the administrator's performance and compliance with the SLA. Any issues identified by

¹ This report is an administrative report which covers their internal controls.

the Trustee as part of its review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

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.

As the Scheme's administrator and platform provider, on 9 July 2020, Aviva implemented changes to the default and self-select range. An error was made in executing this implementation which affected a number of members. These members have subsequently been written to and the Trustee has worked with Aviva to get these issues resolved and Aviva has since updated its processes.

As a result, Aviva has reported service levels of 93% for the year to 31 March 2020. This service level marginally below the agreed target of 95%. The Trustee has worked with Aviva to understand the rationale behind the slight dip in service levels and is comfortable with this rationale but is committed to continuing to work with Aviva to improve these levels going forward.

It is worth noting that during the initial stages of the COVID-19 pandemic in Q1 2020, Aviva was able to keep its call centres open (with reduced opening hours) for members and managed to achieve their SLA of 95% during this time.

In the Scheme year, Aviva have confirmed that a core financial transaction error relating to one member's single premium, which invested erroneously in a Fund not offered by the Trustee to Scheme members on 31 March 2020. This was subsequently corrected on 11 April 2020.

Based on its review processes, the Trustee, is satisfied that over the period covered by this Statement:

- Any problems in dealing with member requests were dealt with appropriately and according to the correct protocols
- Other than the error investing a member contribution described above, there have been no material administration errors in relation to processing core financial transactions.

Therefore, the Trustee is satisfied that, on the whole, the core financial transactions were processed promptly and accurately during the Scheme year.

Additional Voluntary Contributions ("AVCs")

The Trustee also has AVC policies with Standard Life and Utmost. The Trustee has requested information relating to the processing of core financial transactions from the AVC providers.

At the time of writing, 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 which targets 10 working days for core financial transactions and has an internal controls statement which 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 processes;

- 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 were only able to provide information relating to core financial transactions for the period from 1 January 2019 to 31 December 2019 (so part of this Scheme year) 97% of payments were completed within 5 working days and 98% of illustration and general queries in 10 working days. 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 and has pledged to complete on receipt of requests:

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

In addition, Utmost has produced a detailed statement, which 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 which 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. Reporting from Utmost includes annual updates of upcoming retirements during the Scheme year. All transactions (e.g. retirement quotations, transfer quotations) are sent by Utmost to the Trustee to communicate 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.

4. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio (TER). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges also include any costs, e.g. administration and investment costs, since members incur these costs.

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

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

4.1 Default arrangements

From 9 July 2019, the Default for the Scheme was the Universal Lifetime Strategy. Prior to this date, the default arrangement was the Annuity Focussed Lifetime Strategy, which remains available to members as an alternative investment option. As explained above, there is also an additional default arrangement, the My Cash Fund.

The Default 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 fund they are invested.

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

Universal Lifetime Strategy - charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (%)
15 or more years to retirement	0.35	0.09
10 years to retirement	0.46	0.13
5 years to retirement	0.56	0.17
At retirement	0.58	0.19

The My Cash Fund is also a default investment option for the Scheme year and the charges and transaction costs for this fund are outlined in the table in section 4.3.

4.2 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 (%)
15 or more years to retirement	0.35	0.09
10 years to retirement	0.46	0.13
5 years to retirement	0.56	0.17
At retirement	0.29	0.00

*Former Default for the Scheme until 9 July 2020

Drawdown Focused Lifetime Strategy - charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (%)
15 or more years to retirement	0.35	0.09
10 years to retirement	0.46	0.13
5 years to retirement	0.56	0.17
At retirement	0.49	0.13

Cash Focused Lifetime Strategy - charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (%)
15 or more years to retirement	0.35	0.09
10 years to retirement	0.46	0.13
5 years to retirement	0.56	0.17
At retirement	0.43	0.09

4.3 Self-select funds

Members also have the option to choose a number of self-select investment options. The level of charges for these funds (including those used in the default) and the transaction costs over the period covered by this Statement are also set out in the table below. The underlying funds used within the default, the Universal Lifetime strategy are shown in **bold**. The My Cash Fund, also considered a default arrangement for the Scheme year is indicated below with a *. Underlying funds used in the alternative lifestyles are shown in *italics*.

Fund name	TER (% pa)	Transaction costs (%)
My Global Shares Fund	0.35	0.09
My Balanced Growth Fund	0.56	0.17
My Approaching Retirement Fund	0.58	0.19
<i>My Lump Sum Targeting Fund</i>	<i>0.43</i>	<i>0.09</i>
<i>My Pre-Retirement (Annuity Focused) Fund</i>	<i>0.30</i>	<i>0.00</i>
<i>My Cash Fund*</i>	<i>0.26</i>	<i>0.01</i>
My Diversified Growth Fund	0.47	0.00
My Diversified Growth (Active) Fund	0.55	0.62

Fund name	TER (% pa)	Transaction costs (%)
My Property Fund	0.86	0.00
My UK Shares Fund	0.28	0.14
My Ethical Global Equity Fund	0.51	0.00
My Emerging Markets Equity Fund	0.61	0.03
My Islamic Global Equity Fund	0.66	0.04

4.4 AVC assets

The Trustee has requested the charges and transaction costs information from the AVC providers but at the time of writing this information wasn't available. The Trustee is continuing to follow-up with the providers to obtain this information.

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, the Trustee has 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 two years (where available), subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past two years for the My Cash Fund, My Diversified Growth (Active) Fund and My Pre-retirement (Annuity-focused) 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 Scheme year. For the My Universal Lifetime Strategy and the My Emerging Markets Equity Fund, we have used one-year transaction costs figures as these were added over the Scheme year.
- The illustration is shown for the current Default (the Universal Lifetime Strategy) since this is the arrangement with the most members invested in it, as well as four funds from the Scheme's self-select fund range. The four self-select funds shown in the illustration are:
 - the fund with the highest before costs expected return – this is the My Emerging Markets Equity Fund
 - the fund with the lowest before costs expected return – this is the My Cash Fund
 - the fund with highest annual member borne costs – this is the My Diversified Growth (Active) Fund
 - the fund with lowest annual member borne costs – this is the My UK Pre-Retirement (Annuity Focused)

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	£11,500	£11,400	£11,600	£11,500	£11,000	£10,900	£11,300	£11,200	£11,000	£11,000
3	£16,700	£16,500	£17,100	£16,800	£14,800	£14,600	£16,000	£15,600	£15,000	£14,900
5	£22,300	£21,900	£23,100	£22,600	£18,400	£18,200	£20,900	£20,100	£18,900	£18,700
10	£37,800	£36,800	£40,400	£38,800	£26,900	£26,300	£33,700	£31,500	£28,200	£27,700
15	£56,100	£53,800	£61,800	£58,100	£34,600	£33,600	£47,600	£43,200	£37,000	£36,000
20	£77,600	£73,400	£88,100	£81,200	£41,500	£40,000	£62,400	£55,100	£45,200	£43,700
25	£102,700	£95,900	£120,500	£108,700	£47,800	£45,700	£78,500	£67,300	£52,900	£50,800
30	£129,900	£119,100	£160,400	£141,600	£53,500	£50,800	£95,800	£79,800	£60,100	£57,400
35	£156,600	£140,000	£209,500	£180,900	£58,600	£55,300	£114,400	£92,500	£66,900	£63,400
40	£175,200	£152,200	£269,900	£227,800	£63,300	£59,300	£134,400	£105,600	£73,300	£69,100

Notes

Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £9,000. This is the approximate average (median) pot size for active members aged below or equal to the active median age of 36 years (rather than using a whole membership average, we have taken this approach to give a more realistic 40-year projection).
- 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 starting salary is assumed to be £24,000. This is the approximate median salary for active members aged below or equal to the active median age of 36 years.
- Total contributions (employee plus employer) are assumed to be 9.0% of salary per year.
- The projected annual returns used are as follows:
- Universal Lifetime Strategy: 3.25% above inflation for the initial years, gradually reducing to a return of 0.25% above inflation at the ending point of the lifestyle.
 - My Emerging Markets Equity Fund: 4.25% above inflation
 - My Cash Fund: 2.00% below inflation
 - My Diversified Growth (Active) Fund: 1.50% above inflation
 - My Pre-retirement (Annuity focused) Fund: 1.25% above inflation
- No allowance for active management outperformance has been made.

5. Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below.

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 2020.

The Trustee's review 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 10 July 2020 which covered the same period as this Statement. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee assessment rated the Scheme against eight criteria.

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

1. **Charges** – Very good – the costs borne by members are good value given the size of the Scheme and was benchmarked against other similar sized schemes. The Trustee's investment advisors negotiated fees on behalf of the Trustee as part of the recent strategy review and these are very competitive. Trustee actively monitors fees on a regular basis.
2. **Administration** – Fair – Whilst the first quarter of 2020 saw an improvement, overall Aviva missed its SLA target over the year. Further, there were some administrative problems in implementing the investment changes in July 2019, for which Aviva had to write to members impacted to resolve. The Trustee has worked with Aviva to get these resolved and Aviva has since updated its processes.
3. **Governance** – Very good – the Trustee is very committed to the Scheme and how it is run.
4. **Communications** – Very good – communications and support services are clear, tailored and informative.
5. **Default investment arrangement** – Very good – the new "Universal" default investment strategy, implemented in July 2019, was designed considering the unique requirements of the Scheme and is appropriate for members targeting all three retirement outcomes. The Trustee is confident that this new strategy is relevant for the majority of members. The additional default, the My Cash Fund, has performed in line with expectation and is appropriate as a temporary fund for member contributions. The My Property Fund was suspended in March 2020. This suspension was lifted in September 2020.
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, good value and covers all major asset classes.
7. **At - retirement services** – Good – members have access to a wide range of investment options, paid for advice in respect of annuity options and support when making decisions. The Trustee considered offering a post-retirement solution (such as partnering with a Master Trust or SIPP) but have decided not to proceed with this for now due to low demand from membership.
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 cost that they incur. The Trustee believe 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 Trustees carry out regular strategic reviews (for example benchmarking the fees members pay and the fund range available against other UK Pension Schemes) to monitor whether the Scheme provides good value for members on an on-going basis.
- The Trustees include assessing value for members on the Scheme's risk register.
- A good fund range is offered to members, with funds across the risk/return spectrum to cater for a range of member needs.

6. Trustee knowledge and understanding

The Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly consider training requirements to identify any knowledge gaps. There are at least two dedicated training days each year. The Trustee's investment advisers assist by proactively raising any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material.

All the 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 SIP (which sets out the policies on investment matters). In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and the SIP is formally reviewed annually and as part of making any change to the Scheme's investments. Further, the Trustee believe 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. The Induction covers the following areas:

- Overview of the Scheme;
- Introduction to Trustee role;
- Overview of a DC Scheme;
- Pension scheme funding training;
- Pension scheme investment training;
- 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 the Trustee Directors are required to commit to completing the training, either at the relevant meetings or by personal study. 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 which was last updated in March 2019. This document sets out the structure of identifying any gaps in the Trustee Directors knowledge via self-assessment questionnaires which are reviewed at least every two years, or more regularly if there is a significant change in Trustee expectations from the Pensions Regulator. The results from these are discussed 1:1 with the Chair of the Trustee Board at a development discussion to agree individual training and development activities for the year ahead. The Trustee also appointed an external advisor to undertake a Trustee effectiveness analysis, which was concluded in 2019, to ensure that Trustee skills and core competencies are identified.

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 session.

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

- Maintaining a rolling programme of bespoke Trustee training which is delivered during two designated training days and within Trustee meetings where appropriate;

- 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;
- carrying out an effectiveness self-assessment from time to time; and
- update on DC Developments (Cold-calling regulations, Auto-enrolment, Brexit, Environmental, Social and Governance, Trustee Role and DC Scheme Overview).

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

- Environmental, Social and Governance ("ESG"), including current and upcoming regulatory developments on ESG;
- Responsible investing principles;
- The new SIP requirements;
- New DC investment guidance;
- TPR update on regulatory activity;
- Chair's Statement;
- Cyber security, admin issues highlighted by TPR;
- New TPR consultation of Trusteeship and governance;
- PLSA Retirement Living Standards;
- Climate-related risk assessment and disclosure; and
- PLSA stewardship and voting guidelines.

The knowledge and experience the Trustee Board possesses includes:

- The Trustee Board is conversant with the Scheme's trust deed and rules, SIP and other key administrative documents, and has appropriate knowledge of pensions and trust law and matters relating to scheme funding and investment.
- The Chair of the Trustee Board is a professional trustee who has many years' experience of acting as a pension scheme trustee for a number of different schemes.
- The Trustee Board's specialist legal, actuarial and DC advisers attend trustee meetings as appropriate to advise on specific matters on the agenda.
- The combined experience of the Trustee Board includes expertise on a broad range of business disciplines and commercial expertise.

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 (e.g. investment consultants, legal advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.

Huw Evans

25/09/20

Huw Evans

for BESTrustees Limited acting as Chair of the Trustee Board of the LV= Pension Scheme Trustee

Statement of Investment Principles

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

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

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

This SIP has been prepared after obtaining and considering written professional advice from both LCP (in relation to the DC section of the Scheme) and Redington (in relation to the DB Section of the Scheme). Both parties are appointed investment advisors to the Scheme whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

A. Defined Benefit Section – "DB Section"

DB Section Objectives

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

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

Investment Strategy

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

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

In setting the investment strategy, the Trustee aims to:

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

Strategic Asset Allocation

The Trustee is currently reviewing the Scheme's Strategic Asset Allocation following entering into a buy-in contract on the 2nd of June 2020. The buy-in contract covers the majority of the pensioner population at that time, amounting to c.46% of assets. The current overall benchmark allocation of the DB Section's assets between the major asset classes is detailed in the table below. Please note that the Trustee will be updating the target benchmark weights and target ranges below following completion of the Strategic Asset Allocation review.

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

Private Equity	2%	0%-5%
Property	0%	0%-5%
Infrastructure Equity	3%	0%-5%
Total¹	120%	110%-130%

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

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

Balance between different kinds of investments

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

Kinds of investment to be held

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

Choosing Investments

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

Risks

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

- *Sponsor risk* is measured by the level of ability and willingness of the sponsor to support the continuation of the DB Section and to make good any current or future deficit. It is managed by assessing the interaction between the DB Section and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor.
- *Solvency risk and mismatching risk* are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment

strategies. They are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment strategies.

- *Credit risk* is the risk that one party to a financial instrument will cause a loss to the DB Section by failing to repay an obligation, amongst other things. This risk is managed at the discretion of the relevant investment manager acting within defined limits set by the Trustee regarding credit quality and size of exposure.
- *Market risk/other price risk* is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. This risk is managed at a strategic and manager level through diversification. Outright loss protection is also used where appropriate.
- *Currency risk* is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. This risk is mitigated through currency hedging, where appropriate.
- *Interest rate risk* is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates. Exposure to interest rate risk is gained intentionally to hedge and offset liability interest rate risk. This is managed by the investment manager within defined limits set by the Trustee.
- *Liquidity risk* is measured by the level of cashflow required by the DB Section over a specified period. It is managed by the DB Section's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- *Manager risk* is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy. It is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.
- *Counterparty risk* is measured through the level of concentration with any one counterparty, leading to the risk of an influence on investment values, arising from a default on obligations. It is managed through the investment manager guidelines, counterparty diversification and collateralisation, where appropriate.
- *Political risk* is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention. It is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- *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.

- *Default risk* is the risk of default of the chosen insurer, Phoenix Life. The Trustee undertook significant due diligence via their advisor to understand the potential default risks with the insurer before proceeding with the Scheme's buy-in. The Trustee relies on the regulatory framework that Phoenix Life operates under to mitigate this risk, governed by the Prudential Regulatory Authority, e.g. the regulatory capital requirements. In addition, in the event of default by the insurer, members may be eligible for compensation from the Financial Services Compensation Fund ("FSCS"), based on the current FSCS rules.

Custody

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

Monitoring

When applicable, the terms of the long-term relationship between the Trustee and its managers are set out in separate Investment Management Agreements (IMAs). These document the Trustee's expectations of their managers; alongside the investment guidelines they are required to operate under. 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.

Rights attaching to investments

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

Additional Assets

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

B. Defined Contribution Section – "DC Section"

Investment Objectives

The Trustee's 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.

Other investment options

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

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

- *The "Annuity Focused" lifetime strategy* – a strategy that initially invests in equities in the accumulation phase and then starts to move into a multi-asset fund 15 years before the member's selected retirement age. Further switching into a pre-retirement fund, which invests in corporate bonds and gilts and aims to achieve a return similar to that of a traditional annuity product, and cash, with members' pension accounts being invested 75% in a pre-retirement fund and 25% in cash by selected retirement age.
- *The "Cash Focused" lifetime strategy* – a strategy that initially invests in equities in the accumulation phase and then starts to move into a multi-asset fund 15 years before the member's selected

retirement age. Further switching into bonds and cash follows, with members' pension accounts being invested 30% in an absolute return bond fund and 70% in cash by selected retirement age.

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

Monitoring

The manner in which the Trustee monitors the investment managers in the DB section of the SIP 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.

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

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

Environmental, Social and Governance Factors

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

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

The Trustee does not 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 Trustee makes available a range of passively and actively managed self-select funds and lifetime strategies. The default option is a lifetime strategy. Details of the options are set out below. Members are provided with clear information on the investment options and their characteristics that will allow them to make an informed choice.

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

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

LV= Employee Pension Scheme

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

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

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

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

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

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

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